AL DHAFRA INSURANCE COMPANY P.S.C.

Reports and financial statements for the year ended 31 December 2012

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AL DHAFRA INSURANCE COMPANY P.S.C.

BOARD OF DIRECTORS

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

BOARD OF DIRECTORS (continued)

HEAD OFFICE

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AL AIN BRANCH

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Sharjah
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THE BOARD OF DIRECTORS' 33RD ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

Dear Shareholders,

The Board of Directors have the pleasure to welcome you to the Ordinary General Assembly of the Company and present to you the 33rd Annual Report regarding the business activities and financial position of the Company during the year 2012 as well as the statement of financial position and financial statements for the year ended 31st December 2012 along with Auditor's Report.

Before we proceed to report about the details of activities of the Company, we would like to briefly outline the achievements made by U.A.E. since its establishment in various sectors.

UAE witnessed a distinguished celebration in 2012 on the occasion of its 41st National Day, a well-deserved celebration of the occasion as the people of UAE under the leadership of the Founder of UAE HH Late Sheikh Zayed Bin Sultan Al Nahyan and his successor HH Sheikh Khalifa Bin Zayed Al Nahyan and their brothers the Rulers of other Emirates have managed to build a modern, wealthy and stable State. UAE have witnessed, since its establishment till date, developments in all areas whether economic, social, health, education etc. apart from the consistent growth in non-oil sectors and continuous development of the infrastructure and legal environment. Though a period of 41 years is considered as short in the history of any Nation, what UAE has managed to achieve during this period , is in fact a source of pride for the UAE Nationals and a source of admiration for the Expatriates living in the Country.

In brief we give here below some statistics published in World Atlas which clearly indicate the level of development attained by UAE and how these achievements are positively reflected on the standard of living of the UAE Nationals and the Expatriates living therein.

GDP increased from $49 Billion in the year 1990 to $104 Billion in the year 2000 and jumped to $342 Billion in the year 2011.

Likewise, the GDP Per Capita increased from $26,626 in the year 1990 to $34,689 in the year 2000 and reached $63,626 in the year 2011. Moreover, agricultural land has increased from 2.5% of the total land area of UAE in the year 1970 to 6.8% by the year 2011. Also internet users increased from 24% of total population in the year 2000 to 78% of total population in 2010.On the other hand, the Mortality Rate among infants below one year age reduced from 67% in the year 1970 to 6% in the year 2010. While the Crude Death Rate decreased from 7 per 1000 in 1970 to 1.4 per 1000 in 2011, the Life Expectancy increased from 62.5 years in 1970 to 76.7 years in 2011.

It is noteworthy to mention here that, all the achievements were realised by the UAE while simultaneously providing aids to developing countries, both Arab and Non-Arab, around the World

As far as the Company's performance during the year 2012 is concerned, the distinguished performance continued for the 6th consecutive year despite the continuing negative economic conditions and unprecedented level of competition in the market.

The distinguished performance placed the Company among the top 50 Companies listed in the stock market of UAE and KSA for the last two consecutive years as per Trends Magazine Volume 160/2011 and 172/2012.

Forbes Magazine, as well, ranked the Company as one of the best performing companies among the listed Companies of Arab World in all Sectors for 2007-2012.

The figures appearing in the Financial Statements illustrate the achievements which are summarized as below :

- Profit increased from AED 44,903,925 to AED 49,377,100 an increase of 9.96% over the previous year;
- Technical Reserves increased from AED 122,406,151 to AED 132,337,771 an increase of 8.11% over the previous year;
- Shareholders' Equity increased from AED 294,601,513 to AED 312,129,503 an increase of 5.95% over the previous year.

Total & Net Premiums:

The Gross Insurance Premium written by the Company during the year under report is AED 283,984,840 against AED 288,480,964 achieved during the year 2011, showing a slight decrease of 1.56%.

The premiums retained by the Company for its own account during the year under report, reached AED 171,022,735 against AED 144,589,322 for the year 2011, that is an increase of 18.28%.

Gross paid claims

The gross claims paid by the Company to its customers during the year under report is AED 152,199,974 against AED 167,439,352 a decrease of 9.1%.

Net claims paid during the year under report is AED 105,110,272 against AED 90,882,143, that is an increase of 15.66%.

Technical Reserves:

The technical reserves at the end of the year under review has reached AED 132,337,771 against AED 122,406,151 in the last year, an increase of 8.11%. It may be noted that the technical reserves are now equal to 77.38% of the retained premiums.

Figures relating to different classes of insurance

Gross written Premium	**2012(AED)**	**2011(AED)**
Marine & Aviation Insurance	27,325,701	29,354,163
Fire & General Accidents Insurance	256,659,139	259,126,801
Total	**283,984,840**	**288,480,964**

Gross Paid Claims	**2012(AED)**	**2011(AED)**
Marine & Aviation Insurance	12,601,420	23,881,238
Fire & General Accidents Insurance	139,598,554	143,558,114
Total	**152,199,974**	**167,439,352**

Technical Reserves	**2012(AED)**	**2011(AED)**
Marine & Aviation Insurance	644,988	896,194
Fire & General Accidents Insurance	131,692,783	121,509,958
Total	**132,337,771**	**122,406,152**

Investments:

The total investments of the Company increased to an amount of AED 279,249,334 at the end of 2012 from AED 217,380,514 at the end of 2011 showing an increase of 28.46%.

The investment income increased to AED 17,611,309 from AED 5,600,152 in the last year, showing an increase of 214.48%.

It is worth mentioning that most of the investments of the company are within the U.A.E . Company has no investments in U.S.A or in Europe and all available cash are deposited in Banks within the U.A.E.

General & Administrative Expenses:

The General & Administrative Expenses during the year under report reached an amount of AED 31,053,482 against an amount of AED 26,103,417 in the last year, that is, an increase of 18.96%.

Profits:

The profits achieved by the company from insurance and investment activities for the year under review is AED 49,377,100 against an amount of AED 44,903,926 achieved last year, that is, an increase of 9.96%.

Net technical profit contribute to 64% of the profit of the Company underscoring the technical strength of Company's operational side.

Company Branches and Offices:

There are no changes in the number of Branches and Point of Sales of the Company since we have expanded during the last few years and now we have branches and point of sales in most residential areas and service centers in Abu Dhabi, Al Ain, Baniyas, Al Rahba, Musaffah and in Traffic Dept offices and also in Dubai and Sharjah.

Profit Distribution:

The profit of AED 49,377,100 achieved by the Company during the year less the comprehensive loss of AED 2,358,420 together with the retained profit of AED 77,581,300 from the previous year amounted to a distributable income of AED 124,599,980.

We recommend appropriation of the above profit as follows:

Amount (AED)	*Details of appropriation*
4,937,710	To be transferred to Legal Reserve
40,000,000	To be distributed among shareholders as cash dividends
3,000,000	Remuneration for the Chairman and Members of the Board of Directors
76,662,270	To be carried forward to the subsequent year

Plans for 2013

We will continue expanding our business through developing new offices & POS in addition to strengthening current office and expanding our online business.

We are continuing our prudent business strategy of concentrating on healthy business aiming at achieving better operational results.

Recommendations of Board of Directors to Shareholders:

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

1- To Approve the report of the Board of Directors for 2012.
2- To approve the Auditor's Report for 2012.
3- To approve the financial statements of the Company for the year ended 31 December 2012.
4- To approve the reserves and distribution of 40% cash dividend as proposed by the Board.
5- To discharge the Chairman and Members of the Board of Directors and Auditors from liabilities related to the performance of their duties during the year under review.
6- To approve the remuneration to the Board of Directors.
7- To appoint external auditors for the year 2013 or re-appointing the present auditors and determine their fees.
8- To elect Board of Directors for the next three years according to Article 17 & 18 of the Articles of Association of the Company.

Conclusion

The Board of Directors would like to conclude the report by expressing its appreciation and utmost respect to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the President of the United Arab Emirates and His Brothers, the Rulers of other Emirates and His Highness Sheikh Mohamad Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi for their continuous support and patronage for National institutions and Companies.

The Board of Directors would also like to praise the persistent efforts of the management and staff of the Company who did their best to serve the Company and its clients and to promote its relations with Insurance, Reinsurance Companies and brokers locally and internationally.

BOARD OF DIRECTORS

10 February 2013

Deloitte.

Deloitte & Touche (M.E.)
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INDEPENDENT AUDITOR'S REPORT

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

Report on the financial statements

We have audited the accompanying financial statements of Al Dhafra Insurance Company P.S.C. (the "Company"), which comprise the statement of financial position as at 31 December 2012, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position Al Dhafra Insurance Company P.S.C. at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Company, and the financial information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended), the UAE Federal Law No. (6) of 2007 concerning the establishment of the Insurance Authority and organization of its operations or the Articles of Association of the Company which might have a material effect on the financial position of the Company or on the results of its financial performance for the year.

Deloitte & Touche (M.E.)

Mohammad Khamees Al Tah
Registration Number 717
10 February 2013

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Abu Dhabi - U.A.E.
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Deloitte & Touche

Statement of financial position
as at 31 December 2012

	Notes	2012 AED	2011 AED
ASSETS			
Non-current assets			
Property and equipment	5	**2,576,041**	2,605,048
Investment properties	6	**82,000,000**	80,100,000
Intangible assets	7	**3,562,859**	2,995,703
Investments designated at fair value through other comprehensive income (FVTOCI)	8.2	**96,252,070**	65,656,343
Investments at amortised cost	8.2	**13,524,400**	21,524,400
Statutory deposit	9	**10,000,000**	10,000,000
Total non-current assets		**207,915,370**	182,881,494
Current assets			
Investments designated at fair value through profit or loss (FVTPL)	8.2	**87,472,864**	50,099,771
Reinsurance contract assets	10	**116,008,298**	133,222,830
Trade and other receivables	12	**103,282,175**	100,920,358
Prepayments		**2,010,769**	1,664,807
Bank balances and cash	22	**193,142,849**	235,385,945
Total current assets		**501,916,955**	521,293,711
Total assets		**709,832,325**	704,175,205

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

Statement of financial position
as at 31 December 2012 (continued)

	Notes	2012 AED	2011 AED
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	13	**100,000,000**	90,000,000
Legal reserve	14	**46,928,103**	41,990,393
General reserve	15	**145,000,000**	145,000,000
Investment revaluation reserve		**(96,460,870)**	(105,970,180)
Retained earnings		**116,662,270**	123,581,300
Total shareholders' equity		**312,129,503**	294,601,513
Non-current liability			
Provision for end of service benefits	17	**6,294,849**	5,258,079
Current liabilities			
Insurance contract liabilities	10	**248,346,069**	255,628,981
Trade and other payables	18	**143,061,904**	148,686,632
Total current liabilities		**391,407,973**	404,315,613
Total liabilities		**397,702,822**	409,573,692
Total equity and liabilities		**709,832,325**	704,175,205

....
Chairman

....
Director

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

Statement of income
for the year ended 31 December 2012

	Notes	2012 AED	2011 AED
Gross written premium		283,984,840	288,480,964
Change in unearned premium		2,528,233	(1,286,595)
Insurance premium revenue		286,513,073	287,194,369
Reinsurance premium ceded		(112,962,105)	(143,891,642)
Change in reinsurance portion of unearned premium		(12,698,697)	(4,769,990)
Net reinsurance premium ceded		(125,660,802)	(148,661,632)
Net insurance premium revenue		160,852,271	138,532,737
Gross claims paid		(152,199,974)	(167,439,353)
Change in outstanding claims provision		4,754,679	74,538,129
Net claims incurred		(147,445,295)	(92,901,224)
Reinsurance share of claims paid		47,089,702	76,557,210
Change in reinsurance share of outstanding claims		(4,515,835)	(67,483,222)
Reinsurance share of claims incurred		42,573,867	9,073,988
Net claims incurred		(104,871,428)	(83,827,236)
Gross commission earned		21,571,592	25,123,775
Less: commission incurred		(14,976,202)	(14,422,087)
Net commission earned		6,595,390	10,701,688
Net underwriting income		62,576,233	65,407,189
Net investment and other income	19	17,854,349	5,600,152
Administrative expenses		(25,031,683)	(20,612,342)
Other operating expenses		(6,021,799)	(5,491,074)
Profit for the year	20	49,377,100	44,903,925
Basic earnings per share	21	0.49	0.45

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

Statement of comprehensive income
for the year ended 31 December 2012

	Notes	2012 AED	2011 AED
Profit for the year		**49,377,100**	44,903,925
Other comprehensive income/(loss)			
Gain/(loss) on disposal of investments at FVTOCI	**8.2**	**208,179**	(519,888)
Increase/(decrease) in fair value of investments at FVTOCI	**8.2**	**6,942,711**	(10,282,394)
Directors' remuneration	**11**	**(3,000,000)**	(4,000,000)
Total other comprehensive income/(loss)		**4,150,890**	(14,802,282)
Total comprehensive income for the year		**53,527,990**	30,101,643

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

AL DHAFRA INSURANCE COMPANY P.S.C.

Statement of changes in equity
for the year ended 31 December 2012

	Share capital AED	Legal reserve AED	General reserve AED	Investment revaluation reserve AED	Retained earnings AED	Total AED
Balance at 31 December 2010	75,000,000	37,500,000	145,000,000	(94,337,786)	138,837,656	301,999,870
Profit for the year	-	-	-	-	44,903,925	44,903,925
Other comprehensive loss for the year	-	-	-	(10,282,394)	(4,519,888)	(14,802,282)
Total comprehensive income for the year	-	-	-	(10,282,394)	40,384,037	30,101,643
Dividends paid					(37,500,000)	(37,500,000)
Bonus shares issued	15,000,000	-	-	-	(15,000,000)	-
Transfer to legal reserve	-	4,490,393	-	-	(4,490,393)	-
Transfer to retained earnings on disposal of investments at FVTOCI	-	-	-	(1,350,000)	1,350,000	-
Balance at 31 December 2011	90,000,000	41,990,393	145,000,000	(105,970,180)	123,581,300	294,601,513
Profit for the year	-	-	-	-	49,377,100	49,377,100
Other comprehensive income/(loss) for the year	-	-	-	6,942,711	(2,791,821)	4,150,890
Total comprehensive income for the year	-	-	-	6,942,711	46,585,279	53,527,990
Dividends paid	-	-	-	-	(36,000,000)	(36,000,000)
Bonus shares issued	10,000,000	-	-	-	(10,000,000)	-
Transfer to legal reserve	-	4,937,710	-	-	(4,937,710)	-
Transfer to retained earnings on disposal of investments at FVTOCI	-	-	-	2,566,599	(2,566,599)	-
Balance at 31 December 2012	**100,000,000**	**46,928,103**	**145,000,000**	**(96,460,870)**	**116,662,270**	**312,129,503**

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

Statement of cash flows
for the year ended 31 December 2012

	Notes	2012 AED	2011 AED
Operating activities			
Profit for the year		49,377,100	44,903,925
Adjustments for:			
Depreciation of property and equipment	5	697,219	871,541
(Increase)/decrease in fair value of investment property	6	(1,900,000)	900,000
Amortisation of intangible assets	7	733,670	988,156
Investment income		(14,885,958)	(5,809,264)
Loss/(gain) on disposal of property and equipment	19	(12,967)	13,808
Provision for end of service benefits	17	1,221,693	478,880
Operating cash flows before movements in working capital		35,230,757	42,347,046
Decrease in reinsurance contract assets		17,214,532	72,253,212
Decrease in insurance contract liabilities		(7,282,912)	(73,251,534)
Increase in trade and other receivables		(1,370,367)	(8,789,960)
(Increase)/decrease in prepayments		(345,962)	7,104
(Decrease)/increase in trade and other payables		(5,624,728)	5,175,077
Cash from operating activities		37,821,320	37,740,945
End of service benefits paid	17	(184,923)	(360,216)
Net cash from operating activities		37,636,397	37,380,729
Investing activities			
Proceeds from disposal of:			
Investments designated at FVTOCI	8.2	1,517,316	1,860,161
Investments designated at FVTPL	8.2	78,807,062	10,871,983
Property and equipment		34,854	13,238
Interest received		5,604,854	7,950,107
Dividends received	19	7,133,163	2,803,496
Rental income received	19	3,628,958	3,501,722
Purchase of:			
Investments at FVTOCI	8.2	(24,962,153)	(12,592,240)
Investments at FVTPL	8.2	(110,352,122)	(47,301,107)
Property and equipment	5	(690,099)	(1,066,439)
Intangible assets	7	(1,300,826)	(2,387,315)
Payment of investment expenses	19	(300,500)	(155,061)
Movement in bank deposits with original maturities of greater than three months		97,861,542	11,581,461
Net cash from/(used in) investing activities		56,982,049	(24,919,994)
Financing activities			
Dividends paid		(36,000,000)	(37,500,000)
Directors' remuneration paid		(3,000,000)	(3,000,000)
Net cash used in investing activities		(39,000,000)	(40,500,000)
Increase/(decrease) in cash and cash equivalents		55,618,446	(28,039,265)
Cash and cash equivalents at the beginning of the year		14,624,040	42,663,305
Cash and cash equivalents at the end of year	22	70,242,486	14,624,040

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

1 General information

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

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

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

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

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

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

The following new and revised IFRSs have been adopted in these financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

New and revised IFRSs	Summary of requirement
Amendments to IFRS 7 *Financial Instruments: Disclosures*, relating to Disclosures on Transfers of Financial Assets	The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.
Amendment to IAS 12 *Income Taxes relating to Deferred Tax – Recovery of Underlying Assets*	Amends IAS 12 *Income Taxes* to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale. As a result of the amendments, SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

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

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

New and revised IFRSs	Summary of requirement
Amendment to IFRS 1 *Severe Hyperinflation*	The amendments provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.
Amendment to IFRS 1 *Removal of Fixed Dates for First-time Adopters*	The amendment replace references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs

2.2 New and revised IFRSs in issue but not yet effective

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 1 *Presentation of Financial Statements* relating to grouping items recognised in other comprehensive income	1 July 2012
IAS 19 *Employee Benefits* (as revised in 2011)	1 January 2013
IAS 27 *Separate Financial Statements* (as revised in 2011)	1 January 2013
IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)	1 January 2013
Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* relating to accounting for government loans at below market interest rate	1 January 2013
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to offsetting financial assets and liabilities	1 January 2013
IFRS 10 *Consolidated Financial Statements*	1 January 2013
IFRS 11 *Joint Arrangements*	1 January 2013
IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2013
IFRS 13 *Fair Value Measurement*	1 January 2013

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

2.2 New and revised IFRSs in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Improvements to IFRSs issued in 2011 and 2012 covering amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34	1 January 2013
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013
Amendments to IAS 32 *Financial Instruments: Presentation* relating to offsetting financial assets and liabilities	1 January 2014
Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities* relating to requirements to provide comparative information	1 January 2013
Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 *Separate Financial Statements* relating to investment entities and exemption of consolidation of particular subsidiaries	1 January 2014

Management anticipates that the adoption of these IFRSs in future periods will have no material impact on the financial statements of the Company in the period of initial application.

2.3 Standards adopted before effective date

During the year 2009, the Company adopted IFRS 9 *Financial Instruments* (IFRS 9) in advance of its effective date. Refer to Notes 3.13 and 3.14 for the accounting policies regarding financial instruments.

3 Summary of significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates (UAE) Federal Law No. 8 of 1984 (as amended) and Federal Law No. 6 of 2007, concerning the formation of Insurance Authority of UAE.

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of investment properties and certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts

Definition

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

Recognition and measurement

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

These contracts are casualty and property insurance contracts.

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

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

For all these insurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown in the profit and loss before deduction of commission.

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

Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Company reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the end of the reporting period, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the end of the reporting period. This provision is calculated at 40% of the annual premiums written for all insurance classes except marine which are calculated at 25% and Motor at 45%.

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

Deferred policy acquisition costs

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

Salvage and subrogation reimbursements

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

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the profit or loss initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss.

3.4 Revenue recognition

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

Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements (see above 3.3)

3 Summary of significant accounting policies (continued)

3.4 Revenue recognition (continued)

Commission income and expenses

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

Rental, dividend and interest income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease and is stated net of related property expenses. Dividend income is recognised when the Company's right to receive the payment has been established. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable. For investments held until maturity which have variable rates of return, the minimum guaranteed return is recognised in the profit or loss using the effective interest rate method. Returns in excess of the minimum guaranteed return, if any, are recognised on maturity.

3.5 Foreign currencies

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

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

Exchange differences are recognised in the profit or loss in the period in which they arise.

3.6 Property and equipment

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

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

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

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

3 Summary of significant accounting policies (continued)

3.6 Property and equipment (continued)

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

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

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

3.7 Capital work in progress

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

3.8 Investment properties

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

3.9 Intangible assets

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

3.10 Impairment of non-financial assets

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

3 Summary of significant accounting policies (continued)

3.10 Impairment of non-financial assets (continued)

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

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

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

3.11 Provisions

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

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

3.12 Employee benefits

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

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (2), 2000 for Pension and Social Security. Such contributions are charged to the profit or loss during the employees' period of service.

3.13 Financial assets

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

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

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

3.13.1 Classification of financial assets

The Company classifies its financial assets under the following categories: 'loans and receivables', 'investments at amortised cost', 'financial assets at fair value through profit or loss (FVTPL)', and 'financial assets at fair value through other comprehensive income (FVTOCI)'.

3.13.2 Financial assets at amortised cost and the effective interest method

Cash and cash equivalents

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

Insurance receivables

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

Investments at amortised cost

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

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

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at FVTPL – see note 3.13.3 below). They are subsequently measured at amortised cost using the effective interest method less any impairment (see note 3.13.5 below).

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

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

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

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

3.13.3 Financial assets at FVTPL

Debt instrument financial assets that do not meet the amortised cost criteria described in note 3.13.2, or that meet the criteria but the entity has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL. The Company has not designated a debt instrument financial asset as at FVTPL.

Subsequent to initial recognition, the Company is required to reclassify debt instruments from FVTPL to amortised cost if the objective of the business model changes so that the amortised cost criteria starts to be met and the instrument's contractual cash flows meet the amortised cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition (see note 3.13.2) is not permitted.

Investments in equity instruments are mandatorily classified as at FVTPL, unless the Company designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition as described in note 3.13.4 below.

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

3.13.4 Financial assets at FVTOCI

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

A financial asset is held for trading if:

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

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

3.13.5 Impairment of financial assets at amortised cost

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

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

3.13.5 Impairment of financial assets at amortised cost (continued)

Objective evidence of impairment could include:

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

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

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, reflecting the impact of collateral and guarantees, discounted at the financial asset's original effective interest rate.

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

3.13.6 Derecognition of financial assets

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

3 Summary of significant accounting policies (continued)

3.14 Financial liabilities and equity instruments issued by the Company

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

3.14.1 Equity instruments

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

3.14.2 Financial liabilities

Financial liabilities comprise insurance payables and other liabilities, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term liabilities when the recognition of interest would be immaterial.

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

3.14.3 Derecognition of financial liabilities

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

3.15 Dividend distribution

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

4 Critical accounting judgments and key sources of estimation of uncertainty

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

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

4.1 Classification of investments

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

4.2 Impairment of amounts due from insurance and reinsurance companies

Management regularly reviews the collectability of amounts due from insurance and reinsurance companies. The majority of these receivables are due from reputable local and international insurance and reinsurance companies. Such balances are regularly reconciled by both parties and are settled by on account payments on a regular basis. Based on the above evaluation, Management is satisfied that no impairment is necessary on receivables from insurance and re-insurance companies.

4.3 Impairment of amounts due from policy holders

An estimate of the collectible amounts from policyholders is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired entails the Management's evaluation of the specific credit and liquidity position of the policy holders and their historical recovery rates including detailed investigations carried out during 2012 and feedback received from the legal department. Impairment allowance balance of amounts due from policy holders at 31 December 2012 is AED 7,041,017 (2011: AED 6,291,017).

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

4.4 Impairment of investments at amortised cost

Management regularly reviews indicators of impairment for investments at amortised cost and considers the criteria as set out in IFRS 9 *Financial Instruments*. Management evaluated the basis, particularly instances of default or delinquency in interest or principal payments. Management assessed that the impairment of investments at amortised cost for 2012 is AED 8,000,000 (2011: AED 6,000,000).

4.5 Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Company determined the amount within a range of reasonable fair value estimates. In making its judgment, the Company considered recent prices of similar properties in the same location and similar conditions, which adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

4.6 The ultimate liability arising from claims made under insurance contracts

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

4.7 Liability adequacy test

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

5 Property and equipment

	Furniture and fittings AED	Motor vehicles AED	Computer equipment and accessories AED	Capital work in progress AED	Total AED
Cost					
1 January 2011	3,212,344	741,600	1,301,830	1,617,417	6,873,191
Additions	129,231	30,500	341,780	564,928	1,066,439
Disposals	(313,047)	-	(8,020)	-	(321,067)
Transfer to intangible assets (note 7)	16,027	-	(528)	(629,118)	(613,619)
31 December 2011	3,044,555	772,100	1,635,062	1,553,227	7,004,944
Additions	196,018	27,000	418,081	49,000	690,099
Disposals	(149,727)	(29,500)	-	(16,430)	(195,657)
31 December 2012	**3,090,846**	**769,600**	**2,053,143**	**1,585,797**	**7,499,386**
Accumulated depreciation					
1 January 2011	2,382,258	521,763	918,355	-	3,822,376
Charge for the year	514,663	179,150	177,728	-	871,541
Disposals	(286,001)	-	(8,020)	-	(294,021)
31 December 2011	2,610,920	700,913	1,088,063	-	4,399,896
Charge for the year	358,831	56,284	282,104	-	697,219
Disposals	(144,270)	(29,500)	-	-	(173,770)
31 December 2012	**2,825,481**	**727,697**	**1,370,167**	-	**4,923,345**
Carrying amount					
31 December 2012	**265,365**	**41,903**	**682,976**	**1,585,797**	**2,576,041**
31 December 2011	433,635	71,187	546,999	1,553,227	2,605,048

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

6 Investment properties

	Land AED	Abu Dhabi building AED	Al Ain building AED	Total AED
Fair value as at 31 December 2011	**52,350,000**	**24,750,000**	**3,000,000**	**80,100,000**
Increase/(decrease) in fair value during the year 2012	585,000	(250,000)	1,565,000	1,900,000
Fair value as at 31 December 2012	**52,935,000**	**24,500,000**	**4,565,000**	**82,000,000**

Management has considered recent prices for similar properties in the same location and similar condition and also the prevailing situation of real estate properties in UAE and considered the valuation report from Technical and Loss Adjusting Services LLC who have determined the fair values of the land and buildings to be AED 82,000,000, as at 31 December 2012.

The plots of land in Abu Dhabi and Al Ain on which investment properties are constructed were awarded to the Company free of cost by the Executive Council of the Government of Abu Dhabi on 21 June 1981 and 27 August 1983, respectively. The fair values of the plots of land in Abu Dhabi and Al Ain as at 31 December 2012 amounted to AED 45,000,000 and AED 7,935,000, respectively.

The construction of the Abu Dhabi head office building was completed during 1992. The Company occupies three floors of the building for its Head Office with the remaining fourteen floors available for letting to third parties.

The construction of the Al Ain office building was completed in 1993. The Company is utilizing the first and mezzanine floors for housing its Al Ain Branch office with the remaining space available for letting to third parties.

7 Intangible assets

Computer software	2012 AED	2011 AED
Cost		
1 January	**5,372,771**	2,828,993
Additions	**1,300,826**	2,387,315
Disposals	-	(457,156)
Transfer from capital work in progress (note 5)	-	613,619
31 December	**6,673,597**	5,372,771
Accumulated amortisation		
1 January	**2,377,068**	1,846,068
Charge for the year	**733,670**	988,156
Disposals	-	(457,156)
31 December	**3,110,738**	2,377,068
Carrying amount		
31 December	**3,562,859**	2,995,703

8 Investments

8.1 Composition of investments

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

	2012 AED	2011 AED
Investments at FVTOCI		
Quoted UAE equity securities	**96,252,070**	65,656,343
Investments at FVTPL		
Investment funds	**87,472,864**	50,099,771
Investments at amortised cost		
Investment funds	**3,610,000**	11,610,000
Bonds	**9,914,400**	9,914,400
	13,524,400	21,524,400
Current	**-**	-
Non-current	**13,524,400**	21,524,400
	13,524,400	21,524,400

Investment funds included in investments at FVTPL comprise various mutual funds in the UAE.

Included in the investment funds at amortised cost is an investment of US$ 5 million in Arabian Real Estate Fund, which Management has determined to be impaired by AED 14,750,000 as at 31 December 2012 (2011: AED 6,750,000).

Bonds at amortised cost comprise of five-year investment amounting to US$ 2.7 million in Aldar Bonds which bears a fixed interest of 9.1%. Interest is payable semi-annually on 14 May and 14 November. The maturity date of the bonds is 25 May 2014.

The geographical distribution of investments is as follows:

	2012 AED	2011 AED
Within UAE	**197,249,334**	137,280,514
Outside UAE	**-**	-
	197,249,334	137,280,514

Notes to the financial statements
for the year ended 31 December 2012 (continued)

8 Investments (continued)

8.2 Movement in investments

The movement in investments during the year is as follows:

Investments at fair value	at FVTOCI AED	at FVTPL AED	Total AED
Fair value at 1 January 2011	65,726,546	16,553,179	82,279,725
Additions during the year	12,592,240	47,301,107	59,893,347
Proceeds from disposals during the year	(1,860,161)	(10,871,983)	(12,732,144)
Loss on disposal during the year	(519,888)	-	(519,888)
Decrease in fair value taken to:			
Profit or loss (note 19)	-	(2,882,532)	(2,882,532)
Other comprehensive income	(10,282,394)	-	(10,282,394)
Fair value at 1 January 2012	65,656,343	50,099,771	115,756,114
Additions during the year	24,962,153	110,352,122	135,314,275
Proceeds from disposals during the year	(1,517,316)	(78,807,062)	(80,324,378)
Gain on disposal during the year	208,179	-	208,179
Increase in fair value taken to:			
Profit or loss (note 19)	-	5,828,033	5,828,033
Other comprehensive income	6,942,711	-	6,942,711
Fair value at 31 December 2012	**96,252,070**	**87,472,864**	**183,724,934**

	2012 AED	2011 AED
Investments at amortised cost		
Amortised cost at 1 January	**21,524,400**	27,524,400
Provision for impairment (note 19)	**(8,000,000)**	(6,000,000)
Amortised cost at 31 December	**13,524,400**	21,524,400

9 Statutory deposit

In accordance with the requirements of Federal Law No. 6 of 2007 concerning the formation of Insurance Authority of UAE, the Company maintains a bank deposit of AED 10,000,000 (2011: AED 10,000,000) which cannot be utilised without the consent of the UAE Insurance Authority.

Notes to the financial statements
for the year ended 31 December 2012 (continued)

10 Insurance contract liabilities and reinsurance contract assets

	2012 AED	2011 AED
Insurance liabilities - Gross		
Reported claims	**130,357,469**	134,406,538
Claims incurred but not reported	**3,751,303**	4,456,913
Unearned premiums	**114,237,297**	116,765,530
	248,346,069	255,628,981
Recoverable from reinsurers		
Reported claims	**73,792,013**	78,716,499
Claims incurred but not reported	**1,289,234**	880,583
Unearned premiums	**40,927,051**	53,625,748
	116,008,298	133,222,830
Insurance liabilities – Net		
Reported claims	**56,565,456**	55,690,039
Claims incurred but not reported	**2,462,069**	3,576,330
Unearned premiums	**73,310,246**	63,139,782
	132,337,771	122,406,151

Notes to the financial statements
for the year ended 31 December 2012 (continued)

10 Insurance contract liabilities and reinsurance contract assets (continued)

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

	Year ended 31 December 2012			Year ended 31 December 2011		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
CLAIMS						
Notified claims	134,406,538	78,716,499	55,690,039	204,380,146	142,180,269	62,199,877
Incurred but not reported	4,456,913	880,583	3,576,330	9,021,434	4,900,035	4,121,399
Total at 1 January	138,863,451	79,597,082	59,266,369	213,401,580	147,080,304	66,321,276
Claims settled	(152,199,974)	(47,089,702)	(105,110,272)	(167,439,353)	(76,557,210)	(90,882,143)
Increase in liabilities	147,445,295	42,573,867	104,871,428	92,901,224	9,073,988	83,827,236
Total at 31 December	134,108,772	75,081,247	59,027,525	138,863,451	79,597,082	59,266,369
Notified claims	130,357,469	73,792,013	56,565,456	134,406,538	78,716,499	55,690,039
Incurred but not reported	3,751,303	1,289,234	2,462,069	4,456,913	880,583	3,576,330
Total at 31 December	134,108,772	75,081,247	59,027,525	138,863,451	79,597,082	59,266,369
UNEARNED PREMIUM						
Total at 1 January	116,765,530	53,625,748	63,139,782	115,478,935	58,395,738	57,083,197
Increase during the year	114,237,297	40,927,051	73,310,246	116,765,530	53,625,748	63,139,782
Release during the year	(116,765,530)	(53,625,748)	(63,139,782)	(115,478,935)	(58,395,738)	(57,083,197)
Net increase/(decrease) during the year	(2,528,233)	(12,698,697)	10,170,464	1,286,595	(4,769,990)	6,056,585
Total at 31 December	114,237,297	40,927,051	73,310,246	116,765,530	53,625,748	63,139,782

11 Related parties

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

	2012 AED	2011 AED
Premiums written	**51,754,843**	11,602,894
Claims paid	**25,322,729**	5,727,635
Directors' remuneration	**3,000,000**	4,000,000
Remuneration of key management	**8,099,350**	5,915,477
Due from related party policyholders (note 12)	**21,551,759**	10,604,726

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

The remuneration of key management personnel is based on the remuneration agreed in their employment contracts as approved by the Board of Directors.

12 Trade and other receivables

	2012 AED	2011 AED
Due from external policyholders	**72,389,895**	63,664,431
Due from related party policyholders (note 11)	**21,551,759**	10,604,726
Less: allowance for doubtful debts	**(7,041,017)**	(6,291,017)
Net due from policyholders	**86,900,637**	67,978,140
Due from insurance companies	**12,071,763**	26,495,726
Due from reinsurance companies	**1,121,243**	2,480,946
Interest receivable	**2,323,064**	3,314,514
Other receivables	**865,468**	651,032
	103,282,175	100,920,358

The average credit period on due from policy holders is 90 to 180 days. No interest is charged and no collateral is taken on trade and other receivables.

Notes to the financial statements
for the year ended 31 December 2012 (continued)

12 Trade and other receivables (continued)

The Company has adopted a policy of only dealing with creditworthy counterparties. Adequate credit assessment is made before accepting an insurance contract from any counterparty. At the end of year, AED 60,766,766 (2011: AED 42,719,334) is due from the Company's largest policy holders. The Company considers these customers to be reputable and creditworthy.

Included in the Company's total due from policy holders are balances amounting to AED 11,288,879 (2011: AED 23,162,880) which are past due at the reporting date for which no allowance has been provided for, as there was no significant change in credit quality of these policy holders and the amounts are still considered recoverable.

Ageing of trade receivables

	2012 AED	2011 AED
Not past due	**75,950,666**	44,815,260
Past due but not impaired		
181 to 365 days	**3,298,064**	17,503,871
More than 365 days	**7,651,907**	5,659,009
	10,949,971	23,162,880
Past due and impaired		
181 to 365 days	**-**	-
More than 1 year but less than 2 years	**4,325**	725,774
More than 2 years but less than 3 years	**56,982**	116,674
More than 3 years	**6,979,710**	5,448,569
	7,041,017	6,291,017
Total due from policy holders	**94,220,562**	74,269,157

Movement in the allowance for doubtful debts:

	2012 AED	2011 AED
Balance at beginning of the year	**6,291,017**	6,291,017
Impairment losses recognised on receivables	**2,193,138**	-
Amounts reversed	**(1,443,138)**	-
Balance at end of the year	**7,041,017**	6,291,017

The Company has provided for certain receivables above 181 days based on estimated irrecoverable amounts, determined after review of specific credit quality of customers and past default experience. In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the customer from the date credit was initially granted up to the reporting date. Accordingly, management believes that there is no further provision required in excess of the allowance for doubtful debts.

13 Share capital

	2012 AED	2011 AED
Authorised, issue and fully paid:		
100,000,000 (2011: 90,000,000) ordinary shares of AED 1 each	**100,000,000**	90,000,000

The Company has completed the registration formalities with the concerned authorities in relation to the capital increase during the year.

14 Legal reserve

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

15 General reserve

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

16 Proposed dividends

For the year ended 31 December 2012, the Board of Directors has proposed a cash dividend of AED 40,000,000. The cash dividend is subject to approval by the Shareholders at the Annual General Meeting.

Dividends, amounting to AED 36,000,000 and bonus shares of AED 10,000,000 for the year ended 31 December 2011, were approved by the Shareholders at the Annual General Meeting held on 16 February 2012.

17 Provision for end of service benefits

	2012 AED	2011 AED
Balance at the beginning of the year	**5,258,079**	5,139,415
Charge for the year	**1,221,693**	478,880
Paid during the year	**(184,923)**	(360,216)
Balance at the end of the year	**6,294,849**	5,258,079

Notes to the financial statements
for the year ended 31 December 2012 (continued)

18 Trade and other payables

	2012 AED	2011 AED
Due to policy holders	**18,765,136**	17,458,182
Due to insurance companies	**23,846,969**	33,902,694
Due to reinsurance companies	**42,139,038**	38,210,492
Premium reserve withheld	**14,887,351**	20,054,258
Commissions payable	**17,500,000**	17,500,000
Deferred income	**13,623,897**	8,402,481
Directors' remuneration payable (note 11)	**3,000,000**	3,000,000
Other payables	**9,299,513**	10,158,525
	143,061,904	148,686,632

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

19 Net investment and other income

	2012 AED	2011 AED
Net rental income (a)	**3,628,958**	3,501,722
Net interest income (b)	**6,596,304**	8,541,639
Dividend income (c)	**7,133,163**	2,803,496
Investment expenses	**(300,500)**	(155,061)
Impairment loss on investments at amortised cost (note 8.2)	**(8,000,000)**	(6,000,000)
Increase/(decrease) in fair value of investments at FVTPL (note 8.2)	**5,828,033**	(2,882,532)
Increase/(decrease) in fair value of investment property (note 6)	**1,900,000**	(900,000)
Gain/(loss) on disposal of property and equipment	**12,967**	(13,808)
Other income	**812,384**	704,696
Settlement from BCCI	**243,040**	-
	17,854,349	5,600,152

Details of major investment income are as follows:

	2012 AED	2011 AED
Net rental income:		
Gross rental income	**4,269,012**	4,076,727
Less: building expenses	**(640,054)**	(575,005)
Net rental income (a)	**3,628,958**	3,501,722

19 Net investment and other income (continued)

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

	2012 AED	2011 AED
Net interest income on:		
Bank deposits	**5,530,345**	7,479,210
Investments at amortised cost	**1,065,959**	1,062,429
Net interest income (b)	**6,596,304**	8,541,639
Dividend income on:		
Investments at FVTOCI	**3,672,989**	1,938,268
Investments at FVTPL	**3,460,174**	865,228
Dividend income (c)	**7,133,163**	2,803,496

20 Profit for the year

Profit for the year is stated after charging:

	2012 AED	2011 AED
Staff costs	**21,680,866**	17,627,833
Depreciation of property and equipment (note 5)	**697,219**	871,541
Amortisation of intangible assets (note 7)	**733,670**	988,156

21 Basic earnings per share

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

	2012	2011
Profit for the year (AED)	**49,377,100**	44,903,925
Weighted average number of ordinary shares in issue throughout the year	**100,000,000**	100,000,000
Basic earnings per share (AED)	**0.49**	0.45

The earnings per share for the year were adjusted for the bonus shares issued during 2012. As of 31 December 2012 and 2011, the Company has not issued any instruments that have an impact on earnings per share when exercised.

22 Cash and cash equivalents

	2012 AED	2011 AED
Cash on hand	**19,250**	19,250
Call accounts	**70,223,236**	14,604,790
Term deposits	**122,900,363**	220,761,905
Bank balances and cash	**193,142,849**	235,385,945
Less: deposits with original maturities of greater than three months	**(122,900,363)**	(220,761,905)
	70,242,486	14,624,040

The interest rate on fixed deposits and call accounts with banks ranges between 0.55% and 3.5% (2011: 0.55% and 4%) per annum. All bank deposits are held in local banks in the United Arab Emirates.

23 Segment information

The Company has two reportable segments, as described below, which are the Company's strategic business units. The strategic business units are managed separately because they require different approach, technology and marketing strategies. For each of the strategic business units, the Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis.

The following summary describes the two main business segments:

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

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

Information regarding the Company's reportable segments is presented below:

Notes to the financial statements
for the year ended 31 December 2012 (continued)

23 Segment information (continued)

23.1 Segment revenue and results

	Year ended 31 December 2012			Year ended 31 December 2011		
	Underwriting AED	**Investments AED**	**Total AED**	Underwriting AED	Investments AED	Total AED
Direct revenues	**305,556,432**	**18,100,924**	**323,657,356**	313,604,739	15,643,320	329,248,059
Direct costs	**(242,980,199)**	**(1,042,999)**	**(244,023,198)**	(248,197,550)	(951,524)	(249,149,074)
Administrative expenses	**(25,031,683)**	**-**	**(25,031,683)**	(20,612,342)	-	(20,612,342)
Depreciation expense	**(697,219)**	**-**	**(697,219)**	(871,541)	-	(871,541)
Amortisation expense	**(733,670)**	**-**	**(733,670)**	(988,156)	-	(988,156)
Other expenses	**(4,590,910)**	**-**	**(4,590,910)**	(3,631,377)	-	(3,631,377)
Non-cash investment Losses (net)	**-**	**(271,967)**	**(271,967)**	-	(9,782,532)	(9,782,532)
Segment profit	**31,522,751**	**16,785,958**	**48,308,709**	39,303,773	4,909,264	44,213,037
Other income	**-**	**-**	**1,068,391**	-	-	690,888
Profit for the year	**31,522,751**	**16,785,958**	**49,377,100**	39,303,773	4,909,264	44,903,925

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues in the year (2011: AED Nil).

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

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Notes to the financial statements
for the year ended 31 December 2012 (continued)

23 Segment information (continued)

23.2 Segment assets and liabilities

	As at 31 December 2012			As at 31 December 2011		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment assets	227,440,142	412,149,697	639,589,839	241,408,746	448,142,419	689,551,165
Unallocated assets	-	-	70,242,486	-	-	14,624,040
Total assets	227,440,142	412,149,697	709,832,325	241,408,746	448,142,419	704,175,205
Segment liabilities	389,223,748	1,357,628	390,681,376	399,351,841	1,443,403	400,795,244
Unallocated liabilities	-	-	7,021,463	-	-	8,778,448
Total liabilities	389,223,748	1,357,628	397,702,822	399,351,841	1,443,403	409,573,692
Capital expenditure	1,990,925	-	1,990,925	3,453,754	-	3,453,754

23 Segment information (continued)

23.3 Revenue from underwriting departments

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

	Revenue 2012 AED	Revenue 2011 AED
Motor	**79,754,929**	103,236,786
Engineering	**21,679,000**	26,886,641
Medical	**112,881,936**	88,325,912
Fire	**13,967,585**	15,793,061
Workmen's compensation and third party liability	**14,193,602**	14,077,456
Others	**63,079,380**	65,284,883
	305,556,432	313,604,739

23.4 Geographical information

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

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

	Revenue 2012 AED	Revenue 2011 AED	**Total assets 2012 AED**	Total assets 2011 AED
United Arab Emirates	**301,397,499**	301,651,264	**707,807,162**	698,422,612
Other GCC countries	**8,600,507**	11,003,719	**1,549,384**	3,478,326
Others	**13,659,349**	16,593,076	**475,779**	2,274,267
	323,657,355	329,248,059	**709,832,325**	704,175,205

24 Contingent liabilities

	2012 AED	2011 AED
Bank guarantees	**12,677,705**	14,217,643

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

25 Insurance risk

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

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

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

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

Frequency and severity of claims

The Company has the right not to renew individual policies, re-price the risk, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Company's strategy limits the total exposure to any one territory and the exposure to any one industry.

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

25 Insurance risk (continued)

Frequency and severity of claims (continued)

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set minimum limit of AED 250,000 in any one event. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments

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

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

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

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

25 Insurance risk (continued)

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

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

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

Type of risk	Year ended 31 December 2012		Year ended 31 December 2011	
	Gross Loss Ratio	Net Loss Ratio	Gross Loss Ratio	Net Loss Ratio
Motor	81%	72%	83%	78%
Non-Motor	43%	56%	45%	48%

Process used to decide on assumptions

The risks associated with the insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

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

Notes to the financial statements
for the year ended 31 December 2012 (continued)

25 Insurance risk (continued)

Claims development process

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

Underwriting year	2008 AED'000	2009 AED'000	2010 AED'000	2011 AED'000	2012 AED'000	Total AED'000
Motor - Gross:						
At the end of the underwriting year	60,805	35,494	26,432	49,472	59,685	n/a
One year later	113,677	84,176	62,518	63,692	-	n/a
Two years later	115,574	83,934	57,768	-	-	n/a
Three years later	107,264	81,841	-	-	-	n/a
Four years later	163,096	-	-	-	-	n/a
Current estimate of cumulative claims	163,096	81,841	57,768	63,692	59,685	426,082
Cumulative payments to date	(145,326)	(70,863)	(48,201)	(54,821)	(49,258)	(368,469)
Liability recognised in the statement of financial position	**17,770**	**10,978**	**9,567**	**8,871**	**10,427**	**57,613**
Non-motor - Gross:						
At the end of the underwriting year	115,881	30,996	29,991	51,807	80,121	n/a
One year later	121,579	52,725	37,169	50,811	-	n/a
Two years later	151,161	52,954	46,417	-	-	n/a
Three years later	107,843	51,113	-	-	-	n/a
Four years later	147,162	-	-	-	-	n/a
Current estimate of cumulative claims	147,162	51,113	46,417	50,811	80,121	375,624
Cumulative payments to date	(116,056)	(44,425)	(32,026)	(42,180)	(64,442)	(299,129)
Liability recognised in the statement of financial position	**31,106**	**6,688**	**14,391**	**8,631**	**15,679**	**76,495**

25 Insurance risk (continued)

Concentration of insurance risk

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

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

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

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

Type of risk	**Year ended 31 December 2012**		Year ended 31 December 2011	
	Gross AED	**Net AED**	Gross AED	Net AED
Motor				
UAE	**26,546,545,713**	**1,746,604,515**	2,787,227,170	2,786,477,170
Non-Motor				
UAE	**45,709,883,782**	**1,210,778,903**	52,552,296,895	1,207,281,532
GCC countries	**276,217,285**	**4,623,346**	1,111,916,817	9,286,849
Others	**807,573,878**	**58,037,115**	1,073,472,350	73,513,961
	46,793,674,945	**1,273,439,364**	54,737,686,062	1,290,082,342
Grand Total	**73,340,220,658**	**3,020,043,879**	57,524,913,232	4,076,559,512

25 Insurance risk (continued)

Sensitivity of underwriting profit and losses

The contribution by the insurance operations to the profit of the Company stood at 63.84% for the year ended 31 December 2012 (2011: 87.52%). The Company does not foresee any adverse change in the contribution of insurance profit due to the following reasons:

- The Company has an overall risk retention level in the region of 4.12% (2011: 7.09%) and this is mainly due to low retention levels in Engineering and Fire and Accident lines. However, for other lines of business the Company is adequately covered by excess of loss reinsurance programs to guard against major financial impact.

- The Company has net commission earnings of around 10.54% (2011: 16%) of the underwriting income predominantly from the reinsurance placement which remains as a comfortable source of income.

Because of low risk retention of 56% (2011: 48%) of the volume of the business and limited exposure in high retention areas like Motor, the Company is comfortable to maintain an overall net loss ratio in the region of 61.4% (2011: 60.51%) and does not foresee any serious financial impact in the insurance profit.

26 Financial instruments

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

26.1 Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. (6) of 2007 concerning the formation of Insurance Authority of UAE
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

Notes to the financial statements
for the year ended 31 December 2012 (continued)

26 Financial instruments (continued)

26.1 Capital risk management (continued)

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

	2012 AED	2011 AED
Minimum regulatory capital (a)	**100,000,000**	100,000,000
Share capital	**100,000,000**	90,000,000
Total equity	**312,129,503**	294,601,513

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

The Company has attained the target to increase the capital in order to comply with the above requirements (note 16).

26.2 Significant accounting policies

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

Notes to the financial statements
for the year ended 31 December 2012 (continued)

26 Financial instruments (continued)

26.3 Categories of financial instruments

	2012 AED	2011 AED
Financial assets		
Investments designated at FVTOCI	**96,252,070**	65,656,343
Investments designated at FVTPL	**87,472,864**	50,099,771
Investments at amortised cost	**13,524,400**	21,524,400
Statutory deposit	**10,000,000**	10,000,000
Trade and other receivables	**103,282,175**	100,920,358
Bank balances and cash	**193,142,849**	235,385,945
Total	**503,674,358**	483,586,817
Financial liabilities		
Trade and other payables	**143,061,904**	148,686,632

26.4 Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Company. The Company is exposed to interest rate risk on its investment in bonds and term deposits that carry both fixed and floating interest rates which are detailed in Notes 8 and 22, respectively.

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

Interest rate sensitivity analysis

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2012 would increase/decrease by AED 1.1 million (2011: AED 2.3 million). The Company's sensitivity to interest rates had decreased mainly due to lower bank deposits during the current year.

26 Financial instruments (continued)

26.5 Foreign currency risk management

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

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

	Liabilities		Assets	
	2012 AED	2011 AED	**2012 AED**	2011 AED
US Dollars	**327,408**	5,011,573	**25,915,745**	13,130,890
Oman Riyals	**65,046**	186	**3,481**	3,481
Pound Sterling	**127,841**	131,989	**228,386**	1,446,347
Euro	**23,248**	48,660	**582,985**	291,490
	543,543	5,192,408	**26,730,597**	14,872,208

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

(a) there is AED 12 thousand (2011: AED 659) net revaluation gain/loss on the Omani Riyal outstanding balances.
(b) there is AED 20 thousand (2011: AED 263 thousand) net revaluation gain/loss on the Pound Sterling outstanding balances.
(c) there is AED 11 thousand (2011: AED 49 thousand) net revaluation gain/loss on the Euro outstanding balances.

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

26.6 Market price risk management

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

26 Financial instruments (continued)

26.6 Market price risk management (continued)

Equity price risk sensitivity analysis

At the end of the reporting period, if the equity prices are 5% higher/lower as per the assumptions mentioned below and all the other variables were held constant,:

- The Company's profit would increase/(decrease) by AED 552 thousand (2011: AED Nil) as a result of the Company's portfolio classified under fair value through profit and loss (FVTPL)
- The Company's equity reserves would increase/(decrease) by AED 4.8 million (2011: increase/(decrease) by AED 3.2 million) as a result of the Company's portfolio classified under fair value through other comprehensive income (FVTOCI)

26.7 Credit risk management

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

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

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

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

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

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

26 Financial instruments (continued)

26.7 Credit risk management (continued)

At 31 December 2012 and 2011, virtually all of the deposits were placed with 4 banks. Management is confident that this concentration of liquid assets at year end does not result in any credit risk to the Company as the banks are major banks operating in the UAE and are highly regulated by the Central Bank.

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

26.8 Liquidity risk management

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

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

	Carrying amount AED	**0-180 days AED**	**181-365 days AED**
Financial liabilities at 31 December 2012			
Trade and other payables	**143,061,904**	**143,061,904**	-
Financial liabilities at 31 December 2011			
Trade and other payables	148,686,632	148,686,632	-

26.9 Fair value of financial assets and liabilities

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

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

- **Level 1** – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- **Level 2** – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- **Level 3** – fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements
for the year ended 31 December 2012 (continued)

26 Financial instruments (continued)

26.9 Fair value of financial assets and liabilities (continued)

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
31 December 2012				
Investments at FVTOCI	**96,252,070**	**-**	**-**	**96,252,070**
Investments at FVTPL	**11,054,800**	**76,418,064**	**-**	**84,472,864**
	107,306,870	**76,418,064**		**183,724,934**
31 December 2011				
Investments at FVTOCI	65,656,343	-	-	65,656,343
Investments at FVTPL	-	50,099,771	-	50,099,771
	65,656,343	50,099,771	-	115,756,114

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

27 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors in their meeting of 10 February 2013.