OMAN INSURANCE COMPANY P.S.C.
AND SUBSIDIARY

Independent auditor's report and
consolidated financial statements
for the year ended 31 December 2010

OMAN INSURANCE COMPANY P.S.C. AND SUBSIDIARY

Contents

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Oman Insurance Company P.S.C. and Subsidiary
Dubai, United Arab Emirates

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Oman Insurance Company P.S.C. (the "Company") and Subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements of the Group at 31 December 2009 were audited by another auditor whose report dated 28 January 2010 expressed an unqualified opinion on those consolidated financial statements.

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 for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Oman Insurance Company P.S.C. and its Subsidiary, as at 31 December 2010, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, the Company has maintained proper books of account, and the financial information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended), the UAE Federal Law No. (6) of 2007 concerning formation of Insurance Authority of U.A.E. or the Articles of Association of the Group Companies which might have a material effect on the financial position of the Group or their financial performance.

Deloitte & Touche

Samir Madbak
Registration Number 386
31 January 2011

OMAN INSURANCE COMPANY P.S.C. AND SUBSIDIARY 3

Consolidated statement of financial position
At 31 December 2010

	Notes	2010 AED'000	2009 AED'000
ASSETS			
Property and equipment	5	277,459	363,350
Investment properties	6	169,320	230,649
Advances for investment properties	7	171,930	133,353
Financial investments	8	1,455,524	1,491,475
Statutory deposits	9	23,538	23,538
Re-insurance contract assets	10	1,011,512	1,100,529
Insurance receivables	11	884,724	898,411
Prepayments and other receivables	12	75,049	78,335
Bank balances and cash	13	751,227	662,470
Total assets		4,820,283	4,982,110
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	419,884	381,713
Statutory reserve	15	185,532	176,123
Strategic reserve	16	303,750	303,750
General reserve	17	698,170	674,648
Contingency reserve	18	2,196	608
Cumulative changes in fair value of securities		(470,577)	(439,236)
Retained earnings		308,886	453,736
Total capital and reserves		1,447,841	1,551,342
Liabilities			
End of service benefits	19	40,702	34,078
Bank borrowings	20	679,226	707,255
Insurance contract liabilities	10	1,908,100	1,959,117
Re-insurance deposits retained		140,097	145,096
Insurance payables	21.a	477,585	480,785
Trade and other payables	21.b	126,732	104,437
Total liabilities		3,372,442	3,430,768
Total equity and liabilities		4,820,283	4,982,110

....
Abdul Aziz Abdulla Al Ghurair
Chairman

....
Abdul Muttalib Mustafa
Chief Executive Officer

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated income statement
for the year ended 31 December 2010

	Notes	2010 AED'000	2009 AED'000
Gross insurance premium revenue	28.1	2,443,641	2,337,733
Less: Insurance premium ceded to reinsurers	28.1	(1,211,640)	(1,061,551)
Net retained revenue		1,232,001	1,276,182
Net change in unearned premium	28.1	29,681	(22,976)
Net insurance premium revenue		1,261,682	1,253,206
Gross claims settled	28.2	(1,419,567)	(1,249,279)
Insurance claims recovered from reinsurers	28.2	838,824	645,728
Net claims settled		(580,743)	(603,551)
Net change in outstanding claims and additional reserves		(49,114)	(1,892)
Net claims incurred		(629,857)	(605,443)
Excess of loss reinsurance premium		(60,643)	(44,585)
Policies surrendered and maturities paid		(29,169)	(5,950)
Reinsurance commission income		138,569	153,722
Commission expenses		(260,735)	(216,442)
Insurance business fees		(9,045)	(3,587)
General and administrative expenses relating to underwriting activities		(192,160)	(196,510)
Other income relating to underwriting activities		32,390	14,720
		(380,793)	(298,632)
Underwriting profit before movements in life assurance fund		251,032	349,131
Increase in life assurance fund	10.2	(18,567)	(31,238)
Net underwriting profit		232,465	317,893
Net investment income/(loss)	22	7,129	(71,886)
Finance costs		(38,807)	(44,634)
Impairment of property and equipment	5	(83,000)	-
Other expenses – net	23	(23,700)	(11,738)
Profit for the year	24	94,087	189,635
Basic earnings per share	25	AED 0.22	AED 0.45

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2010

	2010 **AED '000**	2009 AED '000
Profit for the year	**94,087**	189,635
Other comprehensive loss		
Net fair value losses on investments designated at FVTOCI	**(31,341)**	(105,789)
Loss on sale of investments at FVTOCI	**(62)**	(47)
Board of Directors' remuneration	**(13,500)**	(11,000)
Total other comprehensive loss	**(44,903)**	(116,836)
Total comprehensive income for the year	**49,184**	72,799

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2010

	Share capital	Statutory reserve	Strategic reserve	General Reserve	Contingency reserve	Cumulative changes in fair value of securities	Retained earnings	Total
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
Balance at 1 January 2009	381,713	157,160	303,750	630,990	61	(320,208)	515,934	1,669,400
Adoption of IFRS 9 (See Note 3.17.2)	-	-	-	-	-	(13,239)	13,239	-
Balance at 1 January 2009 - restated	381,713	157,160	303,750	630,990	61	(333,447)	529,173	1,669,400
Profit for the year	-	-	-	-	-	-	189,635	189,635
Other comprehensive loss for the year	-	-	-	-	-	(105,789)	(11,047)	(116,836)
Total comprehensive income for the Year	-	-	-	-	-	(105,789)	178,588	72,799
Transfer to statutory reserve	-	18,963	-	-	-	-	(18,963)	-
Transfer to general reserve	-	-	-	43,658	-	-	(43,658)	-
Transfer to contingency reserve	-	-	-	-	547	-	(547)	-
Dividends paid	-	-	-	-	-	-	(190,857)	(190,857)
Balance at 31 December 2009	381,713	176,123	303,750	674,648	608	(439,236)	453,736	1,551,342
Profit for the year	-	-	-	-	-	-	94,087	94,087
Other comprehensive loss for the year	-	-	-	-	-	(31,341)	(13,562)	(44,903)
Total comprehensive income for the Year	-	-	-	-	-	(31,341)	80,525	49,184
Transfer to statutory reserve	-	9,409	-	-	-	-	(9,409)	-
Transfer to general reserve	-	-	-	23,522	-	-	(23,522)	-
Transfer to contingency reserve	-	-	-	-	1,588	-	(1,588)	-
Issue of bonus shares	38,171	-	-	-	-	-	(38,171)	-
Dividends paid	-	-	-	-	-	-	(152,685)	(152,685)
Balance at 31 December 2010	**419,884**	**185,532**	**303,750**	**698,170**	**2,196**	**(470,577)**	**308,886**	**1,447,841**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2010

	2010 AED'000	2009 AED'000
Cash flows from operating activities		
Profit for the year	**94,087**	189,635
Adjustments for:		
Depreciation of property and equipment	**10,324**	8,461
Unrealised loss on investment properties	**61,329**	174,464
Unrealised gains on financial investments at FVTPL	**(12,836)**	(1,390)
Impairment of property and equipment	**83,000**	-
Impairment of advances for investment properties	-	39,000
Gain on sale of available-for-sale securities	-	(69,250)
Provision for end of service indemnity	**9,038**	4,236
Allowance for doubtful receivables	**15,000**	24,480
Dividends income from financial investments at FVTPL and FVTOCI	**(26,195)**	(40,874)
Interest income from deposits and financial investments at FVTPL	**(31,725)**	(31,580)
Realised losses on sale of financial investments at FVTPL	**2,298**	1,516
Finance costs	**38,807**	44,634
Operating cash flows before changes in operating assets and liabilities	**243,127**	343,332
Decrease/(increase) in reinsurance contract assets	**89,017**	(180,554)
Decrease/(increase) in insurance and other receivables	**4,327**	(148,163)
(Decrease)/increase in insurance contract liabilities	**(51,017)**	236,659
Increase/(decrease) in insurance and other payables	**21,649**	(3,087)
Decrease in reinsurance deposits retained	**(4,999)**	(20,011)
Net cash generated from operations	**302,104**	228,176
End of service indemnity paid	**(2,414)**	(783)
Finance costs paid	**(41,361)**	(51,567)
Net cash generated from operating activities	**258,329**	175,826

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)
for the year ended 31 December 2010

	2010 AED'000	2009 AED'000
Cash flows from investing activities		
Purchases of financial investments at FVTOCI	**(23,719)**	(27,759)
Proceeds from sale of financial investments at FVTOCI	**5,071**	632
Proceeds from sale of available-for-sale investments	**-**	290,722
Purchases of financial investments at FVTPL	**(89,505)**	(174,284)
Proceeds from sale of financial investments at FVTPL	**123,239**	70,280
Dividends income from financial investments at FVTPL and FVTOCI	**26,195**	40,874
Interest income from deposits and financial investments at FVTPL	**29,371**	37,172
Purchase of property and equipment	**(7,433)**	(35,056)
Advance for investment properties	**(38,577)**	(12,707)
Increase in term deposits maturing after 3 months	**(121,142)**	(109,162)
Net cash (used in)/generated from investing activities	**(96,500)**	80,712
Cash flows from financing activities		
Dividends paid	**(152,685)**	(190,857)
Board of Directors' remuneration paid	**(13,500)**	(11,000)
Increase/(decrease) in bank borrowings	**41,485**	(126,846)
Net cash used in financing activities	**(124,700)**	(328,703)
Net increase/(decrease) in cash and cash equivalents	**37,129**	(72,165)
Cash and cash equivalents at the beginning of the year	**26,260**	98,425
Cash and cash equivalents at the end of the year (note 13)	**63,389**	26,260

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2010

1. General information

Oman Insurance Company P.S.C., (the "Company") which was established by an Amiri Decree issued by His Highness, The Ruler of Dubai, is a public shareholding company and is registered under Federal Law No. 8 of 1984 (as amended) relating to commercial companies in the UAE. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, concerning formation of Insurance Authority of U.A.E. and is registered in the Insurance Companies Register of Insurance Authority of U.A.E. under registration number 9. The Company is a subsidiary of Mashreq Bank (PSC) incorporated in the Emirate of Dubai. Its registered head office is at P.O. Box 5209, Dubai, United Arab Emirates.

The Company engages in the business of issuing short term and long term insurance contracts. These insurance contracts are issued in connection with property, motor, aviation and marine risks (collectively known as general insurance) and individual life (participating and non-participating), group life, personal accident, medical and investment linked funds.

The Group also operates in Oman and Qatar through branches.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs affecting the reported financial performance and/or financial position in the current year and prior year

IFRS 9 *Financial Instruments*	In the prior year and current year, the Group has applied IFRS 9 Financial Instruments (IFRS 9) (as issued in November 2009 and revised in October 2010) and the related consequential amendments in advance of its effective date. The Group has chosen 31 December 2009 as its date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities). The Group has applied IFRS 9 prospectively as permitted by transitional provision. The application of the amendments to IFRS 9 made in October 2010 has not had material impact to the Group accounting policies.

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

New and revised IFRSs	Summary of requirement
Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards – Additional Exemptions for First-Time Adopters*	The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.
Amendments to IFRS 2 *Share-Based Payment – Group Cash-Settled Share-Based Payment Transactions*	The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
Amendment to IFRS 3 (revised) *Business Combinations* and consequential amendments to IAS 27 (revised) *Consolidated and Separate Financial Statements*, IAS 28 (revised) *Investments in Associates* and IAS 31 (revised) *Interests in Joint Ventures*	Comprehensive revision on applying the acquisition method.
Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2008)	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.
Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
IFRIC 17 *Distributions of Non-Cash Assets to Owners*	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
IFRIC 18 *Transfers of Assets from Customers*	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 Revenue.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

New and revised IFRSs	Summary of requirement
Improvements to IFRSs issued in 2009	The application of Improvements to IFRSs issued in 2009 which amended IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16 has not had any material effect on amounts reported in the consolidated financial statements.

2.3 New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 1 relating to *Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*	1 July 2010
Amendments to IFRS 7 *Financial Instruments: Disclosures*, relating to Disclosures on Transfers of Financial Assets	1 July 2011
IAS 24 *Related Party Disclosures* (revised in 2009)	1 January 2011
Amendments to IAS 32 *Financial Instruments: Presentation*, relating to Classification of Rights Issues	1 February 2010
Amendments to IFRIC 14 relating to *Prepayments of a Minimum Funding Requirement*	1 January 2011
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
Improvements to IFRSs issued in 2010 covering amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13	1 January 2011, except IFRS 3 and IAS 27 which are effective 1 July 2010
Deferred Tax: Recovery of Underlying Assets – *Amendments to* IAS 12: *Income Taxes*	1 January 2012
Amendment to IFRS 1: *Removal of Fixed Dates for First-time Adopters*	1 July 2011
Amendment to IFRS 1: *Severe Hyperinflation*	1 July 2011

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2011 or as and when they are applicable and adoption of these standards and interpretations may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

3. Summary of significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates (UAE) Federal Law No. 8 of 1984 (as amended) and Federal Law No. 6 of 2007, concerning the formation of Insurance Authority of U.A.E.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of investment properties and financial instruments that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Group presents its 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.

The principal accounting policies are set out below.

3.3 Basis of consolidation

The consolidated financial statements of Oman Insurance P.S.C. and Subsidiary (the “Group”) incorporate the financial statements of the Company and the entity controlled by the Company (its Subsidiary). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses and profits and losses resulting from the intra-company transactions that are recognised in assets, are eliminated in full on consolidation.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Details of the Company’s subsidiary at 31 December 2010 are as follows:

Name of subsidiary	Ownership interest	Country of Incorporation	Principal activity
Equator Trading Enterprises L.L.C.	99.97%	UAE	Trading in quoted securities within U.A.E.

The Company beneficially through nominee arrangements holds the remaining equity in the above.

3. Summary of significant accounting policies (continued)

3.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

3.5 Insurance contracts

3.5.1 Product classification

Insurance contracts are those contracts when the Group (the insurer) has accepted the significant insurance risk from another party (policyholder) by agreeing to compensate policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. 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 contract can also transfer the financial risk.

3. Summary of significant accounting policies (continued)

3.5 Insurance contracts (continued)

3.5.1 Product classification (continued)

Investment contracts are those contracts that transfer significant financial risk. The financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable provided in the case of non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the reminder of its lifetime even if the insurance risk reduces significantly during this period unless all rights and obligations are extinguished or expire. Investment contract can however be classified as insurance contracts after the inception if the insurance risk become significant.

Some insurance contracts and investment contracts contain discretionary participating features (DPF) which entitle the contract holder to receive, as a supplement to the standard guaranteed benefits, additional benefits;

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer;
- that are contractually based on;
  - (i) the performance of a specified pool of contracts or a specified type of contract,
  - (ii) realised/unrealised investment returns on a specified pool of assets held by the issuer or,
  - (iii) the profit or loss of the Company, fund or other entity that issues that contract.

Under IFRS 4, DPF can be either treated as an element of equity or as a liability, or can be split between the two elements. The Group policy is to treat all DPF as a liability within insurance or investment contract liabilities.

The policyholder bears the financial risks relating to some insurance contracts or investment contracts. Such products are usually unit-linked contracts.

3.5.2 Recognition and measurement

Insurance contracts are classified into two main categories, depending on the nature of the risk, duration of the risk and whether or not the terms and conditions are fixed.

These contracts are general insurance contracts and life insurance contracts.

3.5.3 General insurance contracts

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown in the profit and loss before deduction of commission.

Claims and loss adjustment expenses are charged to the profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

3. Summary of significant accounting policies (continued)

3.5 Insurance contracts (continued)

3.5.4 Life assurance contracts

In respect of the short term life assurance contracts, premiums are recognised as revenue (earned premiums) proportionately over the period of coverage. The portion of the premium received in respect of in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before the deduction of the commission.

In respect of long term life assurance contracts, premium are recognised as revenue (earned premiums) when they become payable by the contract holder.

Premiums are shown in the profit and loss before deduction of commission.

Premiums for group credit life policies are recognized when it is paid by the contract holder.

A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums are recognised. The liability is based on the assumptions as to the mortality, persistency, maintenance expenses and investment income that is established at the time the contract is issued. A margin for adverse deviation is included in the assumptions.

Where life assurance contract has a single premium or limited number of premium payments due over a significantly shorter period than the period during which the benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contract in-force or for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at the end of each reporting period using the assumptions established at the inception of the contract.

Claims and benefits payable to contract holders are recorded as expenses when they are incurred.

3.5.5 Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts recognised as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer, are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance contract assets.

The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Group reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

3. Summary of significant accounting policies (continued)

3.5 Insurance contracts (continued)

3.5.5 Reinsurance contracts (continued)

The Group also assumes reinsurance risk in the normal course of business for life insurance and general insurance contracts where applicable. Premium and claims on assumed reinsurance contracts are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3.5.6 Insurance contract liabilities

3.5.6.1 Unearned premium reserve

At the end of reporting period, a proportion of net retained premiums of the general insurance, medical and life business is provided to cover portions of risks which have not expired. The reserves are calculated in accordance with regulations relating to insurance companies at 40% of annual premiums earned net of reinsurance for all classes of insurance except marine which is calculated at 25% and for medical and life business which is calculated on a time proportion basis.

3.5.6.2 Additional reserve

A provision is made for the estimated excess of potential claims over unearned premiums, as well as for claims incurred but not reported at the end of the reporting period and for potential shortfall in unearned premium reserve due to the use of 40% basis for computing unearned premium for general insurance except marine.

The reserves represent the management's best estimates on the basis of:

a) claims reported during the year;
b) delay in reporting these claims;
c) shortfall in unearned premium reserve by reference to 1/8th method, where majority of policies are issued for one year, except marine class of business. 1/8th is the method whereby the unearned premium liability shall equal 1/8 of the gross written premiums relating to policies commencing in the first quarter of the financial year, 3/8 of the gross written premiums relating to policies commencing in the second quarter of the financial year, 5/8 of the gross written premiums relating to policies commencing in the third quarter of the financial year and 7/8 of the gross written premiums relating to policies commencing in the fourth quarter of the financial year.

3. Summary of significant accounting policies (continued)

3.5 Insurance contracts (continued)

3.5.6.3 Life assurance fund

The fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience and industry mortality tables. Adjustments to the balance of the fund are effected by charging to profit or loss.

3.5.7 Outstanding claims

Insurance contract liabilities towards outstanding claims of general insurance are recognised for all claims intimated and unpaid at the end of the reporting period. 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 end of the reporting period after reduction for the expected value of salvage and other recoveries. 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 end of the reporting period. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the contract expires, is discharged or is cancelled.

3.5.8 Policy acquisition costs

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are recognised as expenses when incurred.

3.5.9 Salvage and subrogation reimbursements

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

3.5.10 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the profit or loss establishing a provision for losses arising from liability adequacy tests.

3.5.11 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss.

3. Summary of significant accounting policies (continued)

3.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business.

3.6.1 Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these consolidated financial statements (see above 3.5).

3.6.2 Commission income

Commission income is recognised when the reinsurance premium is ceded based on the terms and percentages agreed with the reinsurers.

3.6.3 Dividend income

Dividend income is recognised when the Group's right to receive the payment has been established.

3.6.4 Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.7 General and administrative expenses

Direct expenses of general insurance business are charged to respective departmental revenue accounts. Indirect expenses of the general insurance business are allocated to departmental revenue accounts on the basis of gross written premiums of each department. Other administration expenses are charged to profit or loss as unallocated general and administrative expenses.

3. Summary of significant accounting policies (continued)

3.8 Income tax

Taxation is provided for in accordance with fiscal regulations of Oman and Qatar.

Deferred income tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the end of the reporting period.

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

3.9 Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Arab Emirates Dirhams (“AED”), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

3. Summary of significant accounting policies (continued)

3.10 Property and equipment

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Other property and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

Depreciation is charged so as to write off the cost of assets, other than capital work in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The useful lives considered in the calculation of depreciation for the assets are as follows:

	Years
Furniture and equipments	3 - 5
Motor vehicles	5

3.11 Investment properties

Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise.

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 profit or loss in the period of retirement or disposal.

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

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

3. Summary of significant accounting policies (continued)

3.12 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.13 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, (where the effect of time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. Summary of significant accounting policies (continued)

3.14 Employee benefits

3.14.1 Defined contribution plan

UAE national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Group is required to contribute 12.5% of the “contribution calculation salary” of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the “contribution calculation salary” respectively, to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to profit or loss.

3.14.2 Annual leave and leave passage

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

3.14.3 Provision for employees’ end of service benefits

Provision is also made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law and is based on current remuneration and their period of service at the end of the reporting period. Provisions for employees’ end of service indemnity for the employees working with the entities domiciled in other countries are made in accordance with local laws and regulations applicable to each entity.

3.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.16 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group has no finance leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

3. Summary of significant accounting policies (continued)

3.17 Financial instruments

3.17.1 Recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss (FVTPL) are recognised immediately in profit or loss.

A financial asset and financial liability is offset and the net amount is reported in the consolidated financial statements only when there is legally enforceable right to set off the recognised amount and the Group intends either to settle on a net basis or realise the assets and settle the liabilities simultaneously.

3.17.2 Early adoption of IFRS 9

The Group had early adopted IFRS 9 during the year ended 31 December 2009 and also adopted related consequential amendments made in October 2010 during the current year. As a part of prospective application of IFRS 9, impairment charges recorded in profit or loss in prior periods amounting to AED 13,239 thousand have been reclassified from retained earnings to cumulative changes in fair value of securities in 2009.

The Group had inadvertently reclassified AED 12,005 thousand from retained earnings to cumulative change in fair value of securities related to the equity instruments designated at fair value through profit or loss in the previous year. The reclassified amount as reported in the previous year amounting to AED 25,244 thousand has been restated to AED 13,239 thousand (refer above) as a result of correcting the above.

3.18 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

3. Summary of significant accounting policies (continued)

3.18 Financial assets (continued)

3.18.1 Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

3.18.2 Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised by applying the effective interest rate, except for short-term debt instruments when the recognition of interest would be immaterial.

3.18.2.1 Cash and cash equivalents

Cash and cash equivalents, which include cash on hand and deposits held with banks with original maturities of three months or less, are classified as financial assets at amortised cost.

3.18.2.2 Insurance receivables, other receivables and statutory deposits

Insurance receivables, other receivables and statutory deposits are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short- term receivables when the recognition of interest would be immaterial.

3.18.3 Financial assets at fair value through other comprehensive income (FVTOCI)

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

3. Summary of significant accounting policies (continued)

3.18 Financial assets (continued)

3.18.3 Financial assets at fair value through other comprehensive income (FVTOCI) (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value of securities reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments.

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

3.18.4 Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see above).

Debt instruments that do not meet the amortised cost criteria (see above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 34.2.

Dividend income on investments in equity instruments at FVTPL is recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue.

3. Summary of significant accounting policies (continued)

3.18 Financial assets (continued)

3.18.5 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in profit or loss; and

- for financial assets that designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the profit or loss.

3.18.6 Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as a default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as insurance receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

3. Summary of significant accounting policies (continued)

3.18 Financial assets (continued)

3.18.6 Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of insurance receivables, where the carrying amount is reduced through the use of an allowance account. When an insurance receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3.18.7 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair value of securities reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

3.19 Financial liabilities and equity instruments issued by the Group

3.19.1 Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3.20 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

3. Summary of significant accounting policies (continued)

3.21 Financial liabilities

All financial liabilities are initially measured at fair value net of transactions costs except financial liabilities at fair value through profit or loss (FVTPL) which are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method or at FVTPL. The Group does not have any financial liabilities measured at FVTPL.

3.21.1 Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of the reporting period. The Group's financial liabilities measured at amortised costs include bank borrowings, reinsurance deposits retained, insurance payables, trade and other payables excluding the advances to suppliers.

The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method with interest expense that is not capitalised as part of costs of an asset, is recognised in profit or loss except for short term payable when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.21.2 Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the profit or loss.

3.21.3 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3.22 Dividend distribution

Dividend distribution to the Shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Shareholders.

4. Critical accounting judgements and key sources of estimation of uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgements and estimates made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see 4.2 below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4.1.1 Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as at FVTOCI, FVTPL or amortised cost. In judging whether investments in securities are as at FVTOCI, FVTPL or amortised cost, Management has considered the detailed criteria for determination of such classification as set out IFRS 9 Financial Instruments. Management is satisfied that the Group's investments in securities are appropriately classified.

4.1.2 Classification of properties

In the process of classifying properties, management has made various judgments. Judgments are needed to determine whether a property qualifies as an investment property, property and equipment, property under development and/or property held for sale. Management develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment, property under development and property held for sale. In making its judgment, management has considered the detailed criteria and related guidance set out in IAS 2 – Inventories, IAS 16 – Property, Plant and Equipment, and IAS 40 – Investment Property, with regards to the intended use of the property.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. Critical accounting judgements and key sources of estimation of uncertainty (continued)

4.2 Key sources of estimation uncertainty (continued)

4.2.1 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

4.2.2 Impairment of insurance receivables

An estimate of the collectible amounts of insurance receivable is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired entails the management's evaluation of the specific credit and liquidity position of the contract holders and their historical recovery rates including detailed reviews carried out during 2010 and feedback received from the legal department. Based on this estimate, an impairment loss of AED 15,000 thousand (2009: AED 24,480 thousand) has been recognised in the current year.

4.2.3 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Group makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of the liability. Any deficiency is immediately charged to the profit or loss.

4.2.4 Actuarial valuation of life assurance fund

Mortality and withdrawal rate assumptions used in actuarial valuation of life fund are based on experience and the most current industry standard mortality table.

4.2.5 Additional reserve

The Group, based on the past experience uses the $1/8^{th}$ method to assess the potential shortfall in unearned premium reserve, except for marine class of business where an additional reserve calculation for unearned premium is not performed.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

4. Critical accounting judgements and key sources of estimation of uncertainty (continued)

4.2 Key sources of estimation uncertainty (continued)

4.2.6 Impairment of properties

Management has performed impairment review of the capital work-in-progress at the end of the reporting period. The best evidence of the recoverable amount of the capital work-in-progress is the current price in an active market for a similar asset less estimated cost of completion and selling expenses. The current market price of the capital work-in-progress has been established based on the valuation done by management with reference to market transactions for similar properties. Accordingly, impairment loss of AED 83,000 thousand has been recognised in respect of the capital work-in-progress for the year ended 31 December 2010.

5. Property and equipment

	Furniture and equipments AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost				
Balance at 31 December 2008	41,292	779	320,299	362,370
Additions	23,752	162	11,142	35,056
Balance at 31 December 2009	65,044	941	331,441	397,426
Additions	3,914	-	3,519	7,433
Disposals	(2,177)	-	-	(2,177)
Balance at 31 December 2010	**66,781**	**941**	**334,960**	**402,682**
Accumulated depreciation and impairment				
Balance at 31 December 2008	25,482	133	-	25,615
Charge of the year	8,204	257	-	8,461
Balance at 31 December 2009	33,686	390	-	34,076
Charge of the year	10,181	143	-	10,324
Disposals	(2,177)	-	-	(2,177)
Impairment loss recognised	-	-	83,000	83,000
Balance at 31 December 2010	**41,690**	**533**	**83,000**	**125,223**
Carrying amount				
Balance at 31 December 2010	**25,091**	**408**	**251,960**	**277,459**
Balance at 31 December 2009	31,358	551	331,441	363,350

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

6. Investment properties

	2010	2009
	AED'000	AED'000
Freehold land:		
Fair value at the beginning of the year	**230,649**	405,113
Decrease in fair value during the year	**(61,329)**	(174,464)
Fair value at the end of the year	**169,320**	230,649

Investment properties are stated at fair value, which has been principally determined based on recent valuation performed by independent valuers. Fair value represents the amounts at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of the valuation. Valuations are performed on a periodic basis, at least annually, and the fair value gains and losses are recorded on the profit or loss.

7. Advance for investment properties

	2010	2009
	AED'000	AED'000
Fair value at the beginning of the year	**133,353**	159,646
Additions during the year	**38,577**	12,707
Impairment during the year	-	(39,000)
Fair value at the end of the year	**171,930**	133,353

Advances paid on contracts for purchase of investment properties are carried at cost, but are subject to consideration for impairment when indicators of impairment exist. The recoverable amount for the purpose of the impairment review was determined based on valuations performed by management at the end of the reporting period.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

8. Financial investments

8.1 Composition of investments

The Group's investments at the end of reporting date are detailed below.

	2010 AED '000	2009 AED '000
At fair value through profit or loss (8.2)	**315,111**	338,307
At fair value through other comprehensive income (8.3)	**1,140,413**	1,153,168
	1,455,524	1,491,475

8.2 Financial investments at fair value through profit or loss

	Domestic		International		Total	
	2010 AED '000	2009 AED '000	**2010 AED '000**	2009 AED '000	**2010 AED '000**	2009 AED '000
Designated upon initial recognition:						
- Structured investments unquoted	**-**	-	**236,095**	288,584	**236,095**	288,584
Shares - quoted	**37,267**	36,246	**-**	-	**37,267**	36,246
Unit linked investments	**-**	-	**41,749**	13,477	**41,749**	13,477
	37,267	36,246	**277,844**	302,061	**315,111**	338,307

FVTPL financial investments with a fair value of AED 171,431 thousand at 31 December 2010 (2009: AED 146,159 thousand) are under lien in respect of guarantees and credit facilities.

8.3 Financial investments at fair value through other comprehensive income

	Domestic		International		Total	
	2010 AED '000	2009 AED '000	**2010 AED '000**	2009 AED '000	**2010 AED '000**	2009 AED '000
Share and mutual funds						
- Quoted	**826,617**	757,215	**43,455**	55,223	**870,072**	812,438
- Unquoted	**165,797**	240,872	**104,544**	99,858	**270,341**	340,730
	992,414	998,087	**147,999**	155,081	**1,140,413**	1,153,168

Quoted shares with carrying value of AED 106,706 thousand at 31 December 2010 (2009: AED 103,711 thousand) were registered in the name of certain shareholders/directors of the Company and third parties who are holding those shares in trust for the benefits of the Group.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

8. Financial investments (continued)

8.4 Movement in investments

The movements in investments are as follows:

	Available for sale AED'000	Fair value through profit or loss AED'000	Fair value through OCI AED'000	Total AED'000
At 1 January 2009	1,488,646	199,132	-	1,687,778
Reclassification following adoption of IFRS 9 on 31 December 2009	(1,267,174)	35,297	1,231,877	-
Purchases	-	174,284	27,759	202,043
Disposals	(196,202)	(71,796)	(679)	(268,677)
Impairment provision	(25,270)	-	-	(25,270)
Fair value gains recorded in the profit	-	1,390	-	1,390
Fair value losses recorded in other comprehensive income	-	-	(105,789)	(105,789)
At 31 December 2009	-	338,307	1,153,168	1,491,475
At 1 January 2010	**-**	**338,307**	**1,153,168**	**1,491,475**
Purchases	**-**	**89,505**	**23,719**	**113,224**
Disposals	**-**	**(125,537)**	**(5,133)**	**(130,670)**
Fair value gains recorded in the profit	**-**	**12,836**	**-**	**12,836**
Fair value losses recorded in other comprehensive income	-	**-**	**(31,341)**	**(31,341)**
At 31 December 2010	**-**	**315,111**	**1,140,413**	**1,455,524**

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

9. Statutory deposits

	2010 AED '000	2009 AED '000
Bank deposit maintained in accordance with Article 42 of U.A.E. Federal Law No. 6 of 2007	**10,000**	10,000
Amount under lien with Capital Market Authority – Sultanate of Oman	**13,538**	13,538
	23,538	23,538

10. Insurance contract liabilities and reinsurance contract assets

	2010 AED '000	2009 AED '000
Insurance liabilities		
- Outstanding claims	**925,710**	1,003,395
- Additional reserve	**97,250**	89,250
- Life assurance fund	**126,520**	107,953
- Unearned premiums	**758,620**	758,519
	1,908,100	1,959,117
Recoverable from re-insurers		
- Outstanding claims	**645,590**	764,389
- Unearned premiums	**365,922**	336,140
	1,011,512	1,100,529
Insurance liabilities – net		
- Outstanding claims	**280,120**	239,006
- Additional reserve	**97,250**	89,250
- Life assurance fund	**126,520**	107,953
- Unearned premiums	**392,698**	422,379
	896,588	858,588

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

10. Insurance contract liabilities and reinsurance contract assets (continued)

10.1 Additional reserve

	General Insurance AED '000	Life Assurance AED '000	Total AED '000
1 January 2009	75,750	8,000	83,750
Increase	3,500	2,000	5,500
31 December 2009	79,250	10,000	89,250
Increase	-	8,000	8,000
31 December 2010	**79,250**	**18,000**	**97,250**

10.2 Life Assurance Fund

1 January 2009	76,715
Increase	31,238
31 December 2009	107,953
Increase	18,567
31 December 2010	**126,520**

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

11. Insurance receivables

	2010 **AED'000**	2009 AED'000
Due from policy holders and brokers	**693,351**	643,652
Less: allowance for doubtful debts	**(33,655)**	(19,395)
Net due from policy holders and brokers	**659,696**	624,257
Due from insurance companies	**78,035**	98,634
Less: allowance for doubtful debts	**(2,200)**	(2,200)
Net due from insurance companies	**75,835**	96,434
Due from reinsurance companies	**171,193**	199,720
Less: allowance for doubtful debts	**(22,000)**	(22,000)
Net due from reinsurance companies	**149,193**	177,720
Total insurance receivables	**884,724**	898,411

The average credit period on insurance receivables is 30 to 120 days. No interest is charged and no collateral is taken on insurance receivables.

The Group has adopted a policy of dealing with creditworthy counter parties. Adequate credit assessment is made before accepting an insurance contract from any counter party. The Group does not have any single counter party whose outstanding balance at the end of the period exceeds 5% of the total receivable balance.

Included in the Group's total insurance receivables are balances amounting to AED 290,655 thousand (2009: AED 247,279 thousand) which are past due at the end of the reporting period for which no allowance has been provided for, as there was no significant change in credit quality of these insurance receivables and the amounts are considered recoverable.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

11. Insurance receivables (continued)

Ageing of insurance receivables

	2010 AED'000	2009 AED'000
Not past due up to 120 days	**594,069**	651,132
Past due but not impaired		
121 to 180 days	**74,491**	36,945
above 180 days	**216,164**	210,334
Insurance receivables	**884,724**	898,411
Past due and impaired	**57,855**	43,595
Total	**942,579**	942,006

Movement in the allowance for doubtful debts:

	2010	2009
Balance at beginning of the year	**43,595**	19,412
Impairment losses recognised on receivables during the year	**15,000**	24,480
Amounts written off as uncollectible during the year	**(33)**	-
Amounts recovered during the year	**(707)**	(297)
Balance at end of the year	**57,855**	43,595

The Group has provided for certain receivables above 365 days based on estimated recoverable amounts, determined after review of specific credit quality of customers and past default experience. In determining the recoverability of an insurance receivable, the Group considers any change in the credit quality of the customer from the date credit was initially granted up to the reporting date. Accordingly, management believes that no provision required in excess of the allowance for doubtful debts.

12. Prepayments and other receivables

	2010 AED'000	2009 AED'000
Accrued income	**12,620**	8,294
Prepayments	**27,186**	34,946
Staff debtors and advances	**4,812**	5,264
Other receivables	**30,431**	29,831
	75,049	78,335

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

13. Bank balances and cash

	2010 AED '000	2009 AED '000
Deposits with banks with maturity over 3 months	**590,251**	469,109
Deposits with banks maturing within 3 months	**90,241**	134,821
Bank balances and cash	**70,735**	58,540
Total bank balances and cash	**751,227**	662,470
Less: Bank overdrafts	**(97,587)**	(167,101)
Deposit with bank with maturity over 3 months	**(590,251)**	(469,109)
Cash and cash equivalents for the purpose of consolidated statement of cash flows	**63,389**	26,260

The interest rate on fixed deposits and call accounts with banks ranges between 2.5% and 3.5% (2009: 2.5% and 4%) per annum. All bank deposits are held in local banks in the United Arab Emirates.

Certain deposits with carrying value of AED 259,535 thousand (2009: AED 125,490 thousand) at 31 December 2010 are subject to lien in respect of guarantees and overdraft facilities.

14. Share capital

	2010 AED'000	2009 AED'000
Authorised, issued and fully paid 419,883,750 shares of AED 1 each (2009: 381,712,500 shares of AED 1 each)	**419,884**	381,713

Share capital increased by AED 38,171 thousand during the year as a result of 10% scrip dividend issued.

15. Statutory reserve

In accordance with the Commercial Companies Law and the Company's Articles of Association, 10% of net profit for the year is required to be transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the statutory reserve is equal to 50% of the paid up share capital. The reserve is not available for distribution except in the circumstances stipulated by the law.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

16. Strategic reserve

The strategic reserve may be utilised for any purpose to be determined by a resolution of the Shareholders of the Company at an ordinary general meeting, on the recommendation of the Board of Directors. No transfers have been made to the strategic reserve during the year.

17. General reserve

Annual transfers to the general reserve are made at the rate of 25% of the profit less Directors' remuneration for the year. The reserve is freely available for distribution. During the year, transfer to this reserve was calculated at 25% of the profit as no Directors' remuneration was proposed.

18. Contingency reserve

In accordance with Article 20 (2) (c) amended by Royal Decree No. 35/95 of the Oman Insurance Companies Law 1979 and in accordance with the Capital Market Authority's letter, CMA 4952/2005 dated 22 November 2005, 10% of the net outstanding claims of the Oman branch at the reporting date is transferred from retained earnings to a contingency reserve. In case of insufficient retained earnings or accumulated loss position, the transfer is adjusted against the head office current account balance. The reserve is not available for distribution.

19. End of service benefits

	2010	2009
	AED'000	AED'000
Balance at the beginning of the year	**34,078**	30,625
Charge for the year	**9,038**	4,236
Paid during the year	**(2,414)**	(783)
Balance at the end of the year	**40,702**	34,078

20. Bank borrowings

	2010	2009
	AED'000	AED'000
Long term loan	**237,700**	67,932
Short term loan	**343,939**	472,222
Bank overdraft	**97,587**	167,101
	679,226	707,255

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

20. Bank borrowings (continued)

Long term loans include an amount of AED 82,620 thousand (2009: AED 67,932 thousand) which carries interest at 1 month LIBOR + 2.75% and is repayable in bullet payment in September 2012 and an amount of AED 100,000 thousand (2009: Nil) which carries interest at 3 month EIBOR + 2.5% and is repayable in bullet payment in March 2013. Long term loans also include AED 55,080 thousand (2009: Nil) which carries interest at 3 month USD LIBOR +2.00% and is repayable at the discretion of the Company and is available till the date of the disposal of colaterised investments managed by the lender. Management expects to repay this loan in three years time.

Short-term loans are unsecured and are repayable within six-months/one year of draw down. The loans are normally rolled over for additional similar periods.

Short-term loans include an amount AED 100,000 thousand (2009: AED Nil) which carries interest at 1 months EIBOR + 2% and is repayable in a bullet payment in April 2011 and an amount AED 43,939 thousand (2009: AED Nil) which carries interest at 3 months EIBOR + 2.50 % and is repayable in equal installments from January 2011 to July 2011 an amount AED 50,000 thousand (2009: AED Nil) which carries interest at 3 months EIBOR + 2.50 % and is repayable in bullet payment in April 2011 and an amount AED 150,000 thousand (2009: AED 150,000 thousand) which carries interest at Bank rate + 1% and is repayable in July 2011 or is renewable on yearly basis.

Bank overdraft carries interest at base lending rate + 1% margin.

21. Insurance, trade and other payables

21.a Insurance payables

	2010 **AED'000**	2009 AED'000
Due to policy holders and brokers	**168,080**	116,863
Due to insurance companies	**20,463**	58,266
Due to reinsurance companies	**161,827**	194,156
Premiums collected in advance	**71,605**	100,926
Other insurance payables	**55,610**	10,574
	477,585	480,785

The average credit period is 60 to 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within credit time frame.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

21. Insurance, trade and other payables (continued)

21.b Trade and other payables

	2010 **AED'000**	2009 AED'000
Accruals for staff costs	**59,345**	52,355
Other payables and accruals	**67,387**	52,082
	126,732	104,437

22. Net investment income/(loss)

	2010 **AED '000**	2009 AED '000
Dividend income from financial investments at FVTPL	**1,176**	10,434
Dividend income from financial investments at FVTOCI	**25,019**	30,440
Interest income from financial investments at FVTPL	**11,419**	14,875
Interest income from deposits	**20,306**	16,705
Unrealised losses on investment properties	**(61,329)**	(174,464)
Fair value gains on financial investments at FVTPL	**12,836**	1,390
Realised gains on sale of available for sale investments	**-**	69,250
Realised losses on sale of financial investments at FVTPL	**(2,298)**	(1,516)
Impairment of advances for investment properties	**-**	(39,000)
	7,129	(71,886)

23. Other expenses - net

	2010 **AED '000**	2009 AED '000
General and administration expenses not allocated	**(26,405)**	(12,380)
Other income	**2,705**	642
	(23,700)	(11,738)

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

24. Profit for the year

Profit for the year is stated after charging:

	2010 AED'000	2009 AED'000
Staff costs	**126,594**	106,684
Depreciation of property and equipment	**10,324**	8,461
Rental costs – operating leases	**24,918**	27,121

25. Basic earnings per share

	2010	2009
Profit for the year (AED '000)	**94,087**	189,635
Weighted average number of shares	**419,883,750**	419,883,750
Basic earnings per share AED	**0.22**	0.45

Basic earnings per share are calculated by dividing the profit for the year by the number of weighted average of shares outstanding at the end of the reporting period.

The weighted average number of shares as at 31 December 2009 has been adjusted to reflect the bonus shares issued during 2010.

26. Income tax

The tax rate applicable to Oman branch is 12%. For the purpose of determining the tax result for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

The Oman branch has incurred an accounting loss and taxable loss during the year. Therefore, the applicable tax rate is nil. The average effective tax rate cannot be determined in view of the taxable loss.

None of the branch's tax assessments have been finanlised.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

26. Income tax (continued)

The branch has estimated taxation losses available for offset against future taxable profits as follows:

	2010 AED'000	2009 AED'000
Available to 31 December 2013 (estimated)	**(1,658)**	(1,658)
Available to 31 December 2014 (estimated)	**(1,188)**	(1,188)
Available to 31 December 2015 (estimated)	**(972)**	-

Qatar branch has also incurred an accounting loss.

27. Related party transactions

Related parties include the Group's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

a) At the end of the reporting period, amounts due from/to related parties are included in the following accounts:

	2010 AED '000	2009 AED '000
Cash and bank balances	**210,902**	251,932
Statutory deposits	**12,527**	12,527
Net insurance receivable	**28,233**	41,528
Net insurance payable	**1,721**	10,697
Bank overdraft	**95,734**	118,773
Short term loans	**150,000**	150,000

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

27. Related party transactions (continued)

b) During the year, the Group entered into the following transactions with related parties:

	2010	2009
	AED '000	AED '000
Premiums	**87,028**	224,859
Claims	**51,237**	135,361
Interest expenses	**5,496**	6,031
Commission paid	**7,058**	7,057
Shares purchased	**6,675**	6,240
Investment properties purchased	**-**	31,000
Advance for investment property	**38,577**	-
Dividends paid	**97,181**	121,480

Premiums are charged to related parties at rates agreed with management.

c) Compensation of key management personnel

	2010	2009
	AED '000	AED '000
Board of Directors' remuneration paid	**13,500**	11,000
Salaries and benefits	**7,102**	6,374
End of service benefits	**120**	140
Total compensation paid to the key management personnel	**20,722**	17,514

28. Segment information

For management purposes, the Group is organised into three business segments, general insurance, life insurance and investments. The general insurance segment comprises property, motor, aviation and marine risks. The life insurance segment includes individual life (participating and non-participating), medical, group life and personal accident as well as investment linked funds. Investment comprises investments (financial and non financial), deposits with banks and cash management for the Group's own account.

These segments are the basis on which the Group reports its primary segment information to the Chief Operating Decision Maker.

Segmental information is presented below:

28. Segment information (continued)

28.1 Segment revenue

	General Insurance			Life Assurance			Total		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
Year 2010									
Insurance premium revenue	**1,718,084**	**(808,347)**	**909,737**	**725,557**	**(403,293)**	**322,264**	**2,443,641**	**(1,211,640)**	**1,232,001**
Movement in provision for unearned premiums	**2,123**	**23,181**	**25,304**	**(2,224)**	**6,601**	**4,377**	**(101)**	**29,782**	**29,681**
Insurance premium earned	**1,720,207**	**(785,166)**	**935,041**	**723,333**	**(396,692)**	**326,641**	**2,443,540**	**(1,181,858)**	**1,261,682**
Unearned premium as at 31 December 2010	**625,417**	**(294,665)**	**330,752**	**133,203**	**(71,257)**	**61,946**	**758,620**	**(365,922)**	**392,698**
Year 2009									
Insurance premium revenue	1,695,243	(741,158)	954,085	642,490	(320,393)	322,097	2,337,733	(1,061,551)	1,276,182
Movement in provision for unearned premiums	(25,604)	(2,394)	(27,998)	13,561	(8,539)	5,022	(12,043)	(10,933)	(22,976)
Insurance premium earned	1,669,639	(743,552)	926,087	656,051	(328,932)	327,119	2,325,690	(1,072,484)	1,253,206
Unearned premium as at 31 December 2009	627,540	(271,484)	356,056	130,979	(64,656)	66,323	758,519	(336,140)	422,379

Insurance premium revenue includes AED 264,988 thousand (2009: AED 226,115 thousand) of reinsurance premium accepted.

28. Segment information (continued)

28.2 Segment claims

	General Insurance			Life Assurance			Total		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
Year 2010									
Claims settled	**937,436**	**(522,009)**	**415,427**	**482,131**	**(316,815)**	**165,316**	**1,419,567**	**(838,824)**	**580,743**
Changes in provision for outstanding claims	**(79,706)**	**125,662**	**45,956**	**2,023**	**(6,865)**	**(4,842)**	**(77,683)**	**118,797**	**41,114**
Movement in additional reserves	**-**	**-**	**-**	**8,000**	**-**	**8,000**	**8,000**	**-**	**8,000**
Claims incurred	**857,730**	**(396,347)**	**461,383**	**492,154**	**(323,680)**	**168,474**	**1,349,884**	**(720,027)**	**629,857**
Year 2009									
Claims settled	816,844	(361,747)	455,097	432,435	(283,981)	148,454	1,249,279	(645,728)	603,551
Changes in provision for outstanding claims	144,579	(161,087)	(16,508)	43,300	(30,400)	12,900	187,879	(191,487)	(3,608)
Movement in additional reserves	3,500	-	3,500	2,000	-	2,000	5,500	-	5,500
Claims incurred	964,923	(522,834)	442,089	477,735	(314,381)	163,354	1,442,658	(837,215)	605,443

28. Segment information (continued)

28.3 Segment results

	Year ended 31 December 2010			Year ended 31 December 2009		
	General insurance AED'000	Life assurance AED'000	Total AED'000	General insurance AED'000	Life assurance AED'000	Total AED'000
Net insurance premium earned	**935,041**	**326,641**	**1,261,682**	926,087	327,119	1,253,206
Net claims incurred	**(461,383)**	**(168,474)**	**(629,857)**	(442,089)	(163,354)	(605,443)
Excess of loss reinsurance premium	**(60,643)**	**-**	**(60,643)**	(44,585)	-	(44,585)
Policies surrendered and maturities paid	**-**	**(29,169)**	**(29,169)**	-	(5,950)	(5,950)
Reinsurance commission income	**136,825**	**1,744**	**138,569**	153,722	-	153,722
Commission expenses	**(193,588)**	**(67,147)**	**(260,735)**	(179,333)	(37,109)	(216,442)
General and administrative expenses relating to underwriting activities	**(152,374)**	**(39,786)**	**(192,160)**	(159,764)	(36,746)	(196,510)
Insurance business fees	**(6,706)**	**(2,339)**	**(9,045)**	(2,800)	(787)	(3,587)
Other income relating to underwriting activities	**10,181**	**22,209**	**32,390**	4,581	10,139	14,720
	(266,305)	**(114,488)**	**(380,793)**	(228,179)	(70,453)	(298,632)
Underwriting profit before movements in life assurance fund	**207,353**	**43,679**	**251,032**	255,819	93,312	349,131
Increase in life assurance fund	**-**	**(18,567)**	**(18,567)**	-	(31,238)	(31,238)
Net underwriting profit	**207,353**	**25,112**	**232,465**	255,819	62,074	317,893
Net investment income/(loss)	-	-	**7,129**	-	-	(71,886)
Finance costs	**-**	**-**	**(38,807)**	-	-	(44,634)
Impairment of property and equipment	**-**	**-**	**(83,000)**	-	-	-
Other expenses – net	-	-	**(23,700)**	-	-	(11,738)
Profit for the year	**207,353**	**25,112**	**94,087**	255,819	62,074	189,635

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues in the year (2009: AED nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

28. Segment information (continued)

28.4 Segment assets and liabilities

	As at 31 December 2010				As at 31 December 2009			
	General insurance AED'000	**Life assurance AED'000**	**Investments AED'000**	**Total AED'000**	General insurance AED'000	Life assurance AED'000	Investments AED'000	Total AED'000
Segment assets	**1,826,789**	**490,291**	**2,503,203**	**4,820,283**	2,521,499	459,556	2,001,055	4,982,110
Segment liabilities	**2,222,208**	**568,596**	**581,638**	**3,372,442**	2,349,805	540,809	540,154	3,430,768
Capital expenditure	**7,294**	**139**	**38,577**	**46,010**	34,816	240	-	35,056
Depreciation	**9,822**	**502**	**-**	**10,324**	7,668	793	-	8,461

28. Segment information (continued)

28.5 Geographical information

The Group's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe.

Total revenue and total assets of the underwriting and investment segments by geographical location are detailed below:

	Gross premium 2010 AED'000	Gross premium 2009 AED'000	**Total assets 2010 AED'000**	Total assets 2009 AED'000
United Arab Emirates	**2,339,441**	2,260,463	**3,197,231**	3,110,113
Other GCC countries	**104,200**	77,270	**112,424**	152,121
Europe	-	-	**1,411,126**	1,604,438
Rest of the world	-	-	**99,502**	115,438
	2,443,641	2,337,733	**4,820,283**	4,982,110

29. Dividends

During the year, a cash dividend of AED 152,685 thousand – AED 40 fils per share (2009: AED 190,857 thousand – AED 50 fils per share) was paid to the Shareholders for 2009.

30. Contingent liabilities

	2010 AED'000	2009 AED'000
Bank guarantees	**35,285**	47,781

The above bank guarantees were issued in the normal course of business.

The Group, in common with the significant majority of insurers, is subject to litigation in the normal course of its business. The Group, based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Group's financial performance or financial position.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

31. Commitments

	2010 **AED '000**	2009 AED '000
Capital/purchase commitments		
Commitments in respect of uncalled subscription of certain shares held as investments	**47,305**	33,230
Commitment in respect of purchase of investment properties	**24,198**	89,257
	71,503	122,487

Operating lease commitments

At the end of the reporting period, minimum lease commitments under non-cancellable operating lease agreements are as follows:

	2010 **AED '000**	2009 AED '000
Within one year	**10,128**	13,836
Second to fifth year	**728**	389

32. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the estimated amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

32. Insurance risk (continued)

The Group manages risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

32.1 Frequency and severity of claims

The Group has the right not to renew individual policies, re-price the risk, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Group's strategy limits the total exposure to any one territory and the exposure to any one industry.

Property insurance contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. Property insurance contracts are subdivided into four risk categories: fire, business interruption, weather damage and theft. The insurance risk arising from these contracts is not concentrated in any of the territories in which the Group operates, and there is a balance between commercial and personal properties in the overall portfolio of insured buildings.

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Group should not suffer net insurance losses of a set minimum limit of AED 1,000 thousand in any one event. The Group has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

32.2 Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and element of the claims provision includes incurred but not reported claims (IBNR). The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some insurance contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities. In estimating the liability for the cost of reported claims not yet paid, the Group considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

32. Insurance risk (continued)

32.2 Sources of uncertainty in the estimation of future claim payments (continued)

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The amount of insurance claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Insurance contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

In calculating the estimated cost of unpaid claims (both reported and not), the Group's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes. The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

The initial estimate of the loss ratios used for the current year before and after reinsurance are analysed below by type of risk where the insured operates for current and prior year premiums earned.

	Year ended 31 December 2010		Year ended 31 December 2009	
Type of risk	**Gross Loss Ratio**	**Net Loss Ratio**	Gross Loss Ratio	Net Loss Ratio
Life	**68%**	**51.6%**	72.8%	49.9%
Non life	**49.9%**	**52.8%**	57.8%	50.2%

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

32. Insurance risk (continued)

32.3 Process used to decide on assumptions

The risks associated with the insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Group's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Group uses assumptions based on a mixture of internal and market data to measure its claims liabilities. The Group has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or group's of accident years within the same class of business.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

32. Insurance risk (continued)

32.4 Claims development process

The following table reflects the development of the gross and net outstanding claims of general insurance at the end of each year together with cumulative payments subsequent to the year of accident:

Underwriting year	**Before 2007 AED'000**	**2007 AED'000**	**2008 AED'000**	**2009 AED'000**	**2010 AED'000**	**Total AED'000**
Estimate of cumulative claims – Gross:						
Accident year	486,061	359,801	464,796	534,617	437,458	-
One year later	549,693	421,226	494,384	545,933	-	-
Two years later	530,494	415,552	476,738	-	-	-
Three years later	503,830	405,516	-	-	-	-
Four years later	477,970	-	-	-	-	-
Current estimate of cumulative claims	477,970	405,516	476,738	545,933	437,458	2,343,615
Cumulative payments to date – Gross	435,224	373,348	358,129	372,153	-	1,538,854
Total outstanding claims recognised in the consolidated statement of financial position - Gross	**42,746**	**32,168**	**118,609**	**173,780**	**437,458**	**804,761**

Underwriting year	**Before 2007 AED'000**	**2007 AED'000**	**2008 AED'000**	**2009 AED'000**	**2010 AED'000**	**Total AED'000**
Estimate of cumulative claims – Net:						
Accident year	133,906	84,171	135,726	120,051	160,420	-
One year later	151,580	103,334	181,917	199,588	-	-
Two years later	151,068	96,054	185,289	-	-	-
Three years later	138,830	95,493	-	-	-	-
Four years later	127,850	-	-	-	-	-
Current estimate of cumulative claims	127,850	95,493	185,289	199,588	160,420	768,640
Cumulative payments to date – Net	120,238	87,662	153,138	162,355	-	523,393
Total outstanding claims recognised in the consolidated statement of financial position – Net	**7,612**	**7,831**	**32,151**	**37,233**	**160,420**	**245,247**

The above table does not include claims intimated and settled in the same year.

32. Insurance risk (continued)

32.5 Concentration of insurance risk

The Group's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe and Asia.

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 arrangement with other parties for reinsurance purposes.

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 reinsurers. Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders. The Group remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements.

32.6 Sensitivity of underwriting profit

The contribution by the insurance operations to the net profit of the Group is AED 232,465 thousand for the year ended 31 December 2010 (2009: AED 317,893 thousand). The Group does not foresee any adverse change in the contribution of insurance profit due to the following reasons:

- The Group has an overall risk retention level in the region of 50% (2009: 55%) and this is mainly due to low retention levels in Engineering, Fire and Accident lines. However, for other lines of business the Group is adequately covered by excess of loss reinsurance programs to guard against major financial impact.

- The Group has commission income of AED 138,569 thousand (2009: AED 153,722 thousand) predominantly from the reinsurance placement which remains as a comfortable source of income.

Because of low risk retention of 50% (2009: 55%) of the volume of the business and limited exposure in high retention areas like Motor, the Group is comfortable to maintain an overall net loss ratio in the region of 50% (2009: 48%) and does not foresee any serious financial impact in the insurance net profit.

33. Capital risk management

The Group's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Laws concerning Insurance Companies and Agents. The Group manages its capital on a basis of 350% - 450% of its minimum regulatory capital position presented in the table below.
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to the Shareholders by pricing insurance contracts commensurately with the level of risk.

In the UAE, the local insurance regulator specifies the minimum amount and type of capital that must be held by the Company in addition to its insurance liabilities. The minimum required capital (presented in the table below) must be maintained at all times throughout the year. The Company is subject to local insurance solvency regulations with which it has complied with during the year. The Company has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

	2010 **AED'000**	2009 AED'000
Minimum regulatory capital	**100,000**	100,000
Total paid up capital	**419,884**	381,713

The UAE Insurance Authority has issued resolution no. 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing insurance firm and AED 250 million for re-insurance firm. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies. The resolution allows for compliance with the minimum capital requirements up to a period of 3 years until 2012.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

34. Financial instruments

The Group is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term, its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The risks that the Group primarily faces due to the nature of its investments and underwriting business are interest rate risk, foreign currency risk, and market price risk, credit risk and liquidity risk.

34.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the consolidated financial statements.

34.2 Categories of financial instruments

	2010	2009
	AED'000	AED'000
Financial assets		
Investments designated at FVTOCI	**1,140,413**	1,153,168
Investments designated at FVTPL	**315,111**	338,307
Statutory deposits	**23,538**	23,538
Insurance receivables	**884,724**	898,411
Other receivables (excluding prepayments)	**47,863**	43,389
Bank balances and cash	**751,227**	662,470
Total	**3,162,876**	3,119,283
Financial liabilities		
Bank borrowings	**679,226**	707,255
Re-insurance deposits retained	**140,097**	145,096
Insurance payables	**477,585**	480,785
Trade and other payables	**126,732**	104,437
Total	**1,423,640**	1,437,573

Management considers that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

34. Financial instruments (continued)

34.2 Categories of financial instruments (continued)

The fair values of financial assets and financial liabilities are determined as follows;

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the reporting date.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2010

Financial assets	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
At fair value through profit or loss				
Structured investments	**-**	**236,095**	-	**236,095**
Equity securities	**37,267**	**-**	-	**37,267**
Unit linked investments	**41,749**	**-**	-	**41,749**
	79,016	**236,095**	-	**315,111**
At fair value through other comprehensive Income				
Quoted equity instruments and mutual funds	**850,642**	**19,430**	**-**	**870,072**
Un-Quoted equity instruments	**-**	**-**	**270,341**	**270,341**
	850,642	**19,430**	**270,341**	**1,140,413**
Total	**929,658**	**255,525**	**270,341**	**1,455,524**

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

34. Financial instruments (continued)

34.2 Categories of financial instruments (continued)

At 31 December 2009

Financial assets	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At fair value through profit or loss				
Structured investments	-	288,584	-	288,584
Equity securities	36,246	-	-	36,246
Unit linked investments	13,477	-	-	13,477
	49,723	288,584	-	338,307
At fair value through other comprehensive Income				
Quoted equity instruments and mutual funds	793,316	19,122	-	812,438
Un-Quoted equity instruments	-	-	340,730	340,730
	793,316	19,122	340,730	1,153,168
Total	843,039	307,706	340,730	1,491,475

There were no transfers between each of level during the year. There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table.

Reconciliation of movements in level 3 financial assets measured at fair values:

	2010 AED'000	2009 AED'000
Balance at the beginning of the year	**340,730**	320,745
Additions during the year	**23,719**	25,685
Disposals during the year	**(91,269)**	-
Losses recognized in other comprehensive income	**(2,839)**	(5,700)
Balance at the end of the year	**270,341**	340,730

34.3 Market risk management

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

34. Financial instruments (continued)

34.3 Market risk management (continued)

34.3.1 Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Group. The Group is exposed to interest rate risk on its financial investments in bonds and term deposits and bank borrowings that carry both fixed and floating interest rates.

The Group generally manages to minimise the interest rate risk by closely monitoring the market interest rates and investing in those financial assets in which such risk is expected to be minimal.

34.3.2 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for interest-bearing financial assets assuming the amount of assets at the end of the reporting period were outstanding for the whole year.

If interest rates had been 100 basis points higher\lower and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would increase\decrease by AED 2,633 thousand (2009: AED 2,112 thousand). The Group's sensitivity to interest rates had decreased mainly due to lower bank deposits during the current year.

34.3.3 Foreign currency risk management

There are no significant exchange rate risks as substantially all monetary assets and monetary liabilities of the Group are denominated in Arab Emirates Dirhams, other G.C.C. currencies or US Dollars to which Dirham is fixed.

Management believes that there is a minimal risk of significant losses due to exchange rate fluctuations and consequently the Group has not hedged its foreign currency exposure.

34.3.4 Market price risk management

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Group is exposed to market price risk with respect to its quoted investments. The Group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Group actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Group's:

- profit would have increased/decreased by AED 27,336 thousand (2009: AED 32,483 thousand) in the case of the financial investments at fair value through profit or loss.
- other comprehensive income would have increased/decreased by AED 85,094 thousand (2009: AED 81,244 thousand) in the case of the financial investments at fair value through other comprehensive income.

34. Financial instruments (continued)

34.3 Market risk management (continued)

34.3.4 Market price risk management (continued)

Method and assumptions for sensitivity analysis;

- The sensitivity analysis has been done based on the exposure to equity price risk as at the end of the reporting period.
- As at the end of the reporting period if equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and other comprehensive income has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

34.4 Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group.

Key areas where the Group is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from banks for its bank balances and fixed deposits

The Group has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Group maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

34. Financial instruments (continued)

34.4 Credit risk management (continued)

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks registered in the United Arab Emirates and other GCC countries.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

34.5 Liquidity risk management

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities at maturity date. The Group manages the liquidity risk through risk management framework for the Group's short, medium and long-term funding and liquidity management requirements by maintaining adequate reserves, sufficient cash and cash equivalent and banks facilities, to ensure that funds are available to meet their commitments for liabilities as they fall due.

The maturity profile is monitored by management to ensure adequate liquidity is maintained. The table below summarises the maturity profile of the Group's financial assets and liabilities based on remaining undiscounted contractual obligations including interest receivable and payable.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

34. Financial instruments (continued)

34.5 Liquidity risk management (continued)

31 December 2010

	Statement of financial position AED'000	Less than 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	No maturity date AED'000	Total AED'000
Financial assets						
At fair value through profit or loss	315,111	-	142,480	240,491	-	382,971
At fair value through OCI	1,140,413	-	-	-	1,140,413	1,140,413
Insurance receivables	884,724	884,724	-	-		884,724
Other receivables (excluding prepayments)	47,863	47,863	-	-	-	47,863
Statutory deposits	23,538	-	25,597	-	-	25,597
Bank balances and cash	751,227	763,136	-	-	-	763,136
Total financial assets	3,162,876	1,695,723	168,077	240,491	1,140,413	3,244,704
Financial liabilities						
Bank borrowings	679,226	100,270	661,615	-	-	761,885
Re-insurance deposits retained	140,097	140,097	-	-	-	140,097
Insurance payables	477,585	477,585	-	-	-	477,585
Trade and other payables	126,732	126,732	-	-	-	126,732
Total financial liabilities	1,423,640	844,684	661,615	-	-	1,506,299

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

34. Financial instruments (continued)

34.5 Liquidity risk management (continued)

31 December 2009

	Statement of financial position AED'000	Less than 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	No maturity date AED'000	Total AED'000
Financial assets						
At fair value through profit or loss	338,307	-	75,237	353,294	-	428,531
At fair value through OCI	1,153,168	-	-	-	1,153,168	1,153,168
Insurance receivables	898,411	898,411	-	-	-	898,411
Other receivables (excluding prepayments)	43,389	43,389	-	-	-	43,389
Statutory deposits	23,538	-	25,597	-	-	25,597
Bank balances and cash	662,470	680,588	-	-	-	680,588
Total financial assets	3,119,283	1,622,388	100,834	353,294	1,153,168	3,229,684
Financial liabilities						
Bank borrowings	707,255	298,391	651,396	39,065	-	988,852
Re-insurance deposits retained	145,096	145,096	-	-	-	145,096
Insurance payables	480,785	480,785	-	-	-	480,785
Trade and other payables	104,437	104,437	-	-	-	104,437
Total financial liabilities	1,437,573	1,028,709	651,396	39,065	-	1,719,170

35. Comparative amounts

The following balances in the consolidated statement of financial position for prior year have been reclassified to conform to the current year presentation.

	As previously reported at 31 December 2009 AED'000	Reclassifications AED'000	As restated at 31 December 2009 AED'000
Financial investments	1,637,053	(145,578)	1,491,475
Prepayments and other receivables	75,935	2,400	78,335
Statutory deposits	25,938	(2,400)	23,538
Bank balances and cash	516,892	145,578	662,470

The consolidated statement of cash flows has also been amended accordingly. There was no impact on the reported profit of the last year due to the above reclassifications.

36. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 31 January 2011.