شركة الصقر الوطنية للتأمين

Al Sagr National Insurance Co.

His Highness

Sheikh Khalifa Bin Zayed Al Nahyan

President of the United Arab Emirates

His Highness

Sheikh Mohammed Bin Rashid Al Maktoum

Vice President and Prime Minister of the United Arab Emirates

and Ruler of Dubai

Head Office, Branches & Associate

HEAD OFFICE

DUBAI

Al Hilal Building, 3rd Floor, Flat Nos. 301/302
Al Garhoud Road, P.O. Box 14614 and 10276
Tel: 04 282 7880, Fax: 04 282 1873
Email: asnic@emirates.net.ae
Website: www.alsagrins.ae

BRANCHES

SHARJAH

Corniche Plaza II, 5th Floor, Flat Nos. 501/502
Corniche Road, P.O. Box 4412
Tel: 06 572 4686, Fax: 06 572 1671
Email: asnicshj@eim.ae

ABU DHABI

Mohd Bin Sultan Al Dahiri Bldg.
Mezzanine Floor, Flat 02
Airport Road, P.O. Box 4907
Tel: 02 621 1777, Fax: 02 621 5656
Email: asnicauh@emirates.net.ae

AJMAN

Jawahra Building, P.O. Box 3927
Sheikh Khalifa Bin Zayed Road
Tel: 06 746 3414, Fax: 06 746 3424
Email: asnicajm@emirates.net.ae

AL AIN

Sheikh Khalifa Bin Zayed Building, Al Sanaya Road
Office No. M2, Flat Nos. 203/204, P.O. Box 87162
Tel: 03 764 0911, Fax: 03 764 0912
Email: asnicaln@emirates.net.ae

BUR DUBAI

National Bank of UAQ Bldg, Suite 308
Bank Street, P.O. Box 33979
Tel: 04 397 7233, Fax: 04 397 7244
Email: asnickw@emirates.net.ae

SHEIKH ZAYED ROAD

Gold & Diamond Park
Bldg. No. 6, Office 210, P.O. Box 14614
Tel: 04 341 1300, Fax: 04 341 1800
Email: asniczh@emirates.net.ae

RAS AL KHAIMAH

Shk Omar Building, 2nd Floor , Apartment 7, P.O. Box 13353
Al Nakheel Area, Oman Road
Tel: 07 222 0277, Fax: 07 222 0279
Email: asnicrak@emirates.net.ae

ASSOCIATE COMPANY
AL SAGR CO-OPERATIVE INSURANCE COMPANY, SAUDI ARABIA

HEAD OFFICE

AL KHOBAR

Al Suwaiket Building, 1st Floor
Adjacent to Euro Village Compound
Prince Sultan Road, P.O. Box 3501, Al Khobar 31952
Tel: 8596124/8595363/8596047/8591598, Fax: 8595490

BRANCHES

DAMMAM

A.A. Turki Building, 1st Floor
P.O. Box 3501, Dammam 31421
Tel: 8302294/8333483/8333674
Fax: 8302296

RIYADH

Platinum Centre, Suite Nos. 501/502
Al Malaz Sitteen Street, Salah Al Din Road
P.O. Box 94, Riyadh 11312
Tel: 475 2233
Fax: 475 2255

JEDDAH

Al Khayat Towers, 1st & 7th Floors
Opposite Arab National Bank
Al Madina Road, P.O. Box 20714
Jeddah 21465, Tel: 663 2439/663 2448
Fax: 663 2468

Table of Contents

Board of Directors

Chairman	:	Mr. Abdulla Juma Al Sari
Vice-Chairman	:	Mr. Khalid Abdulla Omran
Director	:	Mr. Amjad Mohd Yusri Al Dweik
Director	:	Mr. Majid Abdulla Al Sari
Director	:	Mr. Mohamed Abdulla Al Sari
Director & CEO	:	Mr. Sami Shakhshir

General Manager	:	Mr. Aimen Saba Azara
Auditors	:	Deloitte & Touche (M.E.)

Report Of The Board Of Directors

I am pleased to address you in the General Assembly Meeting to present our Company's Annual Report and the Financial Statements for the year ended 31st December 2008, to discuss and approve the same.

During the fourth quarter of 2008 the world witnessed a number of financial changes which when compared with recent previous years reflected a sharp drop in the local and international stock markets. This sharp drop resulted in a heavy decrease in profits in almost every industry affecting the global economy as a whole. Notably, the most affected sectors of businesses were banking and financial investment institutions . This change in the global financial climate not only affected a decrease in profitability but also caused a number of companies, large and small to close down or file for bankruptcy. The insurance and reinsurance industry was not immune to this downturn, and had their share of challenges during 2008.

During this uncertainty Al-Sagr National Insurance Company was able to weather the storm and pass it safely due to its balanced investment portfolio and the sound technical management approach. Our strategy was executed by moving forward to increase our market share in a balanced manner and as a consequence our written premiums reached AED458 million with a return of net profits totalling AED67 million.

While we are extremely optimistic about the year 2009 and our future ahead, we remain cautious and vigilant. We believe that the storm has not ended and more turbulence will be evident during the year 2009. We will continue in the future to apply the highest level of efforts to ensure good results for the shareholders.

On the other hand, as related to the newly formed Al Sagr Co-operative Insurance Company (ASCIC), the entire insurance portfolio of Al Sagr Saudi Insurance Company (ASSIC) as at 28th December 2008 in line with the transfer procedures approved by the Saudi Arabian Monetary Agency (SAMA) will be transferred to ASCIC. Accordingly, a General Assembly Meeting was held in Al Khobar resulting in the decision to buy the insurance portfolio of ASSIC. It was also agreed that a committee from the board of directors should be chosen to oversee this transaction. Another decision was taken to appoint an actuary to handle the final accounting figures for the portfolio. As a result, all the formal government agencies of Bahrain were notified and their response was to immediately liquidate the company. This is being tackled and should be finalized within a short period.

The following are the financial highlights:

1. PREMIUMS

The gross written premium totalled AED457,430,851/- in 2008 as against AED341,861,735/- in 2007, the increase being AED115,569,116/-. Gross retention for 2008 stood at AED243,365,385/- compared to AED169,451,565/- in the previous year, the increase being AED73,913,820/-.

A broad classification of the written premiums is as under:

a) Accidents and Liabilities

Total gross written premiums amounted to AED315,129,697/- compared to AED230,224,146/- in the previous year, the increase being AED84,905,551/-.

b) Marine

Total gross written premiums under this section stood at AED123,107,936/- in the year under review whilst in 2007 it was AED98,005,983/-, the increase being AED25,101,953/-.

c) Fire

Fire premiums totalled AED19,193,218/- in 2008 as against AED13,631,606/- of the previous year, the increase being AED5,561,612/-.

2. TECHNICAL RESERVES

The Net Technical Reserves for insurance contract liabilities at the end of the year was AED160,383,638/- as against AED155,378,864/- in the previous year. Such reserves are incorporated in accordance with the laws and insurance practices.

3. CAPITAL RESERVES

A. Statutory Reserves:

The Statutory Reserves increased to AED43,813,683/- as against AED37,099,907/- for the year 2007.

B. General Reserves:

The General Reserves was increased to AED150,000,000/- in 2008 as against AED100,000,000/- in the previous year.

4. ASSETS

Total Assets reached AED1,250,724,966/- in 2008 as against AED1,165,483,015/- in 2007, the increase being AED85,241,951/- over the previous year.

The shareholders' equity reached AED567,844,001/- as against AED472,376,847/- in 2007, the increase being AED95,467,154/- over the previous year.

5. ADMINISTRATIVE AND GENERAL EXPENSES

The Administrative and General Expenses for the year under review was AED23,956,144/- as against AED15,949,786/- for 2007.

6. TECHNICAL & INVESTMENT INCOME

Net Technical Profit soared to AED58,708,883/- from AED46,464,026/- in 2007. An Investment profit for the year 2008 is AED13,973,366/- as against AED65,449,814/- in the previous year. The retained earnings of AED173,920,318/-, which includes AED113,496,333/- carried forward from the previous year, was ascertained after due transfer to minority interest and statutory reserves.

The Board of Directors recommends the distribution of the retained earnings as follows:

	AED
Directors remuneration	900,000
Increase in capital	30,000,000
Increase in general reserves	50,000,000
Retained earnings	93,020,318
Total	**173,920,318**

7. RECOMMENDATIONS OF THE BOARD TO THE SHAREHOLDERS

The Board of Directors submit the following recommendations to the shareholders at their Ordinary General Meeting:

1. To consider, discuss and approve the Auditor's Report for the year ended 31st December 2008.
2. To consider, discuss and approve the Balance Sheet, Profit & Loss Accounts for the year ended 31st December 2008.
3. To discuss and approve the proposal of increasing the share capital by AED30 million through issuance of bonus shares.
4. To discharge and absolve the Board of Directors and the Management from any liabilities arising out of their management of the Company during the year ended 31st December 2008.
5. To appoint Auditors for the year ending 31st December 2009.

In conclusion, I would like to express my gratitude and thanks to all the shareholders of the Company for their continued support. Also, a word of appreciation goes to the Management and Staff of the Company whose outstanding efforts counted much in achieving this good result.

Above all, we recall the unstinted support and co-operation received from our esteemed clients, individuals as well as corporate, to whom our whole achievements, could be attributed. On behalf of the Board of Directors, I would like to reassure our valued clients that our resolve and commitment to offer utmost personalized service of the highest standard will continue unabated.

Abdulla Juma Al Sari
Chairman

Independent Auditor's Report

The Shareholders
Al-Sagr National Insurance Company (Public Shareholding Company)
Dubai, United Arab Emirates

Report on the Financial Statements

We have audited the accompanying financial statements of **Al-Sagr National Insurance Company (a Public Shareholding Company) - Dubai, United Arab Emirates** ("the Company"), which comprise the balance sheet as of December 31, 2008, and the income statement, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Al-Sagr National Insurance Company (a Public Shareholding Company), Dubai** as of December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 9 to the financial statements with respect to the discontinued operations of the Company's subsidiary Al Sagr Saudi Insurance Company. The subsidiary discontinued its operations with effect from December 28, 2008 as instructed by the Saudi Arabian Monetary Agency (SAMA). Consequently, the result of operations of the subsidiary for the period from January 1, 2008 to December 28, 2008 is not consolidated and is presented under profit from discontinued operations in the income statement. The assets and liabilities of the subsidiary will be transferred to the newly formed company (Al Sagr Company for Co-operative Insurance) in which the Company holds 26% ownership, upon completion of the valuation procedures instructed by "SAMA".

Report on Other Legal and Regulatory Requirements

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

Deloitte & Touche (M.E.)

Musa F. Dajani (Partner)
Registration No. 323

Dubai
March 4, 2009

Balance Sheet

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

	Note	December 31, 2008	December 31, 2007
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	5	**2,636,398**	2,263,145
Investment property under construction	6	**43,114,008**	29,144,519
Investment in associates	7	**51,584,294**	54,862,034
Investment in joint venture	8	**127,639,771**	-
Investment in subsidiary - discontinued operation	9	**23,290,575**	-
Held-to-maturity investments	10	**7,945,519**	26,924,816
Available-for-sale investments	10	**625,000**	3,100,000
Total non-current assets		**256,835,565**	116,294,514
CURRENT ASSETS			
Reinsurance contract assets	11	**200,454,733**	394,963,592
Insurance and other receivables	12	**243,067,875**	229,066,625
Due from related party	24 & 30	**3,495,074**	-
Investments held for trading	10	**340,117,304**	183,776,329
Bank balances and cash	13	**206,754,415**	241,381,955
Total current assets		**993,889,401**	1,049,188,501
TOTAL ASSETS		**1,250,724,966**	**1,165,483,015**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	14	**200,000,000**	100,000,000
Statutory reserve	15	**43,813,683**	37,099,907
General reserve	16	**150,000,000**	100,000,000
Investments revaluation reserve	17	**110,000**	2,585,000
Retained earnings		**173,920,318**	214,246,333
Equity attributable to equity holders of the parent		**567,844,001**	453,931,240
Minority interest	18	**-**	18,445,607
Total Shareholders' Equity		**567,844,001**	472,376,847
NON-CURRENT LIABILITIES			
Due to related parties	30	**11,904,068**	11,760,000
Provision for employees' end of service indemnity	19	**7,809,448**	7,924,083
Bank borrowings	20	**61,520,745**	-
Total non-current liabilities		**81,234,261**	19,684,083
CURRENT LIABILITIES			
Insurance contract liabilities	11	**360,838,371**	550,342,456
Bank borrowings	20	**87,738,535**	8,807,982
Insurance and other payables	21	**123,948,371**	114,271,647
Advances from related parties	22 & 30	**29,121,427**	-
Total current liabilities		**601,646,704**	673,422,085
Total Liabilities		**682,880,965**	693,106,168
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,250,724,966**	1,165,483,015

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

Income Statement

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

	Note	December 31, 2008	December 31, 2007
Gross insurance premium revenue		**457,430,851**	341,861,735
Less: Insurance premium ceded to reinsurers		**(214,065,466)**	(172,410,170)
Net retained premium revenue		**243,365,385**	169,451,565
Net changes in unearned premium	11	**(31,226,375)**	(18,351,260)
Net insurance premium revenue		**212,139,010**	151,100,305
Gross claims settled	11	**(426,779,241)**	(258,187,998)
Insurance claims recovered from reinsurers	11	**270,666,984**	142,554,914
Net claims settled	11	**(156,112,257)**	(115,633,084)
Net changes in outstanding claims		**(17,935,370)**	(18,092,899)
Net claims incurred	11	**(174,047,627)**	(133,725,983)
Gross commissions earned and documentation fees		**81,691,421**	71,501,629
Less: Commissions incurred		**(37,117,777)**	(26,462,139)
Net commissions earned and documentation fees		**44,573,644**	45,039,490
Underwriting profit		**82,665,027**	62,413,812
General and administrative expenses relating to underwriting activities		**(23,956,144)**	(15,949,786)
Net underwriting profit		**58,708,883**	46,464,026
Investment revenue	23	**13,918,966**	71,781,573
Revenue/(loss) from joint venture		**54,400**	(6,331,759)
Share of profit from an associate	7	**624,294**	-
Finance costs		**(5,869,752)**	(1,881,628)
Other net income	24	**845,038**	253,997
Unallocated general and administrative expenses		**(5,989,036)**	(3,987,446)
Profit for the year from continuing activities		**62,292,793**	106,298,763
Discontinued operations:			
Profit for the year from discontinued operations	9	**4,844,968**	14,985,858
Net Profit for the year	25	**67,137,761**	121,284,621
Attributable to:			
Equity holders of the parent		**67,137,761**	113,791,692
Minority interest		**-**	7,492,929
		67,137,761	121,284,621
Basic earnings per share	26	**0.36**	0.98

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

Statement of Changes in Shareholders' Equity

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

	Share capital	Statutory reserve	General reserve	Investments revaluation reserve	Retained earnings	Attributable to equity holders of parent	Minority interest	Total
Balance at December 31, 2006	100,000,000	25,720,738	100,000,000	-	114,965,470	340,686,208	17,254,338	357,940,546
Prior year adjustment	-	-	-	-	(2,381,660)	(2,381,660)	(2,381,660)	(4,763,320)
Restated balance at January 1, 2007	100,000,000	25,720,738	100,000,000	-	112,583,810	338,304,548	14,872,678	353,177,226
Gain on revaluation of available-for-sale investments recognized directly in equity	-	-	-	2,585,000	-	2,585,000	-	2,585,000
Net income recognized directly in shareholders' equity	**-**	**-**	**-**	**2,585,000**	**-**	**2,585,000**	**-**	**2,585,000**
Net profit for the year	-	-	-	-	113,791,692	113,791,692	7,492,929	121,284,621
Total recognized income	**-**	**-**	**-**	**2,585,000**	**113,791,692**	**116,376,692**	**7,492,929**	**123,869,621**
Dividends	-	-	-	-	-	-	(3,920,000)	(3,920,000)
Board of Directors' remuneration paid	-	-	-	-	(750,000)	(750,000)	-	(750,000)
Transfer to statutory reserve	-	11,379,169	-	-	(11,379,169)	-	-	-
Balance at December 31, 2007	100,000,000	37,099,907	100,000,000	2,585,000	214,246,333	453,931,240	18,445,607	472,376,847
Issue of bonus shares (Note 14)	50,000,000	-	-	-	(50,000,000)	-	-	-
Rights issue of shares (Note 14)	50,000,000	-	-	-	-	50,000,000	-	50,000,000
Loss on revaluation of available-for-sale investments recognized directly in equity	-	-	-	(2,475,000)	-	(2,475,000)	-	(2,475,000)
Net loss recognized directly in shareholders' equity	**-**	**-**	**-**	**(2,475,000)**	**-**	**(2,475,000)**	**-**	**(2,475,000)**
Net profit for the year	-	-	-	-	67,137,761	67,137,761	-	67,137,761
Total recognized income	**-**	**-**	**-**	**(2,475,000)**	**67,137,761**	**67,137,761**	**-**	**67,137,761**
Minority interest on discontinued Operations (Note 18)	-	-	-	-	-	-	(18,445,607)	(18,445,607)
Board of Directors' remuneration paid	-	-	-	-	(750,000)	(750,000)	-	(750,000)
Transfer to statutory reserve	-	6,713,776	-	-	(6,713,776)	-	-	-
Transfer to general reserve (Note 16)	-	-	50,000,000	-	(50,000,000)	-	-	-
Balance at December 31, 2008	**200,000,000**	**43,813,683**	**150,000,000**	**110,000**	**173,920,318**	**567,844,001**	**-**	**567,844,001**

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

Cash Flow Statement

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

	Year ended December 31 2008	Year ended December 31 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year	**67,137,761**	121,284,621
Adjustments for:		
Depreciation of property and equipment	**642,636**	440,585
Allowance for doubtful debts	**2,000,000**	1,246,797
Investment revenue	**(42,410,048)**	(34,470,797)
Decrease/(increase) in reinsurance contract assets	**147,607,673**	(211,244,975)
(Decrease)/increase in insurance contract liabilities	**(98,445,930)**	249,117,162
Loss/(gain) on revaluation of held for trading investments	**29,995,473**	(34,506,725)
Provision for employees' end of service indemnity	**2,504,902**	2,800,344
Loss on disposal of property and equipment	**-**	37,727
Share of profit from an associate	**(624,294)**	-
Profit from discontinued operations	**(4,844,968)**	-
Finance costs	**5,869,752**	1,881,628
Operating cash flows before movements in working capital	**109,432,957**	96,586,367
Increase in fixed deposits maturing after 3 months from the date of deposit	**(12,271,348)**	(143,651,781)
Increase in insurance and other receivables	**(68,896,965)**	(61,158,518)
Increase in insurance and other payables	**19,456,009**	53,887,860
Increase in advances from related parties	**29,121,427**	-
Cash generated from/(used in) operations	**76,842,080**	(54,336,072)
Interest paid	**(5,869,752)**	(1,881,628)
Employees' end of service indemnity paid	**(222,691)**	(62,544)
Net cash from/(used in) operating activities	**70,749,637**	(56,280,244)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments property under construction	**-**	64,712,311
Additions to investment property under construction	**(13,969,489)**	(30,227,802)
Proceeds from sale of investments in securities	**243,261,114**	250,966,988
Purchase of investments in securities	**(404,393,300)**	(167,353,229)
Proceeds from sale of investment in joint venture	**-**	23,252,128
Addition of investments in joint venture	**(127,639,771)**	(923,808)
Purchase of investments in associates	**-**	(45,975,067)
Purchase of property and equipment	**(1,833,071)**	(1,802,143)
Interest received	**8,418,288**	6,549,923
Dividends received	**5,226,795**	4,976,195
Rent received net of expenses	**-**	428,755
Receipt from an associate	**1,960,000**	-
Net cash (used in)/from investing activities	**(288,969,434)**	104,604,251
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in share capital	**50,000,000**	-
Net increase in due (from) / to related parties	**(3,351,006)**	11,760,000
Directors' remuneration paid	**(750,000)**	(750,000)
Increase/(decrease) in bank borrowings	**140,451,298**	(34,871,824)
Dividends paid to minority	**-**	(3,920,000)
Net cash from/(used in) financing activities	**186,350,292**	(27,781,824)
Net (decrease)/increase in cash and cash equivalents	**(31,869,505)**	20,542,183
Cash and cash equivalents at the beginning of the year	**38,798,948**	18,256,765
Adjustment for the cash and cash equivalent of discontinued operation included in the beginning balance	**(4,188,133)**	-
Cash and cash equivalents at the end of the year (Note 27)	**2,741,310**	38,798,948

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

1. General Information

Al-Sagr National Insurance Company, Dubai (the "Company") was incorporated on December 25, 1979 as a public shareholding company by an Emiri Decree from His Highness, The Ruler of Dubai, and is registered with the Ministry of Economy of the United Arab Emirates under registration No. (16). The Company's address in Dubai is P.O. Box 14614, Dubai, U.A.E.

The principal activity of the Company is the writing of insurance of all types. The Company operates through its Head Office in Dubai and its branches in Dubai, Sharjah, Abu Dhabi, Ajman, Al Ain and Ras Al Khaimah in the United Arab Emirates.

The Company also operates in Saudi Arabia under the name of Al-Sagr Saudi Insurance Company (a Bahraini shareholding closed exempt company) and in which the Company owns 50% of its capital (the subsidiary). During the year, the result of operations of the subsidiary are classified as a discontinued operation (Note 9).

Under the new Co-operative insurance regulations promulgated in the Kingdom of Saudi Arabia by a Royal decree number M/32 dated 2/6/1424 (July 31, 2003), insurance in the Kingdom shall be undertaken through registered companies operating in a co-operative manner. No insurance or re-insurance company may be incorporated in the Kingdom without a license issued by Royal Decree provided that it will be operating as a public joint stock company and having a minimum paid up capital of SR 100 million. Accordingly, the Company was required to obtain a license to practice its insurance activities in the Kingdom of Saudi Arabia.

During 2004, the shareholders of the Company had submitted an application for the insurance license with Saudi Arabian Monetary Agency ("SAMA") under a new company, namely "Al Sagr Company for Co-operative Insurance", in which the Company holds 26% of the subsidiary. This company obtained its license from the regulatory authorities in the Kingdom of Saudi Arabia during 2007 and has been registered under commercial registration number 1010243765 dated Muharram 26, 1429 (February 4, 2008).

2. Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current year

Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are: IFRIC 11 - IFRS-2: *Group Treasury Shares Transactions*, IFRIC 12 *Service Concession Arrangements*, and IFRIC 14 – *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

Standards and Interpretations in issue not yet adopted

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

IAS 1 (Revised) *Presentation of financial statements* (effective for annual periods beginning on or after January 1, 2009);

IAS 23 (Revised) *Borrowing Costs* (effective for annual periods beginning on or after January 1, 2009);

IAS 27 (Revised) *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2009);

IAS 32 (Revised) *Financial Instruments: Presentation* (effective for annual periods beginning on or after January 1, 2009);

IAS 39 (Revised) *Financial Instruments: Recognition and Measurement* (effective for annual periods beginning on or after July 1, 2009);

IFRS 1 (Revised) *First-time Adoption of International Financial Reporting Standards* (effective for annual periods beginning on or after January 1, 2009);

IFRS 2 (Revised) *Share-based Payment* (effective for annual periods beginning on or after January 1, 2009);

IFRS 3 (Revised) *Business Combinations* (effective for annual periods beginning on or after July 1, 2009);

IFRS 8 *Operating Segments* (effective for annual periods beginning on or after January 1, 2009);

IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after July 1, 2008);

IFRIC 15 *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after January 1, 2009);

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after October 1, 2008);

IFRIC 17 *Distribution of Non-cash Assets to Owners* (effective for annual periods beginning on or after July 1, 2009); and

IFRIC 18 *Transfers of Assets from Customers* (transfers received on or after July 1, 2009).

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

3. Significant accounting policies

Statement of compliance

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

Basis of preparation

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

Insurance contracts

Definition

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

Recognition and measurement

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

Short-term insurance contracts

These contracts are casualty and property insurance contracts.

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

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

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

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

Reinsurance contracts held

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

Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the balance sheet date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the balance sheet date and is estimated using the 1/24th method. The unearned premium calculated by the above method (after reducing the reinsurance share) complies with the minimum unearned premium amounts to be maintained using the 25% and 40% method for marine and non-marine business respectively, as required by U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents. The unearned premium calculated by the 1/24th method accounts for the estimated acquisition costs incurred by the Company to acquire policies and defers these over the life of the policy.

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

Deferred policy acquisition costs

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

Salvage and subrogation reimbursements

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

Liability adequacy test

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

Receivables and payables related to insurance contracts

Receivables and payables are recognized 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 profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

Revenue recognition

Insurance contract income

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

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Dividend income

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

Rental income

Rental income from investment property which are leased under operating leases are recognized on a straight-line basis over the term of the relevant lease.

General and administrative expenses

20% of general and administrative expenses for the year are allocated to insurance departments in proportion to each department's share of written premiums.

Foreign currencies

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

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on 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 recognized in profit or loss in the year in which they arise except for:

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

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Leasing

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate) are not recognized.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where an entity undertakes its activities under joint venture arrangements directly, the entity's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the entity's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the entity and their amount can be measured reliably.

Investment property under construction

Investment property under construction is stated at cost.

Impairment of tangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Financial assets

Financial assets are classified into the following specified categories: available-for-sale investments, held-to- maturity investments and investments held for trading classified as 'investments', insurance and other receivables, and bank balances and cash classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Cash and cash equivalents

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

Insurance and other receivables

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Investments

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

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

AFS financial assets

Unlisted shares and listed shares held by the Company traded in an active market are classified as being available for sale and are stated at fair value. Gains and losses arising from the changes in the fair value are recognized directly in the equity in the investments revaluation reserve with the exception of impairment losses. Where the investment is disposed off or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss.

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

Impairment of financial assets

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

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

Fair value of financial instruments

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

- The fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the balance sheet date;
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Derecognition of financial assets

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

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

Insurance and other payables, bank borrowings and due to related parties are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

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

Dividend distribution

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

Critical accounting judgements

Classification of investments

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

The Company classifies investments as FVTPL - held for trading if they are acquired primarily for the purpose of making a short term profit by the dealers. The Company classifies investments held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Company's positive intention and ability to hold those assets to maturity. Other investments are classified as available-for-sale.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models.

Impairment of financial assets

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

The ultimate liability arising from claims made under insurance contracts

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

Note 33, claims development process, present the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Company's estimation technique for claims payments.

Key sources of estimation uncertainty

Impairment of insurance receivables

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Company evaluating, the credit and liquidity position of the policy holders and the insurance companies, historical recovery rates including detailed investigations carried out during 2007 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognized as an expense in the income statement. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognized in the income statement at the time of collection.

Liability adequacy test

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

5. Property and equipment

	Office improvement (AED)	Furniture and equipment (AED)	Motor vehicles (AED)	Total (AED)
COST				
At December 31, 2006	1,168,373	2,305,324	402,275	3,875,972
Additions	911,784	866,039	24,320	1,802,143
Disposals	(320,211)	(195,160)	(12,740)	(528,111)
At December 31, 2007	1,759,946	2,976,203	413,855	5,150,004
Additions	149,125	1,683,946	-	1,833,071
Disposals	-	(518,000)	(5,300)	(523,300)
Discontinued operations (Note 9)	(435,081)	(664,540)	(138,155)	(1,237,776)
At December 31, 2008	**1,473,990**	**3,477,609**	**270,400**	**5,221,999**
ACCUMULATED DEPRECIATION				
At December 31, 2006	1,028,911	1,587,491	320,256	2,936,658
Charge for the year	189,816	228,850	21,919	440,585
Eliminated on disposal	(290,770)	(195,155)	(4,459)	(490,384)
At December 31, 2007	927,957	1,621,186	337,716	2,886,859
Charge for the year	178,858	459,927	3,851	642,636
Eliminated on disposal	-	(518,000)	(5,300)	(523,300)
Discontinued operations (Note 9)	(169,282)	(176,962)	(74,350)	(420,594)
At December 31, 2008	**937,533**	**1,386,151**	**261,917**	**2,585,601**
CARRYING AMOUNT				
At December 31, 2008	**536,457**	**2,091,458**	**8,483**	**2,636,398**
At December 31, 2007	831,989	1,355,017	76,139	2,263,145

At December 31, 2008, the cost of fully depreciated property and equipment that was still in use amounted to AED 2,269,924 (2007: AED 2,480,722).

The useful life used in the calculation of depreciation for all assets is 3 to 4 years.

6. Investment property under construction

	2008 (AED)	2007 (AED)
At the beginning of the year	**29,144,519**	60,419,799
Additions during the year	**13,969,489**	30,227,802
Disposals during the year	-	(61,503,082)
Cost, at the end of the year	**43,114,008**	29,144,519

These are initially stated at cost comprising purchase price and any directly attributable expenditure. All investment properties are situated in U.A.E.

7. Investment in associates

	December 31, 2008 (AED)	December 31, 2007 (AED)
Al Sagr Co-operative Insurance Company, Kingdom of Saudi Arabia	**51,584,294**	52,920,000
Najm Project for Motor Insurance Development, Kingdom of Saudi Arabia	-	1,942,034
	51,584,294	54,862,034

Details of the Company's associate at December 31, 2008 are as follows:

Company name	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Al Sagr Co-operative Insurance Company	Kingdom of Saudi Arabia	26	26	Insurance and reinsurance

Summarised financial information in respect of the Company's associate is set out below:

	December 31, 2008 (AED)	December 31, 2007 (AED)
Total assets	**203,854,793**	-
Total liabilities	**(5,453,664)**	-
Net assets	**198,401,129**	-
Share of associate's net assets	**51,584,294**	-

	December 31, 2008 (AED)	December 31, 2007 (AED)
Commission income	**10,228,819**	-
Profit for the year	**2,401,130**	-
Share of associate's profit for the year	**624,294**	-

Al Sagr Co-operative Insurance Company started its operations during 2008. There were no operations in 2007 as the company was under formation.

8. Investments in Joint Venture

	December 31, 2008 (AED)	December 31, 2007 (AED)
Investment in joint venture with Gulf General Investment Company (GGICO) (Note 30)	**127,639,771**	-

The Company has established a joint venture with GGICO on 3 projects whose details are as follows:

(i) A 10% ownership share in Meydan Tower, a property located in Dubai. The Company has contributed AED 67,840,000 as at December 31, 2008. The 10% ownership is held in the name of GGICO on trust and for the benefit of the Company.

(ii) A 50% ownership share in the purchase of a plot of land in Al Barsha. The Company has contributed AED 41,277,411 as at December 31, 2008. The land is registered in the name of the Company.

(iii) A 30% ownership share in the purchase of 4 plots of land at Emirates Industrial City. The Company has contributed AED 18,522,360 as at December 31, 2008. The 30% ownership is held in the name of GGICO on trust and for the benefit of the Company.

9. Investments in subsidiary - discontinued operations

Discontinued operations of the Al Sagr Saudi Insurance Company

The operations of the Company's subsidiary Al Sagr Saudi Insurance Company were discontinued with effect from December 28, 2008. The assets and liabilities of the Al Sagr Saudi Insurance Company will be transferred to the newly formed Company - Al-Sagr Company for Co-operative Insurance in which the Company holds 26% ownership upon completion of the valuation procedures instructed by the Saudi Arabian Monetary Agency ("SAMA").

The results of the operations of the subsidiary for the period from January 1, 2008 to December 28, 2008 are not consolidated and are presented under profit from discontinued operation in the income statement and represent 50% of the subsidiary net profit for the period ended December 28, 2008.

The following are the book values of assets, liabilities and shareholders' equity which were consolidated in the balance sheet as of December 31, 2007.

	December 31, 2007 (AED)
Property and equipment	817,182
Investment in associate	1,942,034
Held-to-maturity investments	22,540,000
Reinsurance contract assets	46,901,186
Insurance and other receivables	52,895,715
Bank balances and cash	15,029,383
Provision for employees' end of service indemnity	(2,396,846)
Insurance contract liabilities	(91,058,155)
Insurance and other payables	(9,779,285)
Net assets	36,891,214

Attributable to:

Equity holders of the parent	18,445,607
Minority interest	18,445,607
Net assets	36,891,214

Following is the movement of investment in subsidiary – discontinued operation:

	December 31, 2008 (AED)	December 31, 2007 (AED)
Share of the balance at beginning of the year	**18,445,607**	-
Profit during the year	**4,844,968**	-
Balance at the end of the year	**23,290,575**	-

Analysis of profit for the year from discontinued operations

The results of the discontinued operations included in the income statement are set out below. The comparative profit and cash flows from discontinued operations have been represented to include those operations classified as discontinued in the current period.

	December 31, 2008 (AED)	December 31, 2007 (AED)
Net insurance premium revenue	**76,944,118**	53,511,654
Net claims incurred	**(56,221,921)**	(37,072,784)
Net commission earned and documentation fees	**1,027,135**	5,417,676
Underwriting profit	**8,884,091**	20,609,096
Profit for the year	**4,844,968**	14,985,858

10. Investments in securities

	December 31, 2008 (AED)	December 31, 2007 (AED)
Held for trading investments	**340,117,304**	183,776,329
Available-for-sale investments	**625,000**	3,100,000
Held-to-maturity investments	**7,945,519**	26,924,816
	348,687,823	213,801,145

Financial assets at FVTPL include AED 11,205,000 (2007: AED 13,717,212) of unquoted investments, which are recognized at fair value based on the valuation provided by independent fund valuers.

Held to maturity investments include an investment in fund with a related party amounting to AED 3,445,519.

All investments in securities are held within U.A.E.

Following are the movement of investments in securities during the year 2008:

	December 31, 2008 (AED)	December 31, 2007 (AED)
a) Held for trading Investments:		
Fair value, at the beginning of the year	**183,776,329**	214,644,509
Net additions/(disposals) during the year	**186,336,448**	(65,374,905)
(Decrease)/increase in fair value	**(29,995,473)**	34,506,725
Fair value, at the end of the year	**340,117,304**	183,776,329

	December 31, 2008 (AED)	December 31, 2007 (AED)
b) Available-for-sale investments:		
Fair value, at the beginning of the year	**3,100,000**	515,000
(Decrease)/increase in fair value	**(2,475,000)**	2,585,000
Fair value, at the end of the year	**625,000**	3,100,000

	December 31, 2008 (AED)	December 31, 2007 (AED)
c) Held-to-maturity investments:		
Cost, at the beginning of the year	**26,924,816**	19,544,816
Less: Investment of discontinued operation (Note 9)	**(22,540,000)**	-
Net additions during the year	**3,560,703**	7,380,000
Cost, at the end of the year	**7,945,519**	26,924,816

Held for trading investments include an amount of AED 76,370,580 as of December 31, 2008 pledged to a bank against a bank loan (see Note 20).

11. Insurance contract liabilities and re-insurance contract assets

	December 31, 2008 (AED)	December 31, 2007 (AED)
Gross		
Insurance contract liabilities		
Claims reported unsettled	**165,043,466**	366,359,570
Claims incurred but not reported	**6,500,000**	5,890,900
Unearned premiums	**189,294,905**	178,091,986
Total insurance contract liabilities (gross)	**360,838,371**	550,342,456
Recoverable from reinsurers		
Claims reported unsettled	**114,165,174**	315,584,585
Unearned premiums	**86,289,559**	79,379,007
Total reinsurers' share of insurance liabilities	**200,454,733**	394,963,592
Net		
Claims reported unsettled	**50,878,292**	50,774,985
Claims incurred but not reported	**6,500,000**	5,890,900
Unearned premiums	**103,005,346**	98,712,979
	160,383,638	155,378,864

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

	Year ended December 31, 2008			Year ended December 31, 2007		
	Gross (AED)	Reinsurance (AED)	Net (AED)	Gross (AED)	Reinsurance (AED)	Net (AED)
Claims						
Notified claims	**366,359,570**	**(315,584,585)**	**50,774,985**	136,950,958	(118,600,936)	18,350,022
Incurred but not reported	**5,890,900**	**-**	**5,890,900**	3,000,000	-	3,000,000
Total at the beginning of the year	**372,250,470**	**(315,584,585)**	**56,665,885**	139,950,958	(118,600,936)	21,350,022
Discontinued operations	**(53,582,016)**	**36,359,053**	**(17,222,963)**	53,582,016	(36,359,053)	17,222,963
Claims settled during the year	**(426,779,241)**	**270,666,984**	**(156,112,257)**	(258,187,998)	142,554,915	(115,633,083)
Increase in liabilities	**279,654,253**	**(105,606,626)**	**174,047,627**	436,905,494	(303,179,511)	133,725,983
Total at the end of the year	**171,543,466**	**(114,165,174)**	**57,378,292**	372,250,470	(315,584,585)	56,665,885
Notified claims	**165,043,466**	**(114,165,174)**	**50,878,292**	366,359,570	(315,584,585)	50,774,985
Incurred but not reported	**6,500,000**	**-**	**6,500,000**	5,890,900	-	5,890,900
Total at the end of the year	**171,543,466**	**(114,165,174)**	**57,378,292**	372,250,470	(315,584,585)	56,665,885
Unearned premium						
Balance at year-end	**189,294,905**	**86,289,559**	**103,005,346**	178,091,986	(79,379,007)	98,712,979
Balance at beginning of the year	**(178,091,986)**	**79,379,007**	**(98,712,979)**	(96,433,361)	43,005,650	(53,427,711)
Discontinued operations	**37,476,141**	**(10,542,133)**	**26,934,008**	37,476,141	(10,542,133)	26,934,008
Net increase during the year	**48,679,060**	**(17,452,685)**	**31,226,375**	44,182,484	(25,831,224)	18,351,260
Total at the end of the year	**189,294,905**	**(86,289,559)**	**103,005,346**	178,091,986	(79,379,007)	98,712,979

12. Insurance and other receivables

	December 31, 2008 (AED)	December 31, 2007 (AED)
Receivables arising from insurance and reinsurance contracts:		
Due from policy holders	**180,677,134**	185,314,347
Allowance for doubtful debts	**(3,670,452)**	(2,872,980)
	177,006,682	182,441,367
Due from insurance and reinsurance companies	**55,947,262**	29,335,470
Other receivables:		
Due from a related party	**576,309**	11,237
Accrued interest income	**2,201,252**	4,459,084
Prepaid expenses and refundable deposits	**521,708**	2,822,195
Due from staff	**644,065**	654,729
Other receivables	**6,170,597**	9,342,543
	10,113,931	17,289,788
	243,067,875	229,066,625
Movement in the allowance for doubtful debts:		
Balance at beginning of the year	**2,872,980**	2,749,695
Less discontinued operations	**(393,797)**	-
Impairment losses recognized on receivables	**2,000,000**	1,246,797
Amounts written off as uncollectible	**(808,731)**	(1,123,512)
Balance at end of the year	**3,670,452**	2,872,980

The average credit period is 120 days. Due from policyholders outstanding between 180 days and 365 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

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

	December 31, 2008 (AED)	December 31, 2007 (AED)
Allowance made for	**3,670,452**	2,872,980
Post dated cheques received	**15,274,492**	8,898,228
Allowance not made	**28,090,684**	25,920,669
	47,035,628	37,691,877

Before accepting any new customer, the Company assesses the potential customers credit quality and defines credit limits by customer. Of the due from policyholders balance at the end of year AED 10.4 million (2007: AED 14 million) is due from the Company's largest customer. There are 9 (2007: 9) other customers who represent more than 25% (2007: 17%) of the total balance of due from policyholders.

Included in the Company's due from policyholders balance are debtors with a carrying amount of AED 28 million (2007: AED 26 million) which are past due at the reporting date for which the Company has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

During the year, the Company provided an additional provision of AED 2,000,000 (2007: AED 1,246,797) against allowance for doubtful debts and written off the customers balance amounts to AED 808,731 (2007: AED 1,123,512) against the allowance for doubtful debts.

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

13. Bank balances and cash

	December 31, 2008 (AED)	December 31, 2007 (AED)
Cash on hand	**22,000**	61,200
Bank balances:		
Current accounts	**2,719,310**	16,644,614
Fixed deposits	**204,013,105**	224,676,141
	206,754,415	241,381,955

Fixed deposits with banks as at December 31, 2008 include AED 10,000,000 (2007: AED 7,500,000) deposited in the name of the Company to the order of the Minister of Economy and Trade of the United Arab Emirates as required by the Federal Law Number (9) of 1984 relating to Insurance Companies and Agents.

Fixed deposits amounting to AED 106 million (2007: AED 65,920,722) are under lien in respect of bank credit facilities granted to the Company (Note 20).

All fixed deposits with banks mature within different periods not exceeding one year from the balance sheet date.

14. Share capital

	December 31, 2008 (AED)	December 31, 2007 (AED)
Issued and fully paid: 200,000,000 ordinary shares of AED 1each (2007: 100,000,000 shares of AED 1 each)	**200,000,000**	100,000,000

During the year, the Company increased its share capital by AED 100 million by issuing 50 million bonus shares and 50 million rights share at a face value of AED 1 each. There was no movement in the share capital of the Company in the prior financial year.

15. Statutory reserve

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

16. General reserve

The general reserve is established through transfers from profit for the year as recommended by the board of directors and approved by the Shareholders at the Annual General Meeting. The reserve is distributable based on a recommendation by the board of directors approved by a Shareholders' resolution.

17. Investments revaluation reserve

The investments revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset is effectively realized and is recognized in the income statement. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is directly recognized in the income statement.

18. Minority interest

	December 31, 2008 (AED)	December 31, 2007 (AED)
Opening balance	**18,445,607**	14,872,678
Dividends paid	**-**	(3,920,000)
Share of profit for the year	**-**	7,492,929
Discontinued operation (Note 9)	**(18,445,607)**	-
	-	18,445,607

19. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	December 31, 2008 (AED)	December 31, 2007 (AED)
Balance at the beginning of the year	**7,924,083**	5,186,283
Adjustment for discontinued operation (Note 9)	**(2,396,846)**	-
Amounts charged to income	**2,504,902**	2,800,344
Amounts paid	**(222,691)**	(62,544)
Balance at the end of the year	**7,809,448**	7,924,083

Provision for employees' end of service indemnity

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

Defined contribution plan

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

20. BANK BORROWINGS

	Current		Non-current	
	December 31, 2008 (AED)	December 31, 2007 (AED)	December 31, 2008 (AED)	December 31, 2007 (AED)
Secured - at amortized cost				
Term loan	**14,849,835**	-	**61,520,745**	-
Bank overdraft	**72,888,700**	8,807,982	**-**	-
	87,738,535	8,807,982	**61,520,745**	-

During the year, a bank term loan amounting to AED 76,370,580 was obtained from a U.A.E. bank and is payable in 12 equal quarterly installments of AED 6,364,215 each, plus interest with a 1 year moratorium period starting from the date of first drawdown made on May 8, 2008. Interest is payable at a rate of 1.875% over 3 month EIBOR. The loan is secured by:

- Hypothecation over fixed deposits up to AED 52 million.
- Pledge of 38,185,290 shares of Union Insurance Company held by the Company. As of December 31, 2008, the fair value of the shares is AED 182,525,686.

The Company obtained bank facilities in the form of overdraft repayable upon demand and bearing interest ranging from 5.5% to 6.5% per annum (2007: 5% to 6.5% per annum). These facilities are secured by lien on fixed deposits amounting to AED 37.5 million. The bank overdraft limit provided under the facility is AED 75,000,000.

21. Insurance and other payables

	December 31, 2008 (AED)	December 31, 2007 (AED)
Payables arising from insurance and reinsurance contracts:		
Due to insurance and reinsurance companies	**73,851,805**	73,843,759
Other payables:		
Insurance customers payable	**34,406,884**	26,153,448
Accrued expenses and provisions	**11,408,344**	10,020,128
Notes payable - post-dated cheques	**235,001**	707,401
Others	**4,046,337**	3,546,911
	50,096,566	40,427,888
	123,948,371	114,271,647

22. Advances from related parties

	December 31, 2008 (AED)	December 31, 2007 (AED)
GGICO	**22,275,427**	-
Sagr Al Bayda'a Trading Agencies Co. Ltd, Kingdom of Saudi Arabia	**6,846,000**	-
	29,121,427	-

23. Investment revenue

	December 31, 2008 (AED)	December 31, 2007 (AED)
Net gain on sales of investment in securities	**30,269,356**	22,934,070
Net gain on sale of investment property	**-**	2,814,659
Interest on fixed deposits	**8,418,288**	6,549,924
Dividend income	**5,226,795**	4,976,195
(Loss)/gain on revaluation of held for trading investments	**(29,995,473)**	34,506,725
	13,918,966	71,781,573

24. Other net income

	December 31, 2008 (AED)	December 31, 2007 (AED)
Recovery against bad debts	**3,118,210**	3,933,148
Management fee	**3,495,074**	-
Other expenses	**(5,768,246)**	(3,679,151)
	845,038	253,997

Management fee represents income charged by the Company under a technical management agreement with Union Insurance Company. The company is entitled to 23% of Union Insurance Company underwriting profit as fees to manage the insurance operations of Union Insurance Company for 10 years effective from March 1, 2008.

25. Net Profit for the year

Profit for the year has been arrived at after charging the following expenses:

	December 31, 2008 (AED)	December 31, 2007 (AED)
Staff costs	**16,215,252**	15,373,053
Depreciation of property and equipment	**642,636**	440,585
Provision for doubtful debts	**2,000,000**	1,246,797

26. Basic earnings per share

	December 31, 2008	December 31, 2007
Net profit for the year	**AED 67,137,761**	AED 113,791,692
Number of shares	**200,000,000**	100,000,000
Weighted average number of shares	**188,970,393**	116,129,032
Earnings per share	**AED 0.36**	AED 0.98

Basic earnings per share are calculated by dividing the net profit for the year by the number of weighted average of shares outstanding as of the balance sheet date.

The weighted average number of shares as of December 31, 2008 and 2007 has been adjusted to reflect the bonus and right shares issued during 2008 (Note 14).

27. Cash and cash equivalents

	December 31, 2008 (AED)	December 31, 2007 (AED)
Bank balances and cash (Note 13)	**206,754,415**	241,381,955
Fixed deposits under lien and maturity within more than three months from the date of deposits	**(204,013,105)**	(202,583,007)
	2,741,310	38,798,948

28. Bonus shares and reserves

On March 3, 2009, the board of directors has declared a bonus shares issue of 15% of the share capital, board of directors' remuneration of AED 900,000 and a transfer to general reserve of AED 50 million.

The bonus shares, board of directors' remuneration and transfer to general reserve above are subject to the approval of the shareholders at the Annual General Meeting and have not been included as a liability in the financial statements.

29. Geographical segment

	2008			2007		
	U.A.E.	Outside U.A.E	Total	U.A.E.	Outside U.A.E	Total
Insurance revenue	**293,830,431**	**-**	**293,830,431**	222,601,934	-	222,601,934
Insurance cost	**(211,165,404)**	**-**	**(211,165,404)**	(160,188,122)	-	(160,188,122)
General and administrative expenses	**(23,956,144)**	**-**	**(23,956,144)**	(15,949,786)	-	(15,949,786)
Segment result	**58,708,883**	**-**	**58,708,883**	46,464,026	-	46,464,026
Segment assets	**1,227,434,391**	**23,290,575**	**1,250,724,966**	1,025,357,515	140,125,500	1,165,483,015
Segment liabilities	**682,880,965**	**-**	**682,880,965**	590,103,667	103,002,501	693,106,168

30. Related party transactions

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

	December 31, 2008	December 31, 2007
Due from policy holders	**828,921**	874,354
Due from shareholders	**2,039,304**	3,228,407
Due to shareholders	**11,904,068**	11,760,000
Gross outstanding claims	**18,022,485**	181,455,064
Investments in joint ventures	**127,639,771**	-
Held to maturity investments	**3,445,519**	-
Advances received	**29,121,427**	-

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

Due to shareholders represents the portion of the amount paid by the shareholders on behalf of the Company against the investment in one of its associate- Al Sagr Company for Co-Operative Insurance, Kingdom of Saudi Arabia.

Transactions:

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

	December 31, 2008 (AED)	December 31, 2007 (AED)
Gross premium	**13,618,247**	13,280,797
Claims paid	**168,846,859**	9,593,525
Sale of investment property - GGICO	-	71,752,128
Sale of investment in joint venture - GGICO	-	23,252,128
Management fees	**3,495,074**	-

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

Value for the sale of investment property and investment in joint venture are determined and approved by the board of directors.

Compensation of Board of directors / key management personnel

	December 31, 2008 (AED)	December 31, 2007 (AED)
Short term benefits	**6,456,403**	5,559,621
Long term benefits	**1,702,316**	1,454,158
Board of directors' remuneration	**750,000**	750,000

The remuneration of directors is subject to approval by the shareholders and as per limits set by the U.A.E. Commercial Companies Law No. 8 of 1984, as amended

31. Contingent liabilities

	December 31, 2008 (AED)	December 31, 2007 (AED)
Letters of guarantee	**18,778,271**	12,228,837

32. Operating lease arrangements

At the balance sheet date, the Company has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	December 31, 2008 (AED)	December 31, 2007 (AED)
Within one year	868,125	313,000
In the second to third year (inclusive)	420,000	297,350
	1,288,125	**610,350**

Operating lease payments represent rentals payable by the Company for its office property. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

33. INSURANCE RISK

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying 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).

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set limit of AED 100,000 for life and personal accident, AED 500,000 for marine cargo/hull and AED 300,000 for all other classes in any one policy. 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 balance sheet date.

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

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

Type of risk	2008	2007
Motor	**84%**	73%
Non-Motor	**57%**	64%

Process used to decide on assumptions

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

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

Concentration of insurance risk

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

The insurance risk before and after reinsurance in relation to the insurance risk accepted is summarized below:

	Year ended December 31,	
	2008 (AED' 000)	2007 (AED' 000)
Gross	**98,874,890**	109,240,664
Net	**12,211,894**	29,494,977

Reinsurance risk

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

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

Sensitivity of underwriting profit and losses

The contribution by the insurance operations in the profit of the Company amounts to AED 59 million for the year ended December 31, 2008 (2007: AED 46 million). The Company does not foresee any major impact from insurance operations due to the following reasons:

The Company has an overall retention level of 53% (2007: 52%) and the same is mainly contributed by two classes of business i.e., Motor and Medical line wherein the retention levels are 79% and 90% respectively. However, in Motor and Medical class the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Company has net commission earnings of AED 45 million (2007: AED 45 million) of the net insurance profit. These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

Because of low retention of 53% (2007: 52%) volume of business and limited exposure in high retention areas like Motor and medical insurance the Company is comfortable to maintain a net loss ratio in the region of 64% to 73% (2007: 64% to73%) and does not foresee any serious financial impact in the insurance net profit.

Claims development process

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

	Upto 2004 AED	2005 AED	2006 AED	2007 AED	2008 AED	Total AED
Outstanding claims – Gross:						
At the end of the accident year	65,276,043	42,073,257	112,108,991	286,647,997	92,414,815	-
One year later	65,120,850	39,124,921	113,275,062	289,325,812	-	-
Two years later	68,809,392	40,270,044	115,260,020	-	-	-
Three years later	68,267,755	37,174,010	-	-	-	-
Four years later	45,184,867	-	-	-	-	-
Current estimate of cumulative claims	65,837,256	37,174,010	115,260,020	289,325,812	92,414,815	600,011,913
Cumulative payments to date	(65,123,666)	(33,668,764)	(112,310,900)	(217,365,117)	-	(428,468,447)
Liability recognized in the balance sheet	**713,590**	**3,505,246**	**2,949,120**	**71,960,695**	**92,414,815**	**171,543,466**

	Upto 2004 AED	2005 AED	2006 AED	2007 AED	2008 AED	Total AED
Outstanding claims – net retention:						
At the end of the accident year	28,886,553	11,067,760	18,359,487	31,677,507	33,930,869	-
One year later	28,818,481	10,656,719	19,527,134	37,528,167	-	-
Two years later	29,908,637	10,305,198	23,722,506	-	-	-
Three years later	30,978,436	12,601,361	-	-	-	-
Four years later	33,451,206	-	-	-	-	-
Current estimate of cumulative claims	33,451,206	12,601,361	23,722,506	37,528,167	33,930,869	141,234,109
Cumulative payments to date	(33,239,316)	(11,777,838)	(22,179,014)	(16,659,649)	-	(83,855,817)
Liability recognized in the balance sheet	**211,890**	**823,523**	**1,543,492**	**20,868,518**	**33,930,869**	**57,378,292**

34. Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents. Management considers the quantitative threshold of 20%-25% sufficient to maximise shareholders' return and to support the capital required;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

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

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

	December 31, 2008 (AED)	December 31, 2007 (AED)
Total capital held	**567,844,001**	453,931,240
Minimum regulatory capital	**50,000,000**	50,000,000

Gearing ratio

The Company's management reviews the capital structure on regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end was as follows:

	December 31, 2008 (AED)	December 31, 2007 (AED)
Debt (i)	**149,259,280**	8,807,982
Cash and cash equivalents	**(2,741,310)**	(38,798,948)
Net debt	**146,517,970**	(29,990,966)
Equity (ii)	**567,844,001**	472,376,847
Net debt to equity ratio	**25.8%**	-

(i) Debt is defined as long-and short-term borrowings. (Note 20)

(ii) Equity includes all capital and reserves of the Company.

35. Financial instruments

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, foreign currency risk, credit risk and liquidity risk.

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

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.

Categories of financial instruments and others - December 31, 2008

Assets	Loans and receivables (AED)	Held for trading (AED)	Held -to-maturity (AED)	Available for-sale (AED)	Insurance contract assets (IFRS 4) (AED)	Non-financial instruments (AED)	Total (AED)
Property and equipment	-	-	-	-	-	2,636,398	2,636,398
Investment property under construction	-	-	-	-	-	43,114,008	43,114,008
Investment in joint venture	-	-	-	-	-	127,639,771	127,639,771
Available-for-sale investments	-	-	-	625,000	-	-	625,000
Investment in subsidiary	-	-	-	-	-	23,290,575	23,290,575
Re-insurance contract assets	-	-	-	-	200,454,733	-	200,454,733
Insurance and other receivables	243,067,875	-	-	-	-	-	243,067,875
Held for trading investments	-	340,117,304	-	-	-	-	340,117,304
Investments in associates	-	-	-	-	-	51,584,294	51,584,294
Due from related party	-	-	-	-	-	3,495,074	3,495,074
Bank balances and cash	206,754,415	-	-	-	-	-	206,754,415
Held to maturity	-	-	7,945,519	-	-	-	7,945,519
Total assets	**449,822,290**	**340,117,304**	**7,945,519**	**625,000**	**200,454,733**	**251,760,120**	**1,250,724,966**

Liabilities	At amortised cost (AED)	Insurance contract liabilities (IFRS 4) (AED)	Total (AED)
Bank borrowings	149,259,280	-	149,259,280
Insurance contract liabilities	-	360,838,371	360,838,371
Advance from related parties	29,121,427	-	29,121,427
Insurance and other payables	-	123,948,371	123,948,371
Due to related parties	11,904,068	-	11,904,068
Total liabilities	**190,284,775**	**484,786,742**	**675,071,517**

Categories of financial instruments and others - December 31, 2007

Assets	Loans and receivables (AED)	Held for trading (AED)	Held -to-maturity (AED)	Available for-sale (AED)	Insurance contract assets (IFRS 4) (AED)	Non-financial instruments (AED)	Total (AED)
Property and equipment	-	-	-	-	-	2,263,145	2,263,145
Investment property under construction	-	-	-	-	-	29,144,519	29,144,519
Available-for-sale investments	-	-	-	3,100,000	-	-	3,100,000
Re-insurance contract assets	-	-	-	-	394,963,592	-	394,963,592
Insurance and other receivables	229,066,625	-	-	-	-	-	229,066,625
Held for trading investments	-	183,776,329	-	-	-	-	183,776,329
Investments in associates	-	-	-	-	-	54,862,034	54,862,034
Bank balances and cash	241,381,955	-	-	-	-	-	241,381,955
Held to maturity	-	-	26,924,816	-	-	-	26,924,816
Total assets	**470,448,580**	**183,776,329**	**26,924,816**	**3,100,000**	**394,963,592**	**86,269,698**	**1,165,483,015**

Liabilities	At amortised cost (AED)	Insurance contract liabilities (IFRS 4) (AED)	Total (AED)
Insurance contract liabilities	-	550,342,456	550,342,456
Insurance and other payables	-	114,271,647	114,271,647
Due to related parties	11,760,000	-	11,760,000
Bank overdrafts	8,807,982	-	8,807,982
Total liabilities	**20,567,982**	**664,614,103**	**685,182,085**

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

Foreign currency risk

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

Credit risk

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

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- amounts due from insurance intermediaries;

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

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

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company.

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

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

The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 30% of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

Liquidity risk

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

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

	2008 Less than 30 days (AED)	2008 30-90 days (AED)	2008 90-180 days (AED)	2008 After 180 days (AED)
Available-for-sale investments	-	-	-	625,000
Insurance and other receivables	58,756,367	66,566,149	72,862,866	44,882,493
Held for trading investments	68,236,460	272,945,844	-	-
Bank balances and cash - non interest bearing	2,741,310	-	-	-
Fixed deposits - interest bearing	53,075,606	11,512,341	12,891,262	126,533,896
	182,809,743	351,024,334	85,754,128	172,041,389
Insurance and other payables	11,368,344	43,303,475	65,190,215	33,207,764
Bank borrowings	72,888,700	-	8,400,000	16,800,000
Provision for employees' end of service indemnity	-	-	-	7,809,448
	84,257,044	43,303,475	73,590,215	57,817,212

Interest rates have been disclosed in the respective notes.

	2007 Less than 30 days (AED)	2007 30-90 days (AED)	2007 90-180 days (AED)	2007 After 180 days (AED)
Available-for-sale investments	-	-	-	3,100,000
Insurance and other receivables	41,974,164	55,994,708	93,920,007	37,177,746
Held for trading investments	36,755,265	147,021,064	-	-
Bank balances and cash - non interest bearing	16,705,814	-	-	-
Fixed deposits - interest bearing	38,154,021	20,255,634	130,222,821	36,043,665
	133,589,264	223,271,406	224,142,828	76,321,411
Insurance and other payables	55,427,891	15,275,126	18,236,470	25,332,160
Bank borrowings	8,807,982	-	-	-
Provision for employees' end of service indemnity	-	-	-	7,924,083
	64,235,873	15,275,126	18,236,470	33,256,243

Interest risk

The Company's exposure to interest rate risk relates to its bank deposits and bank borrowings. At December 31, 2008, bank deposits carried interest rates ranges between 4.75% to 7.50% per annum (2007: 4.75% to 5.75% per annum). The interest rate on bank borrowings ranges between 5.5% to 6.5% per annum (2007: 5.5% to 6.25% per annum). The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points lower and all other variables were held constant, the Company's:

- Profit for the year ended December 31, 2008 would decrease by AED 530,000 (2007: decrease by AED 1,080,000). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings; and

The Company's sensitivity to interest rates has decreased during the current period mainly due to the reduction in variable rate debt instruments and the increase in interest rate swaps.

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

Equity price risk

Sensitivity analysis

At the balance sheet date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Company's profit would have increased/decreased by AED 34.2 million (2007: AED 18.7 million).

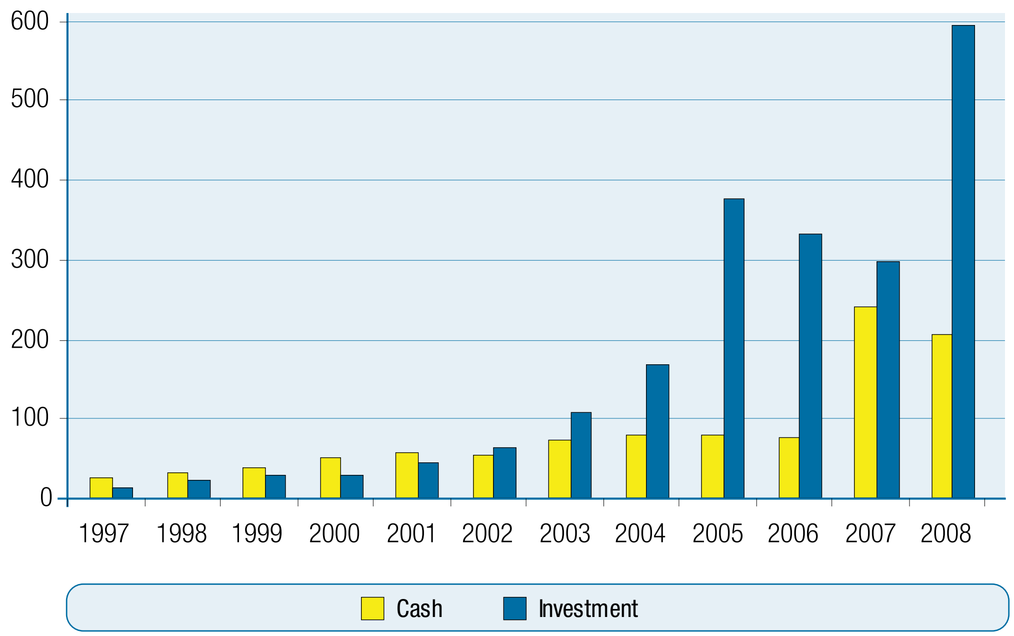
Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the balance sheet date.
- As at the balance sheet date if equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

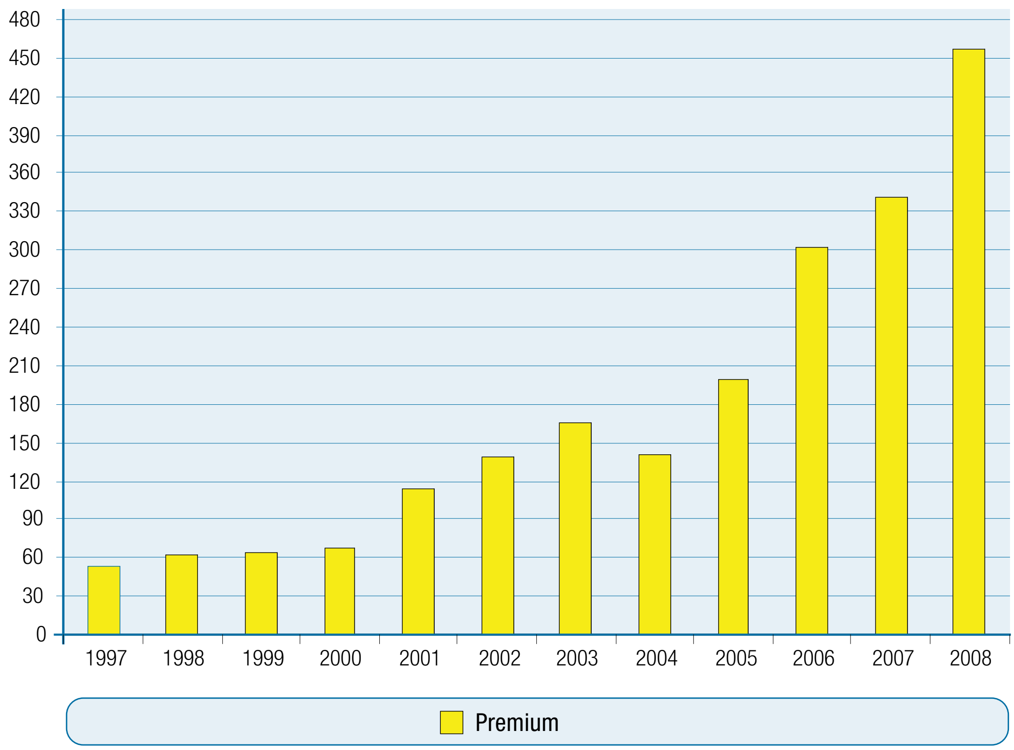
36. Comparative amounts

Balance sheet figures are not comparable as last year figures include the assets and liabilities of the discontinued subsidiaries which is not consolidated this year. For the income statement, statement of changes in shareholders' equity and cash flow statement, the comparative figures were represented to be comparable with current year's figures.

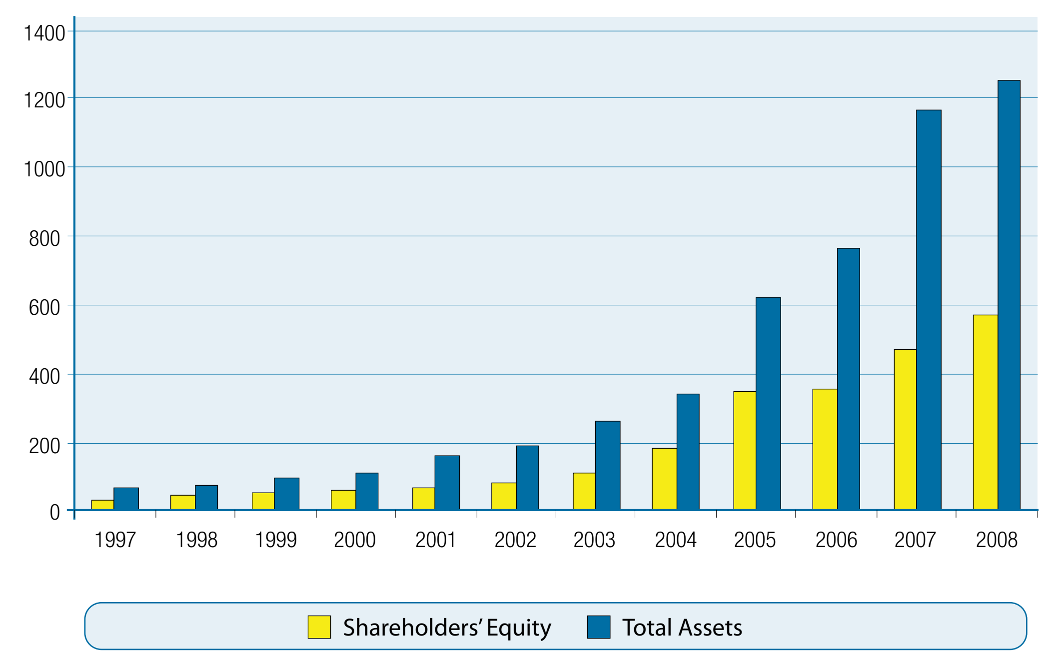
CASH & INVESTMENT



PREMIUM



SHAREHOLDERS' EQUITY & TOTAL ASSETS



TECHNICAL PROFIT & NET INVESTMENT INCOME