

ARABIA INSURANCE COMPANY S.A.L.

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2009

ARABIA INSURANCE COMPANY S.A.L.
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Arabia Insurance Company S.A.L.
Beirut, Lebanon

We have audited the accompanying consolidated financial statements of ARABIA INSURANCE COMPANY S.A.L. and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as at December 31, 2009, 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 notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2009, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
May 8, 2010

Deloitte & Touche

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2009</u>	<u>2008</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Cash and banks	5	164,273,413	160,260,401
Held-for-trading equity securities	7	-	224,700
Available-for-sale financial assets	8	126,218,245	95,430,515
Held-to-maturity debt securities	9	6,550,446	3,677,406
Insurance receivables	10	62,451,941	59,528,602
Reinsurance assets	11	64,673,058	57,652,222
Deferred acquisition costs		9,814,452	10,474,652
Other assets	12	6,931,920	5,837,183
Property and equipment	13	14,303,167	12,544,162
Intangible assets	14	1,316,203	846,971
Investment property	15	105,933	1,570,419
Due from Life division	16	10,887,984	13,763,165
Assets held for sale	23	-	71,101,013
Total Assets		<u>467,526,762</u>	<u>492,911,411</u>
Assets of the Life Division -- Appendix I		<u>56,957,415</u>	<u>47,995,287</u>
Combined Assets of General Insurance and Life Division		<u>524,484,177</u>	<u>540,906,698</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

<u>LIABILITIES</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2009</u>	<u>2008</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Due to banks	17	4,593,090	-
Held for trading derivatives		72,022	239,388
Insurance payables		22,356,266	29,804,961
Due to related company	23	16,232,643	-
Payables to insurance and reinsurance companies		17,206,848	15,172,503
Income tax payable	18	3,955,586	4,007,663
Accrued expenses and other credit balances	19	5,868,595	6,838,142
Provision for outstanding claims	20	104,945,938	99,020,526
Unearned premiums	20	83,189,747	84,372,800
Unearned commission from reinsurers		2,867,632	2,708,851
Provision for employees end-of-service indemnity		4,120,565	4,356,296
Provision for contingencies	22	2,602,344	3,370,161
Deferred tax liabilities	18	2,320,092	2,318,676
Liabilities related to assets held for sale	23	-	86,457,750
Total liabilities		<u>270,331,368</u>	<u>338,667,717</u>
<u>EQUITY</u>			
Share capital	24	51,000,000	51,000,000
Treasury shares	24	(6,873,199)	(6,735,779)
Surplus on sale of treasury shares	24	78,541	62,129
Legal reserve	25	17,000,000	17,000,000
General reserve		19,613,572	19,613,572
Reserve for asset revaluation surplus	26	6,887,300	6,887,300
Foreign currency translation reserve		878,984	(206,146)
Cumulative change in fair value of investments	27	35,931,930	6,818,899
Retained earnings		34,382,995	27,005,328
Proposed dividends	28	<u>7,650,000</u>	<u>2,550,000</u>
Equity attributable to owners of the parent company		166,550,123	123,995,303
Non-controlling interests	29	<u>30,645,271</u>	<u>30,248,391</u>
Total equity		<u>197,195,394</u>	<u>154,243,694</u>
Total Equity and Liabilities		<u>467,526,762</u>	<u>492,911,411</u>
Liabilities of the Life Division – Appendix 1		49,642,450	43,811,391
Net Assets of the Life Division – Appendix 1		<u>7,314,965</u>	<u>4,183,896</u>
Total Liabilities and Net Assets of the Life Division - Appendix I		<u>56,957,415</u>	<u>47,995,287</u>
Combined Equity and Liabilities of General Insurance and Life Division		<u>524,484,177</u>	<u>540,906,698</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED INCOME STATEMENT FOR THE
GENERAL INSURANCE DEPARTMENTS

	<u>Notes</u>	<u>Year Ended</u> <u>December 31,</u>	
		<u>2009</u> <u>LBP'000</u>	<u>2008</u> <u>LBP'000</u>
Continuing Operations:			
Net income/(loss) of General Insurance Departments:			
Marine	30	4,951,480	6,264,407
Motor	30	8,370,398	3,501,556
Property	30	2,692,518	2,892,174
General accidents	30	2,466,633	2,803,006
Workmen's compensation	30	967,008	1,358,243
Medical	30	(414,220)	371,524
Reinsurance inwards	30	(128,708)	(7,573)
Net income of General Insurance Departments (net of allocated general and administrative expenses)	30	18,905,109	17,183,337
Provision for credit losses	10	262,785	(85,484)
Net income of Insurance Departments (net of provision for credit losses and allocated general and administrative expenses)		<u>19,167,894</u>	<u>17,097,853</u>
Income/(Loss) from Investments:			
Interest on bank deposits	5	5,814,257	5,644,770
Income from available-for-sale investments		3,670,801	4,440,938
Net gain/(loss) on held-for-trading securities and derivatives		730,628	(1,742,242)
Net gain on disposal of available-for-sale investments		1,211,550	382,018
Allowance for impairment of available-for-sale investments	8	(215,349)	(16,827,221)
Excess on acquisition of additional shares in subsidiaries		94,389	165,066
Net foreign exchange losses		(619,359)	(848,025)
Other income		403,731	1,605,732
Net income/loss from building		76,198	(129,908)
Net income/(loss) from investments		<u>11,166,846</u>	<u>(7,308,872)</u>
Total income from general insurance departments and investments		30,334,740	9,788,981
General and administrative expenses unallocated to general insurance departments	31	(10,917,474)	(9,924,805)
Write back of provisions no longer required		-	200,000
Write back of provision for contingencies	22	-	5,612,413
Income before tax		19,417,266	5,676,589
Income tax expense	18	(3,120,012)	(2,673,530)
Net profit for the year from continuing operations		16,297,254	3,003,059
Discontinued Operations:			
Net profit for the year from held-for-sale operations	23	-	250,149
Net profit for the year		<u>16,297,254</u>	<u>3,253,208</u>
Attributable to:			
Owners of the parent company		15,172,880	2,547,721
Non-controlling interests	29	1,124,374	705,487
		<u>16,297,254</u>	<u>3,253,208</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE GENERAL INSURANCE DEPARTMENTS

		Year Ended	
	Notes	December 31,	
		2009	2008
		LBP'000	LBP'000
Profit for the year		16,297,254	3,253,208
Other comprehensive income:			
Net change in fair value of available-for-sale investments	27	27,854,873	(8,239,434)
Exchange differences arising on translating foreign subsidiaries		2,084,959	(119,049)
Effect of change in accounting policy in a subsidiary		619,670	-
Other changes to retained earnings		(45,278)	117,494
Total other comprehensive income/(loss) for the year		30,514,224	(8,240,989)
Total comprehensive income/(loss) for the year		46,811,478	(4,987,781)
Attributable to:			
Owners of the Parent Company		45,644,325	(3,195,596)
Non-controlling interests		1,167,153	(1,792,185)
		46,811,478	(4,987,781)

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital LBP'000	Treasury Shares LBP'000	Treasury Shares LBP'000	Surplus on Sale of Treasury Shares LBP'000	Legal Reserve LBP'000	General Reserve LBP'000	Reserve for Asset Revaluation Surplus LBP'000	Foreign Currency Translation Reserve LBP'000	Cumulative Change in Fair Value of Investments LBP'000	Retained Earnings LBP'000	Proposed Dividends LBP'000	Attributable to Owners of the Parent LBP'000	Non-controlling Interests LBP'000	Total Equity LBP'000
Balance at January 1, 2008	51,000,000	(29,229)	65,685	17,000,000	19,613,572	6,887,300	(137,946)	12,488,533	27,668,428	12,750,000	147,306,343	28,406,436	175,712,779	
Comprehensive income for the year	-	-	-	-	-	-	(68,200)	(5,669,634)	2,542,238	-	-	(3,195,596)	(1,792,185)	(4,987,781)
Effect of acquisition of additional shares in Al Mashriq	-	(6,688,650)	-	-	-	-	-	-	-	-	-	(6,688,650)	4,465,213	(2,223,437)
Distribution of dividends	-	-	-	-	-	-	-	-	-	(12,750,000)	(12,750,000)	(831,073)	(13,581,073)	
Board of Directors' and committees' remunerations	-	-	-	-	-	-	-	-	(655,338)	-	-	(655,338)	-	(655,338)
Proposed dividends	-	-	-	-	-	-	-	-	(2,550,000)	2,550,000	-	-	-	-
Buy-back of ordinary shares - Note 24	-	(17,900)	(3,556)	-	-	-	-	-	-	-	(21,456)	-	-	(21,456)
Balance at December 31, 2008	51,000,000	(6,735,779)	62,129	17,000,000	19,613,572	6,887,300	(206,146)	6,818,899	27,005,328	2,550,000	123,995,303	30,248,391	154,243,694	
Comprehensive income for the year	-	-	-	-	-	-	1,085,130	29,113,031	15,446,164	-	-	45,644,325	1,167,153	46,811,478
Effect of acquisition of additional shares in subsidiaries	-	(184,549)	-	-	-	-	-	-	-	-	-	(184,549)	(109,475)	(294,024)
Distribution of dividends - Note 28	-	-	-	-	-	-	-	-	-	155,095	(2,550,000)	(2,394,905)	(660,798)	(3,055,703)
Board of Directors' and committees' remunerations	-	-	-	-	-	-	-	-	-	-	-	(573,592)	-	(573,592)
Proposed dividends - Note 28	-	-	-	-	-	-	-	-	(7,650,000)	7,650,000	-	-	-	-
Sale of ordinary shares - Note 24	-	47,129	16,412	-	-	-	-	-	-	-	-	63,541	-	63,541
Balance at December 31, 2009	51,000,000	(6,873,199)	78,541	17,000,000	19,613,572	6,887,300	878,984	35,931,930	34,382,995	7,650,000	166,550,123	30,645,271	197,195,394	

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31,	
		2009	2008
		LBP'000	LBP'000
Cash Flows from operating activities:			
Net profit for the year		16,297,254	3,253,208
Adjustments for:			
Interest income on bank deposits		(5,814,257)	(5,644,770)
Depreciation and amortization	13 & 14	1,589,038	1,136,346
Provision for credit losses	10	(262,785)	85,484
Write back of provision for contingencies		-	(5,612,413)
Write back of provisions no longer required		-	(200,000)
Excess on acquisition of additional shares in subsidiaries		(94,389)	(165,066)
Net change in foreign currency translation reserve		2,084,959	(68,200)
Net change in fair value of held-for-trading securities		-	75,955
Allowance for impairment of available-for-sale financial assets	8	215,349	16,827,221
		14,015,169	9,687,765
Decrease in held-for-trading securities		224,700	2,638,760
Decrease in held-for-trading derivative liabilities		(167,366)	(520,901)
Increase in insurance receivables		(2,660,554)	(14,897,682)
Increase in reinsurance assets		(7,020,836)	(1,590,057)
Decrease/(increase) in deferred acquisition costs		660,200	(2,353,262)
(Increase)/decrease in other assets		(1,102,440)	2,307,111
(Decrease)/increase in insurance payables		(7,448,695)	12,629,775
Increase in payables to insurance and reinsurance companies		2,034,345	2,887,542
(Decrease)/increase in taxes payable		(52,077)	1,760,718
Increase/(decrease) in deferred tax liabilities		1,416	(90,850)
Increase in provision for outstanding claims		5,925,412	7,786,212
(Decrease)/increase in accrued expenses and other liabilities		(884,515)	2,867,273
(Decrease)/increase in provision for unearned premiums		(1,183,053)	20,576,331
Increase in unearned commission from reinsurers		158,781	293,488
(Decrease)/increase in provision for employees' end-of-service indemnity		(189,681)	767,473
Settlements of provision for contingencies		(767,817)	(440,459)
Settlement of Board of directors' and committees' remunerations		(573,592)	(655,338)
Net cash generated by operating activities		969,397	43,653,899
Cash flows from investing activities:			
Interest received from bank deposits		5,251,222	5,820,935
Increase in available-for-sale financial assets	36	(3,156,696)	(9,722,932)
Increase in held-to-maturity investments		(2,873,040)	(5,126,134)
Decrease/(increase) in bank term deposits		457,167	(26,285,616)
Increase in property and equipment	36	(1,690,833)	(1,324,945)
Increase in intangible assets		(661,955)	(198,343)
Increase in investment property	36	-	(62,935)
Acquisition of additional shares in subsidiaries		(81,670)	(10,144,016)
Increase in assets/liabilities held-for-sale	36	-	(143,313)
Net cash used in investing activities		(2,755,805)	(47,187,299)
Cash flows from financing activities:			
Increase/(decrease) in due to banks		4,593,090	(839,934)
Decrease in due from Life division		2,875,181	7,297,622
Increase in due to related company	36	752,527	-
Sale/(purchase) of treasury shares		63,541	(21,456)
Other changes to retained earnings		273,284	(5,483)
Dividends paid to owners of the parent company		(2,394,905)	(12,750,000)
Dividends paid to non-controlling interests		(660,798)	(831,073)
Other changes to non-controlling interests		191,633	72,127
Net cash generated by/(used in) financing activities		5,693,553	(7,078,197)
Net increase/(decrease) in cash and cash equivalents		3,907,145	(10,611,597)
Cash and cash equivalents - Beginning of year	5	41,467,635	52,079,232
Cash and cash equivalents - End of year		45,374,780	41,467,635

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
LIFE DIVISION
CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(APPENDIX I)

<u>ASSETS</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2009</u>	<u>2008</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Cash and banks	5	25,958,577	21,928,346
Financial assets designated as at fair value through profit or loss	6	6,739,348	2,844,341
Available-for-sale financial assets	8	9,263,427	11,856,781
Held-to-maturity investments	9	7,410,245	3,560,031
Insurance and other receivables	10	4,772,273	6,137,159
Reinsurance assets	11	2,184,964	1,102,410
Prepaid expenses and other assets		318,204	275,795
Furniture and equipment	13	310,377	290,424
Total assets		<u>56,957,415</u>	<u>47,995,287</u>
 <u>LIABILITIES</u> 			
Due to banks	17	1,507,500	-
Insurance payables		3,636,114	2,031,005
Accrued expenses and other payables	19	2,103,369	3,084,812
Income tax payable	18	86,308	128,817
Deferred tax liabilities	18	52,384	20,155
Life insurance contract liabilities	21	31,203,345	24,437,973
Due to general insurance departments	16	10,886,410	13,763,165
Provision for employees' end-of-service indemnity		167,020	213,480
Total liabilities		<u>49,642,450</u>	<u>43,679,407</u>
 <u>NET ASSETS</u> 			
Reserve for asset revaluation surplus	26	285,723	285,723
Cumulative change in fair value of investments	27	799,914	(714,724)
Other restricted reserve	37	134,991	131,984
Retained earnings		5,746,421	4,338,615
Net assets attributable to owners of the life division		6,967,049	4,041,598
Non-controlling interests	29	347,916	274,282
Net assets		7,314,965	4,315,880
Total liabilities and net assets		<u>56,957,415</u>	<u>47,995,287</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
LIFE DIVISION
CONSOLIDATED INCOME STATEMENT

(APPENDIX II)

	<u>Notes</u>	Year Ended	
		December 31,	
		<u>2009</u>	<u>2008</u>
		LBP'000	LBP'000
Income:			
Written premiums		19,048,988	19,569,412
Deposit components of premiums	21	(3,736,204)	(3,725,490)
Insurance premiums		15,312,784	15,843,922
Reinsurers' share of insurance premiums		(3,117,005)	(3,200,454)
Net insurance premiums		12,195,779	12,643,468
Fee and commission insurance income		662,684	407,769
Net insurance income		12,858,463	13,051,237
Income from investment securities		1,454,519	1,393,584
Interest received from loans on policies		35,232	32,727
Interest received from deposits with banks	5	769,176	616,868
Net change in fair value of financial assets held at fair value through profit or loss	6 & 21	683,372	(672,408)
Net foreign exchange gains/(losses)		2,924	(98,104)
Total income		<u>15,803,685</u>	<u>14,323,904</u>
Expenses:			
Claims paid		(2,273,489)	(2,328,302)
Reinsurers' share of claims paid		1,606,736	1,538,482
Change in insurance contract liabilities	21	(4,736,970)	(32,442)
Reinsurers' share of change in insurance contract liabilities		568,275	(872,321)
Fees, commissions and other acquisition expenses		(3,863,072)	(3,936,780)
Other operating and administrative expenses	31	(3,746,936)	(3,323,582)
Contribution to head quarters' overheads	31	(1,800,000)	(1,580,000)
(Write back)/set up of impairment on available-for-sale financial assets	8	127,483	(4,609,188)
Income tax expense		(201,282)	(522,797)
Total expenses		<u>(14,319,255)</u>	<u>(15,666,930)</u>
Profit/(loss) for the year		<u>1,484,430</u>	<u>(1,343,026)</u>
Attributable to:			
Owners of the life division		1,410,796	(1,617,308)
Non-controlling interests	29	73,634	274,282
		<u>1,484,430</u>	<u>(1,343,026)</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
LIFE DIVISION
CONSOLIDATED STATEMENT OF CASH FLOWS

(APPENDIX III)

	<u>Notes</u>	Year Ended	
		December 31,	
		<u>2009</u>	<u>2008</u>
		LBP'000	LBP'000
Cash flows from operating activities:			
Profit/(loss) for the year		1,484,430	(1,343,026)
Depreciation	13	62,741	59,891
Net change in fair value of financial assets held at fair value through profit or loss		(683,372)	672,408
Allowance for impairment on available-for-sale financial assets	8	(127,483)	4,609,188
Net change in insurance contract liabilities	21	<u>4,736,970</u>	<u>826,783</u>
		5,473,286	4,825,244
Decrease of held-for-trading securities		-	509,202
Increase in financial assets designated as at fair value through profit or loss	6	(3,211,635)	(3,516,749)
Decrease/(increase) in insurance and other receivables		1,364,886	(2,450,086)
(Increase)/decrease in reinsurance assets		(1,082,554)	1,306,758
Increase in prepaid expense and other assets		(42,409)	(126,494)
Increase in insurance and other payables		1,605,109	101,840
(Decrease)/increase in accrued expenses and other credit balances		(981,443)	1,118,387
(Decrease)/increase in income tax payable		(42,509)	24,504
Increase in life insurance contract liabilities	21	2,028,402	1,412,519
(Decrease)/increase in provision for employees' end-of-service indemnity		(46,460)	<u>60,562</u>
Net cash generated by operating activities		<u>5,064,673</u>	<u>3,265,687</u>
Cash flows from investing activities:			
Decrease in available-for-sale financial assets	36	4,267,720	3,769,817
Increase in held-to-maturity investments		(3,850,214)	(1,540,108)
(Increase)/decrease in bank term deposits		(3,060,023)	698,912
Purchase of furniture and equipment		(82,693)	(147,070)
Net cash (used in)/generated by investing activities		<u>(2,725,210)</u>	<u>2,781,551</u>
Cash flows from financing activities:			
Decrease in due to general insurance departments		(2,876,755)	(7,297,622)
Increase in due to banks		<u>1,507,500</u>	-
Net cash used in financing activities		<u>(1,369,255)</u>	<u>(7,297,622)</u>
Net increase/(decrease) in cash and cash equivalents		970,208	(1,250,384)
Cash and cash equivalents – Beginning of year		<u>5,034,503</u>	<u>6,284,887</u>
Cash and cash equivalents – End of year	5	<u>6,004,711</u>	<u>5,034,503</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

1. GENERAL INFORMATION

Arabia Insurance Company S.A.L. (the “Parent Company”) was incorporated in 1944 and is subject to Lebanese laws governing joint-stock companies and insurance companies. The consolidated financial statements of the Company as at December 31, 2009 comprise Arabia Insurance Company S.A.L. and its subsidiaries (the “Group”).

The main objective of the Group is to carry out direct insurance and reinsurance operations in addition to short and long term placements and investments. The operations network of the Group is spread over the following areas:

<u>Country</u>	<u>N°.</u> <u>of Branches</u>
1. Lebanon - Headquarters	5
2. United Arab Emirates (branch)	4
3. Sultanate of Oman (branch)	2
4. Bahrain (branch)	1
5. Kuwait (branch)	1
6. Qatar (branch)	1
7. Jordan (subsidiary)	2
8. Syria (subsidiary)	<u>6</u>
	<u>22</u>

During 2008, the Group had 7 branches operated in Saudi Arabia under the ownership of Arabia Insurance International B.S.C. – Bahrain, a wholly owned subsidiary registered in the Kingdom of Bahrain. Effective December 28, 2008, the Group ceased its insurance operations and legal status in Saudi Arabia. During 2009, the Group transferred all of its Saudi insurance portfolio to Arabia Insurance Cooperative Company (AICC), a related insurance company incorporated in 2007 in Saudi Arabia, in which the Group owns 19.20% of share capital. This transfer has not been finally approved by the Saudi Arabian Monetary Agency (“SAMA”) pending certain formalities.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1 Standards affecting presentation and disclosure

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

- IAS 1 (as revised in 2007) *Presentation of Financial Statements* IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.
- *Improving disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)* The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk.

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

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

- Amendments to IFRS 2 *Share-based Payment - Vesting Conditions and Cancellations* The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.

- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- Improvements to IFRSs (2008)

The Interpretation provides guidance on how entities should account for customer loyalty programmes by allocating revenue on sale to possible future award attached to the sale.

The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue from the construction of real estate should be recognized.

The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.

Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 resulting from the May and October 2008 *Annual Improvements to IFRSs* majority of which are effective for annual periods beginning on or after 1 January 2009.

2.3 Standards and Interpretations in issue not yet effective

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

New Standards and amendments to Standards:

	Effective for annual periods beginning on or after
• IFRS 1 (revised) <i>First time Adoption of IFRS</i> and IAS 27 (revised) <i>Consolidated and Separate Financial Statements – Amendment relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>	1 July 2009
• IFRS 3 (revised) <i>Business Combinations</i> – Comprehensive revision on applying the acquisition method and consequential amendments to IAS 27 (revised) <i>Consolidated and Separate Financial Statements</i> , IAS 28 (revised) <i>Investments in Associates</i> and IAS 31 (revised) <i>Interests in Joint Ventures</i>	1 July 2009
• IAS 39 (revised) <i>Financial Instruments: Recognition and Measurement</i> – Amendments relating to Eligible Hedged Items (such as hedging Inflation risk and Hedging with options)	1 July 2009
• IFRS 2 (revised) <i>Share-based payment</i> – Amendment relating to Company cash-settled Share-based payments	1 January 2010
• IAS 32 (revised) <i>Financial Instruments: Presentation</i> – Amendments relating to classification of Rights Issue	1 February 2010
• IAS 24 <i>Related Party Disclosures</i> – Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government	1 January 2011
• IFRS 9 <i>Financial Instruments: Classification and Measurement</i> (intended as complete replacement for IAS 39 and IFRS 7)	1 January 2013
• Amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38 and IAS 39 resulting from April 2009 <i>Annual Improvements to IFRSs</i> .	Majority effective for annual periods beginning on or after 1 January 2010

The directors anticipate that the adoption of all of the above Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application, except for IFRS 9 for which directors have not yet had an opportunity to consider the potential impact of the adoption / early adoption of this new standard.

3. SIGNIFICANT ACCOUNTING POLICIES

A. Statement of Compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

B. Basis of Preparation and Measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Land and buildings acquired prior to 1993 are measured at their revalued amounts based on market prices prevailing at the end of that year.
- Available-for-sale financial assets are measured at fair value.
- Derivative financial instruments and held-for-trading securities are measured at fair value through profit and loss (FVTPL).

Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity.

The principal accounting policies are set out below.

C. Basis of Consolidation:

The consolidated financial statements of Arabia Insurance Company S.A.L. incorporate the financial statements of the parent Company and enterprises controlled by the parent company (its subsidiaries). Control is achieved when, among other things, the parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated subsidiaries consist of:

<u>Name of Company</u>	<u>Legal Location of Company</u>	<u>Percentage of Ownership</u>		<u>Activities</u>
		<u>2009</u>	<u>2008</u>	
		<u>%</u>	<u>%</u>	
Arabia S.A.L. (Holding)	Lebanon	100	100	Investment vehicle
Arabia Insurance International B.S.C.	Bahrain		100	100Owns branches that carry out direct insurance operations in the Kingdom of Saudi Arabia.
UPI (Services) Limited	Cyprus	100	100	Services Company (Offshore)
General Arabia Insurance Company Ltd.	Jordan	51.44	51.03	Carries out direct insurance operations (became a subsidiary starting year 2006)
Arabia Insurance Company – Syria	Syria	51	51	Carries out direct insurance operations (incorporated in the 4 th quarter of year 2006)
Al-Mashriq Financial Investments Co. S.A.L.	Lebanon	80.65	79.36	Investment Company (became a subsidiary effective January 1, 2008)
Arabia Insurance Brokers S.A.R.L.	Lebanon	100	100	Insurance brokerage company (became a subsidiary effective January 1, 2008) – Dormant

The results of the subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other entities of the Group.

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

Non-controlling interests in subsidiaries are identified separately in the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the share of the non-controlling shareholders of changes in equity since the date of the combination. Losses applicable to the non-controlling shareholders in excess of their interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

D. Business Combinations:

Acquisitions of subsidiaries 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 Group 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 recognized 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 recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized 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 recognized. 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 recognized immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the proportion of non-controlling shareholders of the net fair value of the assets, liabilities and contingent liabilities recognized.

E. Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pound which is the reporting currency of the Company, whereas the primary currency of the economic environment in which the Company operates (functional currency) is the U.S. Dollar.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's reporting currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for 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 recognised in the foreign currency translation reserve and recognised in profit or loss 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 Lebanese Pound using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and recognized in the Group's other comprehensive income under foreign currency translation reserve. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

F. Financial assets and Liabilities:

Recognition and Derecognition:

Financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expire.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Offsetting:

Financial assets and liabilities are offset and the net amount is presented in the statement of the financial position when, and only when, the Group has a legal right to set off the amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fair Value Measurement:

The determination of fair values of financial instruments traded in active markets is based on quoted market prices. For financial instruments where there is no quoted price, fair value is determined by using valuation techniques. Valuation techniques include net present value technique, the discounted cash flow method, comparison to similar instruments for which market observable prices exist.

Impairment of Financial Assets:

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting 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 asset, the estimated future cash flows of the investment have been impacted.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the original effective interest rate. Losses are recognized in profit or loss and reduce the carrying amount of the asset to its estimated recoverable amount. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale investment securities, the previously accumulated losses recorded under equity are recognized in profit or loss in case of impairment losses substantiated by a prolonged decline in fair value of the investment securities. Any increase in fair value subsequent to an impairment loss is not recognized in profit or loss for available-for-sale equity securities. Any increase in fair value subsequent to an impairment loss is recognized in profit or loss for available-for-sale debt securities.

Designation at Fair Value Through Profit or Loss (FVTPL):

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Held-to-Maturity Debt Securities:

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortized cost using the straight line method where results approximate those resulting from the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Available-for-Sale Financial Assets:

Available-for-sale financial assets are non derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value and unrealized gains or losses are included in equity.

The change in fair value of available-for-sale debt securities reclassified to held-to-maturity is segregated from the change in fair value of available-for-sale debt securities under equity and is amortized over the remaining term to maturity of the debt security as a yield adjustment.

Change in classification according to amendments to IAS 39 and IFRS 7

In October 2008, the IASB issued amendments to IAS 39, “Financial Instruments: Recognition and Measurement”, and IFRS 7, “Financial Instruments: Disclosures”, titled “Reclassification of Financial Assets”. The amendments to IAS 39 permit (1) certain reclassifications of non-derivative financial assets (other than those designated under the fair value through profit or loss upon initial recognition) out of the fair value through profit or loss category and (2) also allow the reclassification of financial assets from the available for sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective retrospectively from July 1, 2008. The impact of the reclassifications permissible under the amendments was to increase income before income taxes of the general insurance and the life division by LBP1.2billion and LBP200million respectively for the year ended December 31, 2008. For further information, please refer to Amendments to IAS 39 section under note 8 (c).

Derivative Financial Instruments:

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

G. Property and Equipment

Property and equipment except for buildings acquired prior to 1993 are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to 1993 are stated at their revalued amounts, based on market prices prevailing at the end of 1993 less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under “Equity”.

Depreciation of property and equipment, other than land and advance payments on capital expenditures is calculated systematically using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	40 years
Furniture and Equipment	3 to 10 years

H. Intangible Assets:

Intangible assets consisting of computer software are amortized over a period of five years and are subject to impairment testing. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

I. Impairment of Tangible and Intangible Assets:

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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 pre-tax 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 is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

J. Provision for Employees' End-of-Service Indemnities:

Obligations for contributions to defined employees' benefits are recognized as an expense on a current basis.

The Group provides for the employees' end-of-service indemnities in accordance with local laws and regulations governing these indemnities in the countries where the Group operates.

Employees' End-of-Service Indemnities: (Under the Lebanese Jurisdiction)

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were terminated voluntarily at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the last monthly remuneration and less contributions paid to the Lebanese Social Security National Fund and interest accrued by the Fund.

K. Provisions:

Provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

L. Insurance contracts:

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risks from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Such contracts may also transfer financial risk.

The insurance contracts are classified in the following categories depending on the nature of the risk insured:

- Non-life insurance contracts:

These contracts are marine, motor, property, general accidents, workmen's compensation and medical insurance contracts.

Provision for Outstanding Claims

The provision for outstanding claims is made for all claims reported to the Group and still unpaid at the reporting date including an estimate for the cost of claims incurred but not reported (IBNR).

Unearned Premiums

Unearned premiums represent the part of written premiums, including accessories and other fees, that is estimated to be earned in subsequent periods. Unearned premiums are calculated using the prorata temporis method except for the marine department which is computed on the basis of 25% of written premiums. The change in the provision is recorded in the income statement to recognize revenue over the period of the risk.

Premium Deficiency Reserve

Premium deficiency reserve is computed on the basis of a percentage of losses exceeding earned premiums.

- Life Insurance Contracts:

The life insurance contracts are classified in the following categories

- Traditional products:

This category consists of term life (individual or group) and classic combined assurances products (various traditional endowment plans).

- Universal Life Insurance Contracts with discretionary participation features:

These insurance contracts contain discretionary participation features (DPF) which entitle the contract holder to receive, as a supplement to the standard guaranteed benefits, additional bonuses:

- Whose amount or timing is contractually at the discretion of the insurer; and
- That are based on realized and/or unrealized investment returns on a specified pool of assets held by the issuer.

- Contracts on behalf of life insured where the insured bear the investment risk with significant insurance risk (Unit Linked):

These contracts transfer the financial risk to the policyholder and at the same time contain certain significant insurance risk.

Unbundling of deposit components:

Some life insurance contracts contain both an insurance component and a deposit component. The Group has measured the deposit component separately and presented the life insurance contracts by applying the principle of unbundling the insurance components from the deposit components which are recognized in the financial statements as follows:

Insurance Components:

Insurance components are reflected separately under income together with the elements of the insurance income related to loading and charges and premiums in the technical pipeline, which are recognized as income on accrual basis over the benefiting period.

Deposit Components:

Savings and/or deposit components of premiums are recognized directly as liabilities related to insurance contracts. These liabilities including unit-linked products, are increased or decreased by the credit interest, either positive or negative change in the unit prices of the corresponding underlying investment portfolio, policy administration and fund management fees, mortality and surrender charges, withdrawals, and other factors impacting the value of the deposit component of the insurance contracts.

Mathematical provision for life insurance contracts:

Provisions for traditional products are calculated as the difference between the actuarial present value of the branch's future liabilities and the actuarial present value of the policyholders' future premiums based on the tables of mortality and the actuarial interest rates as per the original tariffs. In case losses arise from liability adequacy tests, an additional provision is raised.

The provisions for universal/unit-linked life insurance policies are calculated using the retrospective method (i.e. based on the savings account value).

At each reporting date, an actuarial valuation of the life portfolio is carried out by a professional independent actuary and a technical assessment is performed in respect of unearned revenues. Moreover, outstanding liabilities of the accumulation of deposit components and profits related are also based on an actuarial technical assessment. Prevailing laws require that such actuarial valuation be carried out annually.

Provision for outstanding claims

The provision for outstanding claims is made for all claims reported to the Group and still unpaid at the reporting date. Claims are recognized in the income statement when incurred based on estimated benefits.

M. Revenue and Expense Recognition:

Insurance premiums and other insurance revenues are recognized as income when the insurance policies are issued.

Interest income and expense are recognized on an accrual basis, taking into account of the principal outstanding and the applicable interest rate.

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

Fee and commission insurance income consists primarily of reinsurance and profit commission, policyholder administration fees and other contract fees. Reinsurance commissions receivable are deferred in the same way as acquisition cost. All other fee and commission income is recognized as the services are provided.

Dividend income is recognized when the right to receive payment is established.

N. Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the reporting date. Income tax payable is reflected in the consolidated statement of financial position net of taxes previously settled in the form of withholding tax.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

O. Assets Held for Sale and Discontinued Operations:

The financial information related to the discontinued business segment is disclosed under assets classified as held for sale and liabilities directly associated with those assets, and related performance is separately disclosed in the income statement. These assets are measured at the lower of their net carrying value and their fair value net of costs to sell, as required by IFRS 5.

P. Liability Adequacy Test:

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

Q. Reinsurance Contracts:

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. 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 are recognized as receivables from reinsurance companies under reinsurance assets in the statement of financial position.

Reinsurance share of premiums and claims is computed on the basis of effective outwards. The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premiums is classified as reinsurance assets in the statement of financial position.

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in the profit or loss for the year.

R. Insurance Receivables and Payables:

Receivables and payables arising under insurance contracts are recognised when due and measured at amortised cost. A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

S. Deferred Acquisition Costs:

Deferred acquisition cost represents the deferred portion of the commission paid to brokers and sponsors. Deferred acquisition costs are amortized systematically over the life of the contracts and tested for impairment at each reporting date. Any amount not recoverable is expensed. They are derecognized when the related contracts are settled or disposed of.

T. Treasury Shares:

Treasury shares are carried at cost and presented in the consolidated statement of financial position as a deduction from Equity. Gains resulting from sale of treasury share are also presented in equity under “Surplus on sale of treasury shares”.

U. Distribution of Dividends:

The appropriation of proposed dividends from retained earnings is reflected separately in the statement of changes in equity based on the Board’s recommendation, and reversed to liability in the year it is approved by the General Assembly of Shareholders.

V. Consolidated Assets, Liabilities, and Net Assets of the Life Division:

Consolidated assets, liabilities, and net assets of the Life Division, comprising the life division of Arabia Insurance Company S.A.L. and the life division of General Arabia Insurance Company Ltd. – Amman, are presented in a separate statement for the Life Division (Appendix I, II, III) and included as a line item in the consolidated financial statements.

W. Cash and Cash Equivalents:

Cash and cash equivalents comprise unrestricted cash on hand and demand deposits and other short term deposits with original maturity period not exceeding three months.

X. Investment Property:

Investment property is carried at cost less accumulated depreciation and impairment loss, if any.

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, the management are required to make judgements, 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. Revisions to accounting estimates are recognised in the period 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.

Critical Accounting Judgments:

Classification of Financial Assets:

The Group's accounting policies provide scope for investment securities to be designated on inception into different categories in certain circumstances based on specific conditions. In classifying investment securities as held-to-maturity, the Group has determined that it has both the positive intent and ability to hold these assets until their maturity as required by in accounting policy under Note 3(F).

In designating financial assets or liabilities at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in accounting policy under Note 3(F).

Key Sources of Estimation Uncertainty:

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

Impairment of available for-sale financial assets:

The Group determines that available for sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination requires judgment. In making this judgment the Group evaluates among other factors, the normal volatility in share price, expectation about future recovery, and management intent and ability to hold for the foreseeable future.

Impairment of insurance receivables:

The recoverable amount of insurance receivables is estimated when there is indication of incomplete collectibility of these receivables. The determination of impairment requires management to assess the solvency and financial liquidity of policyholders and reinsurers. Moreover, percentages of collections are reviewed based on the historical information of the Group and the detailed studies conducted during the year, in addition to the opinion of the legal management of the Group. The difference between the recoverable amounts and the book value is recognized as an expense in the income statement. The difference between the actual amounts collected in future periods and those previously estimated is recognized in the income statement at the date of collection.

The ultimate liability arising from claims made under insurance contracts:

The estimate 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 expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the reporting date. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and the management estimates based on past claims settlement trends for the claims incurred but not reported. Claim liabilities are also tested for adequacy as of the reporting date and the related provisions are adjusted accordingly.

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3(F). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Where available, management has used market indicators in its mark to model approach for the valuation of the Lebanese government debt securities at fair value. The IFRS fair value hierarchy allocates the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. The fair value hierarchy used in the determination of fair value consists of three levels of input data for determining the fair value of an asset or liability.

Level 1 - quoted prices for identical items in active, liquid and visible markets such as stock exchanges,

Level 2 - observable information for similar items in active or inactive markets,

Level 3 - unobservable inputs used in situations where markets either do not exist or are illiquid.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data.

5. CASH AND BANKS

This caption consists of the following:

	<u>December 31, 2009</u>		
	<u>General Insurance Departments LBP'000</u>	<u>Life Division LBP'000</u>	<u>Total LBP'000</u>
Cash on hand	800,022	2,094	802,116
Demand deposits	<u>44,574,758</u>	<u>6,002,617</u>	<u>50,577,375</u>
Cash and cash equivalents	45,374,780	6,004,711	51,379,491
Term deposits	61,130,014	11,083,856	72,213,870
Deposits pledged in guarantee of insurance business	<u>56,876,403</u>	<u>8,795,264</u>	<u>65,671,667</u>
	163,381,197	25,883,831	189,265,028
Accrued interest receivable	<u>892,216</u>	<u>74,746</u>	<u>966,962</u>
	<u>164,273,413</u>	<u>25,958,577</u>	<u>190,231,990</u>
	<u>December 31, 2008</u>		
	<u>General Insurance Departments LBP'000</u>	<u>Life Division LBP'000</u>	<u>Total LBP'000</u>
Cash on hand	1,181,061	245,307	1,426,368
Demand deposits	<u>40,286,574</u>	<u>4,789,196</u>	<u>45,075,770</u>
Cash and cash equivalents	41,467,635	5,034,503	46,502,138
Term deposits	67,787,935	8,082,543	75,870,478
Deposits pledged in guarantee of insurance business	<u>50,675,649</u>	<u>8,714,855</u>	<u>59,390,504</u>
	159,931,219	21,831,901	181,763,120
Accrued interest receivable	<u>329,182</u>	<u>96,445</u>	<u>425,627</u>
	<u>160,260,401</u>	<u>21,928,346</u>	<u>182,188,747</u>

Cash and banks of the general insurance departments and life division are composed of the following currencies:

	General		Life Division	
	Insurance Departments		Life Division	
	December 31,		December 31,	
	2009	2008	2009	2008
	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese Pound	12,361,431	6,516,954	1,808,215	180,876
U.S Dollar	35,490,767	37,659,212	8,372,382	9,192,141
Omani Riyal	32,139,942	19,809,383	3,831,165	3,361,550
U.A.E Dirham	15,876,501	24,292,099	5,728,151	5,538,266
Euro	1,415,718	1,476,940	370,923	147,817
Kuwaiti Dinar	2,408,511	2,666,600	348,573	269,325
Bahraini Dinar	12,957,068	12,039,852	3,021,867	437,274
Syrian Pound	33,118,956	32,588,806	33,632	47,283
Jordanian Dinar	13,396,831	16,201,452	2,127,751	2,394,173
Qatar Riyal	4,022,377	6,594,290	241,172	263,196
Other Currencies	193,095	85,631	-	-
	<u>163,381,197</u>	<u>159,931,219</u>	<u>25,883,831</u>	<u>21,831,901</u>

A significant part of deposits in Kuwaiti Dinar, U.A.E. Dirham, Bahraini Dinar, Omani Riyal, Jordanian Dinar and Syrian Pound shown above are pledged in favor of the authorities in the countries concerned, in guarantee of the insurance business for the general insurance departments and the life division.

Term deposits and deposits pledged in guarantee of insurance business mature during 2010. Interests earned on the deposits of the general insurance departments and the life division amounting to LBP5.8billion and LBP769million respectively for 2009 (LBP5.6billion and LBP617million, respectively for 2008) are reflected in the accompanying consolidated income statement.

6. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption in the life division consists of investments in mutual funds denominated in U.S. Dollar and directly linked to life insurance contracts. The fair value of these unit-linked investments amounted to LBP6.7billion and LBP2.8billion as of December 31, 2009 and 2008, respectively.

The net change in fair value of these investments was a gain of LBP683million for 2009 (loss of LBP672million for 2008) that was reflected in the consolidated income statement of the life division.

7. HELD-FOR-TRADING EQUITY SECURITIES

During 2008, the Group has reclassified certain equity securities that were held for trading to available-for-sale category effective July 1, 2008 in accordance with the amendments on IAS 39 (refer to Note 8(c) for the details of this reclassification).

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This caption consists of the following:

	General		Life Division	
	Insurance Departments		December 31,	
	2009	2008	2009	2008
	LBP'000	LBP'000	LBP'000	LBP'000
Fixed income debt securities	15,927,651	21,406,727	6,520,256	8,589,405
Equity securities	101,940,106	66,862,066	2,255,550	2,218,688
Mutual funds	<u>7,712,669</u>	<u>6,814,927</u>	<u>416,121</u>	<u>959,419</u>
	125,580,426	95,083,720	9,191,927	11,767,512
Accrued interest receivable	<u>637,819</u>	<u>346,795</u>	<u>24,000</u>	<u>89,269</u>
	<u>126,218,245</u>	<u>95,430,515</u>	<u>9,215,927</u>	<u>11,856,781</u>

The available-for-sale financial assets, presented at fair value, consist of the following:

8(a) General Insurance Departments:

Description	Currency	December 31, 2009				
		Amortized Cost	Allowance for Impairment	Carrying Fair Value	Cumulative Change in Fair value	Average Interest Rate
		LBP'000	LBP'000	LBP'000	LBP'000	%
Fixed Income Debt Securities:						
Lebanese banks	U.S. Dollar	2,714,359	-	2,918,897	204,538	9.33
Foreign preferred shares and/or bonds:						
	U.S. Dollar	7,718,448	(2,291,842)	5,113,358	(313,248)	6.79
	Euro	4,420,499	(1,996,670)	2,214,829	(209,000)	6.67
	Omani Riyal	3,993,808	-	4,032,965	39,157	6.25
	Jordanian Dinar	<u>1,647,603</u>	<u>-</u>	<u>1,647,603</u>	<u>-</u>	7.95
		<u>20,494,717</u>	<u>(4,288,512)</u>	<u>15,927,652</u>	<u>(278,553)</u>	
Equity Securities:						
	Lebanese Pound	1,447,019	-	5,606,050	4,159,031	
	U.S. Dollar	9,712,814	(1,931,214)	7,783,094	1,494	
	Euro	4,273,492	(1,856,448)	2,210,820	(206,224)	
	Swiss Franc	144,323	(76,094)	66,095	(2,134)	
	Jordanian Dinar	26,077,091	(2,032,320)	28,864,404	4,819,633	
	Tunisian Dinar	784,921	-	766,217	(18,704)	
	UAE Dirham	1,555,731	(880,819)	470,230	(204,682)	
	Qatari Riyal	53,672	(23,322)	29,916	(434)	
	Saudi Riyal	24,980,934	(32,766)	56,118,798	31,170,630	
	Omani Riyal	<u>76,555</u>	<u>-</u>	<u>24,482</u>	<u>(52,073)</u>	
		<u>69,106,552</u>	<u>(6,832,983)</u>	<u>101,940,106</u>	<u>39,666,537</u>	
Mutual Funds:						
	U.S. Dollar	6,309,461	(715,190)	5,683,371	89,100	
	Euro	2,409,006	(271,818)	1,976,775	(160,413)	
	Saudi Riyal	<u>151,338</u>	<u>(81,360)</u>	<u>52,522</u>	<u>(17,456)</u>	
		<u>8,869,805</u>	<u>(1,068,368)</u>	<u>7,712,668</u>	<u>(88,769)</u>	
		<u>98,471,074</u>	<u>(12,189,863)</u>	<u>125,580,426</u>	<u>39,299,215</u>	

Description	Currency	December 31, 2008				
		Amortized Cost	Allowance for Impairment	Carrying Fair Value	Cumulative Change in Fair value	Average Interest Rate
		LBP'000	LBP'000	LBP'000	LBP'000	%
Fixed Income Debt Securities:						
Lebanese Government bonds	U.S. Dollar	3,173,146	-	3,067,763	(105,383)	7.82
Lebanese banks	U.S. Dollar	2,349,288	-	2,370,520	21,232	8.39
Foreign preferred shares &/or bonds:						
	U.S. Dollar	15,280,551	(5,485,869)	7,821,817	(1,972,865)	7.04
	Euro	6,829,560	(3,168,191)	2,752,929	(908,440)	6.42
	Omani Riyal	3,993,810	-	4,111,275	117,465	6.25
	Jordanian Dinar	<u>1,282,423</u>	<u>-</u>	<u>1,282,423</u>	<u>-</u>	6.75
		<u>32,908,778</u>	<u>(8,654,060)</u>	<u>21,406,727</u>	<u>(2,847,991)</u>	
Equity Securities:						
	Lebanese Pound	1,447,029	-	4,548,254	3,101,225	
	U.S. Dollar	7,275,119	(1,846,624)	4,632,503	(795,992)	
	Euro	4,159,839	(1,758,759)	1,743,535	(657,545)	
	Jordanian Dinar	24,534,355	(1,578,519)	31,983,297	9,027,461	
	Swiss Franc	164,410	(76,094)	62,952	(25,364)	
	Tunisian Dinar	800,821	-	616,212	(184,609)	
	UAE Dirham	1,600,883	(878,285)	429,849	(292,749)	
	Qatari Riyal	53,677	(23,326)	22,576	(7,775)	
	Saudi Riyal	17,743,817	(32,769)	22,790,144	5,079,096	
	Omani Riyal	<u>76,554</u>	<u>-</u>	<u>32,744</u>	<u>(43,810)</u>	
		<u>57,856,504</u>	<u>(6,194,376)</u>	<u>66,862,066</u>	<u>15,199,938</u>	
Mutual Funds:						
	U.S. Dollar	7,277,657	(1,625,601)	4,917,468	(734,588)	
	Euro	2,386,179	(271,818)	1,854,633	(259,728)	
	Saudi Riyal	<u>151,314</u>	<u>(81,366)</u>	<u>42,826</u>	<u>(27,122)</u>	
		<u>9,815,150</u>	<u>(1,978,785)</u>	<u>6,814,927</u>	<u>(1,021,438)</u>	
		<u>100,580,432</u>	<u>(16,827,221)</u>	<u>95,083,720</u>	<u>11,330,509</u>	

Bonds relating to Sultanate of Oman with a fair value amounting to OR1,030,000 (LBP4billion) and OR1,050,000 (LBP4.1billion) as at December 31, 2009 and 2008, respectively, are pledged in favour of the Ministry of Trade and Industry (Oman) in accordance with local insurance law of 1979. These bonds cannot be traded without the approval of the said Ministry.

8(b) Life Division:

December 31, 2009						
<u>Description</u>	<u>Currency</u>	<u>Amortized Cost</u> LBP'000	<u>Allowance for Impairment</u> LBP'000	<u>Carrying Fair Value</u> LBP'000	<u>Cumulative Change in Fair value</u> LBP'000	<u>Average Interest Rate</u> %
Fixed Income Debt Securities:						
Lebanese banks	U.S. Dollar	753,750	-	772,443	18,693	7.91
Foreign preferred shares and/or bonds:						
	U.S. Dollar	7,525,244	(2,052,084)	5,083,325	(389,835)	6.49
	Euro	2,252,077	(1,418,059)	664,488	(169,530)	3.96
	Sterling Pound	297,360	(297,360)	-	-	
		<u>10,828,431</u>	<u>(3,767,503)</u>	<u>6,520,256</u>	<u>(540,672)</u>	
Equity Securities:						
	Lebanese Pound	315,560	-	1,360,056	1,044,496	
	U.S. Dollar	152,733	(25,482)	254,089	126,838	
	Jordanian Dinar	423,137	-	641,405	218,268	
		<u>891,430</u>	<u>(25,482)</u>	<u>2,255,550</u>	<u>1,389,602</u>	
Mutual Funds:						
	U.S. Dollar	465,380	(104,253)	356,239	(4,888)	
	Saudi Riyal	171,364	(86,517)	59,882	(24,965)	
		<u>636,744</u>	<u>(190,770)</u>	<u>416,121</u>	<u>(29,853)</u>	
		<u>12,356,605</u>	<u>(3,983,755)</u>	<u>9,191,927</u>	<u>819,077</u>	
December 31, 2008						
<u>Description</u>	<u>Currency</u>	<u>Amortized Cost</u> LBP'000	<u>Allowance for Impairment</u> LBP'000	<u>Carrying Fair Value</u> LBP'000	<u>Cumulative Change in Fair value</u> LBP'000	<u>Average Interest Rate</u> %
Fixed income debt securities:						
Lebanese banks	U.S. Dollar	753,750	-	758,876	5,126	8.45
Foreign preferred shares &/or bonds:						
	U.S. Dollar	11,876,138	(3,133,317)	7,092,279	(1,650,542)	6.67
	Euro	2,019,201	(1,117,327)	738,250	(163,624)	4.71
	Sterling pound	272,106	(272,106)	-	-	9.38
		<u>14,921,195</u>	<u>(4,522,750)</u>	<u>8,589,405</u>	<u>(1,809,040)</u>	
Equity Securities:						
	Lebanese pound	363,060	-	1,343,796	980,736	
	Jordanian Dinar	426,514	-	749,016	322,502	
	U.S. Dollar	75,375	-	125,876	50,501	
		<u>864,949</u>	<u>-</u>	<u>2,218,688</u>	<u>1,353,739</u>	
Mutual funds:						
	U.S. Dollar	1,160,436	-	923,501	(236,935)	
	Saudi Riyal	151,185	(86,438)	35,918	(28,829)	
		<u>1,311,621</u>	<u>(86,438)</u>	<u>959,419</u>	<u>(265,764)</u>	
		<u>17,097,765</u>	<u>(4,609,188)</u>	<u>11,767,512</u>	<u>(721,065)</u>	

Foreign fixed income debt securities are distributed by country of origin as follows – Figures represent the fair value at year end:

<u>Country</u>	General		Life Division	
	Insurance Departments			
	December 31,		December 31,	
	2009	2008	2009	2008
	LBP'000	LBP'000	LBP'000	LBP'000
Europe	4,619,275	8,725,235	2,301,911	2,346,791
United States	1,708,241	677,960	3,445,902	5,391,995
South America	193,397	784,599	-	-
Asia/Middle East	6,215,708	5,720,858	-	91,743
Africa	<u>272,134</u>	<u>59,792</u>	<u>-</u>	<u>-</u>
	<u>13,008,755</u>	<u>15,968,444</u>	<u>5,747,813</u>	<u>7,830,529</u>

Fixed income debt securities mature as follows - Figures represent the fair value at year end:

<u>Remaining period to maturity</u>	General		Life Division	
	Insurance Departments			
	December 31,		December 31,	
	2009	2008	2009	2008
	LBP'000	LBP'000	LBP'000	LBP'000
Less than 1 year	-	623,096	108,257	199,063
1 year to 3 years	3,484,672	2,023,590	612,052	368,840
3 years to 5 years	5,251,468	2,226,954	129,042	241,803
More than 5 years	<u>7,191,512</u>	<u>16,533,087</u>	<u>5,670,905</u>	<u>7,779,699</u>
	<u>15,927,652</u>	<u>21,406,727</u>	<u>6,520,256</u>	<u>8,589,405</u>

The movement of the allowance for impairment of available-for-sale investments was as follows:

	General		Life Division	
	Insurance Departments			
	2009	2008	2009	2008
	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1	16,827,221	-	4,609,188	-
Charge for the year	752,247	16,827,221	204,751	4,609,188
Write-backs	(536,898)	-	(332,244)	-
Eliminated upon disposal	(3,740,757)	-	(1,609,890)	-
Transfer to life Division	(1,111,950)	-	1,111,950	-
Balance at December 31	<u>12,189,863</u>	<u>16,827,221</u>	<u>3,983,755</u>	<u>4,609,188</u>

8(c) Amendments to IAS 39 - Reclassification of investments:

Equity securities held for trading reclassified to “available-for-sale”

General insurance departments:

	<u>Fair Value at Date of Reclassification</u> LBP'000	<u>Carrying Amount</u> <u>December 31,</u>		<u>Fair Value</u> <u>December 31,</u>	
		<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
		LBP'000	LBP'000	LBP'000	LBP'000
Equity securities reclassified on July 1, 2008 from held-for-trading to available-for-sale	<u>3,532,846</u>	<u>2,821,902</u>	<u>2,891,337</u>	<u>2,547,334</u>	<u>2,426,018</u>

Following the amendments to IAS 39 in 2008, the Group has elected to reclassify certain equity securities from held for trading to available-for-sale effective July 1, 2008. The Group’s intention at initial recognition was to sell these securities in the short-term. However, as a result of the severe reduction in the liquidity of those assets in the markets in which they would trade during the second half of 2008, accompanied by a deterioration of price transparency and reduction in investor appetite to acquire the assets, the Group concluded that the criteria for reclassification were met. Consequently, the assets were reclassified on July 1, 2008 at their fair value at the date of reclassification.

Fair value gain/(loss) recognized in the period in respect of financial assets reclassified from held for trading to available-for-sale:

	<u>2009</u> <u>LBP'000</u>	<u>2008</u> <u>LBP'000</u>
– in profit or loss	(12,249)	(1,683,378)
– in other comprehensive income	<u>178,503</u>	<u>(465,319)</u>
	<u>166,254</u>	<u>(2,148,697)</u>
Fair value gain/(loss) which would have been recognized in profit or loss if the financial asset had not been reclassified	<u>178,503</u>	<u>(465,319)</u>

As a result of the reclassifications undertaken on July 1, 2008, the profit for 2009 is LBP179million lower (LBP465million higher for 2008) and other comprehensive income for the current year is LBP179million higher (LBP465million lower for 2008), than would have been the case had the financial assets not been reclassified.

Financial assets reclassified from “available for sale” to “held-to-maturity”

General insurance departments:

During 2008, the Group has reclassified certain of its fixed income debt securities related to the general insurance departments from available-for-sale to held-to-maturity category at the carrying fair value of LBP1.9billion at the date of reclassification. The related cumulative change in fair value loss amounting to LBP114million as of the date of reclassification remained in equity and is amortized to profit or loss over the remaining term to maturity of the debt security as a yield adjustment. The fair value of the reclassified debt securities amounted to LBP1.2billion as of December 31, 2008. Had these equity securities not been reclassified to held-to-maturity, the loss on change in fair value from the reclassification date to the reporting date that would have been recognized in equity would be LBP740million.

Life division:

During 2008, the Group has reclassified certain of its fixed income debt securities related to the life division from available-for-sale to held-to-maturity category at the carrying fair value of LBP2billion at the date of reclassification. The related cumulative change in fair value gain amounting to LBP20million as of the date of reclassification remained in equity and is being amortized to profit or loss over the remaining term to maturity of the debt securities as yield adjustment. The fair value of the reclassified debt securities amounted to LBP1.8billion as of December 31, 2008. Had these equity securities not been reclassified to held-to-maturity, the loss on change in fair value from the reclassification date to the reporting date that would have been recognized in equity would be LBP200million.

9. HELD-TO-MATURITY DEBT SECURITIES

The held-to-maturity debt securities, presented at amortized cost, consist of the following:

9(a) General Insurance Departments:

<u>Description</u>	<u>Currency</u>	<u>December 31, 2009</u>			<u>Average</u>
		<u>Nominal</u>	<u>Amortized</u>	<u>Fair</u>	<u>Interest</u>
		<u>Value</u>	<u>Cost</u>	<u>Value</u>	<u>Rate</u>
		<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>%</u>
Lebanese government bonds	US Dollar	500,490	500,490	500,490	7.79
Foreign bonds	US Dollar	4,824,000	4,738,109	4,661,504	7.28
Foreign bonds	Euro	<u>1,295,970</u>	<u>1,300,591</u>	<u>1,361,589</u>	5.63
		6,620,460	6,539,190	6,523,583	
Accrued interest receivable		-	<u>11,256</u>	-	
		<u>6,620,460</u>	<u>6,550,446</u>	<u>6,523,583</u>	

Description	Currency	December 31, 2008			
		Nominal Value	Amortized Cost	Fair Value	Average Interest Rate
		LBP'000	LBP'000	LBP'000	%
Lebanese government bonds	U.S. Dollar	500,490	500,490	500,490	7.36
Foreign bonds	U.S. Dollar	3,090,375	2,953,736	1,740,073	7.28
Foreign bonds	Euro	213,688	211,949	197,279	5.63
		<u>3,804,553</u>	<u>3,666,175</u>	<u>2,437,842</u>	
Accrued interest receivable		-	11,231	-	
		<u>3,804,553</u>	<u>3,677,406</u>	<u>2,437,842</u>	

The movement of the held-to-maturity debt securities during 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
	LBP'000	LBP'000
Balance at January 1	3,666,175	-
Additions to the opening balance as a result of acquisition of additional shares in an associate	-	500,490
Purchases	2,831,716	1,173,309
Reclassified from available-for-sale investments - Note 8	-	1,949,218
Amortization of premiums and discounts	<u>41,299</u>	<u>43,158</u>
Balance at December 31	<u>6,539,190</u>	<u>3,666,175</u>

Held-to-maturity debt securities are segregated over the remaining period to maturity as follows:

Remaining period to maturity

	December 31,	
	<u>2009</u>	<u>2008</u>
	LBP'000	LBP'000
Less than 1 year	263,813	113,062
1 year to 3 years	1,845,314	1,445,983
3 years to 5 years	2,897,947	1,951,910
More than 5 years	<u>1,532,116</u>	<u>155,220</u>
	<u>6,539,190</u>	<u>3,666,175</u>

Foreign debt securities are distributed by country of origin as follows:

	December 31,	
	2009	2008
	LBP'000	LBP'000
United States of America	930,043	536,750
Europe	3,335,188	2,270,154
Africa	362,337	358,781
Asia/Middle East	<u>1,411,132</u>	<u>-</u>
	<u>6,038,700</u>	<u>3,165,685</u>

9(b) Life Division:

Description	Currency	December 31, 2009			
		Nominal Value	Amortized Cost	Fair Value	Average Interest Rate
		LBP'000	LBP'000	LBP'000	%
Lebanese government bonds	U.S. Dollar	2,359,238	2,340,315	2,482,777	8.52
Foreign bonds	U.S. Dollar	3,881,813	3,826,800	3,842,585	6.23
Foreign bonds	Euro	<u>1,079,974</u>	<u>1,122,570</u>	<u>1,182,508</u>	5.90
		7,321,025	7,289,685	7,507,870	
Accrued interest receivable		<u>-</u>	<u>120,560</u>	<u>-</u>	
		<u>7,321,025</u>	<u>7,410,245</u>	<u>7,507,870</u>	

Description	Currency	December 31, 2008			
		Nominal Value	Amortized Cost	Fair Value	Average Interest Rate
		LBP'000	LBP'000	LBP'000	%
Lebanese government bonds	U.S. Dollar	2,095,425	2,082,574	2,048,964	8.71
Foreign bonds	U.S. Dollar	1,055,250	995,066	777,387	6.75
Foreign bonds	Euro	<u>427,376</u>	<u>482,391</u>	<u>366,122</u>	4.88
		<u>3,578,051</u>	<u>3,560,031</u>	<u>3,192,473</u>	

The movement of the held-to-maturity debt securities during 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Balance at January 1	3,560,031	-
Purchases	3,871,874	1,549,102
Reclassified from available-for-sale investments - Note 8	-	2,019,923
Redemption	(146,855)	-
Amortization of premiums and discounts	(22,045)	(8,994)
Difference of exchange	26,680	-
Balance at December 31	<u>7,289,685</u>	<u>3,560,031</u>

Held-to-maturity debt securities are segregated over remaining period to maturity as follows:

Remaining period to maturity

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Less than 1 year	701,040	-
1 year to 3 years	1,504,823	-
3 years to 5 years	1,383,529	482,391
More than 5 years	<u>3,700,293</u>	<u>3,077,640</u>
	<u>7,289,685</u>	<u>3,560,031</u>

Foreign debt securities are distributed by country of origin as follows:

<u>Country</u>	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>
United States of America	2,008,000	542,887
Europe	1,961,648	787,715
Asia/Middle East	<u>979,722</u>	<u>146,855</u>
	<u>4,949,370</u>	<u>1,477,457</u>

10. INSURANCE RECEIVABLES

10(a) General Insurance Departments:

The general insurance department balances of insurance receivables and premiums are distributed geographically as shown below:

	<u>Insurance Receivables</u>		<u>Premiums</u>	
	<u>December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Lebanon (Branches and Headquarters)	5,664,128	3,925,306	20,260,473	17,866,952
United Arab Emirates	35,259,553	30,087,876	69,687,259	87,659,501
Sultanate of Oman	6,985,157	5,552,913	28,218,877	21,817,447
State of Kuwait	964,810	851,867	4,302,266	3,507,291
State of Qatar	10,311,042	13,311,452	23,725,432	36,268,773
Kingdom of Bahrain	2,597,293	2,213,866	6,835,577	5,701,692
Kingdom of Jordan	4,146,880	6,229,720	19,383,251	22,430,907
Syria	<u>2,624,931</u>	<u>3,859,885</u>	<u>17,145,143</u>	<u>14,194,209</u>
	68,553,794	66,032,885	189,558,278	209,446,772
Less: Provision for credit losses	(6,101,853)	(6,504,283)	-	-
	<u>62,451,941</u>	<u>59,528,602</u>	<u>189,558,278</u>	<u>209,446,772</u>

Written premiums for the year 2009 include premiums to cover extended warranty on vehicles for the amount of LBP8billion which were fully reinsured (LBP14billion in 2008).

The movement in the provision for credit losses consists of the following:

	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Balance at January 1	6,504,283	6,548,300
Additions	500,457	1,225,475
Write-backs	(763,242)	(1,139,990)
Write-offs	<u>(139,645)</u>	<u>(129,502)</u>
Balance at December 31	<u>6,101,853</u>	<u>6,504,283</u>

10(b)Life Division:

Insurance and other receivables of the life division consist of the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Loans on policies	422,123	476,016
Accrued premium receivable	3,465,460	2,830,523
Due from brokers and agents	<u>884,690</u>	<u>2,830,620</u>
	<u>4,772,273</u>	<u>6,137,159</u>

11. REINSURANCE ASSETS

This caption consists of the following:

	<u>General Insurance</u>		<u>Life Division</u>	
	<u>Departments</u>		<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Insurance and reinsurance companies' current accounts - Outward	8,711,197	3,749,786	743,009	231,504
Insurance and reinsurance companies' current accounts – Inward	2,348,230	2,208,445	-	-
Reinsurers' share of unearned premiums	22,055,722	22,994,726	1,099,844	465,019
Reinsurers' share of outstanding claims	<u>31,557,909</u>	<u>28,699,265</u>	<u>342,111</u>	<u>405,887</u>
	<u>64,673,058</u>	<u>57,652,222</u>	<u>2,184,964</u>	<u>1,102,410</u>

12. OTHER ASSETS

This caption consists of the following:

	December 31,	
	2009	2008
	LBP'000	LBP'000
Balances outstanding between Head Office and branches	190,149	-
Receivable from employees	209,850	189,531
Refundable deposits	45,480	41,795
Prepayments	772,497	605,990
Accrued rent receivables	306,785	214,162
Deferred tax assets	427,117	-
Sundry debtors	<u>4,980,042</u>	<u>4,785,705</u>
	<u><u>6,931,920</u></u>	<u><u>5,837,183</u></u>

13. PROPERTY AND EQUIPMENT

This caption consists of the following:

	General		Life Division	
	Insurance Departments		December 31,	
	2009	2008	2009	2008
	LBP'000	LBP'000	LBP'000	LBP'000
Property:				
Land	<u>2,792,352</u>	<u>2,792,352</u>	-	-
Building – Ain Mreisseh	3,345,957	3,345,957	-	-
Less: Accumulated depreciation	(1,120,046)	(1,036,397)	-	-
Net building after depreciation	<u>2,225,911</u>	<u>2,309,560</u>	-	-
Total land and building	5,018,263	5,101,912	-	-
Subsidiary branch offices – Syria	4,503,749	4,004,613	-	-
Subsidiary office building – Jordan	1,768,841	-	-	-
Tripoli office (at cost)	273,804	273,804	-	-
Chtoura office (at cost)	87,441	87,441	-	-
Saida office (at cost)	<u>248,285</u>	<u>248,285</u>	-	-
	6,882,120	4,614,143	-	-
Less: Accumulated depreciation	(153,037)	(137,799)	-	-
Net office and subsidiary building	<u>6,729,083</u>	<u>4,476,344</u>	-	-
Total Property	<u><u>11,747,346</u></u>	<u><u>9,578,256</u></u>	-	-
Furniture and Equipment (at cost)	8,624,786	8,069,354	676,941	822,345
Less: Accumulated depreciation	(6,068,965)	(5,103,448)	(366,564)	(531,921)
Furniture and Equipment (net)	<u>2,555,821</u>	<u>2,965,906</u>	<u>310,377</u>	<u>290,424</u>
Total property and equipment	<u><u>14,303,167</u></u>	<u><u>12,544,162</u></u>	<u><u>310,377</u></u>	<u><u>290,424</u></u>

New headquarters are being built by the Group for its subsidiary in Jordan. In this connection, the cost of land and building under construction stated at LBP1.41billion was transferred in 2009 from investment property to property and equipment (Note 15).

Depreciation expense of the building amounting to LBP84million for the years ended December 31, 2009 and 2008 respectively is booked under net income from building in the consolidated income statement.

Depreciation expense of property and equipment, excluding building, was LBP1.3billion and LBP1billion for the years ended December 31, 2009 and 2008, respectively.

During 1994, the Ain Al-Mreisseh property carrying amount was adjusted on the basis of net realizable value and the new value was accounted for in the light of the requirements of the Law N°. 282 of December 30, 1993 (See Note 26 below).

Further to the above, the Group holds title of ownership in a property in Libya, registered in the Libyan Agency of Property's Registry in the name of Arabia Insurance Company S.A.L. This property was nationalized in 1970. In February 1975 the Libyan Revolution Command Council appointed a committee for the purpose of appraising the nationalized land in order to determine the value of the compensation. However, the value of such compensation has not yet been determined.

14. INTANGIBLE ASSETS

	<u>Computer Software</u>	
	<u>General</u>	
	<u>Insurance</u>	<u>Life</u>
	<u>Departments</u>	<u>Division</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Cost:		
Balance, January 1, 2008	567,168	211,050
Additions	198,343	-
Transfers	<u>282,355</u>	<u>-</u>
Balance, December 31, 2008	1,047,866	211,050
Additions	647,004	-
Currency translation adjustments	<u>14,951</u>	<u>-</u>
Balance, December 31, 2009	<u>1,709,821</u>	<u>211,050</u>
Accumulated Amortization:		
Balance, January 1, 2008	(9,425)	(211,050)
Additions	(27,973)	-
Transfers	<u>(163,497)</u>	<u>-</u>
Balance, December 31, 2008	(200,895)	(211,050)
Additions	(190,926)	-
Currency translation adjustments	<u>(1,797)</u>	<u>-</u>
Balance, December 31, 2009	<u>(393,618)</u>	<u>(211,050)</u>
Net Book Value:		
Balance, December 31, 2009	<u>1,316,203</u>	<u>-</u>
Balance, December 31, 2008	<u>846,971</u>	<u>-</u>

Intangible assets include LBP781million and LBP524million as at December 31, 2009 and 2008 respectively representing the cost of computer software under development and thus it has not been depreciated yet.

15. INVESTMENT PROPERTY

This caption stated at LBP106million as of December 31, 2009 (LBP1.6billion in 2008) represents the cost of a plot of land and an apartment in Jordan, owned by General Arabia Insurance Company, a subsidiary. During 2009, new headquarters for the said subsidiary is being constructed on part of these properties, which are stated at historical cost, and accordingly land and building under construction in the amount of LBP1.41billion were transferred from investment property to property and equipment (Note 13).

The fair value of the investment property outstanding as of December 31, 2009 amounted to LBP618million according to the latest revaluation made in 2007.

16. INTER-DEPARTMENTAL ACCOUNTS

The Group keeps separate books of accounts for its life division, independent from the books of the general insurance departments and the accounting relationship between the two units is represented by an inter-company current account, the balance of which as of December 31, 2009 amounted to LBP10.9billion in favor of the general insurance departments (LBP13.8billion at 2008 year-end).

17. DUE TO BANKS

Due to banks in the general insurance departments and the life division amounting to LBP4.6billion and LBP1.5billion, respectively as of December 31, 2009 (Nil in 2008) represent loans denominated in U.S. Dollar, subject to interest at the average interest rate of 2.04% and 2.11%, respectively per annum and mature in 2011.

18. INCOME TAX PAYABLE

The Group's accounts and tax returns in the head office and certain locations where the Group operates remain subject to examination and acceptance by the related tax authorities. The extent of the tax contingency depends on the outcome of such tax examination. Management does not expect additional material tax claims as a result of this examination.

Deferred tax liability is attributable to the change in fair value of available-for-sale financial assets.

19. ACCRUED EXPENSES AND OTHER CREDIT BALANCES

This caption consists of the following:

	General Insurance		Life Division	
	Departments			
	December 31,		December 31,	
	2009	2008	2009	2008
	LBP'000	LBP'000	LBP'000	LBP'000
Accrued expenses	345,316	448,031	63,095	1,329,944
Accrued commission payable	-	-	1,000,125	1,004,034
Premiums received in advance	-	-	991,412	696,577
Balances outstanding between Head				
Office and branches	-	676,233	-	-
Shareholders' dividends payable	1,062,671	1,297,241	-	-
Municipal duties and other taxes	1,238,816	1,213,151	36,766	34,336
Social Security National Fund	152,796	165,442	-	-
Other credit balances	<u>3,068,996</u>	<u>3,038,044</u>	<u>11,971</u>	<u>19,921</u>
	<u>5,868,595</u>	<u>6,838,142</u>	<u>2,103,369</u>	<u>3,084,812</u>

20. INSURANCE CONTRACT LIABILITIES – GENERAL INSURANCE DEPARTMENTS

20(a). Provision for outstanding claims

	Gross		Reinsurer's Share		Net	
	December 31,		December 31,		December 31,	
	2009	2008	2009	2008	2009	2008
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Marine	3,307,857	4,422,078	(1,759,202)	(2,737,816)	1,548,655	1,684,262
Motor	66,748,026	63,166,706	(2,617,460)	(1,828,314)	64,130,566	61,338,392
Property	12,012,652	13,585,721	(10,789,834)	(12,360,526)	1,222,818	1,225,195
General accidents	17,685,429	13,592,723	(14,786,420)	(10,786,427)	2,899,009	2,806,296
Workmen's compensation	3,704,953	2,251,833	(750,910)	-	2,954,043	2,251,833
Medical	1,034,771	1,323,090	(854,083)	(986,182)	180,688	336,908
Reinsurance inwards	<u>452,250</u>	<u>678,375</u>	-	-	<u>452,250</u>	<u>678,375</u>
	<u>104,945,938</u>	<u>99,020,526</u>	<u>(31,557,909)</u>	<u>(28,699,265)</u>	<u>73,388,029</u>	<u>70,321,261</u>

The balance of outstanding claims relating to the motor department as at December 31, 2009 and 2008 includes an amount of LBP5.6billion and LBP3.7billion respectively representing provision set up by the Group in order to cover claims incurred but not reported (IBNR). These provisions were estimated by the Group based on previous years experience.

20(b). Unearned premiums

	<u>Gross</u>		<u>Reinsurer's Share</u>		<u>Net</u>	
	<u>December 31,</u>		<u>December 31,</u>		<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Marine	2,882,223	5,334,105	(1,775,019)	(3,870,620)	1,107,204	1,463,485
Motor	53,247,393	53,067,373	(125,326)	(99,595)	53,122,067	52,967,778
Property	8,887,458	7,239,362	(7,471,759)	(5,727,006)	1,415,699	1,512,356
General accidents	10,799,603	11,108,330	(9,044,699)	(9,197,130)	1,754,904	1,911,200
Workmen's compensation	2,517,472	2,694,571	(377,929)	(807,532)	2,139,543	1,887,039
Medical	4,645,790	4,596,433	(3,260,990)	(3,292,843)	1,384,800	1,303,590
Reinsurance inwards	<u>209,808</u>	<u>332,626</u>	-	-	<u>209,808</u>	<u>332,626</u>
Total	<u>83,189,747</u>	<u>84,372,800</u>	<u>(22,055,722)</u>	<u>(22,994,726)</u>	<u>61,134,025</u>	<u>61,378,074</u>

21. LIFE INSURANCE CONTRACT LIABILITIES

	<u>Gross</u>		<u>Reinsurers' Share</u>		<u>Net</u>	
	<u>December 31,</u>		<u>December 31,</u>		<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Liabilities relating to the deposit components of life insurance contracts	26,129,116	20,282,190	-	-	26,129,116	20,282,190
Provision for outstanding claims	905,865	1,000,101	(342,111)	(405,887)	563,754	594,214
Provision for unexpired risks	<u>4,168,364</u>	<u>3,155,682</u>	<u>(1,099,844)</u>	<u>(465,019)</u>	<u>3,068,520</u>	<u>2,690,663</u>
	<u>31,203,345</u>	<u>24,437,973</u>	<u>(1,441,955)</u>	<u>(870,906)</u>	<u>29,761,390</u>	<u>23,567,067</u>

The movement in the gross life insurance contract liabilities is summarized below:

	<u>Traditional products</u> LBP'000	<u>Universal/ unit-linked</u> LBP'000	<u>Total</u> LBP'000
Balance at January 1, 2008	9,944,233	12,243,368	22,187,601
Deposit components of premiums received	320,474	3,405,016	3,725,490
Change in insurance liabilities	(1,023,902)	1,056,344	32,442
Liabilities paid on surrenders	(585,307)	(435,118)	(1,020,425)
Liabilities paid on maturities	(375,714)	-	(375,714)
Distribution of profits on matured and surrendered policies to policyholders	(104,458)	-	(104,458)
Effect of foreign currency fluctuations	(1,532)	(5,431)	(6,963)
Balance at December 31, 2008	8,173,794	16,264,179	24,437,973
Deposit components of premiums received	243,349	3,492,855	3,736,204
Change in insurance liabilities	1,468,735	3,268,235	4,736,970
Liabilities paid on surrenders	(628,287)	(750,014)	(1,378,301)
Liabilities paid on maturities	(220,337)	-	(220,337)
Distribution of profits on matured and surrendered policies to policyholders	(108,413)	-	(108,413)
Effect of foreign currency fluctuations	(751)	-	(751)
Balance at December 31, 2009	<u>8,928,090</u>	<u>22,275,255</u>	<u>31,203,345</u>

The insurance contract liabilities include LBP6.7billion as of December 31, 2009 (LBP2.8billion in 2008) relating to unit-linked contracts where the Group matches the liabilities to policyholders with the related assets in a way to eliminate price, currency, credit, or interest risk for these contracts. The change in insurance liabilities during 2009 includes positive change in the unit prices of LBP683million (negative change in the unit prices of LBP672million in 2008) that relates to unit-linked products.

22. PROVISION FOR CONTINGENCIES

The movement in provision for contingencies during 2009 and 2008 was as follows:

	<u>2009</u> LBP'000	<u>2008</u> LBP'000
Balance at January 1	3,370,161	9,423,033
Adjustments	-	(440,459)
Settlements	(767,817)	-
Write backs	-	(5,612,413)
Balance at December 31	<u>2,602,344</u>	<u>3,370,161</u>

This provision is intended to cover loss contingencies that may occur in view of the circumstances, which prevail in the areas where the Group operates.

23. BALANCE DUE TO RELATED COMPANY

This caption stated at LBP16.2billion as of December 31, 2009 (Nil in 2008) represents a payable balance due to Arabia Insurance Cooperative Company (AICC), a company established in the Kingdom of Saudi Arabia in 2007, in which the Group owns 19.20% of share capital. This balance includes LBP15.5billion that was mainly resulted from the transfer of the assets and liabilities of the Group's branches operating in the Kingdom of Saudi Arabia under the ownership of Arabia Insurance International B.S.C. – Bahrain, classified as held-for-sale in previous year, to Arabia Insurance Cooperative Company. This transfer has not been finally approved yet by the Saudi Arabian Monetary Agency ("SAMA") pending certain formalities.

Assets and liabilities that were transferred to AICC effective January 1, 2009 consist of the following:

	<u>At Book Value</u>
	<u>January 1, 2009</u>
	LBP'000
<u>Assets</u>	
Cash and bank balances	5,284,911
Insurance receivable	52,360,590
Reinsurance assets	12,329,555
Deferred acquisition costs	909,615
Other assets	61,022
Furniture and equipment	<u>200,241</u>
	<u>71,145,934</u>
<u>Liabilities</u>	
Insurance payable	28,722,061
Reinsurance payable	3,233,577
Taxes payable	2,137,949
Other liabilities	233,231
Outstanding claims	33,037,262
Unearned premiums	18,063,599
Commission from reinsurers	1,152,321
Provision for employees' end-of-service indemnity	<u>46,050</u>
	<u>86,626,050</u>
Net assets transferred to AICC at book value	<u>(15,480,116)</u>

24. SHARE CAPITAL

The share capital amounting to LBP51billion as of December 31, 2009 and 2008, is composed of 20,400,000 nominal ordinary shares of par value LBP2,500 each, fully paid.

The movement of the share capital during 2009 and 2008 was as follows:

	<u>Number of Shares</u>	<u>Share Capital LBP'000</u>	<u>Treasury Shares LBP'000</u>	<u>Surplus on Sale of Treasury Shares LBP'000</u>
Balance at January 1, 2008	20,396,534	51,000,000	(29,229)	65,685
Buy-back of ordinary shares	(5,757)	-	(47,129)	-
Sale of ordinary shares	3,716	-	29,229	(3,556)
Share buy-back as a result of the acquisition of a new subsidiary	(1,210,509)	-	(6,688,650)	-
Balance at December 31, 2008	19,183,984	51,000,000	(6,735,779)	62,129
Buy-back of ordinary shares	(38,832)	-	(351,808)	-
Sale of ordinary shares	44,339	-	398,937	16,412
Buy-back of ordinary shares as a result of acquisition of additional non-controlling interests in a subsidiary	(19,744)	-	(184,549)	-
Balance at December 31, 2009	<u>19,169,747</u>	<u>51,000,000</u>	<u>(6,873,199)</u>	<u>78,541</u>

25. LEGAL RESERVE

In accordance with the local laws and regulations, the Company is required to allocate 10% of its annual net profit to a legal reserve up to one-third of its capital. This reserve is not available for distribution.

26. RESERVE FOR ASSET REVALUATION SURPLUS

During 1994, the real estate and the investments were adjusted on the basis of net realizable value and the new values were accounted for in accordance with the requirements of the Law N°. 282 of December 30, 1993. Part of this reserve was distributed to shareholders in prior years and the remaining balance is reflected under equity.

27. CUMULATIVE CHANGE IN FAIR VALUE OF INVESTMENTS

This caption consists of the following:

	General Insurance		Life Division	
	Departments		December 31,	
	December 31,		December 31,	
	2009	2008	2009	2008
LBP'000	LBP'000	LBP'000	LBP'000	
Cumulative change in fair value of available-for-sale financial assets	36,036,737	6,968,806	819,077	(721,065)
Unamortized cumulative change in fair value of held-to-maturity debt securities	(104,807)	(149,907)	(19,163)	6,341
	<u>35,931,930</u>	<u>6,818,899</u>	<u>799,914</u>	<u>(714,724)</u>

The cumulative change in fair value of available-for-sale securities consists of the following:

	General Insurance		Life Division	
	Departments		December 31,	
	December 31,		December 31,	
	2009	2008	2009	2008
LBP'000	LBP'000	LBP'000	LBP'000	
Fixed income debt securities	(278,553)	(2,847,991)	(540,672)	(1,809,040)
Equity securities	39,666,537	15,199,938	1,389,602	1,353,739
Mutual funds	(88,769)	(1,021,438)	(29,853)	(265,764)
	39,299,215	11,330,509	819,077	(721,065)
Deferred tax liabilities	(1,009,595)	(1,008,181)	-	-
	38,289,620	10,322,328	819,077	(721,065)
Non-controlling interests	(2,252,883)	(3,353,522)	-	-
	<u>36,036,737</u>	<u>6,968,806</u>	<u>819,077</u>	<u>(721,065)</u>

The movement of the cumulative change in fair value of available-for-sale securities during 2009 and 2008 is as follows:

	General Insurance		Life Division	
	Departments			
	2009	2008	2009	2008
	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1	6,968,806	12,488,533	(721,065)	(1,649,988)
Eliminated as a result of the acquisition of additional shares in an associate	-	(4,579,696)	997,377	962,563
Net change in fair value for the year	27,053,535	1,189,692	-	-
Unrealized loss recycled to income upon disposal	921,811	(772,619)	542,765	(13,848)
Transfer to unamortized cumulative change in fair value of held-to-maturity investments	-	114,300	-	(19,792)
Change in deferred tax	(1,415)	(876,337)	-	-
	34,942,737	7,563,873	819,077	(721,065)
Non-controlling interests	1,094,000	(595,067)	-	-
	<u>36,036,737</u>	<u>6,968,806</u>	<u>819,077</u>	<u>(721,065)</u>

The movement in the unamortized cumulative change in fair value of held-to-maturity securities during 2009 and 2008 consists of the following:

	General Insurance		Life Division	
	Departments			
	2009	2008	2009	2008
	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1	(149,907)	-	6,341	-
Transfer from cumulative change in fair value of available-for-sale securities	-	(114,300)	-	19,792
Amortization to interest income	45,100	(35,607)	(25,504)	(13,451)
Balance at December 31	<u>(104,807)</u>	<u>(149,907)</u>	<u>(19,163)</u>	<u>6,341</u>

28. DISTRIBUTED / PROPOSED DIVIDENDS

The Board of Directors proposed in its meeting held on April 27, 2010 the allocation of year 2009 profits through the distribution of dividends representing 15% of the capital (LBP7.65billion) as well as the remunerations to the Board of Directors and Audit Committee of LBP601million subject to the approval of the General Assembly of the Shareholders which will be held on July 3, 2010 to approve the Group's consolidated financial statements for 2009.

In its meeting held on July 3, 2009, the General Assembly of Shareholders approved the distribution of dividends in the amount of LBP2.55billion and remunerations to the Board of Directors, Finance Committee, and Audit Committee of LBP501million.

Dividends distributed by the Group are subject to a 5% withholding tax.

29. NON-CONTROLLING INTERESTS

	General Insurance Departments		Life Division	
	December 31,		December 31,	
	2009	2008	2009	2008
	LBP'000	LBP'000	LBP'000	LBP'000
Capital	24,472,578	24,558,887	-	-
Arabia Insurance Company shares owned by non-controlling shareholders at fair value	(2,758,592)	(2,943,131)	-	-
Cumulative change in fair value of available-for-sale financial assets – Arabia Insurance Company	2,453,925	2,618,084	-	-
Cumulative change in fair value of available-for-sale financial assets – Non related	2,252,883	3,353,522	-	-
Foreign currency translation reserve	999,841	-	-	-
Reserves and retained earnings	2,100,262	1,955,542	274,282	-
Profit for the year	<u>1,124,374</u>	<u>705,487</u>	<u>73,634</u>	<u>274,282</u>
	<u>30,645,271</u>	<u>30,248,391</u>	<u>347,916</u>	<u>274,282</u>

30. CONSOLIDATED STATEMENT OF INCOME AND EXPENSES OF THE GENERAL INSURANCE DEPARTMENTS

	For The Year Ended December 31, 2009							
	Marine LBP'000	Motor LBP'000	Property LBP'000	General Accidents LBP'000	Workmen's Compensation LBP'000	Medical LBP'000	Reinsurance Inwards LBP'000	Total LBP'000
Income:								
Premiums	11,553,351	114,630,314	20,166,724	26,317,439	5,595,849	9,878,688	1,415,913	189,558,278
Reinsurers' share	(7,240,209)	(9,522,063)	(17,263,494)	(22,089,140)	(839,878)	(7,170,999)	-	(64,125,783)
Group's share	4,313,142	105,108,251	2,903,230	4,228,299	4,755,971	2,707,689	1,415,913	125,432,495
Policy fees	151,757	2,007,622	134,936	84,019	39,626	92,770	-	2,510,730
Other fees	228,720	1,356	93,495	10,293	-	232,844	-	566,708
Total fees	380,477	2,008,978	228,431	94,312	39,626	325,614	-	3,077,438
Net unearned premiums at beginning of year	1,463,485	52,967,778	1,512,356	1,911,200	1,887,039	1,303,590	332,626	61,378,074
Effect of foreign currency fluctuations	5,283	104,648	3,578	11,403	-	24,417	-	149,329
Net unearned premiums at end of year	(1,107,204)	(53,122,067)	(1,415,699)	(1,754,904)	(2,139,543)	(1,384,800)	(209,808)	(61,134,025)
Change in net unearned premiums	361,564	(49,641)	100,235	167,699	(252,504)	(56,793)	122,818	393,378
Commissions from reinsurers	2,335,264	19,676	3,763,779	2,998,207	58,616	915,823	-	10,091,365
Other income	359,350	68,078	68,772	204,149	-	-	6,283	706,632
Total income	7,749,797	107,155,342	7,064,447	7,692,666	4,601,709	3,892,333	1,545,014	139,701,308
Expenses:								
Outstanding claims at beginning of year	(4,422,078)	(63,166,706)	(13,585,721)	(13,592,723)	(2,251,833)	(1,323,090)	(678,375)	(99,020,526)
Reinsurers' share	2,737,816	1,828,314	12,360,526	10,786,427	-	986,182	-	28,699,265
Effect of foreign currency fluctuations	(1,786)	(52,922)	26,101	(2,148)	-	(11,498)	-	(42,253)
Group's share	(1,686,048)	(61,391,314)	(1,199,094)	(2,808,444)	(2,251,833)	(348,406)	(678,375)	(70,363,514)
Outstanding claims at end of year	3,307,857	66,748,026	12,012,652	17,685,429	3,704,953	1,034,771	452,250	104,945,938
Reinsurers' share	(1,759,202)	(2,617,460)	(10,789,834)	(14,786,420)	(750,910)	(854,083)	-	(31,557,909)
Group's share	1,548,655	64,130,566	1,222,818	2,899,009	2,954,043	180,688	452,250	73,388,029
Net change in outstanding claims	(137,393)	2,739,252	23,724	90,565	702,210	(167,718)	(226,125)	3,024,515
Claims paid net of recoveries	2,955,683	69,262,790	8,678,486	5,062,372	1,815,170	8,958,057	1,386,156	98,118,714
Reinsurers' share	(2,079,197)	(1,998,172)	(8,300,134)	(4,037,262)	13,390	(6,470,689)	-	(22,872,064)
Group's share	876,486	67,264,618	378,352	1,025,110	1,828,560	2,487,368	1,386,156	75,246,650
Commissions paid	977,660	19,056,788	1,727,664	1,244,555	509,481	1,095,480	459,454	25,071,082
Direct other expenses	19,000	174,928	98,715	48,830	605	38,504	28,237	408,819
Departments' share of general expenses	1,062,564	9,549,358	2,143,474	2,816,973	593,845	852,919	26,000	17,045,133
Total expenses	2,798,317	98,784,944	4,371,929	5,226,033	3,634,701	4,306,553	1,673,722	120,796,199
Net income / (loss) of insurance departments	4,951,480	8,370,398	2,692,518	2,466,633	967,008	(414,220)	(128,708)	18,905,109

For The Year Ended December 31, 2008

	Marine LBP'000	Motor LBP'000	Property LBP'000	General Accidents LBP'000	Workmen's Compensation LBP'000	Medical LBP'000	Reinsurance Inwards LBP'000	Total LBP'000
Income:								
Premiums	19,617,461	121,425,861	16,857,240	33,798,291	5,422,255	10,092,283	2,233,381	209,446,772
Reinsurers' share	(14,068,041)	(16,067,643)	(13,487,668)	(28,822,765)	(1,340,718)	(7,352,254)	-	(81,139,789)
Group's share	5,549,420	105,358,218	3,369,572	4,975,526	4,081,537	2,739,329	2,233,381	128,306,983
Policy fees	139,740	1,497,448	144,028	94,099	25,894	93,719	-	1,994,928
Other fees	118,142	1,513	12,689	-	-	194,003	-	326,347
Total fees	257,882	1,498,961	156,717	94,099	25,894	287,722	-	2,321,275
Net unearned premiums at beginning of year	1,399,760	40,658,615	1,214,645	1,901,265	1,418,978	707,119	382,960	47,683,340
Effect of foreign currency fluctuations	(608)	(4,890)	(96)	(262)	-	(1,133)	-	(6,987)
Net unearned premiums at end of year	(1,463,485)	(52,967,778)	(1,512,356)	(1,911,200)	(1,887,039)	(1,303,590)	(332,626)	(61,378,074)
Change in net unearned premiums	(64,333)	(12,314,053)	(297,807)	(10,197)	(468,061)	(597,604)	50,334	(13,701,721)
Commissions from reinsurers	3,638,533	18,307	3,164,680	3,607,146	20,937	1,138,747	-	11,588,350
Other income	685,492	250,437	(6,780)	4,369	-	-	32,464	965,982
Total income	10,066,994	94,811,870	6,386,382	8,670,943	3,660,307	3,568,194	2,316,179	129,480,869
Expenses:								
Outstanding claims at beginning of year	(2,530,555)	(49,154,336)	(12,833,288)	(23,152,771)	(2,520,873)	(484,716)	(557,775)	(91,234,314)
Reinsurers' share	967,249	1,565,085	11,351,036	20,711,993	263,251	340,324	-	35,198,937
Effect of foreign currency fluctuations	94	6,733	471	1,537	-	164	-	9,000
Group's share	(1,563,212)	(47,582,518)	(1,481,781)	(2,439,241)	(2,257,622)	(144,228)	(557,775)	(56,026,377)
Outstanding claims at end of year	4,422,078	63,166,706	13,585,721	13,592,723	2,251,833	1,323,090	678,375	99,020,526
Reinsurers' share	(2,737,816)	(1,828,314)	(12,360,526)	(10,786,427)	-	(986,182)	-	(28,699,265)
Group's share	1,684,262	61,338,392	1,225,195	2,806,296	2,251,833	336,908	678,375	70,321,261
Net Change in outstanding claims	121,050	13,755,874	(256,586)	367,055	(5,789)	192,680	120,600	14,294,884
Claims paid net of recoveries	1,982,811	54,007,375	4,775,231	15,120,768	1,515,268	5,751,973	1,348,948	84,502,374
Reinsurers' share	(1,096,081)	(1,969,362)	(4,195,316)	(14,176,988)	(113,739)	(4,284,374)	-	(25,835,860)
Group's share	886,730	52,038,013	579,915	943,780	1,401,529	1,467,599	1,348,948	58,666,514
Commissions paid	1,034,352	16,618,955	1,564,663	1,594,164	389,271	915,818	756,870	22,874,093
Direct other expenses	18,999	144,692	58,771	-	433	16,013	52,773	291,681
Departments' share of general expenses	1,741,456	8,752,780	1,547,445	2,962,938	516,620	604,560	44,561	16,170,360
Total expenses	3,802,587	91,310,314	3,494,208	5,867,937	2,302,064	3,196,670	2,323,752	112,297,532
Net income / (loss) of insurance departments	6,264,407	3,501,556	2,892,174	2,803,006	1,358,243	371,524	(7,573)	17,183,333

31. GENERAL AND ADMINISTRATIVE EXPENSES

a) General Insurance Departments:

Total general and administrative expenses of general insurance departments amounting to LBP29.8billion and LBP32.7billion for the years ended December 31, 2009 and 2008, respectively are allocated as follows:

	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Allocated to general insurance departments	17,045,133	16,170,360
Unallocated share of the head office	10,917,474	9,924,805
Life division share	1,800,000	1,580,000
Allocated to general insurance departments held-for sale	-	4,561,831
Unallocated share of the head office of the branches held-for-sale	-	469,075
	<u>29,762,607</u>	<u>32,706,071</u>

Total general and administrative expenses in 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Salaries and related charges	17,940,132	19,177,896
General operating expenses	10,509,806	12,503,450
Depreciation of furniture and equipment	1,312,669	1,024,725
	<u>29,762,607</u>	<u>32,706,071</u>

The expenses allocated to the general insurance departments are made on the basis of the ratio of the net premiums of each department to the total departments' net premiums.

(b) Life Division:

Total general and administrative expenses of the life division are distributed as follows:

	<u>2009</u>	<u>2008</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Salaries and related charges	2,210,846	1,804,243
General operating expenses	1,473,350	1,459,448
Depreciation of furniture and equipment	62,740	59,891
	<u>3,746,936</u>	<u>3,323,582</u>

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Except as detailed in Note 9, management considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the consolidated financial statements approximate their fair values.

33. INSURANCE AND FINANCIAL RISK MANAGEMENT

(A) Insurance Risk for General Departments:

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.

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, in addition to probability of under pricing of risks, imposing inadequate terms or selecting low quality or uninsurable risks. Thus the frequency or severity of claims and benefits become 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.

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.

(B) Life Insurance Risk

In the life insurance business a distinction is drawn between three types of underwriting risk: - longevity, death and disability. The Group conducts an annual review and analysis of its customers portfolios with regard to mortality, cancellation and reactivation. To manage disability risk and improve risk performance, individual evaluations are used along the portfolio analyses for disability risk to allow a better assessment of the exposure structure. The information gained is used in setting appropriate prices and rates as well as ensuring that reserves are sufficient for future insurance obligations to be met at all times. It also forms the basis for determining the risk capital that will be required to offset unexpected deviations in the actuarial reserves.

(C) Reinsurance Risk

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

To minimize 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.

The Group enters into reinsurance treaties that provide for the required capacities that fit its risk profiles at competitive costs, while optimizing its retention levels through yearly as if exercises, taking into consideration financial resources such as equity capital and free reserves, portfolio size and liquid assets. Its retention levels fit the empirical rules and general benchmarks, and, most importantly, ensure that the Group's solvency ratio remains high.

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.

(D) Sensitivity of underwriting profit and losses

The Group does not foresee any significant reduction in the profit contributed by the insurance operations to the total profit of the Group due to the following reasons:

The Group has an overall retained premiums level of 66% of the gross written premiums, and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 92%. However, in this class the risk is adequately covered by excess of loss reinsurance programs to guard against major financial impact, in addition to the fact that the Motor portfolio has undergone major remedial measures that led to significant improvement in the quality of this portfolio, and a reduction in its overall exposure, thus leading to its profitability.

The gross written premiums of the Motor lines decreased by around 6% in 2009 compared to 2008, and the corresponding retained premiums almost had no changes for the same period.

The Group's plan is to improve the balance of its portfolio by increasing its production of the non-motor lines, where the gross written premiums of these lines decreased by around 15% in 2009 compared to 2008, and the corresponding retained premiums increased by around 11% for the same period.

The Group's reinsurance commission earnings decreased by around 13% in 2009 compared to 2008. These earnings remain a comfortable source of technical revenues.

The Group's policy is balancing its insurance portfolio through increasing its non-motor lines which have higher returns on premiums than motor, and which have a lower retained premiums level than motor, due to the fact that they are reinsured by treaties that keep their retained exposure at a safe level to protect the results from random fluctuations, while at the same time improving the profitability of its motor lines through a combination of underwriting measures and excess of loss treaties that would protect the motor lines from peak losses. Hence, the Group is comfortable to maintain acceptable net loss ratios and does not foresee any serious financial impact in the insurance net profit.

(E) Dealing with the accumulation of insurance risk

Concentration or accumulation of insurance risk is dealt with by the Group depending on the concerned line of business:

- (a) Marine Cargo, and for known accumulation of policies/declarations on one vessel, an arrangement has been made with reinsurers to reinsure the said vessel exceptionally on a "per bottom basis" (as opposed to the normal arrangement of a "per policy basis").
- (b) For Property business (Fire and Burglary):
 - 1. In respect of small accumulation of insured risks, we limit our retained exposure by not taking 1 retention for every risk when there are 2 or more insured adjacent risks, whereby we reduce our total retention in such cases.
 - 2. In respect of large accumulated or catastrophic exposures under Property, especially from natural hazards such as earthquake, our Property reinsurers cover us for their shares of same.
 - 3. In respect of accumulation of our retentions under our Property business, this is covered by a per event non-proportional treaty.
- (c) Motor business is covered by per occurrence excess of loss treaties that also cover involvement of more than one vehicle in one accident.
- (d) For the Liability adequacy test, the Group has build up over the years reserves for contingencies which would serve as well to offset any large event affected by a concentration of insured risks, either in the same line of insurance or across the different lines of insurance covered by the Group.

(F) Market Risk

Market risk is the risk that arises from fluctuations in the value of, or income from, assets or in interest or foreign exchange rates, including the risks arising from the mismatching of assets and liabilities. Life insurers are also exposed to market risks on the liabilities side of their statement of financial positions, especially interest rate risks stemming from the sale of long-term insurance policies with interest guarantees. Because the clients often take on long-term commitments, in addition to the guarantees they expect to profit from up trends on the financial markets in the form of bonuses. Options embedded in the insurance policies afford clients the necessary flexibility for long-term agreement. These three elements-guarantee, bonuses and options-essentially determine the financial risk of classical, life insurance and policies. The Group seeks to reduce market risks by ensuring a high level of diversification both in its investment portfolio and direct investments, hence, most of the branch assets are invested in bank deposits with low market risk involved.

Interest Rate Risk

The Group's interest rate risk arises from the possibility that changes in market interest rates will affect the value of interest earning assets and interest bearing liabilities. The financial assets of the Group are subject to fixed and floating interest rates and thus there is significant risk on the Group. Most of financial liabilities of the Group are non interest bearing.

Currency Risk:

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of financial assets and liabilities stated in foreign currencies, whereby, the Group does not hedge its currency exposure by means of hedging instruments.

Financial assets and Financial liabilities of the general insurance departments are distributed between Lebanese pounds and other major foreign currencies as follow:

	December 31, 2009					
	Lebanese Pound	U.S. Dollar	Euro	Arab Currencies Linked to USD	Other Currencies	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
<u>FINANCIAL ASSETS</u>						
Cash and banks	13,253,647	30,722,564	1,415,718	118,688,389	193,095	164,273,413
Available-for-sale financial assets	5,606,051	22,136,539	6,402,423	92,007,137	66,095	126,218,245
Held-to-maturity investments	-	5,249,855	1,300,591	-	-	6,550,446
Insurance receivable	5,664,128	-	-	56,787,813	-	62,451,941
Reinsurance assets	39,886,970	-	-	24,786,088	-	64,673,058
Deferred acquisition costs	1,507,234	-	-	8,307,218	-	9,814,452
Other assets	3,648,037	243	-	3,283,640	-	6,931,920
Due from Life division	10,887,984	-	-	-	-	10,887,984
	<u>80,454,051</u>	<u>58,109,201</u>	<u>9,118,732</u>	<u>303,860,285</u>	<u>259,190</u>	<u>451,801,459</u>
<u>FINANCIAL LIABILITIES</u>						
Bank borrowings	-	4,593,090	-	-	-	4,593,090
Held-for-trading derivatives	-	29,634	3,015	-	39,373	72,022
Insurance payable	-	893,117	-	21,463,149	-	22,356,266
Due to related company	-	16,232,643	-	-	-	16,232,643
Payables to insurance and reinsurance companies	(108,076)	6,936,627	190,273	10,152,710	35,314	17,206,848
Taxes payable	1,587,300	5,000	-	2,363,286	-	3,955,586
Accrued liabilities and other credit balances	4,906,671	11,157	-	950,767	-	5,868,595
Provision for outstanding claims	8,034,974	-	-	96,910,964	-	104,945,938
Provision for unearned premiums	8,892,289	-	-	74,297,458	-	83,189,747
Unearned commission from reinsurers	555,163	-	-	2,312,469	-	2,867,632
Provision for employees' end-of-service indemnity	1,449,501	-	-	2,671,064	-	4,120,565
Provision for contingencies	1,176,930	-	-	1,425,414	-	2,602,344
Deferred tax liabilities	1,712,716	-	-	607,376	-	2,320,092
	<u>28,207,468</u>	<u>28,701,268</u>	<u>193,288</u>	<u>213,154,657</u>	<u>74,687</u>	<u>270,331,368</u>
	<u>52,246,583</u>	<u>29,407,933</u>	<u>8,925,444</u>	<u>90,705,628</u>	<u>184,503</u>	<u>181,470,091</u>

December 31, 2008

	<u>Lebanese Pound LBP'000</u>	<u>U.S. Dollar LBP'000</u>	<u>Euro LBP'000</u>	<u>Arab Currencies Linked to USD LBP'000</u>	<u>Other Currencies LBP'000</u>	<u>Total LBP'000</u>
<u>FINANCIAL ASSETS</u>						
Cash and banks	6,846,136	37,659,212	1,476,940	114,192,482	85,631	160,260,401
Held-for-trading securities	-	224,700	-	-	-	224,700
Available-for-sale financial assets	4,895,049	22,810,071	6,351,097	61,374,298	-	95,430,515
Held-to-maturity investments	-	3,465,457	211,949	-	-	3,677,406
Insurance receivable	3,925,306	-	-	55,603,296	-	59,528,602
Reinsurance assets	39,067,800	-	-	18,584,422	-	57,652,222
Deferred acquisition costs	1,092,500	-	-	9,382,152	-	10,474,652
Other assets	3,437,374	208,112	-	2,191,697	-	5,837,183
Due from Life division	12,294,544	-	-	1,468,621	-	13,763,165
Assets classified as held-for-sale	-	-	-	71,101,013	-	71,101,013
	<u>71,558,709</u>	<u>64,367,552</u>	<u>8,039,986</u>	<u>333,897,981</u>	<u>85,631</u>	<u>477,949,859</u>
<u>FINANCIAL LIABILITIES</u>						
Held-for-trading derivatives	-	239,388	-	-	-	239,388
Insurance payable	-	640,412	-	29,164,549	-	29,804,961
Payables to insurance and reinsurance companies	(93,950)	6,367,361	209,412	8,666,949	22,731	15,172,503
Taxes payable	3,229,229	-	-	778,434	-	4,007,663
Accrued liabilities and other credit balances	5,017,736	156,160	-	1,664,249	-	6,838,145
Provision for outstanding claims	4,400,702	-	-	94,619,824	-	99,020,526
Unearned premiums	7,326,280	-	-	77,046,520	-	84,372,800
Unearned commission from reinsurers	397,805	-	-	2,311,046	-	2,708,851
Provision for employees' end-of-service indemnity	1,650,533	-	-	2,705,763	-	4,356,296
Provision for contingencies	3,370,161	-	-	-	-	3,370,161
Deferred tax liabilities	2,318,676	-	-	-	-	2,318,676
Liabilities directly associated with assets classified as held for sale	-	-	-	86,457,750	-	86,457,750
	<u>27,617,172</u>	<u>7,403,321</u>	<u>209,412</u>	<u>303,415,084</u>	<u>22,731</u>	<u>338,667,720</u>
	<u>43,941,537</u>	<u>56,964,231</u>	<u>7,830,574</u>	<u>30,482,897</u>	<u>62,900</u>	<u>139,282,139</u>

As for the Life Division, the exchange risk of the net assets other than U.S. Dollar and the Arab currencies directly linked to U.S. Dollar includes LBP2.2billion and LBP1.4billion in Euro as at December 31, 2009 and 2008 respectively.

(G) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due to a reasonable cost.

The credit risk on liquid funds is limited because the counter-parties are banks with high credit ratings assigned by international credit rating agencies. All the fixed deposits mature within different periods not exceeding one year from the reporting date.

In addition, the Group's reinsurance contracts comprise, in addition to quarterly settlements of balances, cash loss provisions that warrant the immediate settlement of the reinsurers of their shares of a claim when same reach a certain amount.

(H) Credit Risk:

Credit risk concerns the possibility that debtors may no longer be able to meet their obligations. Responsibility for monitoring credit risks lies with the individual companies, which follow stringent Group-wide guidelines with regard to minimum borrower ratings and the diversification of credit risks across all areas in which the Group is exposed to such risks, in particular the investment and reinsurance segments.

The Group's principal financial assets that are subject to credit risks are bank balances, insurance and other receivables, reinsurance receivables and investment portfolio.

The Group's credit risk is primarily attributable to its insurance receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

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

34. CAPITAL MANAGEMENT

The Group manages its capital to ensure the Group's ability to continue as a going concern, while maximizing the return through the optimization of the liabilities and equity balance.

The Group manages the capital structure and makes the necessary revisions, in light of changes in the economics of the business and the market conditions, and the risk characteristics of operations and underlying assets. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of liabilities (excluding provision for contingencies and offset by cash and cash equivalents) and equity of the Group.

The Group monitors the capital risk on the basis of the ratio of net liabilities to equity. The ratio as at December 31, 2009 and 2008 was as follows:

	December 31,	
	2009	2008
	LBP'000	LBP'000
Liabilities (excluding provision for contingencies)	267,729,024	335,297,556
Cash and cash equivalents	(45,374,780)	(41,467,635)
Net liabilities	<u>222,354,244</u>	<u>293,829,921</u>
Total equity	<u>197,195,394</u>	<u>154,243,694</u>
Gearing Ratio	<u>1.13</u>	<u>1.90</u>

35. CONTINGENT LIABILITIES

The Group is contingently liable as at December 31, 2009 and 2008 in respect of guarantees aggregating LBP70billion and LBP68billion respectively, issued in accordance with legal requirements as security to policies issued (all branches and life branch). The majority of these guarantees are covered by pledged funds deposited by the Group with the banks issuing these guarantees.

36. NON CASH TRANSACTIONS

The following non cash transactions relating to investing and financing activities were excluded from the statement of cash flows of the general insurance and the life division for 2009:

General Insurance Departments:

- a) The change in fair value gain of available-for-sale financial assets in the amount of LBP27.8billion of which fair value loss of LBP1.3billion related to non-controlling interests.
- b) Investment property amounting to LBP1.41billion transferred to property and equipment
- c) Assets and liabilities, classified as held-for-sale, related to the Group's branches in Saudi Arabia in the net amount of LBP15.5billion transferred to related company (AICC) against payable to the said related company.

Life Division:

- a) The change in fair value gain of available-for-sale financial assets in the amount of LBP1.5billion.

37. OTHER RESTRICTED RESERVE – LIFE DIVISION

In accordance with Article 10(bis) (c) amended by Capital Market Authority decision No. 19/2007 of the Oman Insurance Companies executive regulation, 1% of the annual life premiums, if reporting profits, is transferred to a contingency reserve, until such reserve becomes equal to RO 1,000,000. This contingency reserve shall be allocated to meet any underwriting loss that might occur in the life assurance division in any one year.

38. PARTICIPATION IN SYNDICATES AND INSURANCE POOLS

The group participates in the Arab War Risk Insurance Syndicate (AWRIS), an insurance syndicate registered in Bahrain, specializing in War Risk Insurance and composed of group of insurance companies that share profits proportionally in accordance with each company's ceded premiums' share to the total premiums of the syndicate.

The Group's share of AWRIS distributed profits for 2009 amounted to USD107,349 (USD111,894 in 2008) and was recorded as part of marine branch results.

The Group also participates in the accumulated "Syndicate" and "Contingency" reserves of "AWRIS", noting that this participation in reserves is only due to the Group upon its withdrawal from the Syndicate or upon the liquidation of the Syndicate, after recalculating the value of participation at that date and based on certain contractual conditions. The value of the Group participation in the "Syndicate" and "Contingency" Reserves of AWRIS was USD689,449 and USD1,746,365 respectively as at December 31, 2009 (USD582,100 and USD1,410,773 respectively as at December 31, 2008).

In addition to above, the Group participates in other syndicates and insurance pools, the most important of which are:

- The Lebanese Insurance Pool of The Orange Card
- The Lebanese Insurance Pool of Engineering Risks
- Bankers Blanket Bond Pool

The profits of these participations are recorded in the related insurance branches.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2009 were approved by the Audit Committee on May 7, 2010.

