AL DHAFRA INSURANCE COMPANY P.S.C.

Reports and financial statements for the year ended 31 December 2008

AL DHAFRA INSURANCE COMPANY P.S.C.

Reports and financial statements for the year ended 31 December 2008

BOARD OF DIRECTORS

Chairman	**H.E. Sheikh Mohamed Bin Sultan Al Dhahiry**
Directors	**H.E. Saeed Bin Ahmed Ghobash**
	Mr. Hamad Bin Abdullah Al Shamsi
	Mr. Rashid Bin Mohamed Al Mazroi
	Mr. Saif Bin Mubarak Al Riamy
	Mr. Saleh Bin Rashid Al Dhahiry
	Mr. Sayah Bin Mohamed Mousa Al Qubeisy
	Mr. Obeid Bin Khalifa Al Jaber
	Mr. Yousef Bin Mohamad Ali Al Nowais
General Manager	**Mr. Kamal Sartawi**
Auditors	**Deloitte & Touche**

BOARD OF DIRECTORS (continued)

HEAD OFFICE

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AL AIN BRANCH

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THE BOARD OF DIRECTORS' 29TH ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

Dear Shareholders,

The Board of Directors have the pleasure to welcome you to the Ordinary General Assembly of the Company and present to you the Twenty Ninth Annual Report regarding the business activities and financial position of the Company during the year 2008 as well as the balance sheet and financial statements for the year ended 31 December 2008 along with the auditor's report.

The year 2008 has made its mark in the history for a series of international economic turmoil and disasters sending destructive impacts across the world economies without sparing any nations but at different levels of severity. Some of the most widely noted impacts were:

1. Subprime crisis in U.S.A and consequential collapse of some major international financial institutions at different economic sectors.

2. Some of the largest international financial establishments were forced to the verge of closure necessitating urgent interference by the Government of relevant Countries to bail them out from closure by offering rescue plans worth hundred of billions of dollars.

3. Collapse of securities markets all over the world.

4. Crude oil prices have fallen sharply by more than 75% from the peak position sending prices to a level below the 2004 prices.

5. Thousands of employees were made redundant, aggravating the unemployment problem even in industrially developed countries like U.S.A where about 2 millions workers lost their jobs during 2008, the highest unemployment rate since 1945.

The financial crisis at the international and regional level has made its negative impact in U.A.E. economy as well like other countries of the world, but all thanks to our wise leadership, which was pioneer in taking urgent and effective measures to support the financial sector by guaranteeing all deposits with the banks functioning in the country and injecting an amount of AED 120 Billion to the banking system which have contributed greatly in improving the liquidity in this vital sector of the economy to face the consequences of the crisis in our local economy.

Nevertheless, the expected impact on insurance companies working in the country shall be very negative with respect to the heavy investment of these companies in the stock market and in real estate sector which will result into substantial reduction in the investment income, erosion of assets and shareholders equity, thereby affecting the solvency margin particularly for those companies who have resorted to heavy financial assistance from banks and other financial institutions. On the other hand, the expected slow down in the percentage of project execution, which was noticed in the fourth quarter of 2008, will have its negative impact on premium income and future growth plans of insurance companies.

As to our Company's business operation during the year 2008, the figures mentioned in the financial statements and notes thereof reflect what has been achieved on both technical and financial levels.

- Increase of 10.9% in Gross Written Premium to AED 235.5 Million
- Increase of 21.9% in Net Underwriting income to AED 46.3 Million
- Increase of net operational profit by 28.4% to AED 27.6 Million
- Increase in technical, general and statutory reserves.

Gross and Net Insurance Premiums

The Gross Insurance Premium written by the Company during the year under review reached AED 235,468,686 against AED 212,395,595 achieved during the year 2007, recording an increase of 10.9%. This increase is appropriate as Management is following a policy of balanced growth aiming at healthy operational results and not mere increase in business volume.

The premiums retained by the Company for its own account during the year under review, reached AED 95,640,075 against an amount of AED 96,591,817, that is, a reduction of nearly 1%.

The premium retention percentage of the Company is 40.6% of total premiums which is considered as a technically satisfactory percentage in view of the structure of the Company's portfolio.

Gross Paid Claims

The gross claims paid by the Company to its customers during the year under report reached AED 101,299,112 against AED 92,418,190 paid last year showing an increase of 9.6%.

Technical Reserves

The Company always pays special attention to technical reserves since it is considered as one of the basic strength of the Company to honour its obligations under insurance contracts.

The technical reserves at the end of the year under review have reached AED 103,511,955 against AED 88,655,460 in the last year, showing an increase of 16.8%.

It may be noted that the technical reserves are now equal to 108.2% of the retained premiums.

THE BOARD OF DIRECTORS' 29TH ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

Figures related to different classes of Insurance

Gross written premium	2008 (AED)	2007 (AED)
Marine and Aviation Insurance	17,979,427	19,129,372
Fire and General Accidents Insurance	217,489,259	193,266,223
Total	**235,468,686**	212,395,595

Gross Paid Claims	2008 (AED)	2007 (AED)
Marine and Aviation Insurance	2,347,717	12,392,870
Fire and General Accidents Insurance	98,951,395	80,025,320
Total	**101,299,112**	92,418,190

Technical Reserves	2008 (AED)	2007 (AED)
Marine and Aviation Insurance	684,204	751,299
Fire and General Accidents Insurance	102,827,751	87,904,161
Total	**103,511,955**	88,655,460

Investments:

The total investments of the Company reduced to an amount of AED 156,204,031 at the end of the year 2008 from an amount of AED 203,920,280 at the end of the year 2007 showing a decrease of 23.4%.

The investment income decreased from an amount of AED 37,881,453 in the last year to AED 15,130,955 in this year, showing a decrease of 60.1%.

It is worth mentioning that most of the investments of the Company are within the U.A.E. and some investments are in G.C.C., in form of investment funds and government bonds. Company has no investments in U.S.A or in Europe and all available cash balances are deposited in banks within the U.A.E.

The Administrative and General Expenses:

The general and administrative expenses during the year under review reached an amount of AED 18,709,882 against an amount of AED 16,497,675 in the last year, that is, an increase of 13.4%.

Net Profit:

The net profits achieved by the Company from insurance and investment activities for the year under review is AED 42,778,076 against an amount of AED 59,619,542 achieved last year, that is, a decrease of 28.2%.

The substantial increase in technical profit has contributed greatly in reducing the impact of decline in investment income on the total profit of the Company as result of collapse of stock market and decrease in interest rates.

Company's Offices and Branches

New offices for the Company have been established inside Emirates of Abu Dhabi and it is expected that they shall contribute actively to the incomes of the year 2009.

Appropriation of Profit

The net profit of AED 42,778,076 achieved by the Company during the year together with the retained profit of AED 16,755,219 from the previous year amounted to a distributable income of AED 59,533,295.

We recommend appropriation of the above profit as follows:

Amount (AED)	Details of appropriation
2,339,186	To be transferred to Legal Reserve
5,000,000	To be transferred to General Reserve
37,500,000	To be distributed among shareholders as dividends.
2,000,000	Remuneration for the Chairman and members of the Board of Directors
12,694,109	To be carried forward to the subsequent year.

Based on the above appropriation, the total legal and general reserves at the end of the year under review will be:

AED	37,500,000	Legal Reserve
AED	140,000,000	General Reserve
AED	177,500,000	Total

It is worth mentioning here that the appropriation to legal reserve is less than 10% of the profit since the total legal reserve has reached the required 50% of the paid up capital of the Company.

Appropriation of Profit (continued)

The shareholders equity is reduced from an amount of AED 322,117,054 at the end of year 2007 to AED 186,042,811 at the end of the year 2008 showing a decrease of 42.2%. The decrease is attributable to the decline in the value of Company's investment portfolio in stock markets.

Total assets decreased by 11.9% from the amount of AED 661,452,378 at the end of 2007 to AED 582,770,507.

Plans for 2009

Notwithstanding the gloomy picture brought by the financial crisis world wide and its impact on the local market, we expect to maintain our same level of technical profitability achieved in the previous year by activation and promotion of existing branches of the Company and creation of new offices and sales centers within U.A.E. In addition, we expect growth in premium through on-line business already launched by the Company as our Computer system has been fully geared up to cater to the requirements of this very important and popular source of business in the present days.

Recommendations of the Board of Directors to the Shareholders

The Board of Directors is pleased to present the following recommendations to the Ordinary General Assembly of the Shareholders of the Company for their approval:

1. To approve the report of the Board of Directors.

2. To approve the Balance Sheet of the Company as at 31 December 2008 and the financial statements for the year ended on 31 December 2008.

3. To discharge the Chairman and Members of the Board of Directors and the external auditor from liabilities related to the performance of their duties during the year under review.

4. To consider the proposal of Board of Directors for the appropriation of the profit.

5. To appoint external auditors for the year 2009 or re-appoint the present external auditors and to determine their fees.

THE BOARD OF DIRECTORS' 29TH ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

Finally, the Board of Directors, Management and employees of the Company want to express their utmost respect and gratitude to H.H. Sheikh Khalifa Bin Zayed Al Nahyan, the President of the U.A.E.

The Board of Directors would also like to express its sincere thanks and gratitude to H.H. Sheikh Mohammed Bin Rashid Al Maktoum, Vice President of U.A.E and Ruler of Dubai, and to their Highnesses, the Rulers of other Emirates for their wise economic and social policy which intends to raise the standards of livings of the U.A.E. Nationals.

The Board of Directors also extends its deepest appreciation and gratitude to H.H. Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, for all the support and assistance received by national companies in general and insurance companies in particular, which helped them to achieve a leading role in the region.

The existence of mutual confidence between the Company and its customers on the one hand and between the Company and reinsurance companies, insurance companies and brokers on the other hand is the basic incentive for the Management to exert more efforts to promote the business and services of the Company to reach new heights with a balanced financial and technical policy which will protect the interest of the Company and its shareholders.

The Board of Directors would also like to praise the efforts of all those working in the Company who have exerted and still exerting all their efforts and time in order to serve the Company's interest and to improve its status and reputation.

On behalf of the Board of Directors:

AL DHAFRA INSURANCE CO. P.S.C. ABU DHABI

Chairman
10 February 2009

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Al Dhafra Insurance Company P.S.C.
Abu Dhabi, UAE

Report on the financial statements

We have audited the financial statements of Al Dhafra Insurance Company P.S.C. (the "Company"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Company, and the financial information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended), the UAE Federal Law No. (9) of 1984 (as amended) concerning Insurance Companies and Agents or the Articles of Association of the Company which might have a material effect on the financial position of the Company or on the results of its operations for the year.

Deloitte & Touche

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P.O.Box : 990
Deloitte & Touche

Saba Y. Sindaha
Registration Number 410
10 February 2009

Balance sheet
at 31 December 2008

	Notes	2008 AED	2007 AED
ASSETS			
Non-current assets			
Property and equipment	5	2,413,092	1,410,241
Investment properties	6	4,033,553	4,614,268
Intangible assets	7	503,715	418,152
Investments	8	147,209,678	189,289,012
Statutory deposit	9	6,000,000	4,500,000
Total non-current assets		160,160,038	200,231,673
Current assets			
Investments	8	4,960,800	10,017,000
Reinsurance contract assets	10	178,768,315	181,601,368
Trade and other receivables	12	53,787,117	37,940,435
Prepayments		1,562,291	1,466,249
Bank balances and cash	23	183,531,946	230,195,653
Total current assets		422,610,469	461,220,705
Total assets		582,770,507	661,452,378
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	13	75,000,000	75,000,000
Legal reserve	14	37,500,000	35,160,814
General reserve	15	140,000,000	135,000,000
Investment revaluation reserve		(116,651,298)	22,701,021
Retained earnings		50,194,109	54,255,219
Total shareholders' equity		186,042,811	322,117,054
Non-current liability			
End of service benefit	17	4,675,973	4,294,369
Current liabilities			
Insurance contract liabilities	10	282,280,270	270,256,828
Trade and other payables	18	109,771,453	64,784,127
Total current liabilities		392,051,723	335,040,955
Total liabilities		396,727,696	339,335,324
Total equity and liabilities		582,770,507	661,452,378

AL DHAFRA INSURANCE CO. P.S.C. ABU DHABI

.... **Chairman**

.... **Director**

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

Income statement
for the year ended 31 December 2008

	Notes	2008 AED	2007 AED
Gross written premium		**235,468,686**	212,395,595
Change in unearned premium deferred		**(10,608,926)**	(10,957,163)
Insurance premium revenue		**224,859,760**	201,438,432
Reinsurance premium ceded		**(139,828,611)**	(115,803,778)
Change in reinsurance portion of unearned premium		**11,557,727**	(2,658,371)
Net reinsurance premium ceded		**(128,270,884)**	(118,462,149)
Net insurance premium revenue		**96,588,876**	82,976,283
Gross claims incurred		**(101,299,112)**	(92,418,190)
Change in outstanding claims provision		**(1,414,516)**	(23,252,106)
Net claims incurred		**(102,713,628)**	(115,670,296)
Reinsurance share of claims incurred		**45,761,015**	40,454,078
Change in reinsurance share of outstanding claims		**(14,390,780)**	22,015,226
Reinsurance share of claims incurred		**31,370,235**	62,469,304
Net claims incurred		**(71,343,393)**	(53,200,992)
Gross commission earned		**37,365,196**	20,471,706
Less: commission incurred		**(16,253,676)**	(12,208,960)
Net commission earned		**21,111,520**	8,262,746
Net underwriting income		**46,357,003**	38,038,037
Administrative expenses		**(18,071,339)**	(15,803,634)
Other operating expenses		**(638,543)**	(694,041)
Net investment and other income	19	**15,130,955**	37,881,453
Settlement from BCCI	20	**-**	197,727
Net profit for the year	21	**42,778,076**	59,619,542
Earnings per ordinary share	22	**0.57**	0.79

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

Statement of changes in equity
for the year ended 31 December 2008

	Share capital AED	Legal reserve AED	General reserve AED	Investment revaluation reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2007	**75,000,000**	**29,198,860**	**125,000,000**	**(5,529,444)**	**49,097,631**	**272,767,047**
Net profit for the year	-	-	-	-	59,619,542	59,619,542
Transfer to general reserve	-	-	10,000,000	-	(10,000,000)	-
Transfer to legal reserve	-	5,961,954	-	-	(5,961,954)	-
Dividends paid	-	-	-	-	(37,500,000)	(37,500,000)
Directors' remuneration	-	-	-	-	(1,000,000)	(1,000,000)
Increase in fair value of available for sale investments	-	-	-	19,781,520	-	19,781,520
Released on disposal of available for sale investments	-	-	-	8,448,945	-	8,448,945
Balance at 1 January 2008	**75,000,000**	**35,160,814**	**135,000,000**	**22,701,021**	**54,255,219**	**322,117,054**
Net profit for the year	-	-	-	-	42,778,076	42,778,076
Transfer to general reserve	-	-	5,000,000	-	(5,000,000)	-
Transfer to legal reserve	-	2,339,186	-	-	(2,339,186)	-
Dividends paid (note 16)	-	-	-	-	(37,500,000)	(37,500,000)
Directors' remuneration	-	-	-	-	(2,000,000)	(2,000,000)
Decrease in fair value of available for sale investments	-	-	-	(137,350,836)	-	(137,350,836)
Released on disposal of available for sale investments	-	-	-	(2,001,483)	-	(2,001,483)
Balance at 31 December 2008	**75,000,000**	**37,500,000**	**140,000,000**	**(116,651,298)**	**50,194,109**	**186,042,811**

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

Statement of cash flows
for the year ended 31 December 2008

	2008 AED	2007 AED
Operating activities		
Net profit for the year	**42,778,076**	59,619,542
Adjustments for:		
Reinsurance contract assets	**2,833,053**	(19,356,855)
Insurance contract liabilities	**12,023,442**	34,209,269
Depreciation of property and equipment	**662,091**	440,828
Amortisation of intangible assets	**112,213**	90,911
Investment income	**(14,224,826)**	(37,564,088)
Loss/(gain) on disposal of property and equipment	**(61,208)**	84,915
Provision for end of service benefits	**541,892**	967,681
Operating activities before movements in working capital	**44,664,733**	38,492,203
Increase in trade and other receivables	**(15,435,265)**	(8,399,585)
Increase in prepayments	**(96,042)**	(328,710)
Increase in trade and other payables	**42,987,326**	14,674,896
Cash from operating activities	**72,120,752**	44,438,804
End of service benefits paid	**(160,288)**	(1,462,076)
Net cash from operating activities	**71,960,464**	42,976,728
Investing activities		
Proceeds from disposal of available for sale investments	**142,680,500**	200,547,054
Proceeds from disposal of held for trading investments	**-**	18,042,458
Proceeds from disposal of held to maturity investments	**10,017,000**	15,309,000
Interest received	**7,235,387**	11,639,881
Dividends received	**2,437,347**	4,009,373
Net rental income received gross of depreciation on investment properties	**2,756,854**	2,781,043
Proceeds from disposal of property and equipment	**115,720**	9,030
Purchase of available for sale investments	**(219,438,244)**	(204,544,289)
Purchase of held for trading investments	**-**	(5,820,213)
Purchase of held to maturity investments	**(22,860,000)**	-
Purchase of property and equipment	**(1,719,454)**	(1,025,741)
Purchase of intangible assets	**(197,776)**	(186,460)
Payment of investment expenses	**(651,505)**	(250,000)
Movement in bank deposits with a maturity at the balance sheet date of greater than three months	**(68,568,011)**	78,771,218
Increase in statutory deposits	**(1,500,000)**	-
Net cash (used in)/from investing activities	**(149,692,182)**	119,282,354
Financing activities		
Dividends paid	**(37,500,000)**	(37,500,000)
(Decrease)/increase in cash and cash equivalents	**(115,231,718)**	124,759,082
Cash and cash equivalents at the beginning of the year	**205,725,448**	80,966,366
Cash and cash equivalents at the end of year (note 23)	**90,493,730**	205,725,448

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

Notes to the financial statements
for the year ended 31 December 2008

1 General

Al Dhafra Insurance Company P.S.C. is a public shareholding company incorporated in Abu Dhabi by Emiri Decree No. 8 of 1979.

The Company is domiciled in the United Arab Emirates and its registered office address is PO Box 319, Abu Dhabi.

The Company's ordinary shares are listed on the Abu Dhabi Securities Exchange.

The Company is engaged in insurance and reinsurance of all classes of business with the exception of endowments and annuities.

2 Adoption of new and revised standards

Three interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) effective for the current period are as follows:

- IFRIC 11 *IFRS 2: Group and Treasury Share Transactions*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 14 *IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their interaction.*

The adoption of these Interpretations has not led to any changes in the Company's accounting policies.

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

New Standards and Amendments to Standards:

• IAS 1 (Revised) *Presentation of Financial Statements*	Effective for annual periods beginning on or after 1 January 2009
• IAS 1 (Revised) *Presentation of Financial Statements* and IAS 32 (Revised) *Financial Instruments: Presentation – Amendments relating to puttable instruments and obligations arising on liquidation*	Effective for annual periods beginning on or after 1 January 2009
• IAS 23 (Revised) *Borrowing Costs*	Effective for annual periods beginning on or after 1 January 2009
• IAS 39 (Revised) *Financial Instruments: Recognition and Measurement- Amendments for eligible hedged Items*	Effective for annual periods beginning on or after 1 July 2009

Notes to the financial statements
for the year ended 31 December 2008 (continued)

2 Adoption of new and revised standards (continued)

2.2 Standards and interpretations in issue not yet adopted (continued)

New Standards and Amendments to Standards (continued):

• IFRS 1 (Revised) *First time Adoption of IFRS* and IAS 27 (Revised) *Consolidated and Separate Financial Statements – Amendment relating to cost of an investment on first time adoption*	Effective for annual periods beginning on or after 1 January 2009
• IFRS 2 (Revised) *Share-based payment: Amendment relating to vesting conditions and cancellations*	Effective for annual periods beginning on or after 1 January 2009
• IFRS 3 (Revised) *Business Combinations: Comprehensive revision on applying the acquisition method and consequential amendments to* IAS 27 (Revised) *Consolidated and Separate Financial Statements,* IAS 28 (Revised) *Investments in Associates* and IAS 31 (Revised) *Interests in Joint Ventures*	Effective for annual periods beginning on or after 1 July 2009
• IFRS 8 *Operating Segments*	Effective for annual periods beginning on or after 1 January 2009
• Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 *resulting from the May and October 2008 Annual Improvements to IFRSs*	Effective for annual periods beginning on or after 1 January 2009

New Interpretations:

• IFRIC 13 *Customer Loyalty Programmes*	Effective for annual periods beginning on or after July 1, 2008
• IFRIC 15 *Agreements for the Construction of Real Estate*	Effective for annual periods beginning on or after January 1, 2009
• IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	Effective for annual periods beginning on or after October 1, 2008
• IFRIC 17 *Distributions of Non-cash Assets to Owners*	Effective for annual periods beginning on or after July 1, 2009

The directors anticipate the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company in the period of initial application.

3 Summary of significant accounting policies (continued)

3.1 Statement of compliance

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

3.2 Basis of preparation

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

3.3 Insurance contracts

Definition

The Company issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrance of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Recognition and measurement

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

These contracts are casualty and property insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

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

For all these insurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability.

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

Notes to the financial statements
for the year ended 31 December 2008 (continued)

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Company reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the statement of income.

Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the balance sheet date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the balance sheet date. This provision is calculated at 40% of the annual premiums written for all insurance classes except motor and marine which are calculated at 45% and 25%, respectively, as required by UAE. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents.

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

Deferred policy acquisition costs

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

Salvage and subrogation reimbursements

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

Liability adequacy test

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

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Receivables and payables related to insurance contracts

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in income statement.

3.4 Revenue recognition

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

Commission income and expenses

Commission income is recognised when re-insurance is entered into and commission expenses are recognised when the policies are issued based on the terms and percentages agreed with other insurance companies and/or brokers.

Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease and is stated net of related depreciation and other expenses.

Interest income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable. For held to maturity securities which have variable rates of return, the minimum guaranteed return is recognised in the income statement using the effective interest rate method. Returns in excess of the minimum guaranteed return, if any, are recognised on maturity.

Dividend income

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

3 Summary of significant accounting policies (continued)

3.5 Foreign currencies

For the purpose of these financial statements UAE Dirhams (AED) is the functional and the presentation currency of the Company.

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in income statement in the period in which they arise.

3.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the statement of income during the financial period in which they are incurred.

Depreciation is calculated so as to write off the cost of property and equipment on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Furniture and fittings	25
Motor vehicles	33.33
Computer equipment and accessories	20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

3 Summary of significant accounting policies (continued)

3.7 Capital work in progress

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate property and equipment and intangible asset category and is depreciated in accordance with the Company's policies.

3.8 Investment properties

Investment properties which are properties held to earn rentals and/or for capital appreciation, are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated so as to write off the cost of investment properties on a straight line basis over the expected useful economic lives of the properties concerned.

The useful lives of investment properties range from 12 to 25 years.

3.9 Intangible assets

Intangible assets represent computer software. The cost of computer software is its purchase cost, together with any incidental expenses of acquisition. The amortisation charge is calculated so as to write off the cost of the software on a straight line basis over the expected useful economic life of 6 years. The estimated useful lives are reviewed at the end of each annual reporting period with the effect of any changes in estimation accounted for on a prospective basis.

3.10 Impairment of non-financial assets

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

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

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

3 Summary of significant accounting policies (continued)

3.10 Impairment of non-financial assets (continued)

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

3.11 Provisions

Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.12 Employee benefits

Accrual is made for the full amount of end of service benefits due to non-UAE national employees in accordance with UAE Labour Law, for their period of service up to the balance sheet date.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security. Such contributions are charged to the statement of income during the employees' period of service.

3.13 Financial assets

The Company has the following financial assets: 'cash and cash equivalents', 'loans and receivables' 'available for sale' (AFS) investments, 'held to maturity investments', and financial assets at fair value through profit or loss (FVTPL). The classification depends on the nature and of the financial asset and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

Insurance receivables

Insurance receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short- term receivables when the recognition of interest would be immaterial.

AFS investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

AFS investments are measured at subsequent reporting dates at fair value unless the latter cannot be reliably measured. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are included in the income statement for the period. Impairment losses recognised in income statement for equity investments classified as AFS are not subsequently reversed through income statement.

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

Dividends on AFS equity instruments are recognised in income statement when the Company's right to receive the dividends is established.

Held to maturity investments

Commercial papers and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Notes to the financial statements for the year ended 31 December 2008 (continued)

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unquoted shares classified as AFS at cost, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

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

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

Impairment of financial assets (continued)

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

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

3.14 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Insurance payables

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Notes to the financial statements for the year ended 31 December 2008 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial liabilities and equity instruments (continued)

Derecognition of financial liabilities

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

3.15 Dividend distribution

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

3.16 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 returns that are different from those of segments operating in other economic environments.

4 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 3, management of the Company has made certain judgements, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The significant judgements and estimate made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

4.1 Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as FVTPL, AFS or held to maturity investments. In judging whether investments in securities are FVTPL, AFS or held to maturity, management has considered the detailed criteria for determination of such classification as set out IAS 39 *Financial Instruments: Recognition and Measurement*. Management is satisfied that its investments in securities are appropriately classified.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

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

4.2 Valuation of unquoted equity investments

Valuation of unquoted AFS equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models. In the absence an active market for these investments or any recent transactions that could provide evidence of the current fair value, these investments are carried at cost less recognised impairment losses, if any. Management believes that the carrying values of these unquoted equity investments are not materially different from their fair values.

4.3 Impairment of AFS investments

Management regularly reviews indicators of impairment for AFS investments and considers whether there has been a significant or prolonged decline in their fair value below cost. This determination of what is significant or prolonged decline requires judgement. In making this judgement and to decide if an impairment loss adjustment is necessary, the Management evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows and pay out dividend capability of the investee. In assessing the volatility in the share price, the Management also takes into consideration various aspects related to the market, including but not limited to, volume of trading over the past period, whether the listed price is a reflection of a distressed value driven by inactive or illiquid one way market, and the subsequent performance of the market after the balance sheet date. Management also considers its intent and ability to hold the investment until its market price recovers. Impairment of AFS investments at 31 December 2008 is AED 12,500,000 (31 December 2007: AED nil).

4.4 Impairment of amounts due from policy holders

An estimate of the collectible amounts from policy holders is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired entails the Management's evaluation of the specific credit and liquidity position of the policy holders and their historical recovery rates including detailed investigations carried out during 2008 and feedback received from the legal department. Impairment of amounts due from policy holders at 31 December 2008 is AED 5,490,449 (2007: AED 5,788,030).

Notes to the financial statements
for the year ended 31 December 2008 (continued)

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

4.5 The ultimate liability arising from claims made under insurance contracts

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

4.6 Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Company makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of the liability. Any deficiency is immediately charged to the income statement.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

5 Property and equipment

	Furniture and fittings AED	Motor vehicles AED	Computer equipment and accessories AED	Capital work in progress AED	Total AED
Cost					
1 January 2007	**1,886,267**	**597,000**	**849,822**	-	**3,333,089**
Additions	527,932	10,250	156,856	330,703	1,025,741
Disposals	(372,408)	(133,000)	-	-	(505,408)
1 January 2008	**2,041,791**	**474,250**	**1,006,678**	**330,703**	**3,853,422**
Additions	534,234	411,600	134,326	639,294	1,719,454
Disposals	(395,204)	(205,250)	(38,382)	-	(638,836)
Transfer	386,134	-	-	(386,134)	-
31 December 2008	**2,566,955**	**680,600**	**1,102,622**	**583,863**	**4,934,040**
Accumulated depreciation					
1 January 2007	**1,397,445**	**569,346**	**447,025**	-	**2,413,816**
Charge for the year	283,916	13,617	143,295	-	440,828
Disposals	(278,463)	(133,000)	-	-	(411,463)
1 January 2008	**1,402,898**	**449,963**	**590,320**	-	**2,443,181**
Charge for the year	476,932	23,534	161,625	-	662,091
Disposals	(350,657)	(195,285)	(38,382)	-	(584,324)
31 December 2008	**1,529,173**	**278,212**	**713,563**	-	**2,520,948**
Carrying amount					
31 December 2008	**1,037,782**	**402,388**	**389,059**	**583,863**	**2,413,092**
31 December 2007	638,893	24,287	416,358	330,703	1,410,241

Capital work in progress represents the costs incurred in the renovation of the office premises. All property and equipment are located in the UAE.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

6 Investment properties

	Abu Dhabi building AED	Al Ain building AED	Total AED
Cost			
1 January 2007			
and 31 December 2008	**17,260,287**	**3,132,716**	**20,393,003**
Accumulated depreciation			
1 January 2007	**13,122,937**	**2,075,083**	**15,198,020**
Charge for the year	484,566	96,149	580,715
1 January 2008	**13,607,503**	**2,171,232**	**15,778,735**
Charge for the year	484,567	96,148	580,715
31 December 2008	**14,092,070**	**2,267,380**	**16,359,450**
Carrying amount			
31 December 2008	**3,168,217**	**865,336**	**4,033,553**
31 December 2007	3,652,784	961,484	4,614,268

Investment properties comprise of the following properties:

(a) Abu Dhabi Head Office Building

The construction of this building was completed during 1992. The Company occupies three floors of the building for its Head Office with the remaining fourteen floors available for letting to third parties. The fair value of this building based on an open market valuation carried out by Malcolm Gaskill, Dubai, Loss Adjusters and Surveyors was estimated to be AED 20,500,000 in their report dated 24 November 2008. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

(b) Al Ain Building

The construction of this building was completed in 1993. The Company is utilizing the first and mezzanine floors for housing its Al Ain Branch office with the remaining space available for letting to third parties. The fair value of this building based on an open market valuation carried out by Malcolm Gaskill, Dubai, Loss Adjusters and Surveyors in their report was estimated to be AED 3,500,000 dated 24 November 2008. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

6 Investment properties (continued)

The plots of land in Abu Dhabi and Al Ain on which investment properties are constructed were awarded to the Company free of cost by the Executive Council of the Government of Abu Dhabi on 21 June 1981 and 27 August 1983, respectively.

The property rental income earned by the Company from its investment properties amounted to AED 3,470,294 (2007 - AED 3,372,094). Direct operating expenses arising on the investment properties in 2008 amounted to AED 1,294,155 (2007 - AED 1,171,766).

7 Intangible assets

	Computer software AED
Cost	
1 January 2007 and 2008	**1,682,531**
Additions	197,776
Write-off	(80,000)
31 December 2008	**1,800,307**
Accumulated amortisation	
1 January 2007	**1,173,468**
Charge for the year	90,911
1 January 2008	**1,264,379**
Charge for the year	112,213
Write-off	(80,000)
31 December 2008	**1,296,592**
Carrying amount	
31 December 2008	**503,715**
31 December 2007	418,152

Notes to the financial statements
for the year ended 31 December 2008 (continued)

8 Investments

	2008 AED	2007 AED
Available for sale investments:		
Quoted UAE securities	**54,603,570**	153,885,427
Unquoted UAE securities	**2,500,000**	2,500,000
Investment funds	**50,623,108**	11,319,785
	107,726,678	167,705,212
Held to maturity investments:		
Bank deposit	**1,836,000**	1,836,000
Investment funds	**22,860,000**	-
Development bonds	**19,747,800**	29,764,800
	44,443,800	31,600,800
Total investments	**152,170,478**	199,306,012

Investments are classified as follows:

	2008 AED	2007 AED
Held to maturity investment maturing within 12 months from balance sheet	**4,960,800**	10,017,000
Investments - current portion	**4,960,800**	10,017,000
Investments - non current portion	**147,209,678**	189,289,012
Total investments	**152,170,478**	199,306,012

The geographical distribution of investments is as follows:

	2008 AED	2007 AED
Within UAE	**97,159,143**	169,541,212
Outside UAE	**55,011,335**	29,764,800
	152,170,478	199,306,012

Notes to the financial statements
for the year ended 31 December 2008 (continued)

8 Investments (continued)

As at 31 December 2008, available for sale investment in unquoted UAE securities represent the Company's equity interest in Emirates Industrial Bank that is carried at cost, which in the Directors' opinion, approximates its fair value at the balance sheet date.

Investment funds included in available for sale comprise various mutual funds in the UAE and Kuwait

Bank deposit represents non-callable long term deposit which is due to mature in April 2012. The effective rate of interest ranges from 1.95% to 4.4% per annum.

Investment funds included in held for maturity comprise a fixed investment of AED 4.5 million with returns dependent on price of stocks based on underlying index on various observation dates. The redemption is in June 2010. Capital is guaranteed on maturity and has a minimum target return of 1.2%. Also included in held to maturity investment funds, is a three-year investment of US$ 5 million in Arabian Real Estate Fund, which has a minimum target return of 8% per annum.

Development bonds held to maturity comprise Central Bank of Oman development bonds denominated in Omani Riyals. The maturity ranges between 1 to 2 years from the balance sheet date and the effective rate of interest ranges from 4% to 5%.

The movement in investments is as follows:

	2008 AED	2007 AED
Held for trading investments		
Fair value at 1 January	-	11,482,719
Purchased during the year	-	5,820,213
Proceeds from disposal	-	(18,042,458)
Gain on disposal (note 19)	-	1,993,813
Net decrease in fair value (note 19)	-	(1,254,287)
Fair value at 31 December	-	-
Available for sale investments		
Fair value at 1 January	**167,705,212**	116,485,136
Purchased during the year	**219,438,244**	204,544,289
Proceeds from disposal	**(142,680,500)**	(200,547,054)
Gain on disposal (note 19)	**15,116,041**	18,992,376
Impairment of available for sale investment funds (note 19)	**(12,500,000)**	-
Net movement in fair value adjustment	**(139,352,319)**	28,230,465
Fair value at 31 December	**107,726,678**	167,705,212

Notes to the financial statements for the year ended 31 December 2008 (continued)

8 Investments (continued)

	2008 AED	2007 AED
Held to maturity investments		
Cost at 1 January	**31,600,800**	46,909,800
Purchases during the year	**22,860,000**	-
Proceeds from maturity	**(10,017,000)**	(15,309,000)
Cost at 31 December	**44,443,800**	31,600,800

9 Statutory deposit

In accordance with the requirements of Federal Law No. 9 of 1984 (as amended), covering insurance companies and agencies, the Company maintains a bank deposit of AED 6,000,000 (2007 - AED 4,500,000) which cannot be utilised without the consent of the UAE Ministry of Economy.

10 Insurance contract liabilities and reinsurance contract assets

	2008 AED	2007 AED
Insurance liabilities		
- Reported claims	**176,686,640**	170,046,277
- Claims incurred but not reported	**7,885,174**	13,111,021
- Unearned premiums	**97,708,456**	87,099,530
	282,280,270	270,256,828
Recoverable from reinsurers		
- Reported claims	**120,482,090**	128,621,708
- Claims incurred but not reported	**3,954,468**	10,205,630
- Unearned premiums	**54,331,757**	42,774,030
	178,768,315	181,601,368
Insurance liabilities – Net		
- Reported claims	**56,204,550**	41,424,569
- Claims incurred but not reported	**3,930,706**	2,905,391
- Unearned premiums	**43,376,699**	44,325,500
	103,511,955	88,655,460

Notes to the financial statements
for the year ended 31 December 2008 (continued)

10 Insurance contract liabilities and reinsurance contract assets (continued)

Movement in the insurance contract liabilities and reinsurance contract assets during the year is as follows:

	Year ended 31 December 2008			Year ended 31 December 2007		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	AED	AED	AED	AED	AED	AED
CLAIMS						
Notified claims	**170,046,277**	**128,621,708**	**41,424,569**	152,110,648	111,386,412	40,724,236
Incurred but not reported	**13,111,021**	**10,205,630**	**2,905,391**	7,794,544	5,425,700	2,368,844
Total at 1 January	**183,157,298**	**138,827,338**	**44,329,960**	159,905,192	116,812,112	43,093,080
Claims settled	**(101,299,112)**	**(45,761,015)**	**(55,538,097)**	(92,418,190)	(40,454,078)	(51,964,112)
Increase in liabilities	**102,713,628**	**31,370,235**	**71,343,393**	115,670,296	62,469,304	53,200,992
Total at 31 December	**184,571,814**	**124,436,558**	**60,135,256**	183,157,298	138,827,338	44,329,960
Notified claims	**176,686,640**	**120,482,090**	**56,204,550**	170,046,277	128,621,708	41,424,569
Incurred but not reported	**7,885,174**	**3,954,468**	**3,930,706**	13,111,021	10,205,630	2,905,391
Total at 31 December	**184,571,814**	**124,436,558**	**60,135,256**	183,157,298	138,827,338	44,329,960
UNEARNED PREMIUM						
Total at 1 January	**87,099,530**	**42,774,030**	**44,325,500**	76,142,367	45,432,401	30,709,966
Increase during the year	**97,708,456**	**54,331,757**	**43,376,699**	87,099,530	42,774,030	44,325,500
Release during the year	**(87,099,530)**	**(42,774,030)**	**(44,325,500)**	(76,142,367)	(45,432,401)	(30,709,966)
Net increase during the year	**10,608,926**	**11,557,727**	**(948,801)**	10,957,163	(2,658,371)	13,615,534
Total at 31 December	**97,708,456**	**54,331,757**	**43,376,699**	87,099,530	42,774,030	44,325,500

Notes to the financial statements
for the year ended 31 December 2008 (continued)

11 Related parties

Related parties comprise the directors of the Company and those entities in which they have the ability to control or exercise significant influence in financial and operational decisions. The Company maintains significant balances with these related parties which arise from commercial transactions as follows:

	2008 AED	2007 AED
Premiums written	**14,959,559**	15,371,088
Claims paid	**3,654,895**	1,660,044
Directors' remuneration	**2,000,000**	1,000,000
Remuneration of key management	**4,730,243**	4,103,371

The remuneration of Directors is accrued and paid as an appropriation out of the profits of the year in accordance with the Federal Law No. 8 applicable to Commercial Companies operating in UAE.

The remuneration of key management personnel is based on the remuneration agreed in their employment contracts as approved by the Board of Directors and as per limits set by the Commercial Companies Law No. 8 of 1984, as amended.

12 Trade and other receivables

	2008 AED	2007 AED
Due from external policy holders	**34,326,154**	27,264,387
Due from related party policy holders (note 11)	**11,291,916**	10,035,002
Less: allowance for doubtful debts	**(5,490,449)**	(5,788,030)
Net due from policy holders	**40,127,621**	31,511,359
Due from insurance companies	**10,561,254**	637,158
Due from reinsurance companies	**203,584**	2,884,576
Interest receivable	**2,418,015**	2,006,598
Other receivables	**476,643**	900,744
	53,787,117	37,940,435

Notes to the financial statements
for the year ended 31 December 2008 (continued)

12 Trade and other receivables (continued)

The average credit period on insurance contracts is 90 to 180 days. No interest is charged and no collateral is taken on trade and other receivables.

The Company has adopted a policy of only dealing with creditworthy counterparties. Adequate credit assessment is made before accepting an insurance contract from any counterparty. At the end of year, AED 10,205,610 (2007: AED 9,054,338) is due from the Company's largest policy holder. The Company considers this customer to be reputable and creditworthy. There are 3,063 (2007: 2,019) other customers who represent more than 70% (2007:67%) of the total amounts due from policyholders.

Included in the Company's total due from policy holders are balances amounting to AED 15,969,794 (2007: AED 19,284,982) which are past due at the reporting date for which no allowance has been provided for, as there was no significant change in credit quality of these policy holders and the amounts are still considered recoverable.

<u>Ageing of trade receivables</u>

	2008 **AED**	2007 AED
Not past due	**24,157,827**	12,226,377
Past due but not impaired		
181 to 365 days	**15,969,794**	19,284,982
Past due and impaired		
181 to 365 days	**351,260**	793,636
More than 1 year but less than 2 years	**845,339**	540,427
More than 2 years but less than 3 years	**192,323**	450,472
More than 3 years	**4,101,527**	4,003,495
	5,490,449	5,788,030
Total due from policy holders	**45,618,070**	37,299,389

Notes to the financial statements
for the year ended 31 December 2008 (continued)

12 Trade and other receivables (continued)

Movement in the allowance for doubtful debts:

	2008 AED '000	2007 AED '000
Balance at beginning of the year	**5,788,030**	5,768,521
Impairment losses recognized on receivables	**227,662**	181,762
Amounts written off as uncollectible	**(25,683)**	(11,895)
Amounts recovered during the year	**(499,560)**	(150,358)
Balance at end of the year	**5,490,449**	5,788,030

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

13 Share capital

	2008 AED	2007 AED
Authorised:		
75,000,000 ordinary shares of AED 1 each	**75,000,000**	75,000,000
Issued and fully paid:		
75,000,000 ordinary shares of AED 1 each)	**75,000,000**	75,000,000

14 Legal reserve

In accordance with the UAE Federal Law number (8) of 1984 (as amended) concerning Commercial Companies and the Company's Articles of Association, 10% of net profit is to be transferred to a non-distributable legal reserve until the balance of the legal reserve equals 50% of the Company's paid up share capital which was achieved in 2008. This reserve is not available for dividend distribution.

15 General reserve

Transfers to and from the general reserve are made at the discretion of the Board of Directors and approved by the shareholders. This reserve may be used for such purposes as they deem fit.

16 Proposed dividends

For the year ended 31 December 2008, the Board of Directors have proposed a cash dividend of AED 37,500,000 representing 50% of the paid up capital. The cash dividend payable in 2009 is subject to approval by the Shareholders at the Annual General Meeting.

Dividends for the year ended 31 December 2007 amounting to AED 37,500,000, representing 50% of the paid up capital, were approved by the Shareholders at the Annual General Meeting held on 10 March 2008.

17 Provision for end of service benefit

	2008 AED	2007 AED
Balance at the beginning of the year	**4,294,369**	4,788,764
Charge for the year	**541,892**	967,681
Paid during the year	**(160,288)**	(1,462,076)
Balance at the end of the year	**4,675,973**	4,294,369

18 Trade and other payables

	2008 AED	2007 AED
Due to policy holders	**6,381,628**	8,919,479
Due to insurance companies	**7,464,996**	2,324,114
Due to reinsurance companies	**45,443,510**	19,564,204
Premium reserve withheld	**24,269,826**	11,378,620
Commissions payable	**17,500,000**	17,500,000
Deferred income	**1,253,300**	1,405,346
Directors' remuneration payable (note 11)	**2,000,000**	1,000,000
Other payables	**5,458,193**	2,692,364
	109,771,453	64,784,127

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

Notes to the financial statements
for the year ended 31 December 2008 (continued)

19 Net investment and other income

	2008 AED AED	2007 AED AED
Net interest income on:		
Bank deposits	**6,473,682**	10,101,353
Held to maturity investments	**1,173,122**	1,771,132
	7,646,804	11,872,485
Net dividend income on:		
Available for sale investments	**2,437,347**	3,507,391
Held for trading investments	**-**	501,982
	2,437,347	4,009,373
Gain on disposal of available for sale investments	**15,116,041**	18,992,376
Gain on disposal of held for trading investments	**-**	1,993,813
Loss on revaluation of held for trading investments	**-**	(1,254,287)
Impairment of available for sale investment funds	**(12,500,000)**	-
Investment expenses	**(651,505)**	(250,000)
Net rental income	**2,176,139**	2,200,328
Other income	**844,921**	402,280
Gain/(loss) on disposal of property and equipment	**61,208**	(84,915)
	15,130,955	37,881,453

20 Settlement from BCCI

An allowance of AED 6,431,730 representing 100% of the nominal value of the term deposits was established as at the end of 1994 against BCCI deposits. During the year, the Company received a further disbursement of AED nil (2007 – AED 197,727) from the BCCI Liquidators. Cumulative settlements received to date amount to AED 5,492,002.

**Notes to the financial statements
for the year ended 31 December 2008 (continued)**

21 Net profit for the year

Net profit for the year is stated after charging:

	2008 AED	2007 AED
Staff costs	**13,800,468**	11,202,729
Depreciation of property and equipment and investment properties	**1,242,806**	1,021,543
Amortisation of intangible assets	**112,213**	90,911
Foreign exchange loss	**229,989**	73,036

22 Earnings per ordinary share

Earnings per ordinary share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2008 AED	2007 AED
Net profit for the year	**42,778,076**	59,619,542
Ordinary shares in issue throughout the year	**75,000,000**	75,000,000
Basic earnings per share	**0.57**	0.79

As of 31 December 2008, the Company has not issued any instruments which would have an impact on earnings per share when exercised.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

23 Cash and cash equivalents

Cash and cash equivalents at the end of the year as shown in the statement of cash flows can be reconciled to the related items in the balance sheet as follows:

	2008 AED	2007 AED
Cash on hand	**23,250**	21,750
Call accounts	**12,122,015**	13,906,078
Term deposits	**171,386,681**	216,267,825
Bank balances and cash	**183,531,946**	230,195,653
Less: Deposits with maturities at the balance sheet date of greater than three months	**(93,038,216)**	(24,470,205)
	90,493,730	205,725,448

The interest rate on fixed deposits and call accounts with banks ranges between 2.5% and 7.55% (2007: 4.13% and 5.70%) per annum. All bank deposits are placed with local banks.

24 Segment information

Primary segment information

The Company is organised into two main business segments:

Underwriting of general insurance business – incorporating all classes of general insurance including fire, marine, motor, general accident and miscellaneous.

Investments – incorporating investments in UAE marketable equity securities and investment funds, development bonds, term deposits with banks, investment properties and other securities.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

24 Segment information (continued)

Primary segment information (continued)

	2008 Underwriting AED	2008 Investments AED	2008 Total AED	2007 Underwriting AED	2007 Investments AED	2007 Total AED
Segment revenue	**272,833,882**	**29,041,739**	**301,875,621**	232,867,301	39,145,984	272,013,285
Segment result	**27,647,121**	**14,224,826**	**41,871,947**	21,738,089	37,564,088	59,302,177
Unallocated revenue			**906,129**			317,365
Net profit for the year			**42,778,076**			59,619,542
Segment assets	**237,034,530**	**333,590,712**	**570,625,242**	222,836,445	424,688,105	647,524,550
Unallocated assets			**12,145,265**			13,927,828
Total assets			**582,770,507**			661,452,378
Segment liabilities	**390,315,876**	**1,264,762**	**391,580,638**	335,070,605	1,416,809	336,487,414
Unallocated liabilities			**5,147,058**			2,847,910
Total liabilities			**396,727,696**			339,335,324

There were no transactions between the business segments.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

24 Segment information (continued)

Secondary segment information

The Company's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe. All the investments of the Company are held in the UAE and other GCC countries.

	Revenue 2008 AED	Revenue 2007 AED	**Total assets 2008 AED**	Total assets 2007 AED
United Arab Emirates	**260,715,550**	243,567,518	**526,302,707**	631,687,578
Other GCC countries	**16,276,457**	12,334,770	**56,467,800**	29,764,800
Others	**25,789,743**	16,428,362	-	-
	302,781,750	272,330,650	**582,770,507**	661,452,378

25 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable.

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

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

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

Notes to the financial statements
for the year ended 31 December 2008 (continued)

25 Insurance risk (continued)

Frequency and severity of claims

The Company has the right not to renew individual policies, re-price the risk, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation).

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

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

Sources of uncertainty in the estimation of future claim payments

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

Notes to the financial statements
for the year ended 31 December 2008 (continued)

25 Insurance risk (continued)

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

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

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

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

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

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

	Year ended 31 December 2008		Year ended 31 December 2007	
Type of risk	**Gross Loss Ratio**	**Net Loss Ratio**	Gross Loss Ratio	Net Loss Ratio
Motor	**52%**	**69%**	55%	57%
Non-Motor	**34%**	**29%**	34%	35%

Notes to the financial statements
for the year ended 31 December 2008 (continued)

25 Insurance risk (continued)

Process used to decide on assumptions

The risks associated with the insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual insurance contracts carried out at the balance sheet date to derive data for the contracts held. The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

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

Claims development process

The following schedules reflect the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last five years on an accident year basis for motor and an underwriting year basis for non motor:

Motor - Gross:

Underwriting year	**2004 and earlier AED'000**	**2005 AED'000**	**2006 AED'000**	**2007 AED'000**	**2008 AED'000**	**Total AED'000**
At the end of the underwriting year	26,140	21,340	27,075	36,091	39,606	-
One year later	42,826	32,804	46,024	70,607	-	-
Two years later	44,070	35,179	49,833	-	-	-
Three years later	42,294	37,924	-	-	-	-
Four years later	39,775	-	-	-	-	-
Current estimate of cumulative claims	39,775	37,924	49,833	70,607	39,606	237,745
Cumulative payments to date	(25,200)	(29,869)	(41,924)	(56,729)	(19,879)	(173,601)
Liability recognised in the balance sheet	**14,575**	**8,055**	**7,909**	**13,878**	**19,727**	**64,144**

Notes to the financial statements for the year ended 31 December 2008 (continued)

25 Insurance risk (continued)

Claims development process (continued)

Non Motor - Gross:

Underwriting year	2004 and earlier AED'000	2005 AED'000	2006 AED'000	2007 AED'000	2008 AED'000	Total AED'000
At the end of the underwriting year	96,951	37,312	22,800	23,943	11,566	
One year later	75,928	59,803	26,224	30,765	-	
Two years later	68,858	85,947	30,645	-	-	
Three years later	75,378	88,735	-	-	-	
Four years later	74,339	-	-	-	-	
Current estimate of cumulative claims	74,339	88,735	30,645	30,765	11,566	236,050
Cumulative payments to date	(23,442)	(55,687)	(18,184)	(13,200)	(5,109)	(115,622)
Liability recognised in the balance sheet	**50,897**	**33,048**	**12,461**	**17,565**	**6,457**	**120,428**

Concentration of insurance risk

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

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

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements.

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarised below:

Notes to the financial statements
for the year ended 31 December 2008 (continued)

25 Insurance risk (continued)

Concentration of insurance risk (continued)

Type of risk	Year ended 31 December 2008 Gross AED	Year ended 31 December 2008 Net AED	Year ended 31 December 2007 Gross AED	Year ended 31 December 2007 Net AED
Motor				
UAE countries	2,279,954,297	2,269,829,382	1,925,210,026	1,915,750,490
Non-Motor				
UAE countries	62,462,217,281	1,497,924,491	44,569,803,804	806,129,198
GCC countries	2,300,164,519	19,497,541	2,112,205,697	29,608,530
Others	1,445,679,942	97,246,150	551,816,074	23,204,358
	66,208,061,742	1,614,668,182	47,233,825,575	858,942,086
Grand Total	68,488,016,039	3,884,497,564	49,159,035,601	2,774,692,576

Sensitivity of underwriting profit and losses

The contribution by the insurance operations to the net profit of the Company stood at 65% for the year ended 31 December 2008 (2007 – 36%). The Company does not foresee any adverse change in the contribution of insurance profit due to the following reasons:

The Company has an overall risk retention level in the region of 6% (2007 – 6%) and this is mainly due to low retention levels in Engineering and Fire and Accident lines. However, for other lines of business the Company is adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Company has net commission earnings of around 46% (2007 – 22%) of the underwriting income predominantly from the reinsurance placement which remains as a comfortable source of income.

Because of low risk retention of 54% (2007 – 57%) of the volume of the business and limited exposure in high retention areas like Motor, the Company is comfortable to maintain a net loss ratio in the region of 74% (2007 - 65%) and does not foresee any serious financial impact in the insurance net profit.

26 Contingent liabilities

	2008 AED	2007 AED
Bank guarantees	**15,554,019**	12,744,348

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

Notes to the financial statements
for the year ended 31 December 2008 (continued)

27 Financial instruments

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

27.1 Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents. The Company manages its capital on a basis of 300% - 375% of its minimum regulatory capital position presented in the table below. Management considers the quantitative threshold of 20% - 30% sufficient to maximise shareholders' return and to support the capital required;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

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

	2008 **AED**	2007 AED
Minimum regulatory capital	**50,000,000**	50,000,000
Total equity	**186,042,811**	322,117,054

27.2 Significant accounting policies

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

Notes to the financial statements
for the year ended 31 December 2008 (continued)

27 Financial instruments (continued)

27.3 Categories of financial instruments

	2008 AED	2007 AED
Financial assets		
Held to maturity investments	**44,443,800**	31,600,800
AFS investments	**107,726,678**	167,705,212
Statutory deposits	**6,000,000**	4,500,000
Reinsurance contract assets	**178,768,315**	181,601,368
Trade and other receivables	**53,787,117**	37,940,435
Bank balances and cash	**183,531,946**	230,195,653
Total	**574,257,856**	653,543,468
Financial liabilities		
Insurance contract liabilities	**282,280,270**	270,256,828
Trade and other payables	**109,771,453**	64,784,127
Total	**392,051,723**	335,040,955

27.4 Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Company. The Company is exposed to interest rate risk on its investment in development bonds and term deposits that carry both fixed and floating interest rates which are detailed in Notes 8 and 23, respectively.

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

Interest rate sensitivity analysis

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

If interest rates had been 100 basis points higher\lower and all other variables were held constant, the Company's profit for the year ended 31 December 2008 would increase\decrease by AED 1.9 million (2007 – AED 2.4 million). The Company's sensitivity to interest rates had decreased mainly due to lower bank deposits during the current year.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

27 Financial instruments (continued)

27.5 Foreign currency risk management

The Company could incur foreign currency risk on transactions that are denominated in a currency other than AED.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2008 AED	2007 AED	**2008 AED**	2007 AED
US Dollars	**2,191,819**	5,659,807	**83,026,105**	60,556,470
Oman Riyals	**20,104**	-	**19,777,148**	29,779,612
Pound Sterling	**178,089**	96,845	**932,556**	93,801
Euro	**118,050**	50,449	**354,202**	285,049
	2,508,062	5,807,101	**104,090,011**	90,714,932

There is no impact on US Dollar balances as the AED is pegged to the US Dollar. Based on the sensitivity analysis to a 20% increase/decrease in the AED against the relevant foreign currencies (assumed outstanding for the whole year):

(a) there is AED 3.95 million (2007 – AED 5.96 million) net revaluation gain/loss on the Omani Riyal outstanding balances.
(b) there is AED 151 thousand (2007 – AED 1 thousand) net revaluation gain/loss on the Pound Sterling outstanding balances.
(c) there is AED 47 thousand (2007 – AED 47 thousand) net revaluation gain/loss on the Euro outstanding balances.

Management believes that the possible loss due to exchange rate fluctuation is minimal and consequently this risk is not hedged.

27.6 Market price risk management

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

27 Financial instruments (continued)

27.7 Credit risk management

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

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

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

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

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

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company. Details on concentration of amounts due from policyholders is disclosed in Note 12. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policy holders.

At 31 December 2008 and 2007, virtually all of the deposits were placed with 4 banks. Management is confident that this concentration of liquid assets at year end does not result in any credit risk to the Company as the banks are major banks operating in the UAE and are highly regulated by the Central Bank.

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

Notes to the financial statements for the year ended 31 December 2008 (continued)

27 Financial instruments (continued)

27.8 Liquidity risk management

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. Bank facilities, the policy holders and the reinsurers, are the major sources of funding for the Company and the liquidity risk for the Company is assessed to be low.

The table below summarises the maturity profile of the Company's financial liabilities with maturities determined on the basis of the remaining period from the balance sheet date to the contractual maturity/repayment date. The maturity profile is monitored by Management to ensure adequate liquidity is maintained.

	Carrying amount AED	0-180 days AED	181-365 days AED
Financial liabilities at 31 December 2008			
Insurance contract liabilities	**282,280,270**	**-**	**282,280,270**
Trade and other payables	**109,771,453**	**109,771,453**	**-**
Total	**392,051,723**	**109,771,453**	**282,280,270**
Financial liabilities at 31 December 2007			
Insurance contract liabilities	270,256,828	-	270,256,828
Trade and other payables	64,784,127	64,784,127	-
Total	335,040,955	64,784,127	270,256,828

27.9 Fair value of financial assets and liabilities

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

28 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors in their meeting of 10 February 2009.