Arab Orient Insurance Company (PSC) and its subsidiary

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

Ernst & Young

P.O. Box 9267
28th Floor - Al Attar Business Tower
Sheikh Zayed Road
Dubai, United Arab Emirates
Tel: +971 4 332 4000
Fax: +971 4 332 4004
dubai@ae.ey.com
www.ey.com/me

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

Report on the Financial Statements

We have audited the accompanying financial statements of Arab Orient Insurance Company (PSC) and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of Arab Orient Insurance Company (PSC), UAE Commercial Companies Law of 1984 (as amended) and UAE Federal Law No. (6) of 2007. The management is responsible for such internal control as it determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

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

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

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

ERNST & YOUNG

Opinion

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

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal Law No. (6) of 2007 and the articles of association of Arab Orient Insurance Company (PSC); proper books of account have been kept by Arab Orient Insurance Company (PSC); an inventory was duly carried out, and the contents of the report of the Board of Directors relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal Law No. (6) of 2007, or of the articles of association of Arab Orient Insurance Company (PSC) have occurred during the year which would have had a material effect on the business of Arab Orient Insurance Company (PSC) or on its financial position.

Ernst & Young

Signed by:
Joseph A. Murphy
Partner
Registration No. 492

2 February 2011

Dubai, United Arab Emirates

Arab Orient Insurance Company (PSC) and its subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 AED'000	2009 AED'000
ASSETS			
Office equipment and vehicles	3	5,516	6,263
Investment property	4	127,802	127,802
Investment in associated company	5	34,523	29,988
Investment securities	6	49,796	61,893
Reinsurance assets	13	580,592	593,194
Insurance receivables	7	233,598	196,779
Prepayments and other receivables		15,042	13,902
		1,046,869	1,029,821
Deposits with banks	8	997,873	808,591
Cash and cash equivalents	9	44,971	35,468
		1,042,844	844,059
TOTAL ASSETS		2,089,713	1,873,880
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	10	300,000	300,000
Statutory reserve	11	75,000	75,000
Legal reserve	11	111,115	91,682
Exceptional loss reserve	11	80,055	67,157
General reserve	11	242,132	142,132
Retained earnings		514	150
Available-for-sale reserve	11	(1,136)	(977)
Foreign currency translation reserve	11	(1,192)	334
Proposed dividends	12	60,000	60,000
		866,488	735,478
Non-controlling interests		11,880	12,858
Total equity		878,368	748,336
Liabilities			
Insurance contract liabilities	13	821,749	812,941
Reinsurance payables		187,112	138,650
Amounts held under reinsurance treaties		118,762	101,174
Other payables and accruals	14	83,722	72,779
Total liabilities		1,211,345	1,125,544
TOTAL EQUITY AND LIABILITIES		2,089,713	1,873,880

These consolidated financial statements were approved by the Board of Directors on 2 February 2011 and signed on its behalf by:

Chairman

Vice Chairman

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

CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2010

	Notes	*2010* *AED'000*	*2009* *AED'000*
UNDERWRITING INCOME			
Gross premiums			
Insurance contracts premium	13	**1,128,165**	1,001,920
Movement in provision for unearned premiums	13	**(49,510)**	(9,809)
Insurance premium revenue	13	**1,078,655**	992,111
Less: **Reinsurers' share of premium**			
Insurance contracts premium	13	**830,144**	731,046
Movement in provision for unearned premiums	13	**(37,101)**	(10,155)
		793,043	720,891
Net insurance premium revenue		**285,612**	271,220
Commission income		**114,322**	100,830
Total underwriting income		**399,934**	372,050
UNDERWRITING EXPENSES			
Claims paid	13	**542,986**	536,795
Less: re-insurance share	13	**(429,524)**	(409,131)
Net claims	13	**113,462**	127,664
Increase in outstanding claims		**9,001**	3,842
Claims incurred		**122,463**	131,506
Commission expenses		**71,657**	62,899
General and administration expenses		**82,252**	67,085
Total underwriting expenses		**276,372**	261,490
NET UNDERWRITING INCOME		**123,562**	110,560
INVESTMENT INCOME			
Interest income		**40,683**	44,347
Rental and other income		**21,535**	24,325
Gain on sale of investments carried at fair value through profit or loss		**1,600**	-
Fair value (loss) gain on investments carried at fair value through profit or loss		**(198)**	2,783
Gain on sale of available for sale securities		**-**	1,167
		63,620	72,622
Share of associate's profit	5	**4,535**	2,847
PROFIT FOR THE YEAR		**191,717**	186,029
Attributable to:			
Equity holders of the parent		**192,695**	186,311
Non-controlling interests		**(978)**	(282)
		191,717	186,029
Basic and diluted earnings per share (AED) attributable to equity holders of the parent	17	**64.23**	62.10

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	2010 *AED'000*	*2009* *AED'000*
Profit for the year	**191,717**	186,029
Other comprehensive income		
Exchange differences on translation of foreign operations	**(1,526)**	334
Net unrealised losses on available -for- sale investments	**(159)**	(977)
Total comprehensive income for the year	**190,032**	185,386
Attributable to:		
Equity holders of parent	**191,010**	185,668
Non-controlling interests	**(978)**	(282)
	190,032	185,386

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

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2010

	Notes	*2010* *AED'000*	*2009* *AED'000*
OPERATING ACTIVITIES			
Profit for the year		**191,717**	186,029
Adjustments for:			
Depreciation	3	**1,752**	1,470
Gain on sale of office equipment and vehicles		**(107)**	(133)
Interest income		**(40,683)**	(44,347)
Rental income		**(21,000)**	(24,353)
Share of associate's profit	5	**(4,535)**	(2,847)
Gain on sale of investments carried at fair value through profit or loss		**(1,600)**	(1,167)
Unrealised gain (loss) on investments at fair value through profit or loss		**198**	(2,783)
Operating profit before changes in operating assets and liabilities		**125,742**	111,869
Insurance receivables		**(36,819)**	28,343
Insurance contract liabilities		**8,808**	(41,423)
Prepayments and other receivables		**(1,140)**	(5,226)
Reinsurance payables		**66,050**	(40,964)
Other payables and accruals		**10,943**	29,811
Reinsurance assets		**12,602**	44,919
Net cash from operating activities		**186,186**	127,329
INVESTING ACTIVITIES			
Purchase of office equipment and vehicles	3	**(1,664)**	(4,335)
Proceeds from sale of office equipment and vehicles		**766**	691
Interest income		**40,683**	44,347
Rental income		**21,000**	24,353
Bank deposits		**(189,282)**	(173,648)
Purchase of held to maturity investments		**(3,188)**	-
Purchase of available for sale investments		**(1,488)**	(11,180)
Sale of available for sale investments		**-**	3,392
Sale of investments at fair value through profit or loss		**18,493**	-
Purchase of investments at fair value through profit or loss		**(477)**	-
Net cash used in investing activities		**(115,157)**	(116,380)
FINANCING ACTIVITIES			
Dividends paid		**(60,000)**	(50,000)
Share capital paid by non-controlling interests		**-**	13,140
Net cash used in financing activities		**(60,000)**	(36,860)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**11,029**	(25,911)
Cash and cash equivalents at 1 January	9	**35,468**	61,045
Movement in foreign currency translation reserve		**(1,526)**	334
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**44,971**	35,468

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to shareholders of the parent											
	Share capital AED'000	*Statutory reserve AED'000*	*Legal reserve AED'000*	*Exceptional loss reserve AED'000*	*General reserve AED'000*	*Retained earnings AED'000*	*Available-for-sale reserve AED'000*	*Foreign currency translation reserve AED'000*	*Proposed dividend AED'000*	*Total AED'000*	*Non-controlling interests AED'000*	*Total AED'000*
At 1 January 2010	300,000	75,000	91,682	67,157	142,132	150	(977)	334	60,000	735,478	12,858	748,336
Profit for the year	-	-	-	-	-	192,695	-	-	-	192,695	(978)	191,717
Other comprehensive income for the year	-	-	-	-	-	-	(159)	(1,526)	-	(1,685)	-	(1,685)
Total comprehensive income	-	-	-	-	-	192,695	(159)	(1,526)	-	191,010	(978)	190,032
Transfers	-	-	19,433	12,898	100,000	(132,331)	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(60,000)	(60,000)	-	(60,000)
Dividend proposed	-	-	-	-	-	(60,000)	-	-	60,000	-	-	-
At 31 December 2010	**300,000**	**75,000**	**111,115**	**80,055**	**242,132**	**514**	**(1,136)**	**(1,192)**	**60,000**	**866,488**	**11,880**	**878,368**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2010

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

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

1 ACTIVITIES

Arab Orient Insurance Company (PSC) ("the Company") was incorporated with limited liability on 22 July 1980 in the Emirate of Dubai by a decree of His Highness The Ruler of Dubai and commenced operations on 1 January 1982. The Company was registered in accordance with the UAE Federal Law No.(9) of 1984, as amended, ("The Insurance Companies Law") on 29 December 1984 with registration No.14. On 2 May 1988 the Company was converted into a public shareholding company in accordance with the requirements of the Insurance Companies Law and has since been registered under UAE Federal Law No.(8) of 1984, as amended, relating to commercial companies. The registered address of the Company is P.O. Box 27966, Dubai United Arab Emirates.

The Company operates in the United Arab Emirates and employed 356 employees as of 31 December 2010 (2009: 331).

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

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

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

2.1 BASIS OF PREPARATION

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

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

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

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

2.2 BASIS OF CONSOLIDATION

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

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

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

2.2 BASIS OF CONSOLIDATION (continued)

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 December.

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

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

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

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

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

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted by the Group are consistent with those of the previous financial year.

IASB Standards and Interpretations issued but not adopted
Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation - Classification of Rights Issues
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Group's financial assets.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES - continued

IASB Standards and Interpretations issued but not adopted- continued

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to IFRSs (issued in May 2010)
The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

2.4 SIGNIFICANT MANAGEMENT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Classification of investments
Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through statement of comprehensive income or available-for-sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, that the Group has the intention and ability to hold these to maturity.

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through statement of comprehensive income depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through statement of comprehensive income. All other investments are classified as available for sale.

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

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

Impairment of investments
The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities.

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

Medical and Group life insurance
The assumptions used in actuarial valuations for unearned premium reserves for medical and group life business are based on experience relating to insurance industry.

2.4 SIGNIFICANT MANAGEMENT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty

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

Provision for outstanding claims, whether reported or not

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainly and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Office equipment and vehicles

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

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

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

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

Investment properties

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

No depreciation is charged on freehold land.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets
The Group classifies its investments into financial assets at fair value through profit or loss, available-for-sale and held to maturity financial assets.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit or loss, as the Group's strategy is to manage financial investments acquired to cover its insurance and investments contract liabilities (including shareholders' funds), on the same basis, being fair value. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) are passively managed.

All regular way purchases and sales of financial assets are recognised on the trade date ie the date the Group commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis.

Held to maturity
Securities which have fixed or determinable payments which are intended to be held to maturity are carried at amortised cost using the effective interest rate method, less provision for impairment in value.

Available-for-sale financial assets include equity and debt securities. These are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, these investments are measured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the statement of income.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Derecognition of financial instruments
The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

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

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

Insurance contract liabilities

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Payables and accruals
Liabilities are recognised for amounts to be paid in the future for goods and services rendered, whether billed by the supplier or not.

Provisions
Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

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

With respect to its national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Revenue recognition

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

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

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

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

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

Other investment income
- Dividend income is accounted for when the right to receive payment is established.
- Rental income is recognised as income over the period to which it relates.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Claims and expenses recognition

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries made are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group and those not reported at the statement of financial position date.

The Group generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition a provision based on management's judgement and the Group's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the underwriting account for that year.

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

Liability adequacy test
At each statement of financial position date the Group assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision created. The Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

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

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

Premiums on reinsurance assumed which are primarily facultative contracts are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business. At each reporting date, the Group assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Leases

Group as a lessee
The Group has no finance leases. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting
Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is legally enforceable right to offset the recognised amounts and there is no intention to settle on net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the statement of income unless required or permitted by an accounting standard or interpretation.

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

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

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

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

Product classification
Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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

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

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

3 OFFICE EQUIPMENT AND VEHICLES

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

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

The depreciation charge for the year of AED 1,752 thousand (2009: AED 1,470 thousand) has been included in general and administrative expenses.

4 INVESTMENT PROPERTY

	2010 *AED'000*	*2009* *AED'000*
At cost (within UAE)	**127,802**	127,802

The fair value of the investment property amounted to AED 220,700 thousand based on a valuation done by an accredited independent valuer on 4 January 2011.

5 INVESTMENT IN ASSOCIATED COMPANY

	2010 *AED'000*	*2009* *AED'000*
Shares at cost	**24,351**	24,351
The Group's share of post acquisition reserves:		
At 1 January	**5,637**	2,790
Share of results for the period	**4,535**	2,847
Balance at period end	**10,172**	5,637
Investment in net equity at period end	**34,523**	29,988

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

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

	2010 *AED'000*	*2009* *AED'000*
Share of associate's statement of financial position:		
Current assets	**56,815**	52,523
Non-current assets	**1,887**	3,110
Current liabilities	**(24,179)**	(25,645)
Net assets	**34,523**	29,988
Share of associate's revenues and results:		
Revenues	**27,412**	20,230
Results	**4,535**	2,847

6 INVESTMENT SECURITIES

	Carrying value		Fair Value	
	2010	2009	**2010**	2009
	AED'000	AED'000	**AED'000**	AED'000
Investments carried at fair value through profit or loss				
Managed portfolios				
- within UAE	**-**	1,820	**-**	1,820
- outside UAE	**2,279**	17,664	**2,279**	17,664
	2,279	19,484	**2,279**	19,484
Held for trading-quoted shares (within UAE)	**6,602**	6,011	**6,602**	6,011
	8,881	25,495	**8,881**	25,495
Held to maturity				
Debt				
Unquoted - outside UAE	**3,188**	-	**3,188**	-
	3,188	-	**3,188**	-
Available-for-sale investments				
Debt				
Quoted (within UAE)	**8,225**	8,030	**8,225**	8,030
Equity				
Quoted (within UAE)	**3,637**	3,991	**3,637**	3,991
Unquoted (within UAE)	**25,865**	24,377	**25,865**	24,377
	37,727	36,398	**37,727**	36,398
	49,796	61,893	**49,796**	61,893

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

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

7 INSURANCE RECEIVABLES

	2010	2009
	AED'000	AED'000
Premiums and insurance companies' balances receivable	**146,119**	140,707
Due from reinsurance companies in respect of claims settled	**51,281**	30,850
Due from related parties (note 18)	**36,198**	25,222
	233,598	196,779

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

7 INSURANCE RECEIVABLES (continued)

As at 31 December 2010, premiums and insurance companies balance receivables at nominal value of AED 8,493 thousand (2009: AED 6,093 thousand) were impaired.

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

	2010 *AED'000*	*2009* *AED'000*
At 1 January	**6,093**	5,193
Charge for the year	**2,400**	900
At 31 December	**8,493**	6,093

8 DEPOSITS WITH BANKS

Deposits with banks include the following:

		2010 *AED'000*	*2009* *AED'000*
a)	Statutory deposit that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 42 of Federal Law No.6 of 2007	**10,000**	10,000
b)	Amounts under lien with Capital Market Authority, Sultanate of Oman towards license of Muscat branch	**14,100**	14,100
c)	Amounts under lien with Omani Unified Bureau for the Orange Card (SAOC)	**478**	478
d)	Fixed term deposits	**973,295**	784,013
		997,873	808,591

9 CASH AND CASH EQUIVALENTS

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

	2010 *AED'000*	*2009* *AED'000*
Bank balances and cash	**43,006**	35,468
Deposits with banks maturing within three months	**1,965**	-
	44,971	35,468

10 SHARE CAPITAL

	2010 *AED'000*	*2009* *AED'000*
Issued and fully paid 3,000,000 shares of AED 100 each (2009: 3,000,000 shares of AED 100 each)	**300,000**	300,000

11 RESERVES

NATURE AND PURPOSE OF RESERVES

- **STATUTORY RESERVE**

In accordance with the Company's Articles of Association, the company has resolved not to increase the statutory reserve above an amount equal to 25% of its paid up capital and, accordingly, no transfer to statutory reserve was made during the year. The reserve can be used for any purpose to be decided by the shareholders upon the recommendation of the Board of Directors.

- **LEGAL RESERVE**

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

- **EXCEPTIONAL LOSS RESERVE**

An amount equal to 10% of the net underwriting income for the year is transferred to an exceptional loss reserve to ensure that the company has sufficient solvency to meet exceptional, non-recurring claims which may arise in future years.

- **GENERAL RESERVE**

Transfers to the general reserve are made on the recommendation of the Board of Directors. This reserve may be used for such purposes as deemed appropriate by the Board of Directors.

- **AVAILABLE-FOR-SALE (AFS) RESERVE**

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

- **FOREIGN CURRENCY TRANSLATION RESERVE**

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

12 PROPOSED DIVIDENDS

Dividends of AED 20 per share (totalling AED 60 million) relating to the year 2009 were declared and paid during the year. During 2009, dividends of AED 20 per share (totalling AED 50 million) relating to the year 2008 were declared and paid.

The Board of Directors has proposed a cash dividend amounting to AED 60 million at AED 20 per share for the year 2010. This is subject to the approval of the shareholders at the Annual General Meeting to be held during February 2011.

13 INSURANCE CONTRACT ASSETS AND LIABILITIES

	Gross		*Reinsurers' share*		*Net*	
	2010 AED'000	*2009 AED'000*	***2010 AED'000***	*2009 AED'000*	***2010 AED'000***	*2009 AED'000*
Unearned premium reserve	**480,620**	431,110	**(355,394)**	(318,293)	**125,226**	112,817
Outstanding claims	**341,129**	381,831	**(225,198)**	(274,901)	**115,931**	106,930
	821,749	812,941	**(580,592)**	(593,194)	**241,157**	219,747

13 (A)NET INSURANCE PREMIUM REVENUE

Year 2010

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

Year 2009

	General Insurance			*Life Insurance*			*Total*		
	Gross AED'000	*Reinsurers' share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurers' share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurers' share AED'000*	*Net AED'000*
Gross premiums	903,668	(658,413)	245,255	98,252	(72,633)	25,619	1,001,920	(731,046)	270,874
Movement in provision for unearned premiums	(7,578)	8,257	679	(2,231)	1,898	(333)	(9,809)	10,155	346
Insurance premium revenue	896,090	(650,156)	245,934	96,021	(70,735)	25,286	992,111	(720,891)	271,220
Unearned premium as of 31 December	395,290	(291,813)	103,477	35,820	(26,480)	9,340	431,110	(318,293)	112,817

13 (B) OUTSTANDING CLAIMS

	General Insurance AED'000	*Life Assurance AED'000*	*Total AED'000*
At 1 January 2009:			
Outstanding claims	407,168	25,895	433,063
Due from reinsurers	(308,910)	(21,065)	(329,975)
	98,258	4,830	103,088
Net increase	2,663	1,179	3,842
At 31 December 2009:			
Outstanding claims	350,589	31,242	381,831
Due from reinsurers	(249,668)	(25,233)	(274,901)
	100,921	6,009	106,930
Net Increase (decrease)	9,349	(348)	9,001
At 31 December 2010:			
Outstanding claims	319,263	21,866	341,129
Due from reinsurers	(208,993)	(16,205)	(225,198)
	110,270	**5,661**	**115,931**

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

	2010			*2009*		
	Gross AED'000	*Reinsurer's share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurer's share AED'000*	*Net AED'000*
At 1 January						
Claims incurred	**370,681**	**(274,901)**	95,780	426,013	(329,975)	96,038
Claims incurred but not reported	**11,150**	**-**	11,150	7,050	-	7,050
	381,831	**(274,901)**	106,930	433,063	(329,975)	103,088
Insurance claims paid in the year	**(542,986)**	**429,524**	(113,462)	(536,795)	409,131	(127,664)
Claims incurred	**502,284**	**(379,821)**	122,463	485,563	(354,057)	131,506
At 31 December	**341,129**	**(225,198)**	115,931	381,831	(274,901)	106,930
Analysis of outstanding claims						
At 31 December						
Claims incurred	**322,097**	**(225,198)**	96,899	370,681	(274,901)	95,780
Claims incurred but not reported	**19,032**	**-**	19,032	11,150	-	11,150
	341,129	**(225,198)**	115,931	381,831	(274,901)	106,930

The amounts due from reinsurers are contractually due as per the terms of reinsurance agreements from the date of the payment of the claims.

There are no material amounts for which amount and timing of claims payment is not resolved within one year of the statement of financial position date.

13 (B) OUTSTANDING CLAIMS (continued)

Claims development table

The following table reflects the cumulative incurred claims, including both claims notified and claims incurred but not reported (IBNR) for each successive accident year at each statement of financial position date, together with cumulative payments to date:

Accident year	*Before 2007 AED' 000*	*2007 AED' 000*	*2008 AED' 000*	*2009 AED' 000*	*2010 AED' 000*	*Total AED' 000*
At the end of accident year	-	420,157	531,892	510,192	549,726	
One year later	-	407,526	542,738	516,091	-	
Two years later	-	410,891	531,423	-	-	
Three years later	-	380,739	-	-	-	
Four years later	717,623	-	-	-	-	
Current estimate of cumulative claims	**717,623**	**380,739**	**531,423**	**516,091**	**549,726**	
At the end of accident year	-	(238,439)	(237,631)	(336,959)	(383,957)	
One year later	-	(355,898)	(399,812)	(415,885)	-	
Two years later	-	(367,897)	(472,356)	-	-	
Three years later	-	(372,488)	-	-	-	
Four years later	(709,787)	-	-	-	-	
Cumulative payments to date	**(709,787)**	**(372,488)**	**(472,356)**	**(415,885)**	**(383,957)**	
Total gross outstanding claims	**7,836**	**8,251**	**59,067**	**100,206**	**165,769**	**341,129**
						(note 13)

14 OTHER PAYABLES AND ACCRUALS

	2010 AED'000	*2009 AED'000*
Provision for staff costs	**10,513**	7,712
Other creditors and accruals	**53,676**	26,906
Employees' end of service benefits (Note 15)	**8,976**	8,682
Amounts due to related parties (Note 18)	**10,557**	29,479
	83,722	72,779

15 EMPLOYEES' END OF SERVICE BENEFITS

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

	2010 AED'000	*2009 AED'000*
Provision as at 1 January	**8,682**	7,767
Provided during the year	**1,256**	1,479
End of service benefits paid	**(962)**	(564)
Provision as at 31 December	**8,976**	8,682

16 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2010 *AED'000*	*2009* *AED'000*
Staff costs	**56,612**	46,551
Rental costs – Operating leases	**5,082**	4,468

17 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is computed by dividing the profit attributable to the shareholders by the weighted average number of shares outstanding during the year of 3,000,000 shares. The number of shares outstanding has been adjusted for all periods since the capitalisation of general reserves did not increase the total available resources.

No figure for diluted earnings per share has been presented because the Group has not issued any instruments which would have an impact on earnings per share when exercised.

18 RELATED PARTY TRANSACTIONS

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

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

	Al Futtaim Group companies	*Directors and Key Management*	*2010* *AED'000*	*2009* *AED'000*
Administrative expenses	16,582	-	**16,582**	12,341
Gross premium written	120,585	-	**120,585**	92,697
Motor vehicle repair charges paid relating to claims	63,017	-	**63,017**	80,693
Rental income	21,000	-	**21,000**	24,208

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

	2010		*2009*	
	Amounts owed by related parties AED'000	*Amounts owed to related parties AED'000*	*Amounts owed by related parties AED'000*	*Amounts owed to related parties AED'000*
Al Futtaim Group Companies	**36,198**	**10,557**	25,222	29,479

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

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

	2010 *AED'000*	*2009* *AED'000*
Short-term benefits	**10,443**	8,173
Employees' end of service benefits	**307**	430
	10,750	8,603

19 OPERATING SEGMENT INFORMATION

Identification of reportable segments

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

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

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

	General insurance		*Life assurance*		*Total*	
	2010	*2009*	***2010***	*2009*	***2010***	*2009*
	AED'000	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*
UNDERWRITING INCOME						
Insurance premium revenue	**973,024**	896,090	**105,631**	96,021	**1,078,655**	992,111
Reinsurers' share of premium	**(715,520)**	(650,156)	**(77,523)**	(70,735)	**(793,043)**	(720,891)
Net insurance premiums revenue	**257,504**	245,934	**28,108**	25,286	**285,612**	271,220
Commission income	**108,661**	92,921	**5,661**	7,909	**114,322**	100,830
TOTAL INCOME	**366,165**	338,855	**33,769**	33,195	**399,934**	372,050
UNDERWRITING EXPENSES						
Claims incurred	**447,333**	420,885	**54,951**	64,678	**502,284**	485,563
Reinsurers' share of claims	**(332,667)**	(298,561)	**(47,154)**	(55,496)	**(379,821)**	(354,057)
Net claims incurred	**114,666**	122,324	**7,797**	9,182	**122,463**	131,506
Commission paid	**65,925**	55,049	**5,732**	7,850	**71,657**	62,899
General and administration expenses relating to underwriting activities	**74,237**	60,769	**8,015**	6,316	**82,252**	67,085
TOTAL EXPENSES	**254,828**	238,142	**21,544**	23,348	**276,372**	261,490
NET UNDERWRITING INCOME	**111,337**	100,713	**12,225**	9,847	**123,562**	110,560

OTHER INFORMATION

	Life Insurance		*General Insurance*		*Investment*		*Total*	
	2010	*2009*	***2010***	*2009*	***2010***	*2009*	***2010***	*2009*
	AED'000	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*
Segment assets	**74,930**	85,607	**804,789**	759,999	**1,209,994**	1,028,274	**2,089,713**	1,873,880
Segment liabilities	**69,930**	80,607	**1,141,415**	1,044,937	**-**	-	**1,211,345**	1,125,544
Capital expenditure	**-**	-	**1,664**	4,335	**-**	-	**1,664**	4,335
Depreciation	**156**	151	**1,596**	1,319	**-**	-	**1,752**	1,470

The Group operates in Middle East and Africa.

20 RISK MANAGEMENT

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

(a) Governance framework
The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Group's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the Senior Managing Director and senior managers.

The board of directors meets regularly to approve any commercial, regulatory and organisational decisions. The Senior Managing Director under the authority delegated from the board of directors defines the Group's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

(b) Capital management framework
The primary objective of the Group's capital management is to comply with the regulatory requirements in the UAE and to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

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

The operations of the Group are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

(d) Asset liability management (ALM) framework
Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The Senior Managing Director actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts.

The Senior Managing Director regularly monitors the financial risks associated with the Group's other financial assets and liabilities not directly associated with insurance liabilities.

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

20 RISK MANAGEMENT (continued)

20 A Insurance risk

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

Frequency and Severity of Claims

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

Property

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

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

Engineering

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

Motor

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

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

Miscellaneous Accident

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

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

Marine

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

Medical, Group Life and Personal Accident

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

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

Geographical concentration of risks

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

20 RISK MANAGEMENT (continued)

20 A Insurance risk (continued)

Reinsurance risk

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The maximum theoretical credit risk exposure in this connection is mainly in Europe.

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

The five largest reinsurers account for 26% of the maximum credit exposure at 31 December 2010 (2009: 19%).

20 B Financial risk

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

The Group does not enter into derivative transactions.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, equity price risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised in the following page.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

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

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

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

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)
Interest rate risk (continued)

31 December 2009	*Less than 1 year AED' 000*	*1 to 5 years AED' 000*	*Over 5 years AED' 000*	*Non interest bearing items AED' 000*	*Total AED' 000*	*Effective interest rate*
Investment securities	-	8,030	-	53,863	61,893	(2.8%-4.6%)
Insurance receivables	-	-	-	196,779	196,779	-
Other receivables	-	-	-	13,902	13,902	-
Deposits with banks	808,591	-	-	-	808,591	(4.5%-6. 5%)
Bank balances and cash	-	-	-	35,468	35,468	-
	808,591	8,030	-	300,012	1,116,633	

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

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

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

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

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

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

The Group's equity investments comprise securities quoted on the Stock Exchanges in United Arab Emirates.

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

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)

Credit risk

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

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

- The Group only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Group's exposure to bad debts.

- The Group seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.

- The Group's bank balances are maintained with a range of local banks in accordance with limits set by the board of directors.

- There are no significant concentrations of credit risk within the Group.

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

	Notes	*2010 AED'000*	*2009 AED'000*
Investment securities	6	**49,796**	61,893
Insurance receivables	7	**233,598**	196,779
Reinsurance assets		**580,592**	593,194
Cash and deposits with banks		**1,042,844**	844,059
TOTAL CREDIT RISK EXPOSURE		**1,906,830**	1,695,925

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

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

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)

Credit risk (continued)

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

31 December 2010	***Neither past due nor impaired***				
	Investment grade AED'000	***Non Investment grade (satisfactory) AED'000***	***Non investment grade (unsatisfactory) AED'000***	***Past due or impaired AED'000***	***Total AED'000***
Investment securities	**49,796**	**-**	**-**	**-**	**49,796**
Insurance receivables	**-**	**233,598**	**-**	**8,493**	**242,091**
Reinsurance assets	**-**	**580,592**	**-**	**-**	**580,592**
Cash and deposits with banks	**997,873**	**44,971**	**-**	**-**	**1,042,844**
	1,047,669	**859,161**	**-**	**8,493**	**1,915,323**
Less: impairment provision					**(8,493)**
					1,906,830

31 December 2009	*Neither past due nor impaired*				
	Investment grade AED'000	*Non Investment grade (satisfactory) AED'000*	*Non investment grade (unsatisfactory) AED'000*	*Past due or impaired AED'000*	*Total AED'000*
Investment securities	61,893	-	-	-	61,893
Insurance receivables	-	196,779	-	6,093	202,872
Reinsurance assets	-	593,194	-	-	593,194
Cash and deposits with banks	808,591	35,468	-	-	844,059
	870,484	825,441	-	6,093	1,702,018
Less: impairment provision					(6,093)
					1,695,925

20 B Financial risk (continued)

Credit risk (continued)

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

	Neither past due nor impaired AED'000	***Past due but not impaired*** *<120 days AED'000*	*120-180 days AED'000*	*>180 days AED'000*	*Total AED'000*	*Past due and impaired AED'000*	*Total AED'000*
31 December 2010	**35,486**	**85,296**	**15,244**	**18,586**	**154,612**	**(8,493)**	**146,119**
31 December 2009	24,202	88,924	12,902	20,772	146,800	(6,093)	140,707

The Group provides credit facility upto 120 days. For assets to be classified as 'past due and impaired' contractual payments in arrears are more than 120 days and an impairment adjustment is recorded in the statement of income for this. When the credit exposure is adequately secured, arrears more than 120 days might still be classified as 'past due but not impaired", with no impairment adjustment recorded.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its commitments associated with insurance contracts and financial liabilities as they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. The table in the following page summarises, in AED'000 the maturity of the assets and liabilities of the Group based on remaining undiscounted contractual obligations. As the Group does not have any interest bearing liabilities, the totals in the table match the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2010

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)

***Liquidity risk* (continued)**

	31 December 2010				31 December 2009			
	Less than one year	*More than one year*	*No term*	*Total*	*Less than one year*	*More than one year*	*No term*	*Total*
ASSETS								
Office equipment and vehicles	-	-	5,516	5,516	-	-	6,263	6,263
Investment property	-	-	127,802	127,802	-	-	127,802	127,802
Investment in securities	-	11,413	38,383	49,796	-	8,030	53,863	61,893
Investment in associated company	-	-	34,523	34,523	-	-	29,988	29,988
Insurance receivables	233,598	-	-	233,598	196,779	-	-	196,779
Prepayments and other receivables	15,042	-	-	15,042	13,902	-	-	13,902
Reinsurance assets	580,592	-	-	580,592	593,194	-	-	593,194
Cash and short term deposits	1,042,844	-	-	1,042,844	844,059	-	-	844,059
TOTAL ASSETS	1,872,076	11,413	206,224	2,089,713	1,647,934	8,030	217,916	1,873,880
EQUITY AND LIABILITIES								
Equity								
Share capital	-	-	300,000	300,000	-	-	300,000	300,000
Statutory reserve	-	-	75,000	75,000	-	-	75,000	75,000
Legal reserve	-	-	111,115	111,115	-	-	91,682	91,682
Exceptional loss reserve	-	-	80,055	80,055	-	-	67,157	67,157
General reserve	-	-	242,132	242,132	-	-	142,132	142,132
Retained earnings	-	-	514	514	-	-	150	150
Proposed dividends	60,000	-	-	60,000	60,000	-	-	60,000
Foreign currency translation reserve	-	-	(1,192)	(1,192)	-	-	334	334
Available for sale reserve	-	-	(1,136)	(1,136)	-	-	(977)	(977)
Non-Controlling interest	-	-	11,880	11,880	-	-	12,858	12,858
Total equity	60,000	-	818,368	878,368	60,000	-	688,336	748,336
Liabilities								
Insurance contracts liabilities	821,749	-	-	821,749	812,941	-	-	812,941
Insurance payables	187,112	-	-	187,112	138,650	-	-	138,650
Amounts held under reinsurance treaties	118,762	-	-	118,762	101,174	-	-	101,174
Other payables and accruals	74,746	-	8,976	83,722	64,097	-	8,682	72,779
Total liabilities	1,202,369	-	8,976	1,211,345	1,116,862	-	8,682	1,125,544
TOTAL EQUITY AND LIABILITIES	1,262,369	-	827,344	2,089,713	1,176,862	-	697,018	1,873,880

20 RISK MANAGEMENT (continued)

20 B Financial risk (continued)

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

The Group manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to shareholders or issue capital securities.

The Group fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its objectives, policies and processes from the previous year.

Operational risk
Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

21 CONTINGENCIES AND COMMITMENTS

a) Legal claims
The Group, in common with the majority of insurers, is subject to litigation in the normal course of its business. Based on independent legal advice, the management does not believe that the outcome of these court cases will have a material impact on the Group's income or financial condition.

b) Contingent liabilities
At 31 December 2010, guarantees, other than those relating to claims for which provisions are held, amounting to AED 4,042,760 (2009: AED 5,793,123) had been issued on behalf of the Group by its banker in the ordinary course of business.

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

	2010 *AED'000*	*2009* *AED'000*
Commitment for investments	**33,503**	33,894
Uncalled capital of subsidiary company	**19,710**	19,710
	53,213	53,604

d) Operating leases
The Group has entered into commercial property lease agreement on its investment property, consisting of the Group's land. The tenure of the lease agreement is for 11 years with an annual rent of AED 21,000,000. The lease agreement includes a clause in respect of the revision of the annual rental after every three years.

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

		Level 1	*Level 2*	*Level 3*	*Total fair value*
	Notes	*AED'000*	*AED'000*	*AED'000*	*AED'000*
31 December 2009					
Financial assets held-for-trading:					
Equity securities		6,011	-	-	6,011
Financial assets designated at fair value through profit or loss					
Equity securities		19,484	-	-	19,484
Available-for-sale financial assets:					
Equity securities		3,991	-		3,991
Debt securities		8,030	-	-	8,030
		37,516	-	-	**37,516**

22 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

31 December 2010

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

22 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Movements in level 3 financial instruments measured at fair value

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

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions
For equity securities, the Group does not have a material exposure as at 31 December 2010 and accordingly no sensitivity analysis has been done.

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

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

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