National General Insurance Co. (P.S.C.)

Directors' report and financial statements

31 December 2008

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Report of the Board of Directors

Dear Shareholders,

The Board of Directors have the pleasure to welcome you to the Eighth annual general meeting and present their report together with the audited financial statements for the year ended 31 December 2008.

FINANCIAL RESULTS

1. The Company reported a net profit of AED **20,136,210** for the year 2008 against AED 109,110,109 for 2007.

2. Gross premiums increased from AED 290,418,927 in 2007 to AED **365,430,522** in 2008 an increase of 26% and the retained premiums increased from AED 185,542,280 in 2007 to AED 232,020,230 in 2008.

3. The gross claims paid by the Company during the year 2008 amounted to AED 161,799,142 compared with AED 139,013,627 in 2007, the net retained claims increased to AED 129,697,121 from AED 88,667,779.

4. Underwriting profit increased from AED 42,814,981 in 2007 to AED 66,038,237 in 2008 an increase of 54.2 % and the loss on investments including fair value gain on investment properties - net was AED 43,104,307 in 2008 compared to net income of AED 68,401,016 in 2007.

5. General and Management expenses including expenses directly attributable to underwriting activities for the year 2008 was AED 31,018,930 compared with AED 26,534,957 in 2007.

6. Investment fund comprising of investment properties, securities and short term bank deposits increased to AED 443,134,559 at the end of 2008 compared with AED 388,351,563 in 2007.

7. The Technical Reserves (i.e. unearned premium reserve, and net provision for outstanding claims) at the end of year 2008 amounted to AED 120,782,038 compared with AED 100,197,941 in 2007. Life Assurance Fund at the end of the year 2008 amounted to AED 33,879,905 compared to AED 21,378,807 in 2007.

8. The net decrease in cashflow for the year 2008 was AED 11,279,421 as compared with net increase of AED 88,489,007 for the year 2007 mainly due to the negative cashflow in investing activities for the year 2008 due to the loss in fair values of equity portfolio compensated by the positive cash flows from operating activities.

RECOMMENDATIONS OF THE BOARD OF DIRECTORS

The Board of Directors have the pleasure in presenting the following recommendations to the shareholders:

1. Consider, discuss and approve the Board of Directors' report.
2. Consider, discuss and approve the Auditors' report.
3. Consider, discuss and approve the Financial Statements for the year ended 31 December 2008.
4. Absolve the Chairman and Members of the Board from all responsibilities for acts and decisions made by them in fulfilling their functions during the year ended 31 December 2008.
5. Approve the proposed appropriation of the profits as follows:

	AED
a) Transfer to Legal reserve	2,013,621
b) Transfer to General reserve	2,013,621
c) Director's remuneration	2,400,000
d) Proposed Dividend-10% cash	12,171,600
e) Proposed Dividend-10% bonus share	12,171,600
f) Balance transferred to retained earnings	(10,634,232)
Profit for the year 2008	**20,136,210**

6. Appoint or re-appoint Auditors for the financial year 2009 and determine their fees. KPMG being eligible for re-appointment have expressed their willingness to continue in office. .

The Board of Directors take pleasure in extending, on your behalf, their sincere thanks and appreciation to H.H Sheikh Khalifa Bin Zayed Al Nahyan, the President and H.H Sheikh Mohammed Bin Rashid Al Maktoum, Vice President, Prime Minister and Ruler of Dubai, for their kind support to the national companies and institutions, who benefited immensely from their wise economic and social policies.

The Directors also appreciate the fruitful co-operation of all customers who had the major role in the progress of the company. The Directors take this opportunity to thank Messer's Munich Re and the rest of the Reinsurers for their strong support to the Company.

The Directors express their sincere appreciation and thanks to the Company's executive administration and staff for their loyalty, diligence and hard work.
Finally, the Directors foresee challenging times ahead and expect to face them as they unfold.

On behalf of the Board

KHALID JASSIM MOHD BIN KALBAN
Chairman
23rd Feb 09
Dubai, UAE

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Independent auditor's report
The Shareholders
National General Insurance Co. (P.S.C.)

Report of the Auditors

We have audited the accompanying financial statements of National General Insurance Co. (P.S.C.) ("the Company"), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of cash flows and statement of changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended) concerning commercial companies and Federal law No. 9 of 1984 (as amended) concerning insurance companies and agents.

Report on other legal and regulatory requirements

As required by the Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Company and the contents of the Directors' report which relate to these financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2008, which may have had a material adverse effect on the business of the Company or its financial position.

(Signed)

Munther Dajani
Registration No: 268

National General Insurance Co. (P.S.C.)

Balance sheet

at 31 December 2008

	Note	2008 AED	2007 AED
ASSETS			
Property and equipment	*6*	**1,597,486**	1,757,255
Investment properties	*7*	**214,719,200**	86,000,000
Investments securities	*8*	**107,895,595**	169,072,440
Reinsurance assets	*11*	**104,465,268**	80,904,272
Insurance and other receivables	*9*	**104,318,553**	127,748,314
Due from a related party	*18*	**8,073,489**	9,533,297
Cash and cash equivalent	*10*	**135,723,509**	147,002,929
Total assets		**676,793,100**	622,018,507
LIABILITIES			
Insurance contract provisions	*11*	**259,127,211**	202,481,020
Insurance and other payables	*12*	**146,105,257**	103,648,611
Total liabilities		**405,232,468**	306,129,631
EQUITY			
Share capital	*13*	**121,716,000**	121,716,000
Legal reserve	*13*	**31,286,088**	29,272,467
General reserve	*13*	**30,670,102**	28,656,481
Fair value reserve	*13*	**(15,778,054)**	-
Retained earnings		**103,666,496**	136,243,928
Total equity attributable to equity holders of the Company		**271,560,632**	315,888,876
Total liabilities and equity		**676,793,100**	622,018,507

The notes on pages 8 to 42 form an integral part of these financial statements.

These financial statements were approved on 23 February 2009 and signed on their behalf by:

Khalid Jassim Mohd Bin Kalban **Chairman**	**Director**	**Dr. Abdul Zahra A. Ali** **General Manager**

The independent auditor's report is set out on page 3.

National General Insurance Co. (P.S.C.)

Statement of income
for the year ended 31 December 2008

	Note	**2008 AED**	2007 AED
Gross written premium	*20*	**365,430,522**	290,418,927
Reinsurance ceded		**(133,410,292)**	(104,876,647)
Net premium		**232,020,230**	185,542,280
Change in unearned premium provision		**(11,793,915)**	(24,040,062)
Net earned premiums	*20*	**220,226,315**	161,502,218
Reinsurance commission earned	*20*	**42,895,463**	22,859,335
Total Income		**263,121,778**	184,361,553
Claims paid		**(161,799,142)**	(139,013,627)
Reinsurance share		**40,892,206**	58,039,206
Net claims paid		**(120,906,936)**	(80,974,421)
Change in outstanding claims provision		**(8,790,185)**	(7,693,358)
Net incurred claims	*20*	**(129,697,121)**	(88,667,779)
Commission paid	*20*	**(26,664,112)**	(18,907,508)
Net underwriting expenses		**(156,361,233)**	(107,575,287)
Net movement in life fund		**(12,501,098)**	(9,542,216)
Total underwriting expense		**(168,862,331)**	(117,117,503)
Underwriting surplus / (deficit)		**94,259,447**	67,244,050
Administrative expenses		**(28,221,210)**	(24,429,069)
Underwriting profit	*20*	**66,038,237**	42,814,981
Interest and other income (net)		**4,006,841**	8,052,677
Net (loss) / income from investment securities	*16*	**(106,754,486)**	39,674,144
Fair value gain on investment properties	*7*	**53,679,800**	19,421,000
Capital gain on sale of investment property	*7*	**5,749,653**	-
Net rental income from investment property		**213,885**	1,253,195
		(43,104,307)	68,401,016
General and administrative expenses	*17*	**(2,797,720)**	(2,105,888)
Profit for the year		**20,136,210**	109,110,109
Basic and diluted earnings per share	*22*	**0.165**	0.896

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National General Insurance Co. (P.S.C.)

Statement of cash flows
for the year ended 31 December2008

	2008	2007
	AED	AED
Cash flows from operating activities		
Profit for the year	**20,136,210**	109,110,109
Adjustment for:		
Depreciation	**857,123**	851,039
Provision for doubtful account	**479,910**	358,831
Profit on sale of investment properties	**(5,749,653)**	-
Unrealised losses/(gains) on investments	**111,529,424**	(23,632,059)
Realised gains on sale of investments	**(2,480,561)**	(13,125,464)
Gain on fair value adjustment of investment properties	**(53,679,800)**	(19,421,000)
Increase in unearned premium reserve and life fund	**24,295,012**	33,582,278
Provision for gratuity – net of repayment	**740,190**	111,324
	96,127,855	87,835,058
Change in trade and related party receivables	**24,409,569**	(63,075,252)
Change in accounts payable & accruals	**41,716,548**	14,870,095
Change in net outstanding claims	**8,790,183**	7,693,358
Net cash from operating activities	**171,044,155**	47,323,259
Cash flows from investing activities		
Change in investments at fair value through profit or loss (net)	**(46,940,154)**	28,060,350
Change in Property and equipment (net)	**(697,355)**	(472,823)
Change in investment properties (net)	**(69,289,748)**	-
Change in investment held-to-maturity (net)	**3,656,295**	11,165,225
Change in investments available-for-sale (net)	**(20,366,213)**	2,412,996
Net cash (used in)/from investing activities	**(133,637,175)**	41,165,748
Cash flow from financing activity		
Dividends paid	**(48,686,400)**	-
Cash used in financing activity	**(48,686,400)**	**-**
Net (decrease)/increase in cash and cash equivalents	**(11,279,420)**	88,489,007
Cash and cash equivalents at 1 January	**147,002,929**	58,513,922
Cash and cash equivalents at 31 December	**135,723,509**	147,002,929

The notes on pages 8 to 42 form an integral part of these financial statements.

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National General Insurance Co. (P.S.C.)

Statement of changes in shareholders' equity
for the year ended 31 December

	Share capital AED	Legal reserve AED	General reserve AED	Fair value reserve AED	Retained earnings AED	Total AED
As at 1 January 2007	101,430,000	18,361,456	17,745,470	(649,372)	72,741,841	209,629,395
Fair value reserve for investments available-for-sale	-	-	-	649,372	-	649,372
Transfer to legal reserve	-	10,911,011	-	-	(10,911,011)	-
Transfer to general reserve	-	-	10,911,011	-	(10,911,011)	-
Directors' remuneration	-	-	-	-	(3,500,000)	(3,500,000)
Total income and expense Recognized directly in equity	-	10,911,011	10,911,011	649,372	(25,322,022)	(2,850,628)
Profit for the year	-	-	-		109,110,109	109,110,109
Total recognized income and expense	-	10,911,011	10,911,011	649,372	83,788,087	106,259,481
Issue of bonus shares	20,286,000	-	-	-	(20,286,000)	-
As at 31 December 2007	121,716,000	29,272,467	28,656,481	-	136,243,928	315,888,876
As at 1 January 2008	121,716,000	29,272,467	28,656,481	-	136,243,928	315,888,876
Fair value reserve for investments available-for-sale	-	-	-	(15,778,054)	-	(15,778,054)
Transfer to legal reserve	-	2,013,621	-	-	(2,013,621)	-
Transfer to general reserve	-	-	2,013,621	-	(2,013,621)	-
Directors' remuneration	-	-	-	-	-	-
Total income and expense recognized directly in equity	-	2,013,621	2,013,621	(15,778,054)	(4,027,242)	(15,778,054)
Net profit for the year	-	-	-	-	20,136,210	20,136,210
Total recognized income and expense	-	2,013,621	2,013,621	(15,778,054)	16,108,968	4,358,156
Dividends paid	-	-	-	-	(48,686,400)	(48,686,400)
Issue of bonus shares						
As at 31 December 2008	**121,716,000**	**31,286,088**	**30,670,102**	**(15,778,054)**	**103,666,496**	**271,560,632**

The notes on pages 8 to 42 form an integral part of these financial statements.

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Notes
(forming part of the financial statements)

1. Legal status and principal activities

National General Insurance Co. (P.S.C.) ("the Company") is a Public Shareholding Company registered under UAE Federal Law No. (8) of 1984 as amended, in the Emirate of Dubai with effect from 12 September 2001. The Company's shares are listed in the Dubai Financial Market.

The Company was originally incorporated as a private Limited Liability Company, registered under UAE Federal Law No. (8) of 1984, as amended, in the Emirate of Dubai.

The Company underwrites all classes of Life and General insurance business in accordance with the provisions of the UAE Federal Law no. 9 of 1984 relating to insurance companies and insurance agents.

The registered office of the Company is at the Green Tower, P.O. Box 154, Dubai, UAE.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and applicable requirements of UAE Law.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:
i) financial instruments at fair value through profit or loss are measured at fair value;
ii) available-for-sale financial assets are measured at fair value; and
iii) investment property is measured at fair value.

The methods used to measure fair values are discussed in note 3(f).

c) Functional and presentation currency

These financial statements are presented in U.A.E. Dirhams (AED), which is the Company's functional currency.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 5.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Insurance contracts

i) Classification

The Company issues contracts that transfer either insurance risk or both insurance and financial risks. The Company does not issue contracts that transfer only financial risks.

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Company to pay significant additional benefits due to happening of the insured event compared to its non happening.

Insurance contracts may also transfer some financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts where insurance risk is not significant are classified as investment contracts.

Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expire.

ii) Recognition and measurement

Premiums
Gross premiums written reflect business incepted during the year, and exclude any fees and other amounts collected with and calculated based on premiums. These are recognised when underwriting process is complete and policies are issued.

The earned proportion of premiums is recognised as income. Premiums are earned from the date of attachment of risk over the indemnity period using the basis described below.

Unearned premium provision
Unearned premiums, other than individual life business, are computed based on percentage of net premium written and are at least equal to the minimum stipulated in UAE Insurance Companies Law. Unearned premiums for Individual Life business are considered by the Company's actuary in the calculations for Life Reserve Fund.

3. Significant accounting policies (continued)

a) Insurance contracts (continued)

iii) Claims
Claims incurred comprise the settlement and the internal and external handling costs of paid and changes in the provisions for outstanding claims arising from events occurring during the financial period. Where applicable, deductions are made for salvage and their recoveries.

Claims outstanding comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the financial statements of the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

iv) Provision for premium deficiency / liability adequacy test
Provision is made for premium deficiency arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

An additional provision is made at the balance sheet date for potential shortfall in unearned premium reserve by reference to $1/8^{th}$ method.

v) Reinsurance
The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the related insurance policies and in accordance with the relevant reinsurance contracts. Reinsurance premiums are deferred and expensed using the same basis as used to calculate unearned premium reserves for related insurance policies. The deferred portion of ceded reinsurance premiums is included in reinsurance assets.

3. Significant accounting policies (continued)

a) Insurance contracts (continued)

v) Reinsurance (continued)
Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in statement of income in the period in which they are incurred.

Profit commission in respect of reinsurance contracts is recognised on an accrual basis and reinsurance commission is recognised on the basis stated in note 3(b).

vi) Deferred acquisition cost
For general insurance contracts, the deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date.

vii) Insurance receivables and payables
Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

viii) Life assurance fund
The fund is determined by the independent actuarial valuation of future policy benefits. 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. Adjustments to the balance of fund are affected by charges or credits to income.

b) Revenue (other than insurance revenue)
Revenue (other than insurance revenue) comprises the following:

i) Fee and commission income
Fee and commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies.

ii) Investment income
Investment income comprises income from financial assets, rental income from investment property and fair value gains/losses on investment property.

Income from financial assets comprises interest and dividend income, net gains/losses on financial assets classified at fair value through profit or loss, and realised gains/losses on financial assets.

3. Significant accounting policies (continued)

b) Revenue (other than insurance revenue) (continued)

ii) Investment income (continued)
Interest income is recognised on a time proportion basis using effective interest rate method. Dividend income is recognised when the right to receive dividend is established. Usually this is the ex-dividend date for equity securities. Basis of recognition of net gains/losses on financial assets classified at fair value through profit or loss and realised gains on other financial assets is described in note 3 (f).

Rental income from investment property under operating leases is recognised in profit or loss on a straight-line basis over the term of each lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Fair value gains/losses on investment property are included in the statement of income in the period these gains are determined. Details of valuations during the year are included in note 7.

c) Operating leases

Payments made under operating leases for office premises equipments are recognised in statement of incomes on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

d) Property and equipment

i) Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

ii) Subsequent costs
The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in statement of income as incurred.

iii) Depreciation
Depreciation is recognised in statement of income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.
The estimated useful lives of all property and equipment are estimated as four years. Depreciation rates, useful lives, as well as residual values, are reassessed annually.

3. Significant accounting policies (continued)

e) Investment property

Property held for long-term rental yields or capital appreciation is classified as investment property.

These are initially recognised when significant risk and reward relating to ownership are transferred to the Company and are initially measured at cost. Investment properties are subsequently measured at fair value determined annually by an independent valuer, if necessary the fair values of investment properties adjusted by the management to reflect the current market conditions. Fair value is based on current market prices for similar properties in the same location and condition. Any gain or loss arising in fair value is recognised in the statement of income. Rental income from investment property is accounted for as described in note 3(b).

f) Non-derivative financial instruments

Non-derivative financial assets comprise investments in equity and debt securities, insurance and other receivables, cash and cash equivalents, investment contract liabilities, insurance and other payables and other liabilities.

i) Recognition, derecognition and initial measurement

Non-derivative financial instruments are measured initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled. Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Company commits itself to purchase or sell the asset.

ii) Categories of financial instruments

Financial instruments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Subsequent to initial measurement, financial instruments at fair value through profit or loss are measured at fair value, with fair value changes recognised in statement of income. Net changes in the fair value of financial assets classified as at fair value through profit or loss includes interest income and any dividends received.

All financial assets held by the Company in respect of its long term business funds are designated by the Company on initial recognition at fair value through profit or loss. This designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise if these assets were not measured at fair value and the changes in fair value were not recognised in profit or loss.

Held-to-maturity investments

If the Company has the positive intent and ability to hold debt securities to maturity, and these debt securities have not been designated at fair value through profit or loss, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

3. Significant accounting policies (continued)

f) Non-derivative financial instruments (continued)

ii) Categories of financial instruments (continued)

Available-for-sale financial assets

This category is used for quoted financial assts that are not classified as at fair value through profit or loss or held-to-maturity investments. Interest income is recognised in statement of income using the effective interest method. Dividend income is recognised in statement of income when the Company becomes entitled to the dividend. Foreign exchange gains/losses on monetary securities are recognised in the statement of income. Other fair value changes are recognised directly in equity until the investment is sold or impaired and the relevant balance in equity is recognised in statement of income.

Other financial assets

Other non-derivative financial assets, such as cash and cash equivalents and insurance and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

iii) Offsetting

Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards. Gains and losses arising from a group of similar transactions are reported on a net basis.

iv) Fair value measurement

The determination of fair values of financial instruments is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into an arm's length transaction, a financial instrument is recognised initially at its transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference is not recognised in profit or loss immediately. The timing of its recognition depends upon the facts and circumstances of each transaction but is not later then when the market data which supports the gain or loss becomes available.

v) Identification and measurement of impairment

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Company about any significant financial difficulty of the issuer, significant changes in the technological, market, economic or legal environment in which the issuer operates. A significant or prolonged decline in the fair value of an equity instrument below its cost is also objective evidence of impairment.

3. Significant accounting policies (continued)

f) Non-derivative financial instruments (continued)

v) Identification and measurement of impairment

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in statement of income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to statement of income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in statement of income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

vi) Other financial instruments

Other financial liabilities include amounts payable in the future to agents and intermediaries in respect of investment contracts issued by the Company. Payments are made on an annual basis on the anniversary of the inception of a contract if a contract has not been surrendered at that date.

These financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of the expected future payments at the discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the effective interest method.
The event that creates an obligation to pay the future commission payments is the acquisition of an investment management service contract. Accordingly, this obligation is taken into account when determining the value of the intangible asset representing the Company's contractual rights to provide future investment management services.

g) Cash and cash equivalent

Cash and cash equivalents comprise cash balances and bank deposits. Bank overdrafts (if any) that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

h) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. Significant accounting policies (continued)

i) Foreign currency transactions

Transactions denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the balance sheet date. Non monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AED at the foreign exchange rate ruling at the date of the transaction. Realised and unrealised exchange gains and losses have been dealt with in the statement of income.

j) Employee terminal benefits

Defined benefit plan
Provision is made for employee terminal benefits in accordance with the Company's policy, which meets the requirements of the UAE Federal Labour Law applicable to an employee's accumulated period of service at the balance sheet date. The management considers that the difference between the liability as calculated using an actuarial method would not be materially different from the provision carried in the financial statements.

Defined contribution plan
The Company pays its obligations regarding UAE citizens into a Social Security and UAE Pension Fund in accordance with the UAE Federal Law No. 7 of 1999 for Pension and Social Security.

k) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

l) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's primary format for segment reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure

m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

3. **Significant accounting policies** (continued)

m) **New standards and interpretations not yet adopted** (continued)

- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of income and all non-owner changes in equity in a single statement), or in an statement of income and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Company's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements as the Company plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Company's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Company presents segment information in respect of its business and geographical segments (see note 6). This standard will have no effect on the Company's reported total profit or loss or equity. The Company is currently in the process of determining the potential effect of this standard on the Company's segment reporting.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 will become mandatory for the Company's 2009 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional requirements, the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Company's 2009 financial statements.

- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Company's 2009 financial statements. The Company does not expect these amendments to have any significant impact on the financial statements.

The application of these new interpretations will not have a material impact on the entity's financial statements in the period of initial application.

4. Risk management

The Company issues contracts that transfer either insurance risk or both insurance and financial risks. The Company does not issue contracts that transfer only financial risks. This section summarises these risk and the way the Company manages them:

a) Introduction and overview

i) Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of the set financial performance objectives. Management recognizes the critical importance of having efficient and effective risk management systems in place.

The Company is in the phase of establishing a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees.

ii) Capital management framework

The Company has an internal risk management framework for identifying risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on economic capital. The internal framework estimates indicate how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business. There is no externally imposed capital requirement.

iii) Regulatory framework

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

The operations of the Company are also subject to regulatory requirements within the UAE. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimize (e.g. unearned premium reserve) the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

iv) Asset liability management ("ALM")

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces due to the nature of its investments and liabilities is interest rate risk and equity price risk. The Company manages these positions within an ALM that has been developed by management to achieve long-term investment returns in excess of its obligations under insurance and investment contracts.

The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities.

The Company's ALM also forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

4. Risk management (continued)

b) Insurance risks

The Company accepts insurance risk through its written insurance contracts. The Company is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Company writes the following types of general insurance and life insurance contracts:

General insurance contracts

- Liability insurance
- Property insurance
- Motor insurance
- Health insurance

Life insurance contracts

- Group life insurance
- Individual life insurance

Two key elements of the Company's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

Underwriting strategy

General insurance

The Company's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome.

The underwriting strategy is set out by the Company that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Company is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. All general insurance contracts except marine, are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Life insurance

Underwriting is managed at each business unit through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

Medical selection is part of the Company's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

4. Risk management (continued)

b) Insurance risks (continued)

The Company operates a number of oversight committees that monitor aggregate risk data and take overall risk management decisions.

Reinsurance strategy
The Company reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.
Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Company has a Reinsurance department that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy.

The business units buy a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Company. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchases of facultative reinsurance are subject to business unit pre-approval and the total expenditure on facultative reinsurance is monitored regularly by reinsurance department.

Claims development table

	Before 2006	2006	2007	2008	Total
	AED	AED	AED	AED	AED
Estimate of cumulative claims:					
Loss year	4,436,685	30,077,820	46,414,697	82,978,058	
One year later	2,462,320	13,237,657	23,945,025	-	
Two year later	2,600,182	3,602,958	-	-	
Current estimate of cumulative claims	2,600,182	3,602,958	23,945,025	82,978,058	93,126,223
Cumulative payment todate	(1,885,305)	(540,940)	(17,713,964)	-	(20,140,209)
Total claims recognised in the balance sheet	714,877	3,062,018	6,231,061	82,978,058	72,986,014