

**UNION INSURANCE COMPANY P.S.C.  
AJMAN - UNITED ARAB EMIRATES**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Union Insurance Company P.S.C.  
Ajman - United Arab Emirates**

**Financial Statements and  
Independent Auditor's Report  
For the Year Ended December 31, 2008**

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## **Independent Auditor's Report**

### **The Shareholders**

**Union Insurance Company P.S.C.**

**Ajman**

**United Arab Emirates**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **Union Insurance Company P.S.C. (a Public Shareholding Company) - Ajman, United Arab Emirates**, which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate 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 financial statements.

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

**Independent Auditor's Report** (continued)*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Union Insurance Company P.S.C. (a Public Shareholding Company) - Ajman** as of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

Also, in our opinion, the Company has maintained proper books of account. The information contained in the directors' report relating to the financial statements is in agreement with the books. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, and of the U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents, or the Company's Articles of Association which might have materially affected the financial position of the Company or its financial performance.

**For Deloitte & Touche**

**Sharjah**  
**February 21, 2009**

**Saba Y. Sindaha**  
**Partner**  
**(Registration No. 410)**

**Balance Sheet**  
**At December 31, 2008**  
**(In Arab Emirates Dirhams)**

	<u>Notes</u>	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Bank balances and cash	5	45,088,001	106,878,776
Investments held for trading	6	112,746,556	179,497,239
Insurance and other receivables	7	38,317,985	16,575,727
Reinsurance contract assets	8	<u>13,964,909</u>	<u>14,945,868</u>
<b>Total current assets</b>		<u><b>210,117,451</b></u>	<u>317,897,610</u>
<b>Non-current assets</b>			
Available-for-sale investments	6	92,974,743	48,062,054
Development work-in-progress	9	135,670,000	-
Investment property	10	73,574,957	65,384,940
Property and equipment	11	<u>2,307,245</u>	<u>12,482,929</u>
<b>Total non-current assets</b>		<u><b>304,526,945</b></u>	<u>125,929,923</u>
<b>Total Assets</b>		<u><b>514,644,396</b></u>	<u>443,827,533</u>
		=====	=====
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Insurance and other payables	12	20,525,640	21,270,687
Insurance contract liabilities	8	<u>51,515,861</u>	<u>43,838,033</u>
<b>Total current liabilities</b>		<u><b>72,041,501</b></u>	<u>65,108,720</u>
<b>Non-current liabilities</b>			
Provision for employees' end of service indemnity	13	<u>834,855</u>	<u>1,128,841</u>
<b>Total Liabilities</b>		<u><b>72,876,356</b></u>	<u>66,237,561</u>
<b>Capital and reserves</b>			
Share capital	14	330,939,180	221,364,000
Statutory reserve		104,785,032	28,414,452
Special reserve		28,414,452	28,414,452
Cumulative changes in fair value		( 6,441,959)	18,662,806
(Accumulated losses)/retained earnings		<u>( 15,928,665)</u>	<u>80,734,262</u>
<b>Total Equity</b>		<u><b>441,768,040</b></u>	<u>377,589,972</u>
<b>Total Liabilities and Equity</b>		<u><b>514,644,396</b></u>	<u>443,827,533</u>
		=====	=====

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

**Income Statement**  
**For the year ended December 31, 2008**  
**(In Arab Emirates Dirhams)**

	<u>Notes</u>	<u>Year ended December 31, 2008</u>	<u>Year ended December 31, 2007</u>
Insurance premium revenue	16	<b>53,895,314</b>	41,134,928
Insurance premium ceded to reinsurers	16	<u>( 11,878,384 )</u>	<u>( 10,179,999 )</u>
<b>Net insurance premium revenue</b>	16	<u><b>42,016,930</b></u>	<u>30,954,929</u>
Gross claims incurred	8	<u>( 21,309,930 )</u>	<u>( 20,540,604 )</u>
Insurance claims recovered from reinsurers	8	<u>2,730,970</u>	<u>2,071,100</u>
<b>Net claims incurred</b>	8	<u><b>( 18,578,960 )</b></u>	<u>( 18,469,504 )</u>
Gross commission earned		<b>3,984,921</b>	3,342,723
Less: commission incurred		<u>( 4,091,866 )</u>	<u>( 2,451,380 )</u>
<b>Net commission (incurred)/ earned</b>		<u><b>( 106,945 )</b></u>	<u>891,343</u>
<b>Underwriting profit</b>		<b>23,331,025</b>	13,376,768
General and administrative expenses relating to underwriting activities		<u>( 8,135,046 )</u>	<u>( 5,643,121 )</u>
<b>Net underwriting profit before management fees</b>		<b>15,195,979</b>	7,733,647
Management fees	1	<u>( 3,016,297 )</u>	<u>-</u>
<b>Net underwriting profit</b>		<b>12,179,682</b>	7,733,647
Investment and other (losses)/revenues	17	<u>( 102,273,332 )</u>	74,992,970
Gain/(loss) on disposal of property and equipment	11	<b>50,972,254</b>	<u>( 149 )</u>
Unallocated general and administrative expenses		<u>( 1,500,531 )</u>	<u>( 995,296 )</u>
<b>(Loss)/profit for the year</b>	18	<u><b>( 40,621,927 )</b></u> =====	<u>81,731,172</u> =====
<b>Basic earnings per share</b>	19	<u><b>( 0.12 )</b></u> =====	<u>0.25</u> =====

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

**Union Insurance Company P.S.C.  
Ajman - United Arab Emirates**

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**Statement of Changes in Equity  
For the year ended December 31, 2008  
(In Arab Emirates Dirhams)**

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Special reserve</u>	<u>Cumulative changes in fair value</u>	<u>(Accumulated losses)/ retained earnings</u>	<u>Total</u>
Balance at December 31, 2006	154,440,000	20,241,335	20,241,335	17,830,986	30,793,324	243,546,980
Gain on available-for-sale investments recognised directly in equity	-	-	-	801,197	-	801,197
Transfer to profit or loss on sale of available- for-sale investments	-	-	-	30,623	-	30,623
Profit for the year	-	-	-	-	81,731,172	81,731,172
Total recognised income and expense for the year	-	-	-	831,820	81,731,172	82,562,992
Transfer to statutory reserve	-	8,173,117	-	-	( 8,173,117)	-
Transfer to special reserve	-	-	8,173,117	-	( 8,173,117)	-
Issue of rights shares (see Note 14)	51,480,000	-	-	-	-	51,480,000
Issue of bonus shares (see Note 14)	15,444,000	-	-	-	( 15,444,000)	-
	<u>66,924,000</u>	<u>8,173,117</u>	<u>8,173,117</u>	<u>-</u>	<u>( 31,790,234)</u>	<u>51,480,000</u>
Balance at December 31, 2007	221,364,000	28,414,452	28,414,452	18,662,806	80,734,262	377,589,972
Loss on available-for-sale investments recognised directly in equity	-	-	-	( 24,755,257)	-	( 24,755,257)
Transfer to profit or loss on sale of available- for-sale investments	-	-	-	( 349,508)	-	( 349,508)
Loss for the year	-	-	-	-	( 40,621,927)	( 40,621,927)
Total recognised income and expense for the year	-	-	-	( 25,104,765)	( 40,621,927)	( 65,726,692)
Share premium (see Note 14)	-	76,370,580	-	-	-	76,370,580
Issue of bonus shares (see Note 14)	33,204,600	-	-	-	( 33,204,600)	-
Cash dividend	-	-	-	-	( 22,136,400)	( 22,136,400)
Board of Directors' remuneration paid	-	-	-	-	( 700,000)	( 700,000)
Issue of share capital (see Note 14)	76,370,580	-	-	-	-	76,370,580
	<u>109,575,180</u>	<u>76,370,580</u>	<u>-</u>	<u>-</u>	<u>( 56,041,000)</u>	<u>129,904,760</u>
<b>Balance at December 31, 2008</b>	<b><u>330,939,180</u></b>	<b><u>104,785,032</u></b>	<b><u>28,414,452</u></b>	<b><u>( 6,441,959)</u></b>	<b><u>( 15,928,665)</u></b>	<b><u>441,768,040</u></b>

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

**Cash Flow Statement**  
**For the year ended December 31, 2008**  
**(In Arab Emirates Dirhams)**

	<b>Year ended December 31, 2008</b>	Year ended December 31, 2007
<b>Operating activities</b>		
(Loss)/ profit for the year	( 40,621,927)	81,731,172
Adjustments for:		
Depreciation of property and equipment	227,327	174,580
(Gain)/loss on disposal of property and equipment	( 50,972,254)	149
Decrease in reinsurance contract assets	980,959	5,143,048
Increase/(decrease) in insurance contract liabilities	7,677,828	( 334,684)
Allowance for doubtful premiums	-	75,000
Provision for employees' end of service indemnity	289,560	351,656
Unrealised loss/(gain) on investments held for trading	95,560,397	( 37,675,575)
Impairment loss on available-for-sale investments	38,538,240	-
Investment revenues	( 24,172,286)	( 34,271,570)
Net foreign exchange loss/(gain)	346,981	( 3,045,825)
Increase in fair value of investment property	( 8,000,000)	-
<b>Operating cash flows before movements in working capital</b>	<b>19,854,825</b>	<b>12,147,951</b>
Increase in insurance and other receivables	( 17,073,444)	( 3,815,283)
(Decrease)/increase in insurance and other payables	( 2,520,354)	9,962,034
<b>Cash generated from operations</b>	<b>261,027</b>	<b>18,294,702</b>
Employees' end of service indemnity paid	( 583,546)	( 107,532)
<b>Net cash (used in)/ from operating activities</b>	<b>( 322,519)</b>	<b>18,187,170</b>
<b>Investing activities</b>		
Purchase of property and equipment	( 5,354,762)	( 10,882,876)
Increase in development work-in-progress	(135,670,000)	-
Proceeds on disposal of property and equipment	66,275,373	-
Purchase of investment property	( 190,017)	( 40,384,940)
Decrease in fixed deposits with banks under lien	-	150,000
Purchase of investments held for trading	( 59,455,949)	( 45,762,282)
Proceeds on disposal of investments held for trading	30,159,393	80,530,044
Purchase of available-for-sale investments	(114,415,991)	( 17,294,606)
Proceeds on disposal of available-for-sale investments	6,206,854	18,887,770
Interest received	1,181,744	2,032,635
Dividends received	12,525,890	7,942,081
Income from investment property	5,936,123	2,793,752
<b>Net cash used in investing activities</b>	<b>(192,801,342)</b>	<b>( 1,988,422)</b>
<b>Financing activities</b>		
Increase in share capital	76,370,580	-
Increase in share premium	76,370,580	-
Issue of right shares	-	51,480,000
Dividends paid	( 20,361,093)	( 38,814)
Board of directors remuneration paid	( 700,000)	-
<b>Net cash from financing activities</b>	<b>131,680,067</b>	<b>51,441,186</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>	<b>( 61,443,794)</b>	<b>67,639,934</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies	( 346,981)	3,045,825
Cash and cash equivalents at the beginning of the year	<u>102,378,776</u>	<u>31,693,017</u>
<b>Cash and cash equivalents at the end of the year (see Note 20)</b>	<b>40,588,001</b>	<b>102,378,776</b>

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

**Notes to the Financial Statements  
For the year ended December 31, 2008**

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**1. General information**

Union Insurance Company P.S.C. - Ajman (the “Company”) is incorporated as a public shareholding company and operates in the United Arab Emirates under a trade license issued by the Ajman Municipality. The Company is subject to the regulations of U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents, and is registered in the Insurance Companies Register under registration number 67. The address of the Company's registered corporate office is Union Insurance Building, P.O. Box 1225, Ajman, United Arab Emirates.

The principal activity of the Company is the writing of insurance of all types other than life assurance. The Company operates through its Head Office in Ajman and a Branch Office in Dubai.

The Company is managed by Al Sagr Insurance Co. P.S.C. (a related party) through a management agreement valid for a period of ten years from February 20, 2008 to February 19, 2018. The management fees due to Al Sagr Insurance Co. P.S.C. on account of the above is 23% of net underwriting profit after allocation of 80% of general and administrative expenses to underwriting activities.

**2. Standards and Interpretations in issue but not yet effective**

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

***Effective from January 1, 2009***

IAS 1 (Revised)	<i>Presentation of Financial Statements</i>
IAS 16 (Revised)	<i>Property, plant and equipment</i>
IAS 19 (Revised)	<i>Employees Benefits</i>
IAS 20 (Revised)	<i>Government grants and disclosure of government assistance</i>
IAS 23 (Revised)	<i>Borrowing Costs</i>
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
IAS 28 (Revised)	<i>Investments in Associates</i>
IAS 29 (Revised)	<i>Financial Reporting in Hyper Inflationary Economies</i>
IAS 31 (Revised)	<i>Interest in Joint Ventures</i>
IAS 32 (Revised)	<i>Financial Instruments: Presentation</i>
IAS 36 (Revised)	<i>Impairment of Assets</i>
IAS 38 (Revised)	<i>Intangible Assets</i>
IAS 39 (Revised)	<i>Financial Instruments: Recognition and Measurement</i>
IAS 40 (Revised)	<i>Investment Property</i>

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**2. Standard and Interpretations in issue but not yet effective** (continued)

*Effective from January 1, 2009* (continued)

IAS 41 (Revised)	<i>Agriculture</i>
IFRS 1 (Revised)	<i>First time adoption of International Financial Reporting Standards</i>
IFRS 2 (Revised)	<i>Share-based Payment</i>
IFRS 8	<i>Operating Segments</i>
IFRIC 15	<i>Agreements for Construction of Real Estate</i>

**Others:**

IFRS 3 (Revised)	<i>Business Combinations</i> (effective for accounting periods beginning on or after July 1, 2009)
IFRS 5 (Revised)	<i>Non Current Assets Held for Sale and Discontinued Operations</i> (effective for accounting periods beginning on or after July 1, 2009)
IFRIC 13	<i>Customer Loyalty Programmes</i> (effective for accounting periods beginning on or after July 1, 2008)
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i> (effective from annual period beginning on or after October 1, 2008)
IFRIC 17	<i>Distribution of Non-cash Assets to Owners</i> (effective for accounting periods beginning on or after July 1, 2009)
IFRIC 18	<i>Transfer of Assets from Customers</i> (effective for transfers received on or after July 1, 2009)

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Company's financial statements for the period commencing January 1, 2009 or as and when it is applicable and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

**3. Significant accounting policies**

**Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

**Basis of preparation**

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and investment property. The principal accounting policies adopted are set out below.

**Insurance contracts**

*Definition*

The Company issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

*Recognition and measurement*

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

*Short-term insurance contracts*

These contracts are casualty and property insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non contractual events.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

For all these 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 balance sheet date is reported as the unearned premium liability.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

**Insurance contracts** (continued)

*Short-term insurance contracts* (continued)

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

*Reinsurance contracts held*

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. 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 an expense when due. The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Company reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

**Insurance contracts** (continued)

*Insurance contract liabilities*

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the balance sheet date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the balance sheet date and is estimated using the 1/8<sup>th</sup> method for all lines of business. The unearned premium calculated by the above method (after reducing the reinsurance share) complies with the minimum unearned premium amounts to be maintained using the 25% and 40% method for marine and non-marine business respectively, as required by U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents. The unearned premium calculated by the 1/8<sup>th</sup> method accounts for the estimated acquisition costs incurred by the Company to acquire policies and defers these over the life of the policy.

The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the financial statements.

*Deferred policy acquisition costs*

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are amortised over the terms of the policies as premium is earned.

*Salvage and subrogation reimbursements*

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

*Liability adequacy test*

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs. Any deficiency is immediately charged to profit or loss initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

*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.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

**Insurance contracts** (continued)

*Receivables and payables related to insurance contracts* (continued)

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

**Revenue recognition**

*Insurance contract income*

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements.

*Interest income*

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 the asset's net carrying amount.

*Dividend income*

Dividend income from investments is recognised when the Shareholders' right to receive payment have been established.

*Rental income*

Rentals from investment property which are leased under operating leases are recognised on a straight line basis over the term of the relevant lease.

**General and administrative expenses**

85% of general and administrative expenses for the year are allocated to insurance departments in proportion to each department's share of written premiums.

**Foreign currencies**

The financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in Arab Emirates Dirhams ("AED"), which is the functional currency of the Company and the presentation currency for the financial statements.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

**Foreign currencies** (continued)

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet 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 except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

**Provision for employees' end of service indemnity**

Provision for employees' end of service indemnity is made in accordance with the U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the balance sheet date.

**Defined contribution plan**

U.A.E. national employees of the Company are members of the Government managed retirement pension and social security benefit scheme established pursuant to U.A.E. Federal Labour Law No. 7 of 1999. The Company is required to contribute 12.5% of "contribution calculation salary" to the retirement benefit scheme to fund the benefits. These employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Company with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the profit or loss.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

**Statutory reserve**

In accordance with U.A.E. Federal Commercial Companies Law Number 8 of 1984, as amended, the Company has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution as stipulated by the Law.

**Special reserve**

In accordance with the Company's Articles of Association, 10% of the annual profit is transferred to a special reserve until such reserve reaches 50% of the paid-up share capital or the general assembly decides to discontinue on the recommendations of the Board of Directors.

**Development work-in-progress**

Development work-in-progress consist of property being developed for sale on completion and are measured at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of the business, less applicable variable expenses.

**Investment property**

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in the profit or loss.

**Property and equipment**

Land is not depreciated.

Capital work-in-progress is stated at cost less any identified impairment losses.

Other property and equipment are carried at cost less accumulated depreciation and any identified impairment losses. Depreciation is charged so as to write off the cost of assets, other than land and 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.

The 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.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

**Impairment of tangible assets**

At each balance sheet date, the Company 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 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 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.

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the 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 balance sheet date, 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.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

**Financial assets**

The Company has the following financial assets: insurance and other receivables (except for prepaid expenses) and bank balance and cash which collectively are classified as 'loans and receivables'. Financial assets also include investments which are classified as either as 'at fair value through profit or loss' (FVTPL) - held for trading or as available-for-sale (AFS). The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.  
and purpose of the financial asset and is determined at the time of initial recognition.

***Cash and cash equivalents***

Cash and cash equivalents include cash on hand and in banks net of fixed deposits in banks with maturity over three months.

***Insurance and other receivables***

Insurance and other receivables that have fixed or determinable payments are measured at amortised cost using the effective interest method, less any impairment.

***Investments***

Investments of the Company are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Investments of the Company are classified as either as 'at fair value through profit or loss' (FVTPL) – held for trading or as available-for-sale (AFS).

***Financial assets at FVTPL***

Financial assets are classified as at FVTPL where the financial assets is either held for trading or designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short- term profit taking.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

**Financial assets** (continued)

*AFS financial assets*

AFS financial assets comprise listed shares held by the Company traded in an active market and are stated at fair value. Gains and losses arising from the changes in the fair value are recognised directly in the equity in the investments revaluation reserve with the exception of impairment losses. Where the investment is disposed off or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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 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.

*Fair value of financial instruments*

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets 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 balance sheet date;
- The fair value 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.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

**Financial assets** (continued)

*Derecognition of financial assets*

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

**Financial liabilities and equity instruments issued by the Company**

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

*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 Company are recorded at the proceeds received, net of direct issue costs.

**Financial liabilities**

Insurance and other payables and provision for employees' end of service indemnity are classified as 'other financial liabilities' and are measured at amortised cost.

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 through the expected life of the financial liability, or, where appropriate, a shorter period.

*Insurance and other payables*

Insurance and other payables are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

*Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

**Financial liabilities and equity instruments issued by the Company** (continued)

**Financial liabilities** (continued)

*Dividend distribution*

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

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

In the process of applying the Company's accounting policies, which are described in Note 3, management has made judgements that have the most significant effect on the amounts recognised in the financial statements and applied certain assumptions, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below:

**Critical accounting judgements**

*Classification of investments*

Management decides on acquisition of an investment whether it should be classified as FVTPL - held for trading or available-for-sale.

The Company classifies investments as FVTPL - held for trading if they are acquired primarily for the purpose of making a short term profit by the dealers. Other investments are classified as available-for-sale.

*Impairment of financial assets*

The Company determines whether available for sale equity financial assets are impaired when there has been a significant or prolonged decline in their fair value below cost. This determination of what is significant or prolonged requires judgement. In making this judgement and to record whether an impairment occurred, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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

*Impairment of financial assets* (continued)

The management has considered an amount of AED 38,538,240 as impairment loss on available-for-sale investments for the year, based on the analysis of impairment test performed on available-for-sale investments based on conditions prevailing in U.A.E. after the third quarter of 2008.

**Key sources of estimation uncertainty**

*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 Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not reported ('IBNR') at the balance sheet date. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on past claims settlement trends for the claims incurred but not reported. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

Note 23, claims development process, presents the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Company's estimation technique for claims payments.

*Impairment of insurance receivables*

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Company evaluating, the credit and liquidity position of the policy holders and the insurance companies, historical recovery rates including detailed investigations carried out during 2008 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the profit or loss at the time of collection.

*Liability adequacy test*

At each balance sheet, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Company 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.

Notes to the Financial Statements (continued)  
For the year ended December 31, 2008

5. Bank balances and cash

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
	AED	AED
Cash on hand	<u>22,000</u>	<u>15,000</u>
Bank balances:		
Current accounts	7,242,454	5,034,674
Call account	815,077	2,997,071
Fixed deposits	<u>37,008,470</u>	<u>98,832,031</u>
	<u>45,066,001</u>	<u>106,863,776</u>
	<u>45,088,001</u>	<u>106,878,776</u>
	=====	=====
Bank balances:		
In U.A.E.	23,891,839	54,271,384
In other G.C.C. countries	<u>21,174,162</u>	<u>52,592,392</u>
	<u>45,066,001</u>	<u>106,863,776</u>
	=====	=====

Fixed deposits include a statutory deposit of AED 4.5 million (December 31, 2007: AED 4.5 million) maintained in accordance with the requirements of U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents, which cannot be withdrawn without the prior consent of the U.A.E. Ministry of Economy.

6. Investments in securities

Investment in securities comprise of the following:

- Investments held for trading

	<u>2008</u>	<u>2007</u>
	AED	AED
Fair value, at the beginning of the year	179,497,239	158,067,499
Purchased during the year	59,455,949	45,762,282
Disposed off during the year	( 30,646,235)	( 62,008,117)
(Decrease)/increase in fair value	<u>( 95,560,397)</u>	<u>37,675,575</u>
<b>Fair value, at the end of the year</b>	<u>112,746,556</u>	<u>179,497,239</u>
	=====	=====
In U.A.E.	45,653,418	63,262,547
In other G.C.C. countries	<u>67,093,138</u>	<u>116,234,692</u>
	<u>112,746,556</u>	<u>179,497,239</u>
	=====	=====

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**6. Investments in securities** (continued)

- Available-for-sale investments

	<u>2008</u>	<u>2007</u>
	AED	AED
Fair value, at the beginning of the year	48,062,054	45,842,223
Purchased during the year	114,415,991	17,294,606
Disposed off during the year	( 6,209,805)	(15,875,972)
Impairment loss	( 38,538,240)	-
(Decrease)/increase in fair value	<u>( 24,755,257)</u>	<u>801,197</u>
<b>Fair value, at the end of the year</b>	<b><u>92,974,743</u></b>	<b><u>48,062,054</u></b>

Available-for-sale investments are held in listed entities in U.A.E.

**7. Insurance and other receivables**

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
	AED	AED
<b>Receivables arising from insurance and reinsurance contracts:</b>		
Due from policy holders	17,219,354	10,987,628
Allowance for doubtful premiums	<u>( 459,700)</u>	<u>( 460,000)</u>
	16,759,654	10,527,628
Due from insurance and reinsurance companies	1,650,712	2,422,037
Notes receivable – post dated cheques (see Note 11)	13,850,000	-
Other receivables	5,587,325	3,216,530
Prepaid expenses	<u>470,294</u>	<u>409,532</u>
	<b><u>38,317,985</u></b>	<b><u>16,575,727</u></b>

The average credit period is 90 - 180 days. Due from policyholders outstanding above 180 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**7. Insurance and other receivables** (continued)

Analysis of due from policyholders over 180 days are as follows:

	<b>December 31,</b>	
	<u><b>2008</b></u>	<u>2007</u>
	<b>AED</b>	AED
Allowance made for	<b>459,700</b>	460,000
Post dated cheques received	<b>152,616</b>	218,990
Allowance not made	<u><b>759,928</b></u>	<u>549,595</u>
	<b>1,372,244</b>	1,228,585
	=====	=====

Before accepting any new customer, the Company assesses the potential customers' credit quality and defines credit limits by customer. There is 1 customer (2007: 1 customer) who represents more than 5% of total balance of trade receivables.

Included in the Company's due from policyholders balance are debtors with a carrying amount of AED 3,180,257 (2007: AED 1,992,427) which are past due at the reporting date for which the Company has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Movement in the allowance for doubtful debts:

	<u><b>2008</b></u>	<u>2007</u>
	<b>AED</b>	AED
Balance, at the beginning of the year	<b>460,000</b>	385,000
Impairment loss recognised during the year	-	75,000
Amounts recovered during the year	<u>(300)</u>	<u>-</u>
<b>Balance, at the end of the year</b>	<b>459,700</b>	460,000
	=====	=====

In determining the recoverability of an insurance receivable, the Company considers any change in the credit quality of the insurance receivable from the date credit was initially granted upto the reporting date. The concentration of credit risks is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Notes to the Financial Statements (continued)  
For the year ended December 31, 2008

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**8. Insurance contract liabilities and re-insurance contract assets**

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
	AED	AED
<b>Gross</b>		
Insurance liabilities		
Claims reported unsettled	<b>16,749,875</b>	19,877,401
Claims incurred but not reported	<b>1,674,987</b>	1,987,740
Unearned premiums	<b><u>33,090,999</u></b>	<u>21,972,892</u>
<b>Total insurance contract liabilities, gross</b>	<b><u>51,515,861</u></b>	<u>43,838,033</u>
<b>Recoverable from reinsurers</b>		
Claims reported unsettled	<b>6,972,169</b>	8,524,571
Claims incurred but not reported	<b>697,217</b>	852,457
Unearned premiums	<b><u>6,295,523</u></b>	<u>5,568,840</u>
<b>Total reinsurers' share of insurance liabilities</b>	<b><u>13,964,909</u></b>	<u>14,945,868</u>
<b>Net</b>		
Claims reported unsettled	<b>9,777,706</b>	11,352,830
Claims incurred but not reported	<b>977,770</b>	1,135,283
Unearned premiums	<b><u>26,795,476</u></b>	<u>16,404,052</u>
	<b><u>37,550,952</u></b>	<u>28,892,165</u>
	=====	=====



**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**9. Development work-in-progress**

Development work-in-progress represent payments made for acquiring 10% investment in the Meyden Real Estate Project based in U.A.E. The project is promoted by Gulf General Investment (P.S.C.), a related party who is acting as custodian of the Company's share of investment in the project.

As of the balance sheet date, work on the project has not started. The title deed of the land for the project has not been transferred to the related party or to Company as of the balance sheet date.

The Board of Directors' have subjected this project for an impairment test and have concluded that no impairment charge to be considered for the project in 2008.

**10. Investment property**

	<u>2008</u> AED	<u>2007</u> AED
Fair value, at the beginning of the year	<b>65,384,940</b>	26,488,960
Additions	<b>190,017</b>	40,384,940
Transferred to property and equipment	-	( 1,488,960)
Increase in fair value during the year (see Note 17)	<b><u>8,000,000</u></b>	<u>-</u>
<b>Fair value, at the end of the year</b>	<b><u>73,574,957</u></b>	65,384,940
	=====	=====

Investment property represents the fair value of the properties located in U.A.E. The fair value of the Company's investment property at December 31, 2008 has been arrived at on the basis of a valuation carried out at that date by independent valuers that are not related to the Company. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The Board of Directors have considered a fair value increase of AED 8 million based on market conditions prevailing in U.A.E. after the third quarter of 2008 after analysing the report of the independent valuers.

The Company has pledged investment property amounting to AED 25 million (2007: AED 25 million) to a bank against facilities granted to the Company.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**10. Investment property** (continued)

The property rental income earned by the Company from its investment property, all of which is leased out under operating leases, and the direct operating expenses arising on the investment property are as follows:

	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>AED</b>	<b>AED</b>
Rental income	<b>6,786,319</b>	3,321,077
Direct operating expenses	<b>( 850,196)</b>	( 527,325)
<b>Rental income from investment property (see Note 17)</b>	<b>5,936,123</b>	2,793,752
	<b>=====</b>	<b>=====</b>



Notes to the Financial Statements (continued)  
For the year ended December 31, 2008

11. Property and equipment

	<u>Land</u> AED	<u>Furniture, fixture and office equipment</u> AED	<u>Motor vehicles</u> AED	<u>Computers</u> AED	<u>Capital work in progress</u> AED	<u>Total</u> AED
<i>Cost</i>						
At December 31, 2006	-	774,222	255,350	596,635	-	1,626,207
Additions	-	230,448	29,000	62,505	10,560,923	10,882,876
Disposals	-	( 37,205)	( 41,850)	( 4,450)	-	( 83,505)
Transfers	-	-	-	-	1,488,960	1,488,960
At December 31, 2007	-	967,465	242,500	654,690	12,049,883	13,914,538
Additions	-	309,927	-	135,224	4,909,611	5,354,762
Disposals	-	( 50,585)	-	-	( 15,303,119)	( 15,353,704)
Transfers	1,656,375	-	-	-	( 1,656,375)	-
<b>At December 31, 2008</b>	<b>1,656,375</b>	<b>1,226,807</b>	<b>242,500</b>	<b>789,914</b>	<b>-</b>	<b>3,915,596</b>
<i>Accumulated depreciation</i>						
At December 31, 2006	-	664,432	158,438	517,515	-	1,340,385
Charge for the year	-	61,742	60,625	52,213	-	174,580
Eliminated on disposals	-	( 37,056)	( 41,850)	( 4,450)	-	( 83,356)
At December 31, 2007	-	689,118	177,213	565,278	-	1,431,609
Charge for the year	-	122,119	37,146	68,062	-	227,327
Eliminated on disposals	-	( 50,585)	-	-	-	( 50,585)
<b>At December 31, 2008</b>	<b>-</b>	<b>760,652</b>	<b>214,359</b>	<b>633,340</b>	<b>-</b>	<b>1,608,351</b>
<i>Carrying amount</i>						
<b>At December 31, 2008</b>	<b>1,656,375</b>	<b>466,155</b>	<b>28,141</b>	<b>156,574</b>	<b>-</b>	<b>2,307,245</b>
At December 31, 2007	-	278,347	65,287	89,412	12,049,883	12,482,929

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**11. Property and equipment** (continued)

At December 31, 2008, the cost of fully depreciated property and equipment that was still in use amounted to AED 1,146,955 (December 31, 2007: AED 1,035,868).

The following useful lives are used in the calculation of depreciation:

Furniture, fixture and office equipment	5 years
Motor vehicles	4 years
Computers	3 years

During the year, the Company has sold a property out of capital work-in-progress with a cost of AED 13,895,339 to Gulf General Investment Co (P.S.C.) – a related party for a consideration of AED 66,275,373 (net of transfer expenses). As per the sale agreement dated November 16, 2008 the property was sold “as is where” basis and the sale agreement was approved by the Board of Directors. The post dated cheques amounting to AED 13,850,000 received from this related party being the balance due on account of the above transaction is included in receivables (see Note 7).

**12. Insurance and other payables**

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
	AED	AED
<b>Payables arising from insurance and reinsurance contracts:</b>		
Trade payables	<b>5,381,934</b>	6,048,996
Due to insurance and reinsurance companies	<b>6,943,562</b>	3,698,168
Premium reserve withheld	<b><u>1,994,744</u></b>	<u>2,173,542</u>
	<b>14,320,240</b>	11,920,706
<b>Other payables:</b>		
Unclaimed dividends	<b>2,509,530</b>	734,223
Accrued expenses and others	<b><u>3,695,870</u></b>	<u>8,615,758</u>
	<b>20,525,640</b>	21,270,687
	=====	=====

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

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**13. Provision for employees' end of service indemnity**

Movements in the net liability were as follows:

	<u>2008</u>	<u>2007</u>
	AED	AED
Balance, at the beginning of the year	1,128,841	884,717
Amounts charged to income	289,560	351,656
Amount paid during the year	<u>( 583,546)</u>	<u>( 107,532)</u>
<b>Balance, at the end of the year</b>	<b>834,855</b>	<b>1,128,841</b>
	=====	=====

An actuarial valuation has not been performed as the impact at discount rates and future increase in benefits is not likely to be material.

**14. Share capital**

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
	AED	AED
Issued and fully paid:		
330,939,180 ordinary shares of AED 1 each		
(December 31, 2007: 221,364,000 ordinary shares		
of AED 1 each)	<b>330,939,180</b>	221,364,000
	=====	=====

During the year, the share capital of the Company was increased by AED 33,204,600 by the issue of bonus shares.

Further, during the year the Company issued 76,370,580 convertible bonds on March 27, 2008, with an option to convert in to ordinary shares. The bond holders exercised the option to convert these bonds into the ordinary shares of the Company on June 11, 2008. The nominal value of bonds converted amounted to AED 76,370,580 which resulted in an increase in Company's share capital of AED 76,370,580. The share premium of AED 1 per share on 76,370,580 shares amounting to AED 76,370,580 collected by the Company on the above issue is transferred to the statutory reserve.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**15. Dividends**

During the year 2008, a dividend of AED 10 fils per share, amounting to AED 22,136,400 (2007: Nil) was paid to the Shareholders. Further, bonus shares amounting to AED 33,204,600 (2007: AED 15,444,000) were issued to the Shareholders.

**16. Net insurance premium revenue**

	<u>Year ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
	AED	AED
<b>Gross premium written</b>		
Gross premium written	<b>65,013,421</b>	43,253,316
Change in unearned premium (see Note 8)	<b>( 11,118,107)</b>	( 2,118,388)
	<b><u>53,895,314</u></b>	<u>41,134,928</u>
<b>Reinsurance premium ceded</b>		
Reinsurance premium ceded	<b>( 12,605,067)</b>	(10,633,017)
Change in unearned premium (see Note 8)	<b><u>726,683</u></b>	<u>453,018</u>
	<b>( 11,878,384)</b>	(10,179,999)
<b>Net insurance premium revenue</b>	<b><u>42,016,930</u></b>	<u>30,954,929</u>
	=====	=====

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**17. Investment and other (losses)/revenues**

	<u>Year ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
	AED	AED
Interest on bank fixed deposits	1,181,744	2,032,635
Dividends received from:		
Held for trading investments	11,719,051	7,535,389
Available-for-sale investments	5,475,653	406,692
Profit on disposal of available-for-sale investments	346,557	2,981,175
Impairment loss on available-for-sale investments	( 38,538,240)	-
(Loss)/ profit on disposal of investments held for trading	( 486,842)	18,521,927
Unrealised (loss) / gain on investments held for trading	( 95,560,397)	37,675,575
Foreign exchange (loss)/gain	( 346,981)	3,045,825
Rental income from investment property (see Note 10)	5,936,123	2,793,752
Increase in fair value of investment property (see Note 10)	<u>8,000,000</u>	<u>-</u>
	<u>(102,273,332)</u>	<u>74,992,970</u>
	=====	=====

**18. (Loss)/profit for the year**

(Loss)/profit for the year has been arrived at after charging the following expenses:

	<u>Year ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
	AED	AED
Staff costs	7,228,838	5,048,405
Depreciation of property and equipment	227,327	174,580

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**19. Basic earnings per share**

	<u>Year ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
(Loss)/ profit for the year (in AED)	( 40,621,927)	81,731,172
	=====	=====
Number of shares	330,939,180	330,939,180
	=====	=====
Basic (loss)/ earnings per share (in AED)	( 0.12 )	0.25
	=====	=====

The denominator for the purpose of calculating basic earnings per share for 2007 has been adjusted to reflect the capitalisation issue of 33,204,600 bonus shares and 76,370,580 shares issued through conversion (see Note 14).

**20. Cash and cash equivalents**

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
	AED	AED
Bank balances and cash (see Note 5)	45,088,001	106,878,776
Statutory deposit	( 4,500,000)	( 4,500,000)
	40,588,001	102,378,776
	=====	=====

**21. Related party transactions**

At the balance sheet date, amounts due from/to related parties were as follows:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
	AED	AED
Due from policy holders	1,995,587	2,887,494
Gross outstanding claims	388,055	597,948
Notes receivable – post dated cheques	13,850,000	-

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given and no expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**21. Related party transactions** (continued)

**Transactions:**

During the year, the Company entered into the following transactions with related parties:

	<b><u>Year ended December 31,</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
	<b>AED</b>	<b>AED</b>
Gross premium	<b>5,081,478</b>	4,395,384
Claims paid	<b>951,602</b>	1,446,979
Sale of property and equipment (see Note 11)	<b>66,275,373</b>	-
Management fees (see Note 1)	<b>3,016,297</b>	-

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

*Compensation of key management personnel*

	<b><u>Year ended December 31,</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
	<b>AED</b>	<b>AED</b>
Short-term benefits	<b>866,963</b>	783,673
Long-term benefits	<b>20,059</b>	82,623

**22. Capital commitments**

	<b><u>December 31,</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
	<b>AED</b>	<b>AED</b>
<b>Commitment for the construction of:</b>		
Development properties	<b>58,900,000</b>	-
Investment property	-	27,455,000

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**23. 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.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and indemnity payments exceed the carrying amount of the provisions. 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 Company is developing its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large number of risks to reduce the variability of the expected outcome.

The Company 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.

*Frequency and severity of claims*

The Company 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 claim violating policy conditions. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (through subrogation).

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, natural hazards and theft. The insurance risk arising from these contracts is not concentrated in any of the territories in which the Company operates, and there is a balance between commercial and personal properties in the overall portfolio of insured buildings.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**23. Insurance risk** (continued)

*Frequency and severity of claims* (continued)

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set limit of AED 125,000 in any one event for non motor and AED 200,000 for motor liabilities. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risks. The risks are reviewed individually at least once in 3 years and updated to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

*Sources of uncertainty in the estimation of future claim payments*

Claims on insurance contracts are payable on a claims-occurrence basis. The Company 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 Company, 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 Company 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.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company 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 balance sheet date.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**23. Insurance risk** (continued)

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

Where possible, the Company 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 Company'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 reinsurance) are analysed below by type of risk where the insured operates for current and prior year premiums earned.

<b>Type of risk</b>	<u><b>2008</b></u>	<u><b>2007</b></u>
Motor	<b>40%</b>	55%
Non-Motor	<b>2%</b>	28%

*Process used to decide on assumptions*

The risks associated with these insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual insurance contracts carried out at the balance sheet date to derive data for the contracts held. The Company 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.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**23. Insurance risk** (continued)

*Process used to decide on assumptions* (continued)

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 groups of accident years within the same class of business.

*Concentration of insurance risk*

Substantially all of the Company's underwriting activities are carried out in the United Arab Emirates.

The insurance risk before and after reinsurance in relation to the motor and non-motor insurance risk accepted is summarised below:

	Year ended December 31, 2008			Year ended December 31, 2007		
	Type of risk			Type of risk		
	Motor	Non-Motor	Total	Motor	Non-motor	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>Gross</b>	<b>655,983</b>	<b>10,934,260</b>	<b>11,590,243</b>	421,626	7,969,161	8,390,787
<b>Net</b>	<b>655,983</b>	<b>148,316</b>	<b>804,299</b>	421,626	197,410	619,036

*Reinsurance risk*

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Company, in the normal course of business, enters into arrangement with other parties for reinsurance purposes.

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company 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.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**23. Insurance risk** (continued)

*Sensitivity of underwriting profit and losses*

The contribution by the insurance operations in the profit of the Company amounts to AED 12.2 million for the year ended December 31, 2008 (2007: AED 7.7 million). The company does not foresee any major impact from insurance operations due to the following reasons:

The Company has an overall retention level of 81% (2007: 75%) and the same is mainly contributed by motor and medical lines wherein the retention levels are 100%. However, in this class the risk is adequately covered by excess of loss reinsurance programs to guard against major financial impact.

Because of low retention in 16% (2007: 25%) volume of business and limited exposure in high retention areas like motor and medical insurance, the Company is comfortable to maintain a net loss ratio in the region of 50% to 60% (2007: 50% to 60%) and does not foresee any serious financial impact in the insurance net profit.

*Claims development process*

The following schedules reflect the actual claims (based on year end estimates) compared to the previous estimates for the last six years on an accident year basis:

**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2008**

**23. Insurance risk (continued)**

*Claims development process (continued)*

**Gross (excluding IBNR):**

Reporting year	<u>2003</u> <u>and earlier</u> AED	<u>2004</u> AED	<u>2005</u> AED	<u>2006</u> AED	<u>2007</u> AED	<u>2008</u> AED	<u>Total</u> AED
At the end of the reporting year	6,609,064	4,764,293	15,076,170	10,659,271	10,872,696	7,427,727	
One year later	4,008,571	6,698,669	15,172,731	12,111,348	11,190,707	-	
Two years later	3,175,678	6,437,203	10,599,611	11,783,690	-	-	
Three years later	3,035,759	5,911,878	9,612,108	-	-	-	
Four years later	2,855,434	5,679,336	-	-	-	-	
Five years later	<u>2,650,769</u>	-	-	-	-	-	
Current estimate of cumulative claims	2,650,769	5,679,336	9,612,108	11,783,690	11,190,707	7,427,727	48,344,337
Cumulative payments to date	( <u>1,881,129</u> )	( <u>5,443,926</u> )	( <u>8,907,242</u> )	( <u>9,467,330</u> )	( <u>5,894,835</u> )	-	( <u>31,594,462</u> )
Liability recognised in the balance sheet	<u>769,640</u>	<u>235,410</u>	<u>704,866</u>	<u>2,316,360</u>	<u>5,295,872</u>	<u>7,427,727</u>	<u>16,749,875</u>

**Net (excluding IBNR):**

Reporting year	<u>2003</u> <u>and earlier</u> AED	<u>2004</u> AED	<u>2005</u> AED	<u>2006</u> AED	<u>2007</u> AED	<u>2008</u> AED	<u>Total</u> AED
At the end of the reporting year	3,855,742	3,205,675	4,057,536	4,418,412	5,790,636	6,496,234	
One year later	2,327,334	4,787,049	4,219,231	5,891,152	4,981,410	-	
Two years later	1,749,367	3,859,025	4,849,782	4,952,000	-	-	
Three years later	1,542,909	4,066,547	4,025,722	-	-	-	
Four years later	1,392,840	3,869,449	-	-	-	-	
Five years later	<u>1,201,545</u>	-	-	-	-	-	
Current estimate of cumulative claims	1,201,545	3,869,449	4,025,722	4,952,000	4,981,410	6,496,234	25,526,360
Cumulative payments to date	( <u>1,193,006</u> )	( <u>3,809,107</u> )	( <u>3,688,236</u> )	( <u>3,706,033</u> )	( <u>3,352,272</u> )	-	( <u>15,748,654</u> )
Liability recognised in the balance sheet	<u>8,539</u>	<u>60,342</u>	<u>337,486</u>	<u>1,245,967</u>	<u>1,629,138</u>	<u>6,496,234</u>	<u>9,777,706</u>

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**24. Capital risk management**

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents. Management considers the quantitative threshold of 15% - 20% sufficient to maximise Shareholders' return and to support the capital required;
- to safeguard the Company'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 Shareholders by pricing insurance contracts commensurately with the level of risk.

In U.A.E., 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.

The table below summarises the minimum required capital of the Company and the total capital held.

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>AED</b>	<b>AED</b>
Total capital held	<b>441,768,040</b>	377,589,972
	=====	=====
Minimum regulatory capital	<b>50,000,000</b>	50,000,000
	=====	=====

**25. Financial instruments**

The Company 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 most important components of this financial risk are interest rate risk, equity price risk, foreign currency risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

**25. Financial instruments** (continued)

**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 financial statements.

**Categories of financial instruments and others**

**December 31, 2008**

Assets	Loans and receivables AED	Held for trading AED	Available for-sale AED	Insurance contract assets ( IFRS 4 ) AED	Non- financial instruments AED	Total AED
Bank balances and cash	45,088,001	-	-	-	-	45,088,001
Investments held for trading	-	112,746,556	-	-	-	112,746,556
Insurance and other receivables	37,847,691	-	-	-	470,294	38,317,985
Reinsurance contract assets	-	-	-	13,964,909	-	13,964,909
Available-for-sale investments	-	-	92,974,743	-	-	92,974,743
Development work-in- progress	-	-	-	-	135,670,000	135,670,000
Investment property	-	-	-	-	73,574,957	73,574,957
Property and equipment	-	-	-	-	2,307,245	2,307,245
<b>Total assets</b>	<b>82,935,692</b>	<b>112,746,556</b>	<b>92,974,743</b>	<b>13,964,909</b>	<b>212,022,496</b>	<b>514,644,396</b>

**December 31, 2007**

Assets	Loans and receivables AED	Held for trading AED	Available for-sale AED	Insurance contract assets ( IFRS 4 ) AED	Non- financial instruments AED	Total AED
Bank balances and cash	106,878,776	-	-	-	-	106,878,776
Investments held for trading	-	179,497,239	-	-	-	179,497,239
Insurance and other receivables	16,166,195	-	-	-	409,532	16,575,727
Reinsurance contract assets	-	-	-	14,945,868	-	14,945,868
Available-for-sale investments	-	-	48,062,054	-	-	48,062,054
Investment property	-	-	-	-	65,384,940	65,384,940
Property and equipment	-	-	-	-	12,482,929	12,482,929
<b>Total assets</b>	<b>123,044,971</b>	<b>179,497,239</b>	<b>48,062,054</b>	<b>14,945,868</b>	<b>78,277,401</b>	<b>443,827,533</b>

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**25. Financial instruments** (continued)

**Categories of financial instruments and others** (continued)

**December 31, 2008**

<b>Liabilities</b>	<b>At amortised cost</b>	<b>Insurance contract liabilities ( IFRS 4 )</b>	<b>Total</b>
	<b>AED</b>	<b>AED</b>	<b>AED</b>
Insurance and other payables	20,525,640	-	20,525,640
Insurance contract liabilities	-	51,515,861	51,515,861
Provision for employees' end of service indemnity	<u>834,855</u>	<u>-</u>	<u>834,855</u>
<b>Total liabilities</b>	<b><u>21,360,495</u></b>	<b><u>51,515,861</u></b>	<b><u>72,876,356</u></b>

**December 31, 2007**

Liabilities	At amortised cost	Insurance contract liabilities ( IFRS 4 )	Total
	AED	AED	AED
Insurance and other payables	21,270,687	-	21,270,687
Insurance contract liabilities	-	43,838,033	43,838,033
Provision for employees' end of service indemnity	<u>1,128,841</u>	<u>-</u>	<u>1,128,841</u>
<b>Total liabilities</b>	<b><u>22,399,528</u></b>	<b><u>43,838,033</u></b>	<b><u>66,237,561</u></b>

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

**Market risk**

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**25. Financial instruments** (continued)

**Market risk** (continued)

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

**Foreign currency risk**

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

**Credit risk**

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

Key areas where the Company 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; and
- amounts due from insurance intermediaries;

The Company has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company'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 Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company 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.

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**25. Financial instruments** (continued)

**Credit risk** (continued)

The Company 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 Company. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company.

Insurance receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of insurance receivable.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Company defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

**Liquidity risk**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Company's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the balance sheet date based on contractual repayment arrangements was as follows:

**Notes to the Financial Statements (continued)**  
**For the year ended December 31, 2008**

**25. Financial instruments (continued)**

**Liquidity risk (continued)**

December 31, 2008

	<u>Less than 30 days</u>	<u>30-90 days</u>	<u>90-180 days</u>	<u>After 180 days</u>	<u>Total</u>
	AED	AED	AED	AED	AED
Bank balances and cash - interest bearing	37,823,547	-	-	-	37,823,547
Bank balances and cash - non interest bearing	7,264,454	-	-	-	7,264,454
Investment held-for-trading	-	-	112,746,556	-	112,746,556
Insurance and other receivables	7,398,284	18,334,918	8,279,541	3,834,948	37,847,691
Available-for-sale investments	-	-	-	92,974,743	92,974,743
<b>Total financial assets</b>	<b>52,486,285</b>	<b>18,334,918</b>	<b>121,026,097</b>	<b>96,809,691</b>	<b>288,656,991</b>
Insurance and other payables	16,508,135	1,019,251	1,036,083	1,962,171	20,525,640
Provision for employees' end of service indemnity	-	-	-	834,855	834,855
<b>Total financial liabilities</b>	<b>16,508,135</b>	<b>1,019,251</b>	<b>1,036,083</b>	<b>2,797,026</b>	<b>21,360,495</b>
December 31, 2007					
Bank balances and cash - interest bearing	53,514,075	48,315,027	-	-	101,829,102
Bank balances and cash - non interest bearing	5,049,674	-	-	-	5,049,674
Investment held-for-trading	-	-	179,497,239	-	179,497,239
Insurance and other receivables	4,828,965	10,001,180	827,129	508,921	16,166,195
Available-for-sale investments	-	-	-	48,062,054	48,062,054
<b>Total financial assets</b>	<b>63,392,714</b>	<b>58,316,207</b>	<b>180,324,368</b>	<b>48,570,975</b>	<b>350,604,264</b>
Insurance and other payables	10,835,826	5,985,640	2,005,140	2,444,081	21,270,687
Provision for employees' end of service indemnity	-	-	-	1,128,841	1,128,841
<b>Total financial liabilities</b>	<b>10,835,826</b>	<b>5,985,640</b>	<b>2,005,140</b>	<b>3,572,922</b>	<b>22,399,528</b>

**Notes to the Financial Statements** (continued)  
**For the year ended December 31, 2008**

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**25. Financial instruments** (continued)

**Interest risk**

The Company's exposure to interest rate risk relates to its bank deposits. At December 31, 2008, bank deposits carried interest rates ranging from 3% to 5.5% per annum (2007: 4% to 7% per annum).

If interest rates had been 50 basis points lower throughout the year and all other variables were held constant, the Company's net loss for the year ended December 31, 2008 and equity as at December 31, 2008 would decrease by approximately AED 243,586 (2007: decrease by AED 277,235).

The Company's sensitivity to interest rates has not changed significantly from the prior year.

**Equity price risk**

*Sensitivity analysis*

At the balance sheet date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Company's:

- loss would have increased/decreased by AED 11.27 million (2007: AED 17.9 million) in the case of investments held for trading.
- equity would have increased/decreased by AED 9.3 million (2007: AED 4.8 million) in the case of available-for-sale investments.

*Method and assumptions for sensitivity analysis*

- The sensitivity analysis has been done based on the exposure to equity price risk as at the balance sheet date.
- As at the balance sheet date 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 equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

**26. Approval of financial statements**

The financial statements were approved by the Board of Directors and authorised for issue on February 21, 2009.

**27. Comparative amounts**

Certain amounts for the prior year were reclassified to conform to current year presentation.