

**Al-Sagr National Insurance Company  
(Public Shareholding Company)**

**Report and consolidated financial statements  
for the year ended 31 December 2010**

## **Al-Sagr National Insurance Company (Public Shareholding Company)**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Al-Sagr National Insurance Company (Public Shareholding Company) - Dubai, United Arab Emirates (the "Company") and its Subsidiary (collectively the "Group"), which comprise the consolidated statement of financial position as of 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## INDEPENDENT AUDITOR'S REPORT (continued)

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Al-Sagr National Insurance Company (Public Shareholding Company), Dubai and its Subsidiary, as of 31 December 2010 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

Also, in our opinion, the Company has maintained proper books of account. 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. 6 of 2007, concerning formation of Insurance Authority of U.A.E., 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.)



Saba Y. Sindaha  
Registration Number 410  
24 March 2011

**Consolidated statement of financial position**  
**At 31 December 2010**

	Notes	2010 AED	2009 AED
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	5,802,035	4,998,969
Investment properties	6	187,711,850	210,840,052
Investment in associates	7	57,701,957	51,387,436
Investment in subsidiary - discontinued operation	8	-	23,290,575
Held to maturity investments	9	7,215,898	7,953,898
Available for sale investments	9	89,779	109,380
<b>Total non-current assets</b>		<b>258,521,519</b>	<b>298,580,310</b>
<b>Current assets</b>			
Reinsurance contract assets	10	171,664,445	188,707,871
Insurance and other receivables	11	192,601,013	222,711,402
Due from related parties	26	226,640,911	202,831,608
Held for trading investments	9	76,577,975	89,831,612
Bank balances and cash	12	280,683,443	277,469,392
<b>Total current assets</b>		<b>948,167,787</b>	<b>981,551,885</b>
<b>Total Assets</b>		<b>1,206,689,306</b>	<b>1,280,132,195</b>



**Consolidated statement of financial position (continued)**  
**At 31 December 2010**

	Notes	2010 AED	2009 AED
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	230,000,000	230,000,000
Statutory reserve	14	46,953,554	46,953,554
General reserve	15	200,000,000	200,000,000
Investments revaluation reserve		(89,909)	(73,440)
Retained earnings		83,067,361	120,159,195
<b>Equity attributable to equity holders of the parent</b>		<b>559,931,006</b>	<b>597,039,309</b>
Non-controlling interests		5,350,748	4,933,028
<b>Total Equity</b>		<b>565,281,754</b>	<b>601,972,337</b>
<b>Non-current liabilities</b>			
Due to related parties	26	13,152,884	11,767,715
Provision for employees' end of service indemnity	16	10,359,418	9,451,420
<b>Total non-current liabilities</b>		<b>23,512,302</b>	<b>21,219,135</b>
<b>Current liabilities</b>			
Insurance contract liabilities	10	289,999,314	346,338,267
Bank borrowings	17	210,029,651	136,929,407
Insurance and other payables	18	106,405,767	115,120,896
Advances from related parties	19 & 26(d)	11,460,518	58,552,153
<b>Total current liabilities</b>		<b>617,895,250</b>	<b>656,940,723</b>
<b>Total Liabilities</b>		<b>641,407,552</b>	<b>678,159,858</b>
<b>Total Equity and Liabilities</b>		<b>1,206,689,306</b>	<b>1,280,132,195</b>



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**Director & CEO**

**Consolidated income statement  
for the year ended 31 December 2010**

	Notes	2010 AED	2009 AED
Gross insurance premium revenue		403,740,446	446,058,061
Less: Insurance premium ceded to reinsurers		(187,318,440)	(187,093,529)
<b>Net premium revenue</b>		<b>216,422,006</b>	<b>258,964,532</b>
Net changes in unearned premium	10	21,603,734	16,764,360
<b>Net insurance premium revenue</b>		<b>238,025,740</b>	<b>275,728,892</b>
Gross claims settled	10	(342,906,079)	(355,223,713)
Insurance claims recovered from reinsurers	10	95,060,824	108,227,326
Net claims settled	10	(247,845,255)	(246,996,387)
Net changes in outstanding claims		17,691,793	268,970
<b>Net claims incurred</b>	10	<b>(230,153,462)</b>	<b>(246,727,417)</b>
Gross commissions earned and documentation fees		77,567,861	72,909,931
Less: Commissions incurred		(30,217,266)	(35,666,904)
<b>Net commissions earned and documentation fees</b>		<b>47,350,595</b>	<b>37,243,027</b>
<b>Underwriting profit</b>		<b>55,222,873</b>	<b>66,244,502</b>
General and administrative expenses relating to underwriting activities		(33,480,650)	(27,307,962)
<b>Net underwriting profit</b>		<b>21,742,223</b>	<b>38,936,540</b>
Investment revenue – net	20	1,842,062	11,025,415
Bargain purchase gain on acquisition	25	1,511,805	-
Gain on transfer of net assets of a Subsidiary	8	15,599,271	-
Net share of profit/(loss) from associates	7	6,314,521	(496,858)
Loss on disposal of held for trading securities to a related party	26(c)	-	(9,240,301)
Gain on disposal of investment properties	26(b)	-	39,207,454
Net loss on revaluation of investment properties	6	(53,397,853)	(34,237,411)
Finance costs		(11,458,252)	(9,520,292)
Other income – net	21	3,767,066	5,354,666
Unallocated general and administrative expenses		(22,879,359)	(10,977,441)
<b>Net (loss)/profit for the year</b>	22	<b>(36,958,516)</b>	<b>30,051,772</b>
<b>Attributable to:</b>			
Equity holders of the parent		(37,091,834)	30,267,012
Non-controlling interests		133,318	(215,240)
		<b>(36,958,516)</b>	<b>30,051,772</b>
<b>Basic (loss)/earnings per share</b>	23	<b>(0.16)</b>	<b>0.13</b>

**Consolidated statement of comprehensive income  
for the year ended 31 December 2010**

	Notes	2010 AED	2009 AED
<b>Net (loss)/profit for the year</b>		<u>(36,958,516)</u>	<u>30,051,772</u>
<b>Other comprehensive loss</b>			
Board of Directors' remuneration paid		-	(900,000)
loss on revaluation of available for sale investments	9(b)	<u>(19,601)</u>	<u>(73,440)</u>
<b>Total other comprehensive loss</b>		<u>(19,601)</u>	<u>(973,440)</u>
<b>Total comprehensive (loss)/income for the year</b>		<u><u>(36,978,117)</u></u>	<u><u>29,078,332</u></u>
<b>Total comprehensive (loss)/income attributable to:</b>			
Equity holders of the parent		<u>(37,108,303)</u>	<u>29,305,308</u>
Non-controlling interests		<u>130,186</u>	<u>(226,976)</u>
		<u><u>(36,978,117)</u></u>	<u><u>29,078,332</u></u>



# Al-Sagr National Insurance Company (Public Shareholding Company)

## Consolidated statement of changes in shareholders' equity for the year ended 31 December 2010

	Share capital AED	Statutory reserve AED	General reserve AED	Investments revaluation reserve AED	Retained earnings AED	Attributable to equity holders of parent AED	Non-controlling interest AED	Total AED
<b>Balance at December 31, 2008</b>	200,000,000	43,813,683	150,000,000	110,000	173,920,318	567,844,001	-	567,844,001
Net profit for the year	-	-	-	-	30,267,012	30,267,012	(215,240)	30,051,772
Other comprehensive loss	-	-	-	(73,440)	(888,264)	(961,704)	(11,736)	(973,440)
<b>Total comprehensive income for the year</b>	-	-	-	(73,440)	29,378,748	29,305,308	(226,976)	29,078,332
On acquisition of subsidiary (Note 25)	-	-	-	-	-	-	5,160,004	5,160,004
Transfer out from reserve on disposal of available for sale investments	-	-	-	(110,000)	-	(110,000)	-	(110,000)
Issue of bonus shares	30,000,000	-	-	-	(30,000,000)	-	-	-
Transfer to statutory reserve	-	3,139,871	-	-	(3,139,871)	-	-	-
Transfer to general reserve (Note 15)	-	-	50,000,000	-	(50,000,000)	-	-	-
<b>Balance at December 31, 2009</b>	230,000,000	46,953,554	200,000,000	(73,440)	120,159,195	597,039,309	4,933,028	601,972,337
Net loss for the year	-	-	-	-	(37,091,834)	(37,091,834)	133,318	(36,958,516)
Other comprehensive loss	-	-	-	(16,469)	-	(16,469)	(3,132)	(19,601)
<b>Total comprehensive loss for the year</b>	-	-	-	(16,469)	(37,091,834)	(37,108,303)	130,186	(36,978,117)
Share of the non-controlling interest in bargain purchase gain	-	-	-	-	-	-	287,534	287,534
<b>Balance at December 31, 2010</b>	230,000,000	46,953,554	200,000,000	(89,909)	83,067,361	559,931,006	5,350,748	565,281,754

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

**Consolidated statement of cash flows  
for the year ended 31 December 2010**

	2010 AED	2009 AED
<b>Cash flows from operating activities</b>		
Net (loss)/ profit for the year	(36,958,516)	30,051,772
Adjustments for:		
Depreciation of property and equipment	1,978,032	1,569,399
Allowance for doubtful debts	10,000,000	3,104,400
Investment revenue	(17,542,560)	(18,927,596)
Decrease in reinsurance contract assets	17,043,426	22,017,964
Bargain purchase gain	(1,511,805)	-
Decrease in insurance contract liabilities	(56,338,953)	(39,051,294)
Net loss on revaluation of held for trading investments	15,719,696	17,142,482
Impairment of held to maturity investments	738,000	-
Loss on revaluation of investment properties	53,397,853	34,237,411
Provision for employees' end of service indemnity	1,313,910	1,821,722
Gain on disposal of investment property	-	(39,207,454)
Share of (gain)/loss from associates	(6,314,521)	496,858
Gain on transfer of net assets of subsidiary	(15,599,271)	-
Finance costs	11,458,252	9,520,292
<b>Operating cash flows before movements in working capital</b>	(22,616,457)	22,775,956
Increase in fixed deposits with banks	(12,216,055)	(50,011,781)
Decrease in insurance and other receivables	20,110,389	24,032,389
Decrease in insurance and other payables	(8,715,129)	(15,948,542)
Net increase in due from related parties	16,465,712	(6,835,390)
(Decrease)/increase in advances from related parties	(47,091,635)	51,706,153
<b>Cash generated from operations</b>	(54,063,175)	25,718,785
Interest paid	(11,458,252)	(9,520,292)
Employees' end of service indemnity paid	(405,912)	(179,750)
<b>Net cash (used in)/from operating activities</b>	(65,927,339)	16,018,743
<b>Cash flows from investing activities</b>		
Additions to investment property	(28,470,312)	(51,197,616)
Revenue from investment properties	1,813,000	-
Proceeds from sale of investments in securities	4,901,677	118,667,446
Proceeds from sale of property and equipment	240,141	-
Proceeds from sale of available for sale investments	-	625,000
Purchase of investments in securities	(6,984,948)	(74,187,447)
Addition in held to maturity investments	-	(8,379)
Investments in associates	-	(300,000)
Purchase of property and equipment	(3,021,239)	(3,615,909)
Acquisition of a subsidiary, net of cash acquired (Note 25)	-	11,864,509
Interest received	12,764,615	11,980,220
Dividends received	2,582,157	4,086,502
<b>Net cash (used in)/from investing activities</b>	(16,174,909)	17,914,326

**Consolidated statement of cash flows (continued)**  
**for the year ended 31 December 2010**

	2010 AED	2009 AED
<b>Cash flows from financing activities</b>		
Directors' remuneration paid	-	(900,000)
Increase/(decrease) in bank borrowings	73,100,244	(12,329,873)
<b>Net cash from/(used in) financing activities</b>	73,100,244	(13,229,873)
<b>Net (decrease)/increase in cash and cash equivalents</b>	(9,002,004)	20,703,196
Cash and cash equivalents at the beginning of the year	23,444,506	2,741,310
<b>Cash and cash equivalents at the end of the year (Note 24)</b>	14,442,502	23,444,506
 <b>Non-cash transactions:</b>		
Sale of investments held for trading to a related party [Note 26 (c)]	-	192,061,188
Sale and reinvestment of investment property [Note 26 (b)]	-	41,368,647
Advance from a related party [Note 26 (b)]	-	22,275,427

## Notes to the consolidated financial statements for the year ended 31 December 2010

### 1. General information

Al-Sagr National Insurance Company, Dubai (the "Company") was incorporated on 25 December 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 and Ajman in the U.A.E.

The consolidated financial statements incorporate the financial statements of Al Sagr National Insurance Company PSC and its subsidiary (together the "Group"). Details of the subsidiary are as follows:

<u>Company name</u>	<u>Activity</u>	<u>Country of incorporation</u> %	<u>Ownership held</u> %
Jordan Emirates Insurance Company PSC	Underwriting of insurance of all types	Jordan	84.02%

The above subsidiary was acquired on June 30, 2009 (Sec Note 25).

### 2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

#### 2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

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

#### IFRS 3 (revised in 2008): *Business Combination*

IFRS 3 (2008) has been applied in the current year prospectively to business combinations for which the acquisition date is on or after January 1, 2010 in accordance with the relevant transitional provisions. Its adoption has affected the accounting for business combinations in the current year.

#### Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards - Additional Exemptions for First-time Adopters*

The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.

#### Amendments to IFRS 2 *Share-based Payment - Group Cash-settled Share-based Payment Transactions*

The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

#### Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of Improvements to IFRSs issued in 2008)

The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

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

**2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)**

Amendments to IAS 1 *Presentation of Financial Statements* (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

This amendment had no effect on the amounts reported in prior years because the Group has not previously issued instruments of this nature.

Amendments to IAS 7 *Statement of Cash Flows* (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the consolidated statement of financial position can be classified as investing activities in the consolidated statement of cash flows.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

*Improvements to IFRSs issued in 2009*

Except for the amendments to IFRS 5, IAS 1 and IAS 7 described earlier in section 2.2, the application of Improvements to IFRSs issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.

*IFRIC 17 Distributions of Non-cash Assets to Owners*

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

**2.3 New and revised IFRSs in issue but not yet effective**

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Summary of requirement</u>
Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters <sup>1</sup>
Amendments to IFRS 7	Disclosures - Transfers of Financial Assets <sup>2</sup>
IAS 24 (as revised in 2009)	Related Party Disclosures <sup>3</sup>
Amendments to IAS 32	Classification of Rights Issues <sup>4</sup>
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement <sup>3</sup>
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments <sup>1</sup>

Improvements to IFRSs issued in 2010 (except for the amendments to IFRS 7 described earlier in section 2.1)<sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2011 or as and when they are applicable and adoption of these standards and interpretations may have no material impact on the consolidated financial statements of the Group in the period of initial application.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

**3. Significant accounting policies**

**Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of U.A.E. Federal Law No. 6 of 2007, concerning the formation of Insurance Authority of U.A.E.

**Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and investment properties that have been measured at fair value. The principal accounting policies adopted are set out below.

**Basis of consolidation**

The consolidated financial statements incorporates the financial statements of the Company and the entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of entities so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to effective date of disposal, as appropriate.

Where necessary, adjustments are made to the consolidated financial information of a subsidiary to bring the accounting policies in line with those used by the parent company.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010****3. Significant accounting policies (continued)****Basis of consolidation (continued)**

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to consolidated income statement or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity

**Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

**Insurance contracts***Definition*

The Group 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.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

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

*Insurance contracts (continued)*

*Short-term insurance contracts*

These contracts are casualty and property insurance contracts.

Casualty insurance contracts protect the Group'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 Group'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 reporting date is reported as the unearned premium liability.

Claims and loss adjustment expenses are charged to the consolidated 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 reporting date even if they have not yet been reported to the Group. The Group 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 Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

*Reinsurance contracts held*

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group 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 Group under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Group 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 Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Group reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.



**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010****3. Significant accounting policies (continued)****Insurance contracts - continued***Insurance contract liabilities*

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the reporting 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 reporting date and is estimated using the 1/24<sup>th</sup> 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. 6 of 2007, concerning Insurance Authority. The unearned premium calculated by the 1/24<sup>th</sup> method accounts for the estimated acquisition costs incurred by the Group 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 are classified as reinsurance contract assets in the consolidated 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 reporting 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 consolidated income statement 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 Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in consolidated income statement. The Group 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.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

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

**Revenue recognition**

*Insurance contract income*

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these consolidated 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 properties which are leased under operating leases are recognized on a straight-line basis over the term of the relevant lease.

**General and administrative expenses**

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

In preparing the financial statements of the individual entities, transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting 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.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010****3. Significant accounting policies (continued)****Foreign currencies (continued)**

Exchange differences are recognized in consolidated income statement 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 consolidated income statement on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in AED (Arab Emirates Dirhams) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in consolidated statement of comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

**Borrowing costs**

Borrowing costs are recognised in the consolidated statement of income 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 consolidated income statement.

**Investments in associates**

An associate is an entity over which the Group 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 consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group'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 Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010****3. Significant accounting policies (continued)****Investment properties**

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

Investment properties under construction that are being constructed or developed for future use as investments property are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment properties under construction is measured at fair value. Gains and losses arising from changes in the fair value of investment properties under construction are included in the consolidated income statement in the period in which they arise. Upon completion of construction or development, such properties are transferred to investment properties.

**Impairment of tangible assets**

At each financial position date, the Group 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 Group 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 consolidated income statement, 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 consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010****3. Significant accounting policies (continued)****Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 financial position 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 are classified as 'investments'. Insurance and other receivables and bank balances and cash are 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 from the date of deposit.

***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, to the net carrying amount on initial recognition.

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

***Investments***

Investments of the Group 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.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

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

**Financial assets (continued)**

***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 consolidated income statement. The net gain or loss recognised in consolidated income statement 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 Group 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.

***Available for sale financial assets***

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the consolidated income statement.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010****3. Significant accounting policies (continued)****Financial assets (continued)*****Available for sale financial assets (continued)***

If an available for sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the consolidated income statement. Reversals of impairment losses on debt instruments classified as available for sale are reversed through the consolidated income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the consolidated income statement.

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

***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at each financial position 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 and other 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 consolidated income statement.

***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 financial position 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 Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

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

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

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

*Dividend distribution*

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

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

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgments and estimates made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:



**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

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

**Critical accounting judgements**

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements

***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 Group 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 Group classifies investments held to maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Group'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 Group 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 Group 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.

***Unearned premiums***

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 reporting date and is estimated using the 1/24<sup>th</sup> 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. 6 of 2007, concerning Insurance Authority. The unearned premium calculated by the 1/24<sup>th</sup> method accounts for the estimated acquisition costs incurred by the Group to acquire policies and defers these over the life of the policy.

In deciding whether to apply the 1/24 method or the legal requirement in respective countries for calculating unearned premium, management in choosing to recognise the higher of the two, believe that they have adopted a conservative policy.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010****4. Critical accounting judgments and key sources of estimation uncertainty (continued)****Key sources of estimation uncertainty**

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

***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 Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported at the financial position date and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the financial position date. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group 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 29, 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 Group's estimation technique for claims payments.

***Impairment of insurance receivables***

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Group evaluating the credit and liquidity position of the policy holders and the insurance companies, historical recovery rates including detailed investigations carried out during 2010 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 consolidated income statement. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognized in the consolidated income statement at the time of collection.

***Liability adequacy test***

At each reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Group 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 consolidated income statement.

***Property and equipment***

The cost of property and equipment is depreciated over the estimated useful life of the asset. The estimated useful life is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors. The management has not considered any residual value, as it is deemed immaterial.

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**5. Property and equipment**

	<b>Building AED</b>	<b>Office improvement AED</b>	<b>Furniture and equipment AED</b>	<b>Motor vehicles AED</b>	<b>Total AED</b>
<b>Cost</b>					
At 1 January 2009	-	1,473,990	3,477,609	270,400	5,221,999
Acquisition of subsidiary (Note 25)	-	-	388,186	-	388,186
Additions	-	557,082	2,600,713	458,114	3,615,909
Disposals	-	-	( 151,687)	-	(151,687)
At 31 December 2009	-	2,031,072	6,314,821	728,514	9,074,407
Additions	463,275	307,363	1,829,729	420,872	3,021,239
Disposals	-	-	(488,101)	(255,000)	(743,101)
<b>At 31 December 2010</b>	<b>463,275</b>	<b>2,338,435</b>	<b>7,656,449</b>	<b>894,386</b>	<b>11,352,545</b>
<b>Accumulated depreciation</b>					
At 1 January 2009	-	937,533	1,386,151	261,917	2,585,601
Acquisition of subsidiary (Note 25)	-	-	72,125	-	72,125
Charge for the year	-	254,385	1,088,649	226,365	1,569,399
Disposals	-	-	( 151,687)	-	(151,687)
At 31 December 2009	-	1,191,918	2,395,238	488,282	4,075,438
Charge for the year	6,175	378,362	1,462,728	130,767	1,978,032
Disposals	-	-	(247,960)	(255,000)	(502,960)
<b>At 31 December 2010</b>	<b>6,175</b>	<b>1,570,280</b>	<b>3,610,006</b>	<b>364,049</b>	<b>5,550,510</b>
<b>Carrying amount</b>					
<b>At 31 December 2010</b>	<b>457,100</b>	<b>768,155</b>	<b>4,046,443</b>	<b>530,337</b>	<b>5,802,035</b>
At 31 December 2009	-	839,154	3,919,583	240,232	4,998,969

The estimated useful life used in the calculation of depreciation for building located in Jordan and related to the subsidiary is 50 years.

All other property and equipments categories depreciation is calculated on an estimated useful life of 3 to 4 years.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

**6. Investment properties**

	2010 AED	2009 AED
<b>a) Investment property under construction:</b>		
At the beginning of the year	179,083,651	110,954,008
Additions during the year	17,501,312	92,566,263
Disposals during the year [Note 26(b)]	-	(24,436,620)
Transfer to other investment properties	(196,584,963)	-
<b>Cost, at the end of the year</b>	<u>-</u>	<u>179,083,651</u>
<b>b) Other Investment in completed properties:</b>		
At the beginning of the year	65,993,812	59,799,771
Acquisition of subsidiary (Note 25)	-	6,194,041
Additions during the year	12,768,339	
Transfer from investment properties under construction	196,584,963	-
<b>Cost, at the end of the year</b>	<u>275,347,114</u>	<u>65,993,812</u>
<b>Total cost</b>	<b>275,347,114</b>	<b>245,077,463</b>
Net loss on revaluation of investment properties	(87,635,264)	(34,237,411)
	<u><u>187,711,850</u></u>	<u><u>210,840,052</u></u>

The valuation of investment properties have been carried by independent valuers at the year end.

The Group has certain assets which are jointly controlled with Gulf General Investment PSC (referred hereafter as "GGICO") on 3 projects whose details are as follows:

- (i) A 10% ownership share in Meydan Tower, a property located in Dubai. The Group has contributed AED 152,960,000 as at 31 December 2010 (2009: AED 152,960,000). The 10% ownership is held in the name of GGICO Real Estate Developments Co. LLC on trust and for the benefit of the Group. The Group has additional commitment of AED 46 million in relation to the property.
- (ii) A 50% ownership share in the purchase of a plot of land in Al Barsha. The Group has fully contributed for its 50% ownership of AED 41.2 million as at 31 December 2010 (2009: AED 41.2 million).
- (iii) A 30% ownership share in the purchase of 4 plots of land at Emirates Industrial City. The Group has fully contributed for its 30% ownership of AED 18.5 million as at 31 December 2010. The 30% ownership is held in the name of GGICO on trust and for the benefit of the Group.

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**7. Investments in associates**

	<b>2010</b>	2009
	<b>AED</b>	AED
Al Sagr Cooperative Insurance Company, Kingdom of Saudi Arabia [Note 7 (i)]	56,995,826	50,993,427
Green Air Technology LLC [Note 7 (ii)]	556,131	244,009
Sogour Al Khaleej General Trading Company [Note 7 (iii)]	150,000	150,000
	<u>57,701,957</u>	<u>51,387,436</u>

Details of the Group's associates at December 31, 2010 are as follows:

Company name	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Al Sagr Cooperative Insurance Company	Kingdom of Saudi Arabia	26	26	Insurance and reinsurance
Green Air Technology L.L.C.	United Arab Emirates	50	50	General trading
Sogour Al Khaleej General Trading Company	United Arab Emirates	50	50	General trading

Although, the Group holds 50% in 2 associates, these are controlled by GGICO. The Group does not participate in the financial and operating policy decisions of these associates. Consequently, these companies are not treated as subsidiaries.

Summarised financial information in respect of the Group's associates is set out below:

**i) Al Sagr Cooperative Insurance Company:**

	<b>2010</b>	2009
	<b>AED</b>	AED
Total assets	512,539,603	210,376,070
Total liabilities	(293,324,888)	(14,247,503)
Net assets	<u>219,214,715</u>	<u>196,128,567</u>
Share of associate's net assets	<u>56,995,826</u>	<u>50,993,427</u>
Commission income	<u>5,171,383</u>	<u>4,192,552</u>
Profit/(loss) for the year	<u>19,578,920</u>	<u>(2,272,562)</u>
Share of associate's profit/(loss) for the year	<u>6,002,399</u>	<u>(590,867)</u>

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**7. Investments in associates (continued)**

**ii) Green Air Technology LLC:**

Total assets	<b>12,546,848</b>	15,991,520
Total liabilities	<b>(11,434,586)</b>	(15,503,502)
Net assets	<b>1,112,262</b>	488,018
Share of associate's net assets	<b>556,131</b>	244,009
Sales	<b>3,085,680</b>	2,643,788
Profit for the year	<b>624,244</b>	188,018
Share of associate's profit for the year	<b>312,122</b>	94,009

The Group holds 50% ownership in Green Air Technology LLC which commenced its commercial operations in 2009. The remaining 50% ownership is owned equally by GGICO and the CEO of Al-Sagr National Insurance Company. The 50% share of the Group is registered in the name of GGICO on behalf and for the benefit of the Group.

**iii) Sogour Al Khaleej General Trading Company**

The Group holds 50% ownership in Sogour Al Khaleej General Trading Company. The remaining 50% ownership is owned by GGICO, a related party. Sogour Al Khaleej General Trading Company has not commenced its commercial operations as at end of the year.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

**8. Investments in subsidiary - discontinued operations**

The Group had operated in Kingdom of Saudi Arabia under the name of Al-Sagr Saudi Insurance Company (a Bahraini shareholding closed exempt company) (the “subsidiary”) and in which the Group owned 50% of its capital. This subsidiary discontinued operations in Kingdom of Saudi Arabia effective from 28 December 2008, because 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 (31 July 2003), insurance activities shall be undertaken through registered companies operating in a co-operative manner.

During 2004, the shareholders of the Company had submitted an application for the insurance license with the Saudi Arabian Monetary Agency (“SAMA”) under a new company, namely “Al Sagr Co-operative Insurance Company”, (the “associate”) in which the Group holds 26% ownership. 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 26 Muharram 1429 (4 February 2008).

The associate started its insurance operations on 1 January 2009. The associate’s General Assembly approved on 1 February 2009 for the associate to enter into agreement to acquire the insurance portfolio and the net assets of the subsidiary with effect from 1 January 2009 at goodwill of AED 38 million as determined by SAMA.

SAMA in their letters dated 26 April 2010 and 1 June 2010 valued the total assets of the subsidiary at AED 130 million, out of which AED 90 million worth of assets and AED 90 million worth of liabilities (net assets AED Nil) that were transferred to the associate and the remaining AED 40 million to be retained by the subsidiary, out of which Group’s share is equivalent to AED 19 million. This has been adjusted against the advance received from related party [note 26 (d)].

The net assets were transferred to the associate along with the insurance portfolio, at a consideration of AED 38 million and resulted a net gain of AED 38 million out of which the Group’s net gain from the whole transaction amounted to AED 15.6 million.

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**9. Investments in securities**

	<b>2010</b>	<b>2009</b>
	<b>AED</b>	<b>AED</b>
Held for trading investments	76,577,975	89,831,612
Available for sale investments	89,779	109,380
Held to maturity investments	7,215,898	7,953,898
	<u>83,883,652</u>	<u>97,894,890</u>

Held to maturity investments include investment in a fund with a related party amounting to AED 7,215,898 (2009: AED 3,453,898).

All investments in securities are held within U.A.E. except for held for trading and available for sale investments amounting to AED 1,771,950 (2009: AED 448,915) and AED 89,779 (2009: AED 109,380), respectively, which are held by the subsidiary, Jordan Insurance Company PJSC, in Jordan.

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

<b>a) Held for trading investments:</b>	<b>2010</b>	<b>2009</b>
	<b>AED</b>	<b>AED</b>
Fair value, at the beginning of the year	89,831,612	340,117,304
Net additions / (disposals) during the year	2,466,059	(233,790,313)
Resulting from acquisition of subsidiary (Note 25)	-	647,103
Decrease in fair value	(15,719,696)	(17,142,482)
<b>Fair value, at the end of the year</b>	<u><b>76,577,975</b></u>	<u><b>89,831,612</b></u>
<b>b) Available for sale investments:</b>		
Fair value, at the beginning of the year	109,380	625,000
Disposals during the year	-	(625,000)
Resulting from acquisition of subsidiary (Note 25)	-	182,820
Decrease in fair value	(19,601)	(73,440)
<b>Fair value, at the end of the year</b>	<u><b>89,779</b></u>	<u><b>109,380</b></u>
<b>c) Held to maturity investments:</b>		
Cost, at the beginning of the year	7,953,898	7,945,519
(Impairment)/ additions during the year	(738,000)	8,379
<b>Cost, at the end of the year</b>	<u><b>7,215,898</b></u>	<u><b>7,953,898</b></u>



**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**10. Insurance contract liabilities and reinsurance contract assets**

	<b>2010</b>	2009
	<b>AED</b>	AED
<b>Gross</b>		
Insurance contract liabilities		
Claims reported unsettled	164,516,135	184,762,336
Claims incurred but not reported	8,092,100	7,831,100
Unearned premiums	117,391,079	153,744,831
	<hr/>	<hr/>
<b>Total insurance contract liabilities (gross)</b>	<b>289,999,314</b>	346,338,267
	<hr/>	<hr/>
<b>Recoverable from reinsurers</b>		
Claims reported unsettled	124,448,656	126,742,064
Unearned premiums	47,215,789	61,965,807
	<hr/>	<hr/>
<b>Total reinsurers' share of insurance liabilities</b>	<b>171,664,445</b>	188,707,871
	<hr/>	<hr/>
<b>Net</b>		
Claims reported unsettled	40,067,479	58,020,272
Claims incurred but not reported	8,092,100	7,831,100
Unearned premiums	70,175,290	91,779,024
	<hr/>	<hr/>
	<b>118,334,869</b>	157,630,396
	<hr/> <hr/>	<hr/> <hr/>

10. Insurance contract liabilities and reinsurance contract assets (continued)

	31 December 2010		31 December 2009	
	Gross	Reinsurance	Gross	Reinsurance
	AED	AED	AED	AED
		Net		Net
		AED		AED
				AED

	31 December 2010			31 December 2009		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
<b>Claims</b>						
Notified claims						
Incurred but not reported	184,762,336 7,831,100	(126,742,064) -	58,020,272 7,831,100	165,043,466 6,500,000	(114,165,174) -	50,878,292 6,500,000
<b>Total at the beginning of the year</b>	<b>192,593,436</b>	<b>(126,742,064)</b>	<b>65,851,372</b>	<b>171,543,466</b>	<b>(114,165,174)</b>	<b>57,378,292</b>
Claims settled during the year	(342,906,079)	95,060,824	(247,845,255)	(355,223,713)	108,227,326	(246,996,387)
Acquisition of subsidiary (Note 25)	-	-	-	17,272,558	(8,530,508)	8,742,050
Increase in liabilities	322,920,878	(92,767,416)	230,153,462	359,001,125	(112,273,708)	246,727,417
<b>Total at the end of the year</b>	<b>172,608,235</b>	<b>(124,448,656)</b>	<b>48,159,579</b>	<b>192,593,436</b>	<b>(126,742,064)</b>	<b>65,851,372</b>
<b>Notified claims</b>						
Incurred but not reported	164,516,135 8,092,100	(124,448,656) -	40,067,479 8,092,100	184,762,336 7,831,100	(126,742,064) -	58,020,272 7,831,100
<b>Total at the end of the year</b>	<b>172,608,235</b>	<b>(124,448,656)</b>	<b>48,159,579</b>	<b>192,593,436</b>	<b>(126,742,064)</b>	<b>65,851,372</b>
<b>Unearned premium</b>						
Balance at beginning of the year	153,744,831	(61,965,807)	91,779,024	189,294,905	(86,289,559)	103,005,346
Acquisition of subsidiary (Note 25)	-	-	-	7,278,632	(1,740,594)	5,538,038
Net (increase)/decrease during the year	(36,353,752)	14,750,018	(21,603,734)	(42,828,706)	26,064,346	(16,764,360)
<b>Total at the end of the year</b>	<b>117,391,079</b>	<b>(47,215,789)</b>	<b>70,175,290</b>	<b>153,744,831</b>	<b>(61,965,807)</b>	<b>91,779,024</b>

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**11. Insurance and other receivables**

	2010 AED	2009 AED
<b>Receivables arising from insurance and reinsurance contracts:</b>		
Due from policy holders, insurance and reinsurance companies	203,311,771	225,091,696
Allowance for doubtful debts	(20,398,031)	(10,770,504)
	<u>182,913,740</u>	<u>214,321,192</u>
<b>Other receivables:</b>		
Accrued interest income	3,697,094	3,579,739
Prepaid expenses and refundable deposits	562,421	813,405
Due from staff	1,131,683	1,074,479
Other receivables	4,296,075	2,922,587
	<u>9,687,273</u>	<u>8,390,210</u>
	<u><u>192,601,013</u></u>	<u><u>222,711,402</u></u>
<i>Movement in the allowance for doubtful debts:</i>		
Balance at beginning of the year	10,770,504	3,670,452
Acquisition of subsidiary (Note 25)	-	4,017,923
Impairment losses recognized on receivables	10,000,000	3,104,400
Amounts written off as uncollectible	(372,473)	(22,271)
<b>Balance at end of the year</b>	<u><u>20,398,031</u></u>	<u><u>10,770,504</u></u>

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

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

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

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

	2010 AED	2009 AED
Allowance made for impairment	20,398,031	10,770,504
Post dated cheques received	23,123,491	17,203,807
Allowance not made	25,925,097	61,318,737
	<u>69,446,619</u>	<u>89,293,048</u>

Before accepting any new customer, the Group assesses the potential customers credit quality and defines credit limits by customer. There are 10 customers (2009: 9 customers) whose combined balances represent more than 26% (2008: 21%) of the total balance of due from policyholders.

Included in the Group's due from policyholders balance are debtors with a carrying amount of AED 25 million (31 December 2009: AED 61.3 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

In determining the recoverability of an insurance receivable, the Group 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.

**12. Bank balances and cash**

	2010 AED	2009 AED
Cash on hand	115,679	139,495
Bank balances:		
Current accounts	7,311,785	10,392,769
Fixed deposits	273,255,979	266,937,128
	<u>280,683,443</u>	<u>277,469,392</u>

Fixed deposits with banks as at 31 December 2010 include AED 10 million (31 December 2009: AED 10 million) deposited in the name of the company to the order of the Ministry of Economy and Trade of the United Arab Emirates as required by the Federal Law Number (6) of 2007 relating to Insurance Authority.

Fixed deposits amounting to AED 191 million (31 December 2009: AED 131 million) are under lien in respect of bank credit facilities granted to the Group (Note 17).

All fixed deposits with banks mature within different periods not exceeding one year from the financial date of deposit and carry interest rates between 4.5% to 5.00% per annum (31 December 2009: 5.25% to 6.25% per annum).

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**13. Share capital**

	<b>2010</b>	2009
	<b>AED</b>	AED
Issued and fully paid:		
230,000,000 shares of AED 1 each		
(31 December 2009: 230,000,000 share of AED 1 each)	<b>230,000,000</b>	230,000,000

**14. 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.

**15. 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.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

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

Movements in the net liability is as follows:

	2010 AED	2009 AED
Balance at the beginning of the year	9,451,420	7,809,448
Amounts charged during the year	1,313,910	1,821,722
Amounts paid	(405,912)	(179,750)
<b>Balance at the end of the year</b>	<b>10,359,418</b>	<b>9,451,420</b>

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

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

**Defined contribution plan**

U.A.E. national employees of the Group 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 Group 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 Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the consolidated income statement.

**17. Bank borrowings**

	2010 AED	2009 AED
<i>Secured at amortised cost</i>		
Bank overdrafts	210,029,651	136,929,407

The Group has bank facilities in the form of overdrafts repayable upon demand and bearing interest ranging from 5.2% to 5.6% per annum (2009: 5.8% to 6.5% per annum). These facilities are secured by lien on fixed deposits amounting to AED 191 million (2009: AED 131 million). The bank overdraft limit provided under the facility is AED 267 million (2009: AED 145 million).

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**18. Insurance and other payables**

	2010 AED	2009 AED
<b>Due to insurance and reinsurance companies</b>	<b>71,305,347</b>	<b>81,730,242</b>
<b>Other payables:</b>		
Insurance customers payable	24,503,143	18,116,691
Accrued expenses and provisions	5,341,830	10,217,174
Other	5,255,447	5,056,789
	<u>106,405,767</u>	<u>115,120,896</u>

**19. Advances from related parties**

	2010 AED	2009 AED
Gulf General Investment Company	-	18,470,117
Sagr Al Bayda'a Trading Agencies Co. Ltd, Kingdom of Saudi Arabia [Note 26 (d)]	11,460,518	40,082,036
	<u>11,460,518</u>	<u>58,552,153</u>

**20. Investment revenue - net**

	2010 AED	2009 AED
Net gain on sales of investment in securities	382,788	12,101,175
Revenue from Investment properties	1,813,000	-
Interest income	12,764,615	11,980,220
Dividend income	2,582,157	4,086,502
Loss on revaluation of held for trading investments	(15,719,696)	(17,142,482)
Impairment on held to maturity investment	(738,000)	-
Rent income – Abu Shagara building	757,198	-
	<u>1,842,062</u>	<u>11,025,415</u>

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**21. Other income - net**

	2010 AED	2009 AED
Recovery against bad debts	3,473,036	4,596,189
Management fee	1,000,000	121,460
Interest income	-	637,017
Other income/(expenses)	(705,970)	-
	<u>3,767,066</u>	<u>5,354,666</u>

Management fee represents income charged by the Group under a technical management agreement with Union Insurance Company. The Group 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 1 March 2008.

**22. Net (loss)/profit for the year**

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

	2010 AED	2009 AED
Staff costs	18,293,328	20,923,992
Depreciation of property and equipment [Note 5]	1,978,032	1,569,399
Provision for doubtful debts [Note 11]	10,000,000	3,104,400

**23. Basic (loss)/earnings per share**

	2010	2009
Net (loss)/profit for the year attributable to equity holders of the parent- AED	(36,958,516)	30,051,772
Weighted average numbers of shares	230,000,000	230,000,000
Basic (loss)/earnings per share - AED	(0.16)	0.13

Basic (loss)/earnings per share are calculated by dividing the net (loss)/profit for the year attributable to equity holders of the company by the number of weighted average of shares outstanding as of the consolidated statement of financial position date.

**24. Cash and cash equivalents**

	2010 AED	2009 AED
Bank balances and cash (Note 12)	280,683,443	277,469,392
Fixed deposits under lien and maturity within more than three months from the date of deposits	(266,240,941)	(254,024,886)
	<u>14,442,502</u>	<u>23,444,506</u>



**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**25. Acquisition of a subsidiary**

On 30 June 2009, the Company entered as a strategic partner and acquired 84.02% of the share capital of Jordan Emirates Insurance Company PSC, for an amount of 4.2 million Jordanian Dinar (equivalent to AED 21.9 million), whereby 29% of the aggregate shareholding of the Company is registered in the name of a third party on behalf and for the benefit of the Group. Jordan Emirates Insurance Company PSC is a publicly listed company. The principal activity of Jordan Emirates Insurance Company PSC is the writing of insurance of all types operating through its Head Office in Jordan. The functional currency is Jordanian Dinar (JOD) and, for the purpose of consolidation, the assets and liabilities have been translated at the year end rate of U.A.E. Dirhams (AED) being equivalent to Jordanian Dinar (JOD) 0.192. The JOD is also pegged to the United States Dollar (USD), thus, there were no exchange differences arising from the consolidation of the subsidiary. This transaction has been accounted for by the purchase method of accounting in accordance with IFRS 3: *Business Combinations*.

The net assets acquired in the transaction are as follows:

	Fair Value AED	Carrying value AED
<b>Net assets acquired:</b>		
Property and equipment	316,061	316,061
Investment properties	7,993,380	6,194,041
Available for sale investments	182,820	182,820
Reinsurance contract assets	10,271,102	10,271,102
Insurance and other receivables	7,356,624	7,356,624
Investments held for trading	647,103	647,103
Bank balances and cash	33,792,709	33,792,709
Insurance contract liabilities	( 24,551,189)	( 24,551,189)
Insurance and other payables	( 7,121,067)	( 7,121,067)
	28,887,543	27,088,204
Less: Non-controlling interests	( 5,447,538)	( 5,160,004)
Gain on bargain purchase	( 1,511,805)	-
<b>Total consideration</b>	<b>21,928,200</b>	<b>21,928,200</b>
<b>Net cash inflow arising on acquisition:</b>		
Cash consideration paid	( 21,928,200)	
Cash and cash equivalents acquired	33,792,709	
	<b>11,864,509</b>	

During the year ended 31 December 2010, the Purchase Price Allocation (PPA) exercise was finalized. As per PPA, value of investment properties was increased by AED 1.8 million with a corresponding increase in non-controlling interests by AED 0.3 million and remaining amount of AED 1.5 million is recognized in the income statement as bargain purchase gain on acquisition.

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**26. Related party transactions**

a) At reporting date, amounts due from/to related parties were as follows:

	2010 AED	2009 AED
<b>Included in insurance and other receivables</b>		
Due from policyholders	1,778,942	2,242,714
Due from shareholders	1,213,268	2,465,221
<b>Included in due from related parties</b>		
Due from related parties	226,640,911	202,831,608
<b>Included in due to related parties</b>		
Due to shareholders	13,152,884	11,767,715
Advances received (Note 19)	11,460,518	58,552,153
<b>Included in insurance and other payables</b>		
Gross outstanding claims	23,500	20,108
<b>Others</b>		
Investments in jointly controlled assets	158,522,360	178,522,360
Held to maturity investments (Note 9)	7,215,898	3,453,898

- b) In 2009, the Group sold the investment property at the Dubai Silicon Oasis to GGICO for a total agreed amount of AED 63,644,074. The investment property had a net book value of AED 24,436,620 (Note 6) resulting in a profit on disposal of property of AED 39,207,454. This was settled against the advance of AED 22,275,427 from a related party as of 31 December 2008 and the balance of AED 41,368,647 was considered as additional investment of the Group towards the investment property with the same related party in the Meydan Tower (Note 6).
- c) In 2009, the Group sold 42 million shares of Union Insurance Company which was classified under investment held for trading to Sogour Al Khaleej General Trading LLC, one of the Group's associates in which both the Group and GGICO shares equal ownership for an agreed amount of AED 192 million. The amount is not yet received as of 31 December 2010 and classified under amount due from related parties.
- d) The advance amounting to AED 40 million from Sagr Al Bayda'a Trading Agencies Co. Ltd (Note 19) represents funds received on behalf of the Group's discontinued subsidiary, Al Sagr Saudi Insurance Company, against the Group's share from the liquidation settlement proceeds of the said subsidiary. During the year, the company has repaid AED 10 million to related parties and AED 19 million has been adjusted against investment in subsidiary – discontinued operations (note 8).

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 Group against the investment in one of its associate- Al Sagr Company for Co Operative Insurance, Kingdom of Saudi Arabia.

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

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

**Transactions:**

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

	2010 AED	2009 AED
Gross premium	25,122,765	17,382,345
Claims paid	841,605	22,264,055
Sale of investment property - GGICO [Note 26 (b)]	-	63,644,074
Management fees	1,000,000	121,460
Sale of held for trading investments [Note 26 (c)]	-	192,061,188

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

***Compensation of Board of directors/key management personnel***

	2010 AED	2009 AED
Short-term and long term benefits	5,765,419	7,668,499
Board of Director's remuneration	-	900,000

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.

**27. Contingent liabilities**

	2010 AED	2009 AED
Letters of guarantee	22,779,015	19,462,200
Capital commitments	46,610,000	46,610,000

**28. Operating lease arrangements**

At the consolidated statement of financial position date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2010 AED	2009 AED
Within one year	601,165	496,668
In the second to third year (inclusive)	-	200,000
	601,165	696,668

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

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

**29. 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**29. Insurance risk (continued)**

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

Claims on insurance contracts are payable on a claims-occurrence basis. The Group 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 Group, 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 Group 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 Group 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 financial position date.

Where possible, the Group 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 Group'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	2010	2009
Motor	77%	74%
Non-Motor	85%	81%

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**29. Insurance risk (continued)**

*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 Group's quarterly claims reports and screening of the actual insurance contracts carried out at the reporting to derive data for the contracts held. The Group 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*

The Group's underwriting activities are carried out in the United Arab Emirates and other Middle East countries.

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

	2010 AED'000	2009 AED'000
Gross	76,426,009	82,529,118
Net	6,847,245	8,170,382

Reinsurance risk

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

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

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

**29. Insurance risk (continued)**

*Sensitivity of underwriting profit and losses*

The contribution by the insurance operations in the profit of the Group amounts to AED 21.5 million for the year ended 31 December 2010 (2009: AED 38.9 million). The Group does not foresee any major impact from insurance operations due to the following reasons:

The Group has an overall retention level of 53% (2009: 58%) and the same is mainly contributed by two classes of business i.e., Motor and Medical line wherein the retention levels are 80% 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 Group has net commission earnings of AED 47 million (2009: AED 37 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% (2009: 58%) volume of business and limited exposure in high retention areas like Motor and medical insurance the Group is comfortable to maintain a net loss ratio in the region of 75% to 80 % (2009: 75% to 78%) 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:

Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010

## 29. Insurance risk (continued)

	Upto 2006 AED	2007 AED	2008 AED	2009 AED	2010 AED	Total AED
<b>Outstanding claims - Gross:</b>						
At the end of the accident year	280,715,247	308,655,172	133,973,373	152,471,963	90,743,405	
One year later	287,167,274	329,656,446	145,672,363	156,977,358	-	
Two years later	319,368,178	354,964,337	170,674,954	-	-	
Three years later	336,071,034	350,626,046	-	-	-	
Four years later	356,446,586	-	-	-	-	
Current estimate of cumulative claims	356,446,586	350,626,046	170,674,954	156,977,358	90,743,405	1,125,468,349
Cumulative payments to date	(349,797,153)	(336,565,257)	(138,581,376)	(136,008,431)	-	(960,952,217)
<b>Liability recognised in the consolidated statement of financial position</b>	<b>6,649,433</b>	<b>14,060,789</b>	<b>32,093,578</b>	<b>20,968,927</b>	<b>90,743,405</b>	<b>164,516,132</b>
<b>Outstanding claims - net retention:</b>						
At the end of the accident year	81,953,510	40,700,449	35,799,878	42,901,112	24,244,236	-
One year later	87,427,697	54,063,727	44,742,843	43,973,949	-	-
Two years later	103,624,251	61,349,161	75,799,918	-	-	-
Three years later	112,264,682	61,447,992	-	-	-	-
Four years later	129,292,267	-	-	-	-	-
Current estimate of cumulative claims	129,292,267	61,447,992	75,799,918	43,973,949	24,244,236	334,758,362
Cumulative payments to date	(128,666,947)	(59,015,835)	(70,336,912)	(36,671,190)	-	(294,690,884)
<b>Liability recognised in the consolidated statement of financial position</b>	<b>625,320</b>	<b>2,432,157</b>	<b>5,463,006</b>	<b>7,302,759</b>	<b>24,244,236</b>	<b>40,067,478</b>



**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**30. Capital risk management**

The Group's objectives when managing capital are:

- to comply with the insurance capital requirements required by U.A.E. Federal Law No. 6 of 2007, concerning Insurance Authority. Management considers the quantitative threshold of 20% -25% sufficient to maximise shareholders' return and to support the capital required;
- to safeguard the Group'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 insurance regulator specifies the minimum amount and type of capital that must be held by the Group 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 Group is subject to insurance solvency regulations with which it has complied with during the year. The Group 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 Group and the total capital held.

	2010 AED	2009 AED
Total capital held	230,000,000	230,000,000
Minimum regulatory capital	100,000,000	100,000,000

**Gearing ratio**

The Group'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:

	2010 AED	2009 AED
Debt (i)	210,029,651	136,929,407
Cash and cash equivalents (Note 24)	(14,442,502)	(23,444,506)
Net debt	195,587,149	113,484,901
Equity (ii)	559,931,006	597,039,309
Net debt to equity ratio	34.99%	19.01%

(i) Debt is defined as long-and short-term borrowings. (Note 17)

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

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**31. Financial instruments**

The Group 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 Group 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 consolidated financial statements.

**Categories of financial instruments and others - 31 December 2010**

<u>Assets</u>	<u>Loans and receivables</u>	<u>Held for trading</u>	<u>Held to-maturity</u>	<u>Available for-sale</u>	<u>Insurance contract assets</u>	<u>Non-financial instruments</u>	<u>Total</u>
	AED	AED	AED	AED	AED	AED	AED
Available for sale investments	-	-	-	89,779	-	-	89,779
Re-insurance contract assets	-	-	-	-	171,664,445	-	171,664,445
Insurance and other receivables	192,601,013	-	-	-	-	-	192,601,013
Held for trading investments	-	76,577,975	-	-	-	-	76,577,975
Due from related parties	-	-	-	-	-	226,640,911	226,640,911
Bank balances and cash	280,683,443	-	-	-	-	-	280,683,443
Held to maturity	-	-	7,215,898	-	-	-	7,215,898
<b>Total assets</b>	<b>473,284,456</b>	<b>76,577,975</b>	<b>7,215,898</b>	<b>89,779</b>	<b>171,664,445</b>	<b>226,640,911</b>	<b>955,473,464</b>

<u>Liabilities</u>	<u>At amortised cost</u>	<u>Insurance contract liabilities</u>	<u>Other Non-financial instruments</u>	<u>Total</u>
	AED	AED		AED
Bank borrowings	210,029,651	-	-	210,029,651
Insurance contract liabilities	-	289,999,314	-	289,999,314
Insurance and other payables	106,405,767	-	-	106,405,767
Due to related parties including advances from related party	24,613,402	-	-	24,613,402
Provision for end of service indemnity	-	-	10,359,418	10,359,418
<b>Total liabilities</b>	<b>341,048,820</b>	<b>289,999,314</b>	<b>10,359,418</b>	<b>641,407,552</b>

Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010

31. Financial instruments (continued)

Categories of financial instruments and others – 31 December 2009

<u>Assets</u>	<u>Loans and receivables</u> AED	<u>Held for trading</u> AED	<u>Held --to- maturity</u> AED	<u>Available for-sale</u> AED	<u>Insurance contract assets</u> AED	<u>Other Non- financial instruments</u> AED	<u>Total</u> AED
Available for sale investments	-	-	-	109,380	-	-	109,380
Re-insurance contract assets	-	-	-	-	188,707,871	-	188,707,871
Insurance and other receivables	222,711,402	-	-	-	-	-	222,711,402
Held for trading investments	-	89,831,612	-	-	-	-	89,831,612
Due from related parties	-	-	-	-	-	202,831,608	202,831,608
Bank balances and cash	277,469,392	-	-	-	-	-	277,469,392
Held to maturity	-	-	7,953,898	-	-	-	7,953,898
<b>Total assets</b>	<b>500,180,794</b>	<b>89,831,612</b>	<b>7,953,898</b>	<b>109,380</b>	<b>188,707,871</b>	<b>202,831,608</b>	<b>989,615,163</b>

<u>Liabilities</u>	<u>At amortised cost</u> AED	<u>Insurance contract liabilities</u> AED	<u>Other Non- financial instruments</u>	<u>Total</u> AED
Bank borrowings	136,929,407	-	-	136,929,407
Insurance contract liabilities	-	346,338,267	-	346,338,267
Advance from related parties	58,552,153	-	-	58,552,153
Insurance and other payables	115,120,896	-	-	115,120,896
Due to related parties	11,767,715	-	-	11,767,715
Provision for end of service indemnity	-	-	9,451,420	9,451,420
<b>Total liabilities</b>	<b>322,370,171</b>	<b>346,338,267</b>	<b>9,451,420</b>	<b>678,159,858</b>

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

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

**31. Financial instruments (continued)**

**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 Group.

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

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 Group 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 consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**31. Financial instruments (continued)**

**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 Group's short, medium and long-term funding and liquidity management requirements. The Group 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 Group's financial assets. The contractual maturities of the financial assets have been determined on the basis of the remaining period at the financial position 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 financial position date based on contractual repayment arrangements was as follows:

2010	Less than 30 days AED	30-90 days AED	90-180 days AED	After 180 days AED	Total AED
Due from related parties	226,640,911	-	-	-	226,640,911
Reinsurance contract assets	171,664,445	-	-	-	171,664,445
Held to maturity investments	-	-	-	7,215,898	7,215,898
Available for sale investments	-	-	-	89,779	89,779
Insurance and other receivables	45,798,923	81,420,309	23,486,627	41,895,154	192,601,013
Held for trading investments	76,577,975	-	-	-	76,577,975
Bank balances and cash - non- interest bearing	7,427,464	-	-	-	7,427,464
Fixed deposits - interest bearing	5,237,847	1,777,191	19,069,048	247,171,893	273,255,979
	<u>533,347,565</u>	<u>83,197,500</u>	<u>42,555,675</u>	<u>296,372,724</u>	<u>955,473,464</u>
Insurance and other payables	9,576,519	24,473,326	38,306,078	34,049,845	106,405,768
Bank borrowings	18,902,668	48,306,819	44,106,226	98,713,938	210,029,651
	<u>28,479,187</u>	<u>72,780,145</u>	<u>82,412,304</u>	<u>132,763,783</u>	<u>316,435,419</u>

Interest rates have been disclosed in the respective notes.

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**31. Financial instruments (continued)**

**Liquidity risk - continued**

2009	Less than 30 days AED	30-90 days AED	90-180 days AED	After 180 days AED	Total AED
Due from related parties	202,831,608	-	-	-	202,831,608
Reinsurance contract assets	188,707,871	-	-	-	188,707,871
Held to maturity investments	-	-	-	7,953,898	7,953,898
Available-for-sale investments	-	-	-	109,380	109,380
Insurance and other receivables	53,204,100	95,467,217	25,721,348	48,318,737	222,711,402
Held for trading investments	89,831,612	-	-	-	89,831,612
Bank balances and cash - non- interest bearing	10,532,264	-	-	-	10,532,264
Fixed deposits - interest bearing	64,455,995	102,679,395	40,213,878	59,587,860	266,937,128
	<u>609,563,450</u>	<u>198,146,612</u>	<u>65,935,226</u>	<u>115,969,875</u>	<u>989,615,163</u>
Insurance and other payables	10,783,000	26,816,152	41,798,112	35,723,632	115,120,896
Bank borrowings	12,500,000	32,500,000	28,500,000	63,429,407	136,929,407
Provision for employees' end of service indemnity	-	-	-	9,451,420	9,451,420
	<u>23,283,000</u>	<u>59,316,152</u>	<u>70,298,112</u>	<u>108,604,459</u>	<u>261,501,723</u>

**Interest risk**

The Group's exposure to interest rate risk relates to its bank deposits and bank borrowings. At 31 December 2010, bank deposits carried interest rates ranges between 4.5% to 5.0% per annum (2009: 5.3% to 6.3% per annum). The interest rate on bank borrowings ranges between 5.1% to 5.6% per annum (2009: 5.8% to 6.5% per annum). The risk is managed by the Group 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 consolidated financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the financial position 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.

**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010****31. Financial instruments (continued)****Interest risk (continued)**

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

- Profit for the year ended 31 December 2010 would decrease/increase by AED 1,050,000 (2009: decrease/increase by AED 650,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

**Equity price risk***Sensitivity analysis*

At the financial position date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Group's profit would have increased/decreased by AED 7.6 million (2009: AED 9 million).

*Method and assumptions for sensitivity analysis*

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

**Notes to the consolidated financial statements (continued)**  
**for the year ended 31 December 2010**

**32. Fair value of financial instruments**

The management considers that the fair values of the financial assets and liabilities are not materially different from their carrying values.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

*Fair value measurements recognised in the consolidated statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2010			
	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
<i>Held for trading</i>	76,577,975	-	-	76,577,975
<i>Held to maturity</i>	-	7,215,898	-	7,215,898
<i>Available for sale</i>	89,779	-	-	89,779
<b>Total</b>	<b>76,667,754</b>	<b>7,215,898</b>	<b>-</b>	<b>83,883,652</b>

  

	31 December 2009			
	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
<i>Held for trading</i>	89,831,612	-	-	89,831,612
<i>Held to maturity</i>	-	7,953,898	-	7,953,898
<i>Available for sale</i>	109,380	-	-	109,380
<b>Total</b>	<b>89,940,992</b>	<b>7,953,898</b>	<b>-</b>	<b>97,894,890</b>

There was no movement in level 3 investments in 2009 and 2010.



**Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010**

**32. Fair value of financial instruments (continued)**

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

The table above only includes financial assets. There are no financial liabilities measured at fair value.

All gain and losses included in consolidated statement of comprehensive income relate to available for sale investments held at the end of the reporting period and are reported as changes of 'Investment revaluation reserve'.

There are no financial liabilities carried at fair value as at the reporting date.

**35. Segment information**

The Group has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the Group's 'system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

Management has determined the segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. There are no transactions between the business segments.

**Business segments**

The Group has the following main business segments:

- a) Insurance
  - Accident and Liability: Covers damages resulting from work accidents, burglary, motor, civil responsibilities, engineering insurance, medical, life, personal and breach of trust.
  - Fire: Covers insurance against damages caused by fire, explosions, natural phenomena and all kind of commotions.
  - Marine and aviation: Covers the insurance of cargo and other movables, freight charges, ship and aircraft hulls, machinery and the insurance against risks incidental to its construction, operations, repairs and docking including damages which afflict others.
- b) Investment comprising of investment in securities and investment property.

Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010

33. Segment information (continued)

	Insurance AED	Investment AED	Total AED
<b>Year ended 31 December 2010</b>			
Total segment revenue	315,593,601	45,492,421	361,086,022
Less: allocated costs	(293,851,378)	(81,313,801)	(375,129,179)
Segment results	21,742,223	(35,821,380)	(14,079,157)
Less: unallocated costs			(22,879,359)
Profit for the year			(36,958,516)
Total assets at 31 December 2010	660,940,734	545,748,572	1,206,689,306
	Insurance AED	Investment AED	Total AED
<b>Year ended 31 December 2009</b>			
Total segment revenue	348,638,823	72,730,017	421,368,840
Less: allocated costs	(305,507,492)	(74,832,135)	(380,339,627)
Segment results	43,131,331	(2,102,118)	41,029,213
Less: unallocated costs			(10,977,441)
Profit for the year			30,051,772
Total assets at 31 December 2009	896,719,242	383,412,953	1,280,132,195

Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010

33. Segment Information (continued)

2010	Fire AED	Marine AED	Accident & liabilities AED	Total AED
Premium written	22,314,725	106,077,880	275,347,841	403,740,446
Less: Reinsurer's share	(20,787,989)	(96,273,553)	(70,256,898)	(187,318,440)
<b>Net premium</b>	<b>1,526,736</b>	<b>9,804,327</b>	<b>205,090,943</b>	<b>216,422,006</b>
Net movement during the year	490,985	866,014	20,246,735	21,603,734
<b>Net premium earned</b>	<b>2,017,721</b>	<b>10,670,341</b>	<b>225,337,678</b>	<b>238,025,740</b>
Claims paid	(3,123,379)	(55,426,757)	(284,355,943)	(342,906,079)
Less: Reinsurers' share	2,266,904	47,617,157	45,176,763	95,060,824
<b>Net claims paid</b>	<b>(856,475)</b>	<b>(7,809,600)</b>	<b>(239,179,180)</b>	<b>(247,845,255)</b>
Net movement during the year	(1,326,089)	(1,311,997)	20,329,879	17,691,793
<b>Net claim incurred</b>	<b>(2,182,564)</b>	<b>(9,121,597)</b>	<b>(218,849,301)</b>	<b>(230,153,462)</b>
Net commission earned and documentation fees	5,195,591	14,001,503	28,153,501	47,350,595
<b>Underwriting profit</b>	<b>5,030,748</b>	<b>15,550,247</b>	<b>34,641,878</b>	<b>55,222,873</b>
Less: general and administration expenses	(1,898,352)	(2,557,921)	(29,024,377)	(33,480,650)
<b>Net underwriting profit</b>	<b>3,132,396</b>	<b>12,992,326</b>	<b>5,617,501</b>	<b>21,742,223</b>

Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010

33. Segment Information (continued)

2009	Fire AED	Marine AED	Accident & liabilities AED	Total AED
Premium written	18,923,616	92,497,912	334,636,533	446,058,061
Less: Reinsurer's share	(16,565,702)	(83,656,020)	(86,871,807)	(187,093,529)
<b>Net premium</b>	<u>2,357,914</u>	<u>8,841,892</u>	<u>247,764,726</u>	<u>258,964,532</u>
Net movement during the year	49,918	(435,557)	17,149,999	16,764,360
<b>Net premium earned</b>	<u>2,407,832</u>	<u>8,406,335</u>	<u>264,914,725</u>	<u>275,728,892</u>
Claims paid	(27,650,252)	(63,439,502)	(264,133,959)	(355,223,713)
Less: Reinsurers' share	26,424,886	59,015,866	22,786,574	108,227,326
<b>Net claims paid</b>	<u>(1,225,366)</u>	<u>(4,423,636)</u>	<u>(241,347,385)</u>	<u>(246,996,387)</u>
Net movement during the year	(62,225)	(2,172,241)	2,503,436	268,970
<b>Net claim incurred</b>	<u>(1,287,591)</u>	<u>(6,595,877)</u>	<u>(238,843,949)</u>	<u>(246,727,417)</u>
Net commission earned and documentation fees	3,450,270	18,488,699	15,304,058	37,243,027
<b>Underwriting profit</b>	<u>4,570,511</u>	<u>20,299,157</u>	<u>41,374,834</u>	<u>66,244,502</u>
Less: General and administration expenses	(1,548,361)	(2,086,328)	(23,673,273)	(27,307,962)
<b>Net underwriting profit</b>	<u>3,022,150</u>	<u>18,212,829</u>	<u>17,701,561</u>	<u>38,936,540</u>

Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2010

33. Segment Information (continued)

2010	Within U.A.E. AED	Outside U.A.E. AED	Total AED
Insurance revenue	271,481,917	44,111,684	315,593,601
Insurance cost	(225,329,883)	(35,040,845)	(260,370,728)
General and administrative expenses	(25,836,425)	(7,644,225)	(33,480,650)
<b>Segment result</b>	<b>20,315,609</b>	<b>1,426,614</b>	<b>21,742,223</b>
<b>Segment assets</b>	<b>1,126,969,435</b>	<b>79,719,871</b>	<b>1,206,689,306</b>
<b>Segment liabilities</b>	<b>588,291,072</b>	<b>53,116,480</b>	<b>641,407,552</b>
2009			
Insurance revenue	336,016,864	12,621,959	348,638,823
Insurance cost	(272,717,266)	(9,677,055)	(282,394,321)
General and administrative expenses	(23,263,277)	(4,044,685)	(27,307,962)
<b>Segment result</b>	<b>40,036,321</b>	<b>(1,099,781)</b>	<b>38,936,540</b>
<b>Segment assets</b>	<b>1,156,630,844</b>	<b>123,501,351</b>	<b>1,280,132,195</b>
<b>Segment liabilities</b>	<b>654,610,334</b>	<b>23,549,524</b>	<b>678,159,858</b>

34. Comparative amounts

The figures in consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows are not comparable as last year figures include the result of the acquired subsidiary (Note 25) from the date of acquisition till 31 December 2009 (6 months period), while this year, include the results of 12 months period.

35. Approval of financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 24 March 2011.