

**AL DHAFRA INSURANCE
COMPANY P.S.C.**

**Reports and financial
statements for the year
ended 31 December 2009**

AL DHAFRA INSURANCE COMPANY P.S.C.

**Reports and financial statements
for the year ended 31 December 2009**

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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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DUBAI BRANCH

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AL AIN BRANCH

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BIDA ZAYED BRANCH

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SHARJAH BRANCH

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**THE BOARD OF DIRECTORS' 30TH ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009**

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 30th Annual Report regarding the business activities and financial position of the Company during the year 2009 as well as the balance sheet and financial statements for the year ended on 31 December 2009 along with Auditor's Report.

At the outset, the Board of Directors, on their behalf and on behalf of all the Company shareholders and employees, express their gratitude and utmost respect to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the President of the United Arab Emirates for his wise leadership and sound vision.

The Board of Directors would also like to extend their gratitude to H.H. Sheikh Mohammed Bin Rashid Al Maktoum, the Vice President and Prime Minister of the U.A.E and Ruler of Dubai and to His Highness Sheikh Mohamad Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi for unlimited support and assistance to National Companies and Establishments.

In our previous report (29th Annual Report for the year ended 31 December 2008) we referred to the international financial crisis and economic turmoil happened in 2008 and international rescue plans adopted by various governments globally. In that report we specifically highlighted the plans and strategies adopted by UAE's wise leadership to protect both Government and Semi Government institutions which was considered as the largest of any such economic rescue/stimulus plan adopted worldwide while comparing the size of the rescue plan with the GDP.

As expected, despite all economic rescue/stimulus plan adopted globally, regionally and locally, 2009 was a difficult year in all respect and witnessed severe economic slowdown worldwide. However, despite all such challenges and economic difficulties which affected all economic sectors, UAE managed to maintain its status as an attractive environment for investment and achieved highest economic rankings by advancing its positions compared to positions occupied in the past as per various reports and indices published by various international economic organizations and research centers.

Following are some examples of such achievements:-

1. UAE occupied 23rd position according to the world competitiveness report issued by World Economic Forum in 2009, advancing eight positions ahead compared to previous year report.
2. UAE advanced 4 positions to occupy 7th place in 2nd quarter 2009 as compared to 1st quarter 2009 according to Nielson Report for Consumer Confidence.
3. UAE also occupied 20th position according to DAFUS Report concerning best countries in Financial Development in 2009 while maintaining 1st place among Arab Countries.
4. The UNCTAD has placed UAE in the best 30 country for direct foreign investment.

We are hopeful to turn these challenges and difficulties into opportunities that will place us again on the first step of growth and development starting from 2010 and we are confident that achieving that is not impossible in the light of the great potential and solid foundation of the UAE economy.

As to Company's activity, 2009 is another distinguished year for Al Dhafra as far as the core business is concerned as the company has continued its steady technical growth due to its prudent underwriting policy which pays more attention to bottom line and quality of business in addition to company's strategy to expand within UAE as a whole and Abu Dhabi Emirate in particular and increase sales through on-line selling. All these factors helped us to maintain our Logo which aims at achieving a constant balance between production and profitability. Although our target was to maintain same level of technical profit, we have managed to surpass 2008 performance despite all obstacles.

**THE BOARD OF DIRECTORS' 30TH ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)**

Given here below is the summarized technical and financial results in the light of the difficult economic and financial condition.

1. Maintaining almost same level of premium income despite cancellation and reduction in sum insured of many construction projects.
2. A growth of 13.4% in Gross Technical Profit to AED 52.60 Million
3. A growth of 15.07% in Net Technical profit to AED 31.80 Million
4. A growth of 11.18% in Net Profit to AED 48.20 Million
5. A growth of 11.5% in Shareholders Equity to AED 286.56 Million
6. An increase of 4.93% in total Assets to AED 685.98 Million
7. An additional amount of AED 11,046,287 has been provided towards impairment of Mutual Funds held for trading, thus making the total impairment provided to AED 20,171,234
8. Opening of five new offices in 2009 raising the total of new offices in the last two years to nine.

Total & Net Premiums:

The Gross Insurance Premium written by the Company during the year under review reached AED 237,023,819 against AED 235,468,686 achieved during the year 2008, recording an increase of 0.66%. The premium income of 2009 is considered as an achievement in the difficult economic scenario especially since the 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 103,140,498 against an amount of AED 95,640,075 that is, an increase of 7.84% .

The premium retention percentage of the company is 43.50% 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 124,567,803 against AED 101,299,112 paid last year showing an increase of 22.97% evidencing Company's financial strength and commitment to honour its obligations to policy holders.

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 has reached AED 108,166,729 against AED 103,511,955 in the last year, showing an increase of 4.5%. It may be noted that the technical reserves are now equal to 104.87% of the retained premiums.

**THE BOARD OF DIRECTORS' 30TH ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)**

Figures related to different classes of Insurance

Gross written premium	2009 (AED)	2008 (AED)
Marine and Aviation Insurance	18,187,077	17,979,427
Fire and General Accidents Insurance	218,836,742	217,489,259
Total	237,023,819	235,468,686

Gross Paid Claims	2009 (AED)	2008 (AED)
Marine and Aviation Insurance	6,455,518	2,347,717
Fire and General Accidents Insurance	118,112,285	98,951,395
Total	124,567,803	101,299,112

Technical Reserves	2009 (AED)	2008 (AED)
Marine and Aviation Insurance	804,702	684,204
Fire and General Accidents Insurance	107,362,027	102,827,751
Total	108,166,729	103,511,955

Investments:

The total investments of the Company reduced to an amount of AED 210,239,251 at the end of 2009 from an amount of AED 227,170,478 at the end of 2008 showing a reduction of 7.45%.

The investment income increased to AED 16,230,646 from an amount of AED 15,711,670 in the last year, showing an increase of 3.30 %.

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 Government Bonds. Company has no investments in U.S.A or in Europe and all available cash are deposited in Banks within the U.A.E.

General & Administrative Expenses:

The General & Administrative Expenses during the year under review reached an amount of AED 20,755,331 against an amount of AED 18,709,882 in the last year, that is, an increase of 10.93%.

Net Profits:

The net profits achieved by the company from insurance and investment activities for the year under review is AED 48,208,325 against an amount of AED 43,358,791 (restated) achieved last year, that is, an increase of 11.18 %.

Company Braches and Offices:

Five new offices for the company have been opened inside Emirate of Abu Dhabi making the total new offices opened since 2008 to nine. These offices have contributed actively to the incomes of the year 2009.

**THE BOARD OF DIRECTORS' 30TH ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)**

Profit Distribution:

The net profit of AED 48,208,325 achieved by the company during the year together with the retained profit of AED 83,660,556 (restated) from the previous year amounted to a distributable income of AED 131,868,881.

We recommend appropriation of the above profit as follows:

Amount (AED)	Details of appropriation
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
87,368,881	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	145,000,000	General Reserve
AED	182,500,000	Total

It is worth mentioning here that no appropriation to Legal Reserve is required during this year since the total legal reserve has reached the required 50% of the paid up capital of the Company during 2008.

The shareholders equity has increased to an amount of AED 286,559,990 from an amount of AED 257,009,258 at the end of year 2008 showing an increase of 11.50%.

Total assets has increased to AED 685,980,796 from an amount of AED 653,736,954 at the end of 2008 showing an increase of 4.93% .

Plans for 2010

We will continue our expansion inside UAE by opening new offices and point- of-sales and will further expand on-line selling of various insurances, introduce new insurance products in the market and step-up our marketing activities in traditional insurance products while pursuing our strategy in concentrating in quality and results in order to maintain a constant growth in technical profit which exceeds the increase in the volume.

**THE BOARD OF DIRECTORS' 30TH ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)**

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 Auditor's Report
3. To approve the Statement of financial position of the Company as at 31 December 2009 and the financial statements for the year ended on 31 December 2009.
4. To consider the proposal of Board of Directors for the appropriation of the profit and distribution of dividends.
5. 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.
6. To appoint external auditors for the year 2010 or re-appoint the present external auditors and to determine their fees.
7. To elect the Board of Directors for the subsequent three years in accordance with Articles 17 & 18 of the Company's Articles of Association.

The Extra Ordinary General Assembly

Furthermore, the Board of Directors recommend the Extra Ordinary General Assembly to approve the following:

The Board of Directors have considered the requirement to change the Articles of Association of the Company to make it in line with the requirements of Corporate Governance as follows:

1. Amend Clause no.14 of the Articles of Association to be in line with Clause No. 23 of the Stock Market Regulation
2. Amend clause Nos. 23, 24 & 38 of the Articles of Association to be in line with the Corporate Governance
3. Addition of new clauses as per Ministerial Decision no. 518 of 2009 issued by the Ministry of Economy and Chairman of the Securities and Commodities Authority for Corporate Governance or any new decisions issued by them in future to form automatically part of the Company's Articles of Association.

**THE BOARD OF DIRECTORS' 30TH ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)**

Conclusion

Lastly the Board of Directors highly appreciates the distinguished relationship, mutual trust and fruitful partnership between the Company and its clients, various Insurance & Reinsurance companies and many Insurance and reinsurance Brokers locally, regionally and globally.

The Board of Directors would also like to praise the persistent efforts of all the staff and management of the Company which contribute in continuous success year after year.

On behalf of the Board of Directors:



Chairman

9 February 2010



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 statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

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 2009, 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. (6) of 1984 (as amended), the UAE Federal Law No. (9) of 2007 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

Saba Y. Sindaha
Registration Number 410
9 February 2010



**Statement of financial position
as at 31 December 2009**


	Notes	2009 AED	2008 AED (restated)	2007 AED (restated)
ASSETS				
Non-current assets				
Property and equipment	5	1,869,742	2,413,092	1,410,241
Investment properties	6	81,000,000	75,000,000	75,000,000
Intangible assets	7	951,481	503,715	418,152
Available-for-sale investments	8.2	-	107,726,678	167,705,212
Investments designated at fair value through other comprehensive income (FVTOCI)	8.2	64,192,941	-	-
Investments designated at fair value through profit or loss (FVTPL)	8.2	17,484,910	-	-
Investments at amortised cost	8.2	28,274,400	39,483,000	21,583,800
Statutory deposit	9	10,000,000	6,000,000	4,500,000
Total non-current assets		203,773,474	231,126,485	270,617,405
Current assets				
Investments at amortised cost	8.2	19,287,000	4,960,800	10,017,000
Reinsurance contract assets	10	166,664,169	178,768,315	181,601,368
Trade and other receivables	12	65,135,565	53,787,117	37,940,435
Prepayments		1,579,036	1,562,291	1,466,249
Bank balances and cash	23	229,541,552	183,531,946	230,195,653
Total current assets		482,207,322	422,610,469	461,220,705
Total assets		685,980,796	653,736,954	731,838,110

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


**Statement of financial position
as at 31 December 2009 (continued)**

	Notes	2009 AED	2008 AED (restated)	2007 AED (restated)
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	13	75,000,000	75,000,000	75,000,000
Legal reserve	14	37,500,000	37,500,000	35,160,814
General reserve	15	145,000,000	140,000,000	135,000,000
Investment revaluation reserve		(95,808,891)	(116,651,298)	22,701,021
Retained earnings		124,868,881	121,160,556	124,640,951
Total shareholders' equity		286,559,990	257,009,258	392,502,786
Non-current liability				
End of service benefit	17	5,030,169	4,675,973	4,294,369
Current liabilities				
Insurance contract liabilities	10	274,830,898	282,280,270	270,256,828
Trade and other payables	18	119,559,739	109,771,453	64,784,127
Total current liabilities		394,390,637	392,051,723	335,040,955
Total liabilities		399,420,806	396,727,696	339,335,324
Total equity and liabilities		685,980,796	653,736,954	731,838,110




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Chairman


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Director

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

**Income statement
for the year ended 31 December 2009**

	Notes	2009 AED	2008 AED (restated)	2007 AED (restated)
Gross written premium		237,023,819	235,468,686	212,395,595
Change in unearned premium deferred		55,937	(10,608,926)	(10,957,163)
Insurance premium revenue		237,079,756	224,859,760	201,438,432
Reinsurance premium ceded		(133,883,321)	(139,828,611)	(115,803,778)
Change in reinsurance portion of unearned premium		(2,932,733)	11,557,727	(2,658,371)
Net reinsurance premium ceded		(136,816,054)	(128,270,884)	(118,462,149)
Net insurance premium revenue		100,263,702	96,588,876	82,976,283
Gross claims incurred		(124,567,803)	(101,299,112)	(92,418,190)
Change in outstanding claims provision		7,393,435	(1,414,516)	(23,252,106)
Net claims incurred		(117,174,368)	(102,713,628)	(115,670,296)
Reinsurance share of claims incurred		62,004,726	45,761,015	40,454,078
Change in reinsurance share of outstanding claims		(9,171,413)	(14,390,780)	22,015,226
Reinsurance share of claims incurred		52,833,313	31,370,235	62,469,304
Net claims incurred		(64,341,055)	(71,343,393)	(53,200,992)
Gross commission earned		29,668,940	37,365,196	20,471,706
Less: commission incurred		(13,023,350)	(16,253,676)	(12,208,960)
Net commission earned		16,645,590	21,111,520	8,262,746
Net underwriting income		52,568,237	46,357,003	38,038,037
Administrative expenses		(18,796,453)	(18,071,339)	(15,803,634)
Other operating expenses		(1,958,878)	(638,543)	(694,041)
Net investment and other income	19	16,230,646	15,711,670	38,462,168
Settlement from BCCI	20	164,773	-	197,727
Net profit for the year	21	48,208,325	43,358,791	60,200,257
Earnings per ordinary share	22	0.64	0.58	0.80

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

**Statement of comprehensive income
for the year ended 31 December 2009**

	2009 AED	2008 AED (restated)	2007 AED (restated)
Net profit for the year	48,208,325	43,358,791	60,200,257
Other comprehensive income/(loss)			
Net fair value gain on investments designated at FVTOCI (note 8.3)	20,842,407	-	-
(Decrease)/increase in fair value of available-for-sale investments	-	(137,350,836)	19,781,520
Reclassification adjustment for (losses)/gains included in profit or loss	-	(2,001,483)	8,448,945
Directors' remuneration (note 11)	(2,000,000)	(2,000,000)	(1,000,000)
Total other comprehensive income/(loss)	18,842,407	(141,352,319)	27,230,465
Total comprehensive income/(loss) for the year	67,050,732	(97,993,528)	87,430,722

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

**Statement of changes in equity
for the year ended 31 December 2009**

	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
Effect of change in accounting policy for recording investment properties (note 3.3)	-	-	-	-	69,805,017	69,805,017
Balance at 1 January 2007 as restated	75,000,000	29,198,860	125,000,000	(5,529,444)	118,902,648	342,572,064
Net profit for the year	-	-	-	-	60,200,257	60,200,257
Other comprehensive income/(loss) for the year	-	-	-	28,230,465	(1,000,000)	27,230,465
Total comprehensive income for the year	-	-	-	28,230,465	59,200,257	87,430,722
Transfer to general reserve	-	-	10,000,000	-	(10,000,000)	-
Transfer to legal reserve	-	5,961,954	-	-	(5,961,954)	-
Dividends paid (note 16)	-	-	-	-	(37,500,000)	(37,500,000)
Balance at 1 January 2008 as restated	75,000,000	35,160,814	135,000,000	22,701,021	124,640,951	392,502,786
Net profit for the year	-	-	-	-	43,358,791	43,358,791
Other comprehensive loss for the year	-	-	-	(139,352,319)	(2,000,000)	(141,352,319)
Total comprehensive (loss)/income for the year	-	-	-	(139,352,319)	41,358,791	(97,993,528)
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)
Balance at 31 December 2008 as restated	75,000,000	37,500,000	140,000,000	(116,651,298)	121,160,556	257,009,258

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

AL DHAFRA INSURANCE COMPANY P.S.C.

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Statement of changes in equity for the year ended 31 December 2009 (continued)

	Share capital AED	Legal reserve AED	General reserve AED	Investment revaluation reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2009, as restated	75,000,000	37,500,000	140,000,000	(116,651,298)	121,160,556	257,009,258
Net profit for the year	-	-	-	-	48,208,325	48,208,325
Other comprehensive income/(loss) for the year	-	-	-	20,842,407	(2,000,000)	18,842,407
Total comprehensive income for the year	-	-	-	20,842,407	46,208,325	67,050,732
Transfer to general reserve	-	-	5,000,000	-	(5,000,000)	-
Dividends paid (note 16)	-	-	-	-	(37,500,000)	(37,500,000)
Balance at 31 December 2009	75,000,000	37,500,000	145,000,000	(95,808,891)	124,868,881	286,559,990

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

**Statement of cash flows
for the year ended 31 December 2009**

	2009 AED	2008 AED (restated)	2007 AED (restated)
Operating activities			
Net profit for the year	48,208,325	43,358,791	60,200,257
Adjustments for:			
Reinsurance contract assets	12,104,146	2,833,053	(19,356,855)
Insurance contract liabilities	(7,449,372)	12,023,442	34,209,269
Depreciation of property and equipment	900,436	662,091	440,828
Amortisation of intangible assets	187,231	112,213	90,911
Investment income	(15,181,005)	(14,805,541)	(38,144,803)
Loss/(gain) on disposal of property and equipment	3,012	(61,208)	84,915
Provision for end of service benefits	554,768	541,892	967,681
Operating activities before movements in working capital	39,327,541	44,664,733	38,492,203
Increase in trade and other receivables	(10,194,725)	(15,435,265)	(8,399,585)
Increase in prepayments	(16,745)	(96,042)	(328,710)
Increase in trade and other payables	7,788,286	42,987,326	14,674,896
Cash from operating activities	36,904,357	72,120,752	44,438,804
End of service benefits paid	(200,572)	(160,288)	(1,462,076)
Net cash from operating activities	36,703,785	71,960,464	42,976,728
Investing activities			
Proceeds from disposal of:			
Available for sale investments	-	142,680,500	200,547,054
Held for trading investments	-	-	18,042,458
Held to maturity investments	-	10,017,000	15,309,000
Investments designated at FVTPL	37,244,947	-	-
Investments at amortised cost	6,796,800	-	-
Interest received	12,323,924	7,235,387	11,639,881
Dividends received	2,672,221	2,437,347	4,009,373
Rental income received	3,028,903	2,756,854	2,781,043
Proceeds from disposal of property and equipment	3,671	115,720	9,030
Purchase of:			
Available for sale investments	-	(219,438,244)	(204,544,289)
Held for trading investments	-	-	(5,820,213)
Investments at amortised cost	(9,914,400)	(22,860,000)	-
Purchase of property and equipment	(723,463)	(1,719,454)	(1,025,741)
Purchase of intangible assets	(275,303)	(197,776)	(186,460)
Payment of investment expenses	(351,479)	(651,505)	(250,000)
Movement in bank deposits with original maturities of greater than three months	42,901,284	(68,568,011)	78,771,218
Increase in statutory deposits	(4,000,000)	(1,500,000)	-
Net cash from/(used in) investing activities	89,707,105	(149,692,182)	119,282,354
Financing activities			
Dividends paid	(37,500,000)	(37,500,000)	(37,500,000)
Increase/(decrease) in cash and cash equivalents	88,910,890	(115,231,718)	124,759,082
Cash and cash equivalents at the beginning of the year	90,493,730	205,725,448	80,966,366
Cash and cash equivalents at the end of year (note 23)	179,404,620	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 2009**

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 International Financial Reporting Standards (IFRSs)

2.1 Standards affecting presentation and disclosure

The following new and revised Standards have been adopted in the current period in these financial statements. Details of other Standards and Interpretations adopted but that have had no effect on the financial statements are set out in section 2.2.

- IAS 1 (as revised in 2007) *Presentation of Financial Statements*. The standard has principally introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. Also as required by IAS 1, a statement of financial position is presented at the beginning of the earliest comparative period because the Company has changed its accounting policy for recording investment property retrospectively (see note 3.3).
- IFRS 8 *Operating Segments*. IFRS 8 is a disclosure Standard that requires re-designation of the Company's reportable segments based on the segments used by the Chief Operating Decision Maker to allocate resources and assess performance. There was no re-designation of the reportable segments since the business segments reported earlier as per the requirements of IAS 14 *Segment Reporting* are also used by the Chief Operating Decision Maker to allocate resources to the segments and to assess its performance. The Company had presented a more expanded reconciliation of segment results and provided additional disclosure to conform to the requirements of IFRS 8 (see note 24).
- *Improving disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)*. The amendment has expanded the disclosures required in respect of fair value measurements and liquidity risk. The Company is now required to provide a quantitative and qualitative analysis of those instruments recognised at fair value based on a three-level measurement hierarchy (see note 27.9). The Company has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.
- IFRS 9 *Financial Instruments*. IFRS 9 specifies how an entity should classify and measure its financial assets and is intended to replace IAS 39 and IFRS 7. The impact of the application of this standard is disclosed in detail in note 3.3

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

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

2.2 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

- | | |
|---|--|
| <ul style="list-style-type: none"> • Amendments to IFRS 2 <i>Share-based Payment - Vesting Conditions and Cancellations</i> | <p>The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.</p> |
| <ul style="list-style-type: none"> • IAS 23 (revised) <i>Borrowing Costs</i> | <p>The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred. This change has had no impact on these financial statements because it has always been the Company's accounting policy to capitalise borrowing costs incurred on qualifying assets.</p> |
| <ul style="list-style-type: none"> • Amendments to IAS 32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i> | <p>The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.</p> |
| <ul style="list-style-type: none"> • IFRIC 13 <i>Customer Loyalty Programmes</i> | <p>The Interpretation provides guidance on how entities should account for customer loyalty programmes by allocating revenue on sale to possible future award attached to the sale.</p> |
| <ul style="list-style-type: none"> • IFRIC 15 <i>Agreements for the Construction of Real Estate</i> | <p>The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 <i>Construction Contracts</i> or IAS 18 <i>Revenue</i> and when revenue from the construction of real estate should be recognised.</p> |
| <ul style="list-style-type: none"> • IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i> | <p>The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.</p> |
| <ul style="list-style-type: none"> • IFRIC 18 <i>Transfers of Assets from Customers</i> (for transfers of assets from customers received on or after 1 July 2009) | <p>The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 <i>Revenue</i>.</p> |

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

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

**2.2 Standards and Interpretations adopted with no effect on the financial statements
(continued)**

- Improvements to IFRSs (2008) 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 majority of which are effective for annual periods beginning on or after 1 January 2009.

2.3 Standards and Interpretations in issue not yet effective

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

New Standards and amendments to Standards:	Effective for annual periods beginning on or after
• IFRS 1 (revised) <i>First time Adoption of IFRS</i> and IAS 27 (revised) <i>Consolidated and Separate Financial Statements</i> – Amendment relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 July 2009
• IFRS 3 (revised) <i>Business Combinations</i> – Comprehensive revision on applying the acquisition method and consequential amendments to IAS 27 (revised) <i>Consolidated and Separate Financial Statements</i> , IAS 28 (revised) <i>Investments in Associates</i> and IAS 31 (revised) <i>Interests in Joint Ventures</i>	1 July 2009
• IAS 39 (revised) <i>Financial Instruments: Recognition and Measurement</i> – Amendments relating to Eligible Hedged Items (such as hedging Inflation risk and Hedging with options)	1 July 2009
• IFRS 1 (revised) <i>First time Adoption of IFRS</i> – Amendment on additional exemptions for First-time Adopters	1 January 2010
• IFRS 2 (revised) <i>Share-based payment</i> – Amendment relating to Group cash-settled Share-based payments	1 January 2010
• IAS 32 (revised) <i>Financial Instruments: Presentation</i> – Amendments relating to classification of Rights Issue	1 February 2010
• IAS 24 <i>Related Party Disclosures</i> – Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government	1 January 2011

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

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

2.3 Standards and Interpretations in issue not yet effective (continued)

New Standards and amendments to Standards: (continued)	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> Amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38 and IAS 39 resulting from April 2009 <i>Annual Improvements to IFRSs</i>. 	Majority effective for annual periods beginning on or after 1 January 2010
New Interpretations and amendments to Interpretations:	
<ul style="list-style-type: none"> IFRIC 17: <i>Distributions of Non-cash Assets to Owners</i> 	1 July 2009
<ul style="list-style-type: none"> IFRIC 19: <i>Extinguishing Financial Liabilities with Equity Instruments</i> 	1 July 2010
<ul style="list-style-type: none"> Amendment to IFRIC 14: <i>IAS 19: The limit on a defined Benefit Asset, Minimum Funding Requirement and their interaction</i> 	1 January 2011
<ul style="list-style-type: none"> Amendment to IFRIC 16: <i>Hedges of a Net Investment in a Foreign Operation</i> 	1 July 2009
<ul style="list-style-type: none"> Amendment to IFRIC 9 (revised): <i>Reassessment of Embedded Derivatives</i> relating to assessment of embedded derivatives in case of reclassification of a financial asset out of the 'FVTPL' category 	1 July 2009

Management anticipates that 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

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) and Federal Law No. 6 of 2007, 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 investment properties and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Change in accounting policy

IAS 40 Investment property

In the current year, the Company has changed its accounting policy for recording investment properties from the cost model to the fair value model in accordance with IAS 40 *Investment Properties*.

This change in the accounting policy has been accounted for retrospectively with earliest comparative periods restated in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 1 (as revised in 2007) *Presentation of Financial Statements*.

The impact of this change in accounting policy as at 31 December 2009 resulted in an increase in investment properties by AED 75,805,017 and the recognition of gain on revaluation in the profit or loss amounting to AED 6,000,000 (see note 19), with a corresponding adjustment for the net effect of AED 69,805,017 against retained earnings as at 1 January 2007. Net profit for the year 2009 has therefore been increased by AED 6,000,000 as a result of the new policy. For the year ended 31 December 2009, as it is impractical for the Company to determine the increase in fair value for the period from 1 January 2007 to 31 December 2008, the profit or loss for this period was restated to eliminate only the depreciation element of these properties amounting to AED 580,715 each for the years 2007 and 2008 which was charged to the profit or loss in accordance with the previous accounting policy. The investment properties as at 31 December 2009 amounted to AED 81,000,000 as a result of the change (see note 6).

IFRS 9 Financial Instruments

The Company also adopted IFRS 9 *Financial Instruments* (IFRS 9) in 2009 in advance of its effective date. The Company has chosen 31 December 2009 as its date of initial application (i.e. the date on which the Company has assessed its existing financial assets) as this is the first reporting period end since the Standard was issued on 12 November 2009.

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are now measured either at amortised cost or fair value.

Debt instruments are measured at amortised cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met the financial instrument is classified as at fair value through profit or loss (FVTPL). Additionally, even if the asset meets the amortised cost criteria the Company may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. In the current period, the Company has not elected to designate any debt instruments meeting the amortised cost criteria as at FVTPL.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Change in accounting policy (continued)

IFRS 9 Financial Instruments (continued)

Only financial assets that are classified as measured at amortised cost are tested for impairment.

Investments in equity instruments are classified and measured as at FVTPL except if the equity investment is not held for trading and is designated by the Company as at fair value through other comprehensive income (FVTOCI). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income recognised in accordance with IAS 18 *Revenue*, are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

The Board of Directors have reviewed and assessed all of the Company's existing financial assets as at the date of initial application of IFRS 9. As a result:

- the Company's investments in debt instruments meeting the required criteria are measured at amortised cost;
- most of the Company's equity instruments that are not held for trading have been designated as at FVTOCI; except for an investment in unquoted equity security which had been disposed during the year; and
- the remaining investments in funds are measured at FVTPL.

The reclassification of financial assets on initial application of IFRS 9 changed either the measurement basis and/or policy for recognition of gains or losses for the following financial assets of the Company:

- some investments in equity instruments that were previously measured at fair value and classified as available-for-sale have been reclassified to FVTPL; and
- the remaining investments in equity instruments that were previously measured at fair value and classified as available-for-sale have been designated as at FVTOCI.

For more information and detail on the new classification, see note 8.

The impact of adopting IFRS 9 has been effected in the current year without prior period restatement. There were no disposals of investments designated at FVTOCI and therefore only the increase in fair value amounting to AED 20,842,407 was recognised in other comprehensive income with respect to these investments. The decrease in fair value of investments measured at FVTPL is recognised in profit or loss amounting to AED 11,046,287 (see note 19).

In addition, all investments previously held to maturity are now at amortised cost which did not result in any change in carrying amounts at 31 December 2008.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.4 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 occurrence 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 end of the reporting period is reported as the unearned premium liability. Premiums are shown in the profit and loss before deduction of commission

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

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 profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.4 Insurance contracts (continued)

Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the end of the reporting period, 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 end of the reporting period. 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, and UAE Federal Law No. 2 of 2007 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 the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the profit or loss initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Receivables and payables related to insurance contracts

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

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 the profit or loss.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.5 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 property expenses.

Dividend and Interest income

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

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

3.6 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. 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 the profit or loss in the period in which they arise.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.7 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 profit or loss in the 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 estimated useful lives, residual values and depreciation method reviewed at the end of each annual reporting period with the effect of any changes accounted for on a prospective basis.

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.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

3.8 Capital work in progress

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. When the asset is ready for its intended use and is commissioned, capital work in progress is transferred to the appropriate property, plant and equipment or intangible asset category and is depreciated or amortised on the same basis as other assets in accordance with Company's policies.

3.9 Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes), are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in the profit or loss for the period in which they arise.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.10 Intangible assets

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Cost includes purchase cost, together with any incidental expenses of acquisition. The amortisation charge is calculated so as to write off the cost of the intangible asset on a straight-line basis over the expected useful economic life of 6 years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period with the effect of any changes in estimation accounted for on a prospective basis.

3.11 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible 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 the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

3.12 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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.13 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 end of the reporting period.

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 (2), 2000 for Pension and Social Security. Such contributions are charged to the profit or loss during the employees' period of service.

3.14 Financial assets

All financial assets are recognised and derecognised on trade date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

3.14.1 Classification of financial assets

The Company had the following financial assets as at 31 December 2008: '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). At 31 December 2009, the Company's AFS and held to maturity investments have been reclassified after initial application of IFRS 9 (see note 8).

3.14.2 Financial assets at amortised cost and the effective interest method

Cash and cash equivalents

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

Insurance receivables

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

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial assets (continued)

3.14.2 Financial assets at amortised cost and the effective interest method (continued)

Investments at amortised cost

Debt instruments are measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at FVTPL – see note 3.14.3 below). They are subsequently measured at amortised cost using the effective interest method less any impairment (see note 3.14.6 below).

Subsequent to initial recognition, the Company is required to reclassify debt instruments from amortised cost to FVTPL if the objective of the business model changes so that the amortised cost criteria are no longer met.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

The Company may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

3.14.3 Financial assets at FVTPL

Debt instrument financial assets that do not meet the amortised cost criteria described in note 3.14.2, or that meet the criteria but the entity has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL. The Company has not designated a debt instrument financial asset as at FVTPL.

Subsequent to initial recognition, the Company is required to reclassify debt instruments from FVTPL to amortised cost if the objective of the business model changes so that the amortised cost criteria starts to be met and the instrument's contractual cash flows meet the amortised cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition (see note 3.14.1) is not permitted.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial assets (continued)

3.14.3 Financial assets at FVTPL (continued)

Investments in equity instruments are mandatorily classified as at FVTPL, unless the Company designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition as described in note 3.14.4 below.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in profit or loss.

3.14.4 Financial assets at FVTOCI

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

A financial asset is held for trading if:

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

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

In the previous year, the Company's policy for AFS investments is discussed below.

AFS investments

AFS investments are initially measured at fair value plus transactions costs and subsequently re-measured at fair value unless the latter cannot be reliably measured. Gains and losses arising from changes in fair value are previously accumulated in investment revaluation reserve in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gains or losses previously accumulated in investment revaluation reserve in equity are reclassified to the profit or loss for the period. Impairment losses recognised in the profit or loss for equity investments classified as AFS are not subsequently reversed through the profit or loss. At the end of the year 2008, the Company recognised impairment amounting to AED 12,500,000 on investment funds. These funds are now classified as investments designated at FVTPL and accordingly, no reversal of impairment loss was recognised in the opening retained earnings.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Financial assets (continued)

3.14.5 Impairment of financial assets at amortised cost

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

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 re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the 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 local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, reflecting the impact of collateral and guarantees, discounted at the financial asset's 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 trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

3.14.6 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the 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

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

3 Summary of significant accounting policies (continued)

3.15 Financial liabilities and equity instruments issued by the Company

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

3.15.1 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 recognised at the proceeds received, net of direct issue costs.

3.15.2 Financial liabilities

Financial liabilities comprise insurance payables and other liabilities, 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, to the net carrying amount on initial recognition.

3.15.3 Derecognition of financial liabilities

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

3.16 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.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

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 at FVTOCI, FVTPL or amortised cost. In judging whether investments in securities are as at FVTOCI, FVTPL or amortised cost, Management has considered the detailed criteria for determination of such classification as set out IFRS 9 *Financial Instruments* in 2009. Management is satisfied that its investments in securities are appropriately classified.

4.2 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 2009 and feedback received from the legal department. Impairment of amounts due from policy holders at 31 December 2009 is AED 5,991,017 (2008 - AED 5,490,449).

4.3 Impairment of investments at amortised cost

Management regularly reviews indicators of impairment for investments at amortised cost and considers the criteria as set out in as set out IFRS 9 *Financial Instruments* in 2009. Management's evaluated the basis, particularly instances of default or delinquency in interest or principal payments. Management is confident that no impairment is required as a result of its review.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

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

4.4 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 end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each annual reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

4.5 Liability adequacy test

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

Notes to the financial statements
for the year ended 31 December 2009 (continued)

5 Property and equipment

Cost	Furniture and fittings AED	Motor vehicles AED	Computer equipment and accessories AED	Capital work in progress AED	Total AED
1 January 2007					
Additions	1,886,267	597,000	849,822	-	3,333,089
Disposals	527,932	10,250	156,856	330,703	1,025,741
	(372,408)	(133,000)	-	-	(505,408)
1 January 2008					
Additions	2,041,791	474,250	1,006,678	330,703	3,853,422
Disposals	534,234	411,600	134,326	639,294	1,719,454
Transfer	(395,204)	(205,250)	(38,382)	-	(638,836)
	386,134	-	-	(386,134)	-
1 January 2009					
Additions	2,566,955	680,600	1,102,622	583,863	4,934,040
Disposals	350,103	-	102,993	270,367	723,463
Transfer	(164,967)	-	(60,072)	-	(225,039)
Transfer to intangible assets (note 7)	300,987	-	10,870	(311,857)	-
	-	-	-	(359,694)	(359,694)
31 December 2009					
	3,053,078	680,600	1,156,413	182,679	5,072,770

Notes to the financial statements
for the year ended 31 December 2009 (continued)

5 Property and equipment (continued)

	Furniture and fittings AED	Motor vehicles AED	Computer equipment and accessories AED	Capital work in progress AED	Total AED
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)
1 January 2009	1,529,173	278,212	713,563	-	2,520,948
Charge for the year	570,887	139,811	189,738	-	900,436
Disposals	(159,022)	-	(59,334)	-	(218,356)
31 December 2009	1,941,038	418,023	843,967	-	3,203,028
Carrying amount					
31 December 2009	1,112,040	262,577	312,446	182,679	1,869,742
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 2009 (continued)**

6 Investment properties

	Land AED	Abu Dhabi building AED	Al Ain building AED	Total AED
Fair value as at 1 January 2007 and 31 December 2008	51,000,000	20,500,000	3,500,000	75,000,000
Increase/(decrease) in fair value during the year	5,600,000	(100,000)	500,000	6,000,000
Fair values 31 December 2009	56,600,000	20,400,000	4,000,000	81,000,000
31 December 2008 and 2007	51,000,000	20,500,000	3,500,000	75,000,000

The fair values of the Company's investment properties has been arrived at on the basis of open market valuations carried out by Malcolm Gaskill, Dubai, Loss Adjusters and Surveyors in their reports dated 31 December 2009 and 31 March 2009, respectively. The independent valuers are not connected with the Company. The valuers are members of various professional valuers' associations, and have appropriate qualifications and recent experience in the valuation of properties at the relevant locations. The valuation was determined by reference to recent prices for similar properties in the same location and similar condition and by discounting cash flow projections based on estimates of future cash flows.

Depreciation on the buildings for the years ended 31 December 2008 and 2007 amounting to AED 580,715 for each year had been reversed as a result of the change in accounting policy (note 3.3).

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 fair values of the plots of land in Abu Dhabi and Al Ain as at 31 December 2009 amounted to AED 40,600,000 and AED 16,000,000, respectively.

The construction of the Abu Dhabi head office 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 construction of the Al Ain office 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.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

7 Intangible assets

	Computer software AED
Cost	
1 January 2007 and 2008	1,682,531
Additions	197,776
Write-off	(80,000)
	<hr/>
1 January 2009	1,800,307
Additions	275,303
Transfer from capital work in progress (note 5)	359,694
Disposals	(22,850)
	<hr/>
31 December 2009	2,412,454
	<hr/>
Accumulated amortisation	
1 January 2007	1,173,468
Charge for the year	90,911
	<hr/>
1 January 2008	1,264,379
Charge for the year	112,213
Write-off	(80,000)
	<hr/>
1 January 2009	1,296,592
Charge for the year	187,231
Write-off	(22,850)
	<hr/>
31 December 2009	1,460,973
	<hr/>
Carrying amount	
31 December 2009	951,481
	<hr/> <hr/>
31 December 2008	503,715
	<hr/> <hr/>
31 December 2007	418,152
	<hr/> <hr/>

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

8 Investments

8.1 Reclassification of investments at the date of initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39 at the date of initial application on 31 December 2009.

Type of Investment	Original measurement category (IAS 39)	New measurement category (IFRS 9)
Equity securities (i)	Available-for-sale (AFS) investments	Investments in equity instruments designated at fair value through other comprehensive income (FVTOCI)
Investment funds(ii)	AFS investments	Investments in equity instruments at fair value through profit or loss (FVTPL)
Investment funds (iii)	Held to maturity investments	Investments at amortised cost
Long-term deposits (iii)	Held to maturity investments	Investments at amortised cost
Bonds (iii)	Held to maturity investments	Investments at amortised cost

- (i) Investments in equity instruments are by default classified as at FVTPL. The entity has chosen to designate the investment in quoted UAE shares at FVTOCI as it intends to hold the investment for the medium to long-term as a strategic investment. The Company believes therefore that designating as at FVTOCI will provide a more meaningful presentation of its medium to long-term interest in its investment than fair valuing the interest through profit or loss.
- (ii) Investment funds comprise various mutual funds in the UAE. They were reclassified from AFS investments to financial assets at FVTPL because it is the Company's objective to hold these for trading.
- (iii) Investment funds, long-term deposits and bond investments, previously included in held to maturity investments, comprise asset-backed securities which give target returns as per agreement or returns dependent on the price of the underlying asset backing the investment. They were considered to meet the criteria of IFRS 9 to be classified as at amortised cost.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

8 Investments (continued)

8.2 Composition of investments

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

	2009 AED	2008 AED	2007 AED
Investments at FVTOCI			
Quoted UAE equity securities	64,192,941	-	-
Investments at FVTPL			
Investment funds	17,484,910	-	-
AFS investments			
Quoted UAE equity securities	-	54,603,570	153,885,427
Unquoted UAE equity securities	-	2,500,000	2,500,000
Investment funds	-	50,623,108	11,319,785
	-	107,726,678	167,705,212
Investments at amortised cost (previously held to maturity investments)			
Long-term deposits	-	1,836,000	1,836,000
Investment funds	22,860,000	22,860,000	-
Bonds	24,701,400	19,747,800	29,764,800
	47,561,400	44,443,800	31,600,800
<i>Current</i>	19,287,000	4,960,800	10,017,000
<i>Non-current</i>	28,274,400	39,483,000	21,583,800

Included in the investment funds measured at amortised cost is a fixed capital-guaranteed investment of AED 4.5 million with redemption due in June 2010 and has a minimum target return of 1.2%. Also included in the 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.

Bonds at amortised cost comprise Central Bank of Oman development bonds denominated in Omani Riyals. The bonds, which are maturing in November 2010, have effective rate of interest ranging from 5% to 5.25%. During 2009, the Company acquired five-year investment amounting to US\$ 2.7 million in Aldar Bonds which bears a fixed interest of 9.1%. Interest is payable semi-annually on May 14 and November 14.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

8 Investments (continued)

8.2 Composition of investments (continued)

The geographical distribution of investments is as follows:

	2009 AED	2008 AED	2007 AED
Within UAE	114,452,251	99,077,731	169,541,212
Outside UAE	14,787,000	53,092,747	29,764,800
	<u>129,239,251</u>	<u>152,170,478</u>	<u>199,306,012</u>

8.3 Movement in investments

The movement in investment during the current year is as follows:

	at FVTOCI AED	at FVTPL AED	Total AED
Investments at fair value			
Fair value at 1 January 2009	-	-	-
Reclassification adjustment upon initial application of IFRS 9 (see below)	43,350,534	64,376,144	107,726,678
Proceeds from disposal	-	(37,244,947)	(37,244,947)
Gain on disposal (note 19)	-	1,400,000	1,400,000
Increase/(decrease) in fair value taken to Profit or loss (note 19)	-	(11,046,287)	(11,046,287)
Other comprehensive income	20,842,407	-	20,842,407
	<u>64,192,941</u>	<u>17,484,910</u>	<u>81,677,851</u>
Fair value at 31 December 2009			

The movement in previous measurement category is presented below:

AFS investments	2009 AED	2008 AED	2007 AED
Fair value at 1 January	107,726,678	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 loss (note 19)	-	(12,500,000)	-
(Decrease)/increase in fair value	-	(139,352,319)	28,230,465
Reclassification adjustment upon initial application of IFRS 9	(107,726,678)	-	-
	<u>-</u>	<u>107,726,678</u>	<u>167,705,212</u>
Fair value at 31 December			

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

8 Investments (continued)

8.3 Movement in investments (continued)

	2009 AED	2008 AED	2007 AED
Investments at amortised cost			
Cost at 1 January	44,443,800	31,600,800	46,909,800
Purchases during the year	9,914,400	22,860,000	-
Proceeds from maturity	(6,796,800)	(10,017,000)	(15,309,000)
Cost at 31 December	47,561,400	44,443,800	31,600,800

9 Statutory deposit

In accordance with the requirements of Federal Law No. 6 of 2007, covering insurance companies and agencies, the Company maintains a bank deposit of AED 10,000,000 (2008 - AED 6,000,000) which cannot be utilised without the consent of the UAE Insurance Authority.

10 Insurance contract liabilities and reinsurance contract assets

	2009 AED	2008 AED	2007 AED
Insurance liabilities			
Reported claims	169,590,977	176,686,640	170,046,277
Claims incurred but not reported	7,587,402	7,885,174	13,111,021
Unearned premiums	97,652,519	97,708,456	87,099,530
	274,830,898	282,280,270	270,256,828
Recoverable from reinsurers			
Reported claims	111,594,345	120,482,090	128,621,708
Claims incurred but not reported	3,670,800	3,954,468	10,205,630
Unearned premiums	51,399,024	54,331,757	42,774,030
	166,664,169	178,768,315	181,601,368
Insurance liabilities – Net			
Reported claims	57,996,632	56,204,550	41,424,569
Claims incurred but not reported	3,916,602	3,930,706	2,905,391
Unearned premiums	46,253,495	43,376,699	44,325,500
	108,166,729	103,511,955	88,655,460

**Notes to the financial statements
for the year ended 31 December 2009 (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 2009			Year ended 31 December 2008			Year ended 31 December 2007		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
CLAIMS									
Notified claims	176,686,640	120,482,090	56,204,550	170,046,277	128,621,708	41,424,569	152,110,648	111,386,412	40,724,236
Incurred but not reported	7,885,174	3,954,468	3,930,706	13,111,021	10,205,630	2,905,391	7,794,544	5,425,700	2,368,844
Total at 1 January	184,571,814	124,436,558	60,135,256	183,157,298	138,827,338	44,329,960	159,905,192	116,812,112	43,093,080
Claims settled	(124,567,803)	(62,004,726)	(62,563,077)	(101,299,112)	(45,761,015)	(55,538,097)	(92,418,190)	(40,454,078)	(51,964,112)
Increase in liabilities	117,174,368	52,833,313	64,341,055	102,713,628	31,370,235	71,343,393	115,670,296	62,469,304	53,200,992
Total at 31 December	177,178,379	115,265,145	61,913,234	184,571,814	124,436,558	60,135,256	183,157,298	138,827,338	44,329,960
Notified claims	169,590,977	111,594,345	57,996,632	176,686,640	120,482,090	56,204,550	170,046,277	128,621,708	41,424,569
Incurred but not reported	7,587,402	3,670,800	3,916,602	7,885,174	3,954,468	3,930,706	13,111,021	10,205,630	2,905,391
Total at 31 December	177,178,379	115,265,145	61,913,234	184,571,814	124,436,558	60,135,256	183,157,298	138,827,338	44,329,960
UNEARNED PREMIUM									
Total at 1 January	97,708,456	54,331,757	43,376,699	87,099,530	42,774,030	44,325,500	76,142,367	45,432,401	30,709,966
Increase during the year	97,652,519	51,399,024	46,253,495	97,708,456	54,331,757	43,376,699	87,099,530	42,774,030	44,325,500
Release during the year	(97,708,456)	(54,331,757)	(43,376,699)	(87,099,530)	(42,774,030)	(44,325,500)	(76,142,367)	(45,432,401)	(30,709,966)
Net (decrease)/ increase during the year	(55,937)	2,932,733	2,876,796	10,608,926	11,557,727	(948,801)	10,957,163	(2,658,371)	13,615,534
Total at 31 December	97,652,519	51,399,024	46,253,495	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 2009 (continued)**

11 Related parties

Related parties comprise the Directors and major Shareholders 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:

	2009 AED	2008 AED
Premiums written	14,807,958	14,959,559
Claims paid	3,421,169	3,654,895
Directors' remuneration	2,000,000	2,000,000
Remuneration of key management	5,288,238	4,730,243

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

	2009 AED	2008 AED	2007 AED
Due from external policy holders	40,651,436	34,326,154	27,264,387
Due from related party policy holders (note 11)	13,651,880	11,291,916	10,035,002
Less: allowance for doubtful debts	(5,991,017)	(5,490,449)	(5,788,030)
Net due from policy holders	48,312,299	40,127,621	31,511,359
Due from insurance companies	7,598,863	10,561,254	637,158
Due from reinsurance companies	4,948,424	203,584	2,884,576
Interest receivable	3,571,738	2,418,015	2,006,598
Other receivables	704,241	476,643	900,744
	65,135,565	53,787,117	37,940,435

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.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

12 Trade and other receivables (continued)

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 16,933,578 (2008: AED 10,205,610) is due from the Company's largest policy holders. The Company considers these customers to be reputable and creditworthy. There are 3,146 (2008: 3,063) other customers who represent more than 69% (2008: 70%) of the total amounts due from policyholders.

Included in the Company's total due from policy holders are balances amounting to AED 17,234,138 (2008: AED 15,969,794) 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.

Ageing of trade receivables

	2009 AED	2008 AED	2007 AED
Not past due	31,078,161	24,157,827	12,226,377
Past due but not impaired			
181 to 365 days	17,234,138	15,969,794	19,284,982
Past due and impaired			
181 to 365 days	572,103	351,260	793,636
More than 1 year but less than 2 years	982,619	845,339	540,427
More than 2 years but less than 3 years	54,959	192,323	450,472
More than 3 years	4,381,336	4,101,527	4,003,495
	5,991,017	5,490,449	5,788,030
Total due from policy holders	54,303,316	45,618,070	37,299,389

Movement in the allowance for doubtful debts:

Balance at beginning of the year	5,490,449	5,788,030	5,768,521
Impairment losses recognised			
on receivables	763,135	227,662	181,762
Amounts written off as uncollectible	(262,567)	(25,683)	(11,895)
Amounts recovered during the year	-	(499,560)	(150,358)
Balance at end of the year	5,991,017	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.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

13 Share capital

	2009	2008	2007
	AED	AED	AED
Authorised:			
75,000,000 ordinary shares of AED 1 each	75,000,000	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	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. 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 2009, the Board of Directors has proposed a cash dividend of AED 37,500,000 representing 50% of the paid up capital. The cash dividend payable in 2010 is subject to approval by the Shareholders at the Annual General Meeting.

Dividends, amounting to AED 37,500,000 each, for the years ended 31 December 2008, 2007 and 2006 were approved by the Shareholders at the Annual General Meetings held in 2009, 2008 and 2007, respectively.

17 End of service benefit

	2009	2008	2007
	AED	AED	AED
Balance at the beginning of the year	4,675,973	4,294,369	4,788,764
Charge for the year	554,768	541,892	967,681
Paid during the year	(200,572)	(160,288)	(1,462,076)
Balance at the end of the year	5,030,169	4,675,973	4,294,369

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

18 Trade and other payables

	2009	2008	2007
	AED	AED	AED
Due to policy holders	11,786,571	6,381,628	8,919,479
Due to insurance companies	14,477,379	7,464,996	2,324,114
Due to reinsurance companies	40,813,802	45,443,510	19,564,204
Premium reserve withheld	22,826,571	24,269,826	11,378,620
Commissions payable	17,500,000	17,500,000	17,500,000
Deferred income	3,827,293	1,253,300	1,405,346
Directors' remuneration payable (note 11)	2,000,000	2,000,000	1,000,000
Other payables	6,328,123	5,458,193	2,692,364
	119,559,739	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.

19 Net investment and other income

	2009	2008	2007
	AED	AED	AED
		(restated)	(restated)
Net rental income (a)	3,028,903	2,756,854	2,781,043
Net interest income (b)	13,477,647	7,646,804	11,872,485
Dividend income (c)	2,672,221	2,437,347	4,009,373
Net gain on disposal of investments (d)	1,048,521	14,464,536	20,736,189
Impairment loss on AFS investments (note 8.3)	-	(12,500,000)	-
Decrease in fair value of investments at FVTPL (note 8.3)	(11,046,287)	-	-
Decrease in fair value of held for trading investments	-	-	(1,254,287)
Revaluation gain on investment property (note 3.3)	6,000,000	-	-
(Loss)/gain on disposal of property and equipment	(3,012)	61,208	(84,915)
Other income	1,052,653	844,921	402,280
	16,230,646	15,711,670	38,462,168

Details of major investment income are as follows:

Net rental income:			
Gross rental income	3,717,974	3,470,294	3,372,094
Less: building expenses	(689,071)	(713,440)	(591,051)
Net rental income (a)	3,028,903	2,756,854	2,781,043

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

19 Net investment and other income (continued)

Details of major investment income are as follows (continued):

	2009 AED	2008 AED (restated)	2007 AED (restated)
Net interest income on:			
Bank deposits	11,221,311	6,473,682	10,101,353
Investments at amortised cost	2,256,336	1,173,122	1,771,132
Net interest income (b)	13,477,647	7,646,804	11,872,485
Dividend income on:			
AFS investments	-	2,437,347	3,507,391
Held for trading investments	-	-	501,982
Investments at FVTOCI	2,547,221	-	-
Investments at FVTPL	125,000	-	-
Dividend income (c)	2,672,221	2,437,347	4,009,373
Gain on disposal of:			
Investments at FVTPL (note 8.3)	1,400,000	-	-
AFS investments (note 8.3)	-	15,116,041	18,992,376
Held for trading investments	-	-	1,993,813
Less: investment expenses	(351,479)	(651,505)	(250,000)
Net gain on disposal of investments (d)	1,048,521	14,464,536	20,736,189

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 164,773 (2008 – AED nil) from the BCCI Liquidators. Cumulative settlements received to date amount to AED 5,656,775.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

21 Net profit for the year

Net profit for the year is stated after charging:

	2009 AED	2008 AED
Staff costs	14,479,213	13,800,468
Depreciation of property and equipment	900,436	662,091
Amortisation of intangible assets	187,231	112,213
Foreign exchange loss	133,799	229,989

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:

	2009 AED	2008 AED (restated)
Net profit for the year	48,208,325	43,358,791
Ordinary shares in issue throughout the year	75,000,000	75,000,000
Basic earnings per share	0.64	0.58

As of 31 December 2009, 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 2009 (continued)**

23 Cash and cash equivalents

	2009 AED	2008 AED	2007 AED
Cash on hand	24,250	23,250	21,750
Call accounts	13,276,622	12,122,015	13,906,078
Term deposits	216,240,680	171,386,681	216,267,825
	<hr/>	<hr/>	<hr/>
Bank balances and cash	229,541,552	183,531,946	230,195,653
Less: deposits with original maturities of greater than three months	(50,136,932)	(93,038,216)	(24,470,205)
	<hr/>	<hr/>	<hr/>
	179,404,620	90,493,730	205,725,448
	<hr/>	<hr/>	<hr/>

The interest rate on fixed deposits and call accounts with banks ranges between 2% and 6% (2008: 2.5% and 7.55%) per annum. All bank deposits are held in local banks in the United Arab Emirates.

24 Segment information

The Company has adopted IFRS 8 “Operating Segments” with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity’s system of internal financial reporting to key management personnel’ serving only as the starting point for the identification of such segments. This has not resulted in any significant change to the reportable segments presented by the Company as the segments reported by the Company was consistent with the internal reports provided to the Chief Operating Decision Maker.

For operating purposes, the Company is organised into two main business segments:

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

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

Information regarding the Company’s reportable segments is presented below.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

24 Segment information (continued)

24.1 Segment revenue and results

	Year ended 31 December 2009				Year ended 31 December 2008 (restated)				Year ended 31 December 2007 (restated)			
	Underwriting AED	Investments AED	Total AED		Underwriting AED	Investments AED	Total AED		Underwriting AED	Investments AED	Total AED	
Direct revenues	266,692,759	21,608,087	288,300,846		272,833,882	29,041,739	301,875,621		232,867,301	40,400,271	273,267,572	
Direct costs	(214,124,522)	(1,380,795)	(215,505,317)		(226,476,879)	(1,736,198)	(228,213,077)		(194,829,264)	(1,001,181)	(195,830,445)	
Administrative expenses	(18,796,453)	-	(18,796,453)		(18,071,339)	-	(18,071,339)		(15,803,634)	-	(15,803,634)	
Depreciation expense	(900,436)	-	(900,436)		(662,091)	-	(662,091)		(440,828)	-	(440,828)	
Amortisation expense	(187,231)	-	(187,231)		(112,213)	-	(112,213)		(90,911)	-	(90,911)	
Other (expenses)/income	(871,211)	-	(871,211)		135,761	-	135,761		(162,302)	-	(162,302)	
Non-cash investment	-	(11,046,287)	(11,046,287)		-	(12,500,000)	(12,500,000)		-	(1,254,287)	(1,254,287)	
Losses	-	6,000,000	6,000,000		-	-	-		-	-	-	
Gains	-	-	-		-	-	-		197,727	-	197,727	
Settlement from BCCI	164,773	-	164,773		-	-	-		-	-	-	
Segment profit	31,977,679	15,181,005	47,158,684		27,647,121	14,805,541	42,452,662		21,738,089	38,144,803	59,882,892	
Other income	-	-	1,049,641		-	-	906,129		-	-	317,365	
Net profit for the year	31,977,679	15,181,005	48,208,325		27,647,121	14,805,541	43,358,791		21,738,089	38,144,803	60,200,257	

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues in the year (2008: AED nil, 2007: AED nil).

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

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

24 Segment information (continued)

24.2 Segment assets and liabilities

	As at 31 December 2009			As at 31 December 2008 (restated)			As at 31 December 2007 (restated)		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment assets									
Unallocated assets	236,199,993	436,479,931	672,679,924	237,034,530	404,557,159	641,591,689	222,836,445	495,073,837	717,910,282
	-	-	13,300,872	-	-	12,145,265	-	-	13,927,828
Total assets	<u>236,199,993</u>	<u>436,479,931</u>	<u>685,980,796</u>	<u>237,034,530</u>	<u>404,557,159</u>	<u>653,736,954</u>	<u>222,836,445</u>	<u>495,073,837</u>	<u>731,838,110</u>
Segment liabilities									
Unallocated liabilities	389,636,471	3,838,755	393,475,226	390,315,876	1,264,762	391,580,638	335,070,605	1,416,809	336,487,414
	-	-	5,495,580	-	-	5,147,058	-	-	2,847,910
Total liabilities	<u>389,636,471</u>	<u>3,838,755</u>	<u>398,970,806</u>	<u>390,315,876</u>	<u>1,264,762</u>	<u>396,727,696</u>	<u>335,070,605</u>	<u>1,416,809</u>	<u>339,335,324</u>
Capital expenditure	<u>998,767</u>	<u>-</u>	<u>998,767</u>	<u>1,917,230</u>	<u>-</u>	<u>1,917,230</u>	<u>1,025,741</u>	<u>-</u>	<u>1,025,741</u>

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

24 Segment information (continued)

24.3 Revenue from underwriting departments

The following is an analysis of the Company's revenues classified by major underwriting departments.

	Revenue 2009 AED	Revenue 2008 AED	Revenue 2007 AED
Motor	118,754,597	137,061,337	99,394,686
Engineering	39,102,188	39,410,731	43,132,483
Medical	29,931,695	15,616,730	7,033,006
Fire	19,342,236	17,740,086	23,868,534
Workmen's compensation and third party Liability	12,352,375	17,902,001	10,215,709
Others	47,209,668	45,102,997	49,222,883
	266,692,759	272,833,882	232,867,301

24.4 Geographical 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.

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

	Revenue 2009 AED	Revenue 2008 AED	Revenue 2007 AED	Total assets 2009 AED	Total assets 2008 AED (restated)	Total assets 2007 AED (restated)
United Arab Emirates	252,692,369	259,809,421	244,504,440	671,193,796	600,644,207	702,073,310
Other GCC countries	15,783,841	16,276,457	12,334,770	14,787,000	53,092,747	29,764,800
Others	19,824,636	25,789,743	16,428,362	-	-	-
	288,300,846	301,875,621	273,267,572	685,980,796	653,736,954	731,838,110

25 Contingent liabilities

	2009 AED	2008 AED
Bank guarantees	7,673,504	15,554,019

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

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

26 Insurance risk

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the 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.

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). Furthermore, the Company's strategy limits the total exposure to any one territory and the exposure to any one industry.

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

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

26 Insurance risk (continued)

Frequency and severity of claims (continued)

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set 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.

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 end of the reporting period.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

26 Insurance risk (continued)

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

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

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

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

<u>Type of risk</u>	<u>Year ended 31 December 2009</u>		<u>Year ended 31 December 2008</u>	
	<u>Gross Loss</u> Ratio	<u>Net Loss</u> Ratio	<u>Gross Loss</u> Ratio	<u>Net Loss</u> Ratio
Motor	83%	78%	52%	69%
Non-Motor	27%	29%	34%	29%

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 end of the reporting period to derive data for the contracts held. The Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. 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.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

26 Insurance risk (continued)

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:

Underwriting year	2005 and earlier AED'000	2006 AED'000	2007 AED'000	2008 AED'000	2009 AED'000	Total AED'000
<u>Motor - Gross:</u>						
At the end of the underwriting year	36,523	27,075	36,091	42,033	32,156	-
One year later	49,232	46,024	70,492	91,700	-	-
Two years later	49,831	49,556	76,975	-	-	-
Three years later	48,022	49,894	-	-	-	-
Four years later	44,405	-	-	-	-	-
Current estimate of cumulative claims	44,405	49,894	76,975	91,700	32,156	295,130
Cumulative payments to date	(30,217)	(43,360)	(65,603)	(73,800)	(22,284)	(235,264)
Liability recognised in the statement of financial position	14,188	6,534	11,372	17,900	9,872	59,866
<u>Non-motor - Gross:</u>						
At the end of the underwriting year	104,415	22,800	23,943	22,249	26,449	-
One year later	119,836	26,224	25,564	23,712	-	-
Two years later	152,500	27,188	32,118	-	-	-
Three years later	152,223	30,680	-	-	-	-
Four years later	146,412	-	-	-	-	-
Current estimate of cumulative claims	146,412	30,680	32,118	23,712	26,449	259,371
Cumulative payments to date	(76,836)	(21,554)	(18,387)	(13,706)	(11,576)	(142,059)
Liability recognised in the statement of financial position	69,576	9,126	13,731	10,006	14,873	117,312

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

26 Insurance risk (continued)

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:

<u>Type of risk</u>	<u>Year ended 31 December 2009</u>		<u>Year ended 31 December 2008</u>	
	<u>Gross</u> AED	<u>Net</u> AED	<u>Gross</u> AED	<u>Net</u> AED
<u>Motor</u>				
UAE countries	2,553,230,042	2,107,778,883	2,279,954,297	2,269,829,382
<u>Non-Motor</u>				
UAE countries	58,292,830,774	1,326,269,276	62,462,217,281	1,497,924,491
GCC countries	1,025,428,952	11,811,794	2,300,164,519	19,497,541
Others	1,732,056,399	90,653,640	1,445,679,942	97,246,150
	61,050,316,125	1,428,734,710	66,208,061,742	1,614,668,182
<u>Grand Total</u>	63,603,546,167	3,536,513,593	68,488,016,039	3,884,497,564

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

26 Insurance risk (continued)

Sensitivity of underwriting profit and losses

The contribution by the insurance operations to the net profit of the Company stood at 66.33% for the year ended 31 December 2009 (2008 – 63.76%). 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% (2008 – 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 32% (2008 – 46%) of the underwriting income predominantly from the reinsurance placement which remains as a comfortable source of income.

Because of low risk retention of 57% (2008 – 54%) of the volume of the business and limited exposure in high retention areas like Motor, the Company is comfortable to maintain an overall net loss ratio in the region of 64% (2008 - 74%) and does not foresee any serious financial impact in the insurance net profit.

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 Laws 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.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

27 Financial instruments (continued)

27.1 Capital risk management (continued)

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.

	2009 AED	2008 AED
Minimum regulatory capital (a)	50,000,000	50,000,000
Total equity	286,559,990	257,009,258

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

The Company has initiated a plan to increase the capital in order to comply with the above requirements.

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 2009 (continued)**

27 Financial instruments

27.3 Categories of financial instruments

	2009 AED	2008 AED	2007 AED
Financial assets			
AFS investments	-	107,726,678	167,705,212
Investments designated at FVTOCI	64,192,941	-	-
Investments designated at FVTPL	17,484,910	-	-
Investments at amortised cost	47,561,400	44,443,800	31,600,800
Statutory deposits	10,000,000	6,000,000	4,500,000
Reinsurance contract assets	166,664,169	178,768,315	181,601,368
Trade and other receivables	65,135,565	53,787,117	37,940,435
Bank balances and cash	229,541,552	183,531,946	230,195,653
Total	600,580,537	574,257,856	653,543,468
Financial liabilities			
Insurance contract liabilities	274,830,898	282,280,270	270,256,828
Trade and other payables	119,559,739	109,771,453	64,784,127
Total	394,390,637	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 end of the reporting period were outstanding for the whole year.

If interest rates had been 100 basis points higher\lower and all other variables were held constant, the Company's profit for the year ended 31 December 2009 would increase\decrease by AED 2.4 million (2008 – AED 1.9 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 2009 (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		
	2009 AED	2008 AED	2007 AED	2009 AED	2008 AED	2007 AED
US Dollars	2,207,455	2,191,819	5,659,807	9,346,591	83,026,105	60,556,470
Oman Riyals	3,509	20,104	-	14,787,000	19,777,148	29,779,612
Pound Sterling	31,275	178,089	96,845	660,223	932,556	93,801
Euro	72,460	118,050	50,449	177,653	354,202	285,049
	<u>2,314,699</u>	<u>2,508,062</u>	<u>5,807,101</u>	<u>24,971,467</u>	<u>104,090,011</u>	<u>90,714,932</u>

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 2.95 million (2008 – AED 3.95 million) net revaluation gain/loss on the Omani Riyal outstanding balances.
- (b) there is AED 126 thousand (2008 – AED 151 thousand) net revaluation gain/loss on the Pound Sterling outstanding balances.
- (c) there is AED 21 thousand (2008 – 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.

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

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 2009 and 2008, 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 2009 (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 end of the reporting period 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 2009			
Insurance contract liabilities	274,830,898	-	274,830,898
Trade and other payables	119,559,739	119,559,739	-
Total	394,390,637	119,559,739	274,830,898
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

**Notes to the financial statements
for the year ended 31 December 2009 (continued)**

27 Financial instruments (continued)

27.9 Fair value of financial assets and liabilities

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

Following the amendment to IFRS 7, all financial instruments that are required to be measured at fair value (subsequent to initial recognition) should be disclosed in a fair value hierarchy or grouping into 3 levels (Levels 1 to 3) based on the degree to which the fair value is observable.

Level 1 fair values are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices, and Level 3 are those that are derived from valuation techniques using unobservable inputs.

As at 31 December 2009, all of the Company's financial assets that are stated at fair value are grouped in Level 1. The Company does not carry financial liabilities at fair value.

There were no transfers between Level 1 and 2 during the year.

28 Comparative figures

Certain comparative figures have been reclassified to conform with the current year presentation.

29 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors in their meeting of 9 February 2010.