RAS AL KHAIMAH NATIONAL INSURANCE COMPANY P.S.C.

Independent auditor's report and financial statements for the year ended 31 December 2012

RAS AL KHAIMAH NATIONAL INSURANCE COMPANY P.S.C.

Contents	**Pages**

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Ras Al Khaimah National Insurance Company P.S.C.
Ras Al Khaimah
United Arab Emirates

Report on the financial statements

We have audited the accompanying financial statements of **Ras Al Khaimah National Insurance Company P.S.C. (a Public Shareholding Company) - Ras Al Khaimah, United Arab Emirates** which comprise the statement of financial position as at 31 December 2012 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 about 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 judgement, 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.

Cont'd...

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INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Ras Al Khaimah National Insurance Company P.S.C. (a Public Shareholding Company) - Ras Al Khaimah, United Arab Emirates** as 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, the Company has maintained proper 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 U.A.E. Federal Commercial Companies Law No. 8 of 1984, (as amended), the U.A.E. Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of Its Operations and the Company's Articles of Association which might have a material effect on the financial position of the Company or its financial performance.

Deloitte & Touche (M.E.)

Samir Madbak
Registration Number 386
25 March 2013

Statement of financial position
At 31 December 2012

ASSETS	Notes	2012 AED	2011 AED
Non-current assets			
Property and equipment	5	**1,119,263**	643,003
Investment properties	6	**6,421,479**	6,616,244
Investment in an associate	7	**23,366,706**	27,693,499
Available-for-sale investments	8	**8,604,542**	8,605,800
Statutory deposit	9	**10,000,000**	10,000,000
Total non-current assets		**49,511,990**	53,558,546
Current assets			
Re-insurance contract assets	10	**96,582,324**	72,019,581
Financial assets at FVTPL	11	**2,842,625**	2,541,036
Insurance and other receivables	12	**109,461,247**	109,150,701
Bank balances and cash	13	**177,364,593**	147,056,713
Total current assets		**386,250,789**	330,768,031
Total assets		**435,762,779**	384,326,577
EQUITY AND LIABILITIES			
Equity			
Share capital	14	**100,000,000**	100,000,000
Statutory reserve	15	**32,619,210**	29,806,778
Special reserve	16	**20,000,000**	20,000,000
Cumulative changes in fair value of securities		**4,514,836**	3,923,796
Retained earnings		**34,726,361**	25,554,470
Total equity		**191,860,407**	179,285,044
Non-current liabilities			
Provision for employees' end of service indemnity	17	**5,288,580**	4,408,430
Current liabilities			
Insurance contract liabilities	10	**192,748,802**	161,963,436
Insurance and other payables	18	**45,864,990**	38,669,667
Total current liabilities		**238,613,792**	200,633,103
Total liabilities		**243,902,372**	205,041,533
Total equity and liabilities		**435,762,779**	384,326,577

Chairman

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

Income statement
for the year ended 31 December 2012

	Notes	2012 AED	2011 AED
Insurance premium revenue	19	197,529,549	182,490,195
Insurance premium ceded to re-insurers	19	(86,911,883)	(74,427,710)
Net insurance premium revenue	19	110,617,666	108,062,485
Gross claims incurred	10	(111,051,526)	(82,039,759)
Insurance claims recovered from re-insurers	10	49,665,402	18,750,587
Net claims incurred		(61,386,124)	(63,289,172)
Gross commission earned		7,836,650	7,360,358
Less: commission incurred		(10,349,313)	(12,911,966)
Net commission incurred		(2,512,663)	(5,551,608)
Underwriting profit		46,718,879	39,221,705
General and administrative expenses relating to underwriting activities		(14,833,650)	(13,576,046)
Net underwriting profit		31,885,229	25,645,659
Investment and other income	20	5,569,028	2,024,456
Unallocated general and administrative expenses		(4,944,550)	(4,525,349)
		32,509,707	23,144,766
Company's share of associate's loss for the year	7	(4,385,384)	(3,261,491)
Profit for the year	21	28,124,323	19,883,275
Basic earnings per share	22	0.28	0.20

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

Statement of comprehensive income
for the year ended 31 December 2012

	2012 AED	2011 AED
Profit for the year	**28,124,323**	19,883,275
Other comprehensive (loss)/income		
Net gain/(loss) on revaluation of available-for-sale-Investments	**532,449**	(616,122)
Reclassification adjustments relating to available-for-sale investments impaired during the year	**-**	2,457,914
Share of other comprehensive income of associate	**58,591**	430,506
Board of Directors' remuneration paid – associate	**-**	(100,000)
Board of Directors' remuneration paid	**(1,140,000)**	(1,140,000)
Other comprehensive (loss)/income for the year	**(548,960)**	1,032,298
Total comprehensive income for the year	**27,575,363**	20,915,573

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

RAS AL KHAIMAH NATIONAL INSURANCE COMPANY P.S.C.

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

	Share capital AED	Statutory reserve AED	Special reserve AED	General reserve AED	Cumulative changes in fair value of securities AED	Retained earnings AED	Total AED
Balance at 31 December 2010	100,000,000	27,818,450	19,997,496	6,000,000	1,651,498	17,902,027	173,369,471
Profit for the year	-	-	-	-	-	19,883,275	19,883,275
Other comprehensive income for the year	-	-	-	-	2,272,298	(1,240,000)	1,032,298
Total comprehensive income for the year	-	-	-	-	2,272,298	18,643,275	20,915,573
Cash dividend	-	-	-	-	-	(15,000,000)	(15,000,000)
Transfer to retained earnings (Note 24.1)	-	-	-	(6,000,000)	-	6,000,000	-
Transfer to reserves	-	1,988,328	2,504	-	-	(1,990,832)	-
Balance at 31 December 2011	100,000,000	29,806,778	20,000,000	-	3,923,796	25,554,470	179,285,044
Profit for the year	-	-	-	-	-	28,124,323	28,124,323
Other comprehensive loss for the year	-	-	-	-	591,040	(1,140,000)	(548,960)
Total comprehensive income for the year	-	-	-	-	591,040	26,984,323	27,575,363
Cash dividend (Note 24)	-	-	-	-	-	(15,000,000)	(15,000,000)
Transfer to reserve	-	2,812,432	-	-	-	(2,812,432)	-
Balance at 31 December 2012	**100,000,000**	**32,619,210**	**20,000,000**	**-**	**4,514,836**	**34,726,361**	**191,860,407**

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

Statement of cash flows
for the year ended 31 December 2012

	2012 AED	2011 AED
Cash flows from operating activities		
Profit for the year	**28,124,323**	19,883,275
Adjustments for:		
Depreciation of property and equipment	**328,330**	371,638
Depreciation of investment properties	**194,765**	194,765
Allowance for doubtful debts	**800,000**	-
Provision for employees' end of service indemnity	**927,804**	999,680
Loss from an associate	**4,385,384**	3,261,491
Dividend income	**(415,793)**	(275,721)
Income from investment properties	**(199,081)**	(274,853)
Unrealised (gain)/loss on financial assets at FVTPL	**(301,589)**	444,458
Impairment loss on available-for-sale investments	**533,707**	3,717,123
Interest income	**(4,483,347)**	(5,290,898)
Gain on disposal of property and equipment	**-**	(35,298)
Operating cash flows before changes in operating assets and liabilities	**29,894,503**	22,995,660
Increase in insurance and other receivables	**(44,216)**	(2,991,164)
Increase/(decrease) in insurance and other payables	**6,225,904**	(5,434,272)
(Increase)/decrease in re-insurance contract assets	**(24,562,743)**	21,458,754
Increase/(decrease) in insurance contract liabilities	**30,785,366**	(20,346,639)
Cash generated from operations	**42,298,814**	15,682,339
Employees' end of service indemnity paid	**(47,654)**	(392,401)
Net cash generated from operating activities	**42,251,160**	15,289,938
Cash flows from investing activities		
Purchase of property and equipment	**(804,590)**	(175,123)
Proceeds from disposal of property and equipment	**-**	37,000
Dividend from an associate	**-**	2,000,000
Increase in fixed deposits with banks maturity greater than three months	**(13,946,782)**	(5,966,140)
Income from investment properties	**199,081**	274,853
Dividend received	**415,793**	275,721
Interest received	**3,417,017**	5,691,641
Net cash (used in)/ generated from investing activities	**(10,719,481)**	2,137,952
Cash flows from financing activities		
Board of Directors' remuneration paid	**(1,140,000)**	(1,140,000)
Dividend paid	**(14,030,581)**	(14,812,566)
Net cash used in financing activities	**`(15,170,581)**	(15,952,566)
Net increase cash and cash equivalents	**16,361,098**	1,475,324
Cash and cash equivalents at the beginning of the year	**33,117,943**	31,642,619
Cash and cash equivalents at the end of the year (Note 23)	**49,479,041**	33,117,943

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

Notes to the financial statements
for the year ended 31 December 2012

1. General information

Ras Al Khaimah National Insurance Company P.S.C. - Ras Al Khaimah (the "Company") is a public shareholding company, incorporated in the Emirate of Ras Al Khaimah by Emiri decree No. 20 dated 26 October 1976 which was amended by Emiri decree No. 10 dated 7 December 1985 and Emiri decree No. 3 dated 5 April 1997 issued by H.H. Sheikh Saqr Bin Mohammed Al Qasimi, the Ruler of the Emirate of Ras Al Khaimah and its dependencies. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of Its Operations and is registered in the Insurance Companies Register of Insurance Authority of U.A.E., under registration number 7. The address of the Company's registered corporate office is P. O. Box 506, Ras Al Khaimah, United Arab Emirates.

The principal activity of the Company is to undertake all classes of insurance business including life assurance, saving and accumulation of funds. The Company has written only general insurance policies to date. The Company operates through its head office in Ras Al Khaimah and branch offices in Dubai and Abu Dhabi.

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 adoption 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.

- Amendments to IFRS 1 *Removal of Fixed Dates for First-Time Adopter.*

The amendments regarding the removal of the fixed dates provide the relief to the first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 July 2011 with retrospective application.

- Amendments to IFRS 1 *Severe Hyperinflation*

The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for first time. The amendments are effective for annual periods beginning on or after 1 July 2011 with retrospective application.

- Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The amendments provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 Investment Property by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The amendments are effective for annual periods beginning on or after 1 January 2012 with retrospective application.

- Amendments to IFRS 7 *Disclosures Transfers of Financial Assets*

The amendments increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The amendments are effective for annual periods beginning on or after 1 July 2011. Entities need not provide the disclosures required by the amendments for any period presented that begins before the date of the initial application of the amendments.

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

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted:

The Company has not early applied the following new standards, amendments and interpretations that have been issued but not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IFRS 1 *Government Loans* provide relief to first-time adopters of IFRSs by amending IFRS 1 to allow prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to government loans outstanding at the date of transition to IFRSs.	1 January 2013
• Amendments to IFRS 7 *Financial Instruments*: Disclosures relating to disclosures about the initial application of IFRS.	1 January 2015 (or otherwise when IFRS 9 is first applied)
• Amendments to IFRS 7 *Financial Instruments: Disclosures* enhancing disclosures about offsetting of financial assets and liabilities.	1 January 2013
• IFRS 9 *Financial Instruments* issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.	1 January 2015

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

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

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued):

New and revised IFRSs	Effective for annual periods beginning on or after
Key requirements of IFRS 9 are described as follows (continued): ▪ The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.	
• IFRS 10 *Consolidated Financial Statements** uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly, IAS 27 *Separate Financial Statements** and IAS 28 *Investments in Associates and Joint Ventures** have been amended for the issuance of IFRS 10.	1 January 2013
• IFRS 11 *Joint Arrangements** establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly, IAS 28 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11.	1 January 2013
• IFRS 12 *Disclosure of Interests in Other Entities** combines the disclosure requirements for an entity’s interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard.	1 January 2013

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

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

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued):

New and revised IFRSs	Effective for annual periods beginning on or after
• IFRS 13 *Fair Value Measurement* issued in May 2011 establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.	1 January 2013
• Amendments to IAS 1 – *Presentation of Other Comprehensive Income*. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis.	1 July 2012
• Amendments to IAS 19 *Employee Benefits* eliminate the "corridor approach" and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.	1 January 2013
• Amendments to IAS 32 *Financial Instruments: Presentation* relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2014
• IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.	1 January 2013
• Annual Improvements to *IFRSs 2009 – 2011 Cycle* The annual improvements include the amendments to five IFRSs which have been summarized below: ▪ *IFRS 1 First Time Adoption of International Financial Reporting Standards – Repeated application of IFRS 1.* ▪ *IFRS 1 First Time Adoption of International Financial Reporting Standards – Borrowing costs.* ▪ *IAS 1 Presentation of Financial Statements – Clarification of the requirements for comparative information.* ▪ *IAS 16 Property, Plant and Equipment – Classification of serving equipment.* ▪ *IAS 32 Financial Instruments: Presentation - Tax effect of the distribution to the holders of equity instruments.* ▪ *IAS 34 Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities.*	1 January 2013

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

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

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued):

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IFRS 10, IFRS 12 and IAS 27 – Guidance on Investment Entities On 31 October 2012, the IASB published a final standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs. The amendments establish an exception to IFRS 10's general consolidation principle for investment entities, requiring them to "measure particular subsidiaries at fair value through profit or loss, rather than consolidate them." In addition, the amendments outline required disclosures for reporting entities that meet the definition of an investment entity.	1 January 2014

*In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time. These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements for the period beginning 1 January 2013 or as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Company in the period of initial application.

Management anticipates that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

3. 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 U.A.E. Federal Law No. 8 of 1984 (as amended) and U.A.E. Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of Its operations.

3. Significant accounting policies (continued)

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the measurement at fair value of financial instruments that have been measured at fair value or at amortised cost. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies adopted are set out below.

3.3 Insurance contracts

3.3.1 Definition

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

3.3.2 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.

3.3.3 Short term insurance contracts

These contracts are casualty and property insurance contracts.

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

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

Short-duration life insurance contracts protect the Company's customers from the consequences of events that would affect on the ability of the customer or customer's dependents to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

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 reporting date is reported as the unearned premium liability.

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

3. Significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.4 Reinsurance contracts

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. 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 are recognised as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Company reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

3.3.5 Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the reporting date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprises the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the reporting date and is maintained using the 25% and 40% method for marine and non-marine business respectively.

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.

3.3.6 Policy acquisition costs

Commissions and other acquisition costs that are related to securing new contracts and renewing existing contracts are charged to profit or loss when incurred.

3.3.7 Salvage and subrogation reimbursements

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

3.3.8 Liability adequacy test

At the end of each reporting period, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in profit or loss and an unexpired risk provision is created.

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

3. Significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.9 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 profit or loss.

3.4 Revenue recognition

3.4.1 Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements (see Note 3.3.3 above).

3.4.2 Interest income

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

3.4.3 Dividend income

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

3.4.4 Rental income

Rental income from investment property which is leased under operating lease is recognised on an accrual basis over the term of the relevant lease.

3.5 General and administrative expenses

75% of general and administrative expenses for the year are allocated to insurance departments in proportion to each department's share of written premiums.

3.6 Government grants

Land granted by the Government is recognised at a nominal value where there is reasonable assurance that land will be received and the Company will comply with any attached conditions, where applicable.

3. Significant accounting policies (continued)

3.7 Foreign currencies

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

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (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 that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

3.8 Employee benefits

3.8.1 Defined contribution plan

UAE national employees of the Company are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Company is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the "contribution calculation salary" respectively, to the scheme. The only obligation of the Company with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to profit or loss.

3.8.2 Annual leave and leave passage

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

3.8.3 Provision for employees' end of service indemnity

Provision is also made for the full amount of end of service indemnity due to non-UAE national employees in accordance with the UAE Labour Law and is based on current remuneration and their period of service at the end of the reporting period.

The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service indemnity is disclosed as a non-current liability.

3. Significant accounting policies (continued)

3.9 Property and equipment

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

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

3.10 Investment properties

Investment properties are accounted under the cost model of IAS 40. Investment properties are stated at cost less accumulated depreciation and any identified impairment loss. Depreciation is charged so as to write off the cost of investment properties, other than land, over the estimated useful lives of 25 years, using the straight-line method.

3.11 Impairment of tangible assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

3. Significant accounting policies (continued)

3.12 Provisions

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

The amount 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.

3.13 Investment in associate

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Company’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Company’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. Significant accounting policies (continued)

3.14 Financial assets

All financial assets are recognised and derecognised on trade date where 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, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets of the Company are classified into the following specified categories: cash and cash equivalents, financial assets ‘at fair value through profit or loss’ (FVTPL), ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

3.14.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3.14.2 Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling 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 a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

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

3. Significant accounting policies (continued)

3.14 Financial assets (continued)

3.14.2 Financial assets at FVTPL (continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'investment and other income' line item in the income statement. Fair value is determined in the manner described in note 29.

3.14.3 Available-for-sale (AFS) financial assets

Listed shares held by the Company that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. The Company also has investments in unlisted shares that are not traded in an active market but are also classified as AFS financial assets and stated at fair value because Management considers that fair value can be reliably measured. Fair value is determined in the manner described in note 29. Gains and losses arising from changes in fair values are recognised in other comprehensive income and accumulated in the cumulative changes in fair values of securities with the exception of impairment losses, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the cumulative changes in fair value of securities is reclassified to profit or loss.

3.14.4 Loans and receivables

Insurance and other receivables that have fixed or determinable payments that are not quoted in an active market and statutory deposits are classified as 'loans and receivables'. Loans and receivables are initially measured at fair value, plus transaction costs and subsequently measured 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.

3.14.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial asset, such as insurance 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 of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

3. Significant accounting policies (continued)

3.14 Financial assets (continued)

3.14.5 Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of insurance receivables, where the carrying amount is reduced through the use of an allowance account. When an insurance receivable is 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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

3.14.6 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or 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.

3.15 Financial liabilities and equity instruments issued by the Company

3.15.1 Classification as debt or equity

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

3.15.2 Equity instruments

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

3. Significant accounting policies (continued)

3.15 Financial liabilities and equity instruments issued by the Company (continued)

3.15.3 Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

3.15.4 Other financial liabilities

Insurance and other payables are classified as ‘other financial liabilities’ and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short term payable 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.

3.15.5 Derecognition of financial liabilities

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

3.15.6 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 judgements and key sources of estimation uncertainty

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

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

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

4.1 Critical accounting judgements

In the process of applying Company's accounting policies, management is of the opinion that there is no instance of application of judgments which is expected to have a significant effect on the amounts recognised in the financial statements, apart from those involving estimations described below.

4.1.1 Classification of investments

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

The Company classifies investments as FVTPL if they are acquired primarily for the purpose of making a short term profit by the dealers. Other investments are classified as available-for-sale.

4.1.2 Impairment of available-for-sale equity investments

The Company determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Company evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Management has considered an amount of AED 533,707 (2011: AED 3,717,123) as impairment loss on available-for-sale investments for the year, based on the analysis of impairment test performed on available-for-sale investments.

4.2 Key sources of estimation uncertainty

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

4.2.1 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported at the end of each reporting period and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of each reporting period. 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 reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

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

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

4.2 Key sources of estimation uncertainty (continued)

4.2.2 Impairment of insurance receivables

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Company evaluating the credit and liquidity position of the policyholders and the insurance companies, historical recovery rates including detailed investigations carried out during 2012 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the profit or loss at the time of collection.

4.2.3 Liability adequacy test

At 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.

4.2.4 Valuation of unquoted equity investments

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

4.2.5 Property and equipment and investment properties

The cost of property and equipment and investment properties (except for land) are depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. The management has not considered any residual value as it is deemed immaterial.

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

5. Property and equipment

	Furniture and fixtures AED	Motor vehicles AED	Total AED
Cost			
At 31 December 2010	2,467,695	1,334,760	3,802,455
Additions	175,123	-	175,123
Disposals	(16,964)	(278,000)	(294,964)
At 31 December 2011	2,625,854	1,056,760	3,682,614
Additions	758,590	46,000	804,590
Disposals	(45,790)	-	(45,790)
At 31 December 2012	**3,338,654**	**1,102,760**	**4,441,414**
Accumulated depreciation			
At 31 December 2010	2,103,688	857,547	2,961,235
Charge for the year	209,698	161,940	371,638
Eliminated on disposals	(15,262)	(278,000)	(293,262)
At 31 December 2011	2,298,124	741,487	3,039,611
Charge for the year	203,015	125,315	328,330
Eliminated on disposals	(45,790)	-	(45,790)
At 31 December 2012	**2,455,349**	**866,802**	**3,322,151**
Carrying amount			
At 31 December 2012	**883,305**	**235,958**	**1,119,263**
At 31 December 2011	327,730	315,273	643,003

At 31 December 2012, the cost of fully depreciated property and equipment that was still in use amounted to AED 2,714,026 (31 December 2011: AED 2,484,593).

The useful lives considered in the calculation of depreciation for all the assets are 4 years.

6. Investment properties

	Land AED	Buildings AED	Total AED
Cost			
At 31 December 2010, 2011 and 2012	**3,500,000**	**5,332,564**	**8,832,564**
Accumulated depreciation			
At 31 December 2010	-	2,021,555	2,021,555
Charge for the year	-	194,765	194,765
At 31 December 2011	-	2,216,320	2,216,320
Charge for the year	-	194,765	194,765
At 31 December 2012	-	**2,411,085**	**2,411,085**
Carrying amount			
At 31 December 2012	**3,500,000**	**2,921,479**	**6,421,479**
At 31 December 2011	3,500,000	3,116,244	6,616,244

The useful life considered in the calculation of depreciation of the building is 25 years.

The property rental income earned by the Company from investment property, and the direct operating expenses related to the investment property are as follows:

	2012 AED	2011 AED
Rental income	**396,029**	471,462
Direct operating expenses	**(196,948)**	(196,609)
Income from investment property (Note 20)	**199,081**	274,853

The investment property is located in United Arab Emirates.

Investment property includes one plot of land in Ras Al Khaimah which is granted by the Government of Ras Al Khaimah and is recorded at a nominal value of AED 1.

Fair value of investment property at 31 December 2012 amounted to AED 17.2 million (2011: AED 17.2 million) as estimated by management.

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

7. Investment in an associate

	2012 AED	2011 AED
Balance at the beginning of the year	**27,693,499**	32,624,484
Share of loss for the year	**(4,385,384)**	(3,261,491)
Share of other comprehensive income for the year	**58,591**	330,506
Dividend received	**-**	(2,000,000)
Balance at the end of the year	**23,366,706**	27,693,499

Details of the Company's associate at 31 December 2012 was as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
United Insurance Co. P.S.C.	United Arab Emirates	20%	20%	Insurance

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

	2012 AED	2011 AED
Total assets	**267,381,609**	286,151,060
Total liabilities	**(150,548,081)**	(147,683,563)
Net assets	**116,833,528**	138,467,497
Company's share of associate's net assets	**23,366,706**	27,693,499

	2012 AED	2011 AED
Revenue	**132,296,548**	105,114,915
Loss for the year	**(21,926,920)**	(16,307,456)
Company's share of associate's loss for the year	**(4,385,384)**	(3,261,491)

Fair value of the investment in associate as at 31 December 2012 was AED 40 million (2011: AED 40 million).

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

8. Available-for-sale investments

	2012 AED	2011 AED
Movements:		
Fair value at the beginning of the year	**8,605,800**	10,481,131
Impairment loss recognised during the year	**(533,707)**	(1,259,209)
Changes in fair values during the year	**532,449**	(616,122)
Fair value at the end of the year	**8,604,542**	8,605,800
Impairment loss:		
Impaired during the year	**533,707**	1,259,209
Reclassification adjustments from cumulative changes in fair values of securities relating to available-for-sale investments impaired during the year	**-**	2,457,914
	533,707	3,717,123

Available-for-sale investments are held in listed and unlisted entities in United Arab Emirates.

9. Statutory deposit

	2012 AED	2011 AED
Statutory deposit maintained in accordance with Article 42 of U.A.E., Federal Law No. 6 of 2007	**10,000,000**	10,000,000

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

10. Insurance contract liabilities and re-insurance contract assets

	2012 AED	2011 AED
Gross		
Insurance contract liabilities:		
Claims reported unsettled	**104,134,522**	87,037,365
Claims incurred but not reported	**5,206,727**	4,351,869
Unearned premiums	**83,407,553**	70,574,202
Total insurance contract liabilities, gross	**192,748,802**	161,963,436
Recoverable from re-insurers		
Claims reported unsettled	**59,606,137**	38,273,136
Claims incurred but not reported	**2,952,807**	1,913,657
Unearned premiums	**34,023,380**	31,832,788
Total re-insurers' share of insurance liabilities	**96,582,324**	72,019,581
Net		
Claims reported unsettled	**44,528,385**	48,764,229
Claims incurred but not reported	**2,253,920**	2,438,212
Unearned premiums	**49,384,173**	38,741,414
	96,166,478	89,943,855

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

10. Insurance contract liabilities and re-insurance contract assets (continued)

Movements in the insurance contract liabilities and re-insurance contract assets during the year were 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	**87,037,365**	**(38,273,136)**	**48,764,229**	119,517,809	(64,469,973)	55,047,836
Incurred but not reported	**4,351,869**	**(1,913,657)**	**2,438,212**	5,975,889	(3,223,499)	2,752,390
Total at the beginning of the year	**91,389,234**	**(40,186,793)**	**51,202,441**	125,493,698	(67,693,472)	57,800,226
Claims settled during the year	**(93,099,511)**	**27,293,251**	**(65,806,260)**	(116,144,223)	46,257,266	(69,886,957)
Increase in liabilities	**111,051,526**	**(49,665,402)**	**61,386,124**	82,039,759	(18,750,587)	63,289,172
Total at the end of the year	**109,341,249**	**(62,558,944)**	**46,782,305**	91,389,234	(40,186,793)	51,202,441
Notified claims	**104,134,522**	**(59,606,137)**	**44,528,385**	87,037,365	(38,273,136)	48,764,229
Incurred but not reported	**5,206,727**	**(2,952,807)**	**2,253,920**	4,351,869	(1,913,657)	2,438,212
Total at the end of the year	**109,341,249**	**(62,558,944)**	**46,782,305**	91,389,234	(40,186,793)	51,202,441
Unearned premium						
Total at the beginning of the year	**70,574,202**	**(31,832,788)**	**38,741,414**	56,816,377	(25,784,863)	31,031,514
Increase during the year	**66,899,392**	**(34,023,380)**	**32,876,012**	61,774,202	(31,832,788)	29,941,414
Release during the year	**(54,066,041)**	**31,832,788**	**(22,233,253)**	(48,016,377)	25,784,863	(22,231,514)
Net change during the year (Note 19)	**12,833,351**	**(2,190,592)**	**10,642,759**	13,757,825	(6,047,925)	7,709,900
Total at the end of the year	**83,407,553**	**(34,023,380)**	**49,384,173**	70,574,202	(31,832,788)	38,741,414

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

11. Financial assets at FVTPL

	2012 AED	2011 AED
Fair value at the beginning of the year	**2,541,036**	2,985,494
Change in fair value during the year	**301,589**	(444,458)
Fair value at the end of the year	**2,842,625**	2,541,036

The above investments are held in funds with local banks in United Arab Emirates.

12. Insurance and other receivables

	2012 AED	2011 AED
Receivables arising from insurance and re-insurance contracts		
Due from policy holders	**95,871,749**	95,154,804
Allowance for doubtful debts	**(2,725,000)**	(1,925,000)
	93,146,749	93,229,804
Due from local insurance companies	**7,281,210**	7,784,399
Due from foreign insurance companies	**2,948,702**	3,710,981
Due from brokers	**1,714,228**	1,002,439
Other receivables		
Staff receivables	**278,984**	194,509
Refundable deposits	**900,586**	758,626
Other receivables	**3,190,788**	2,469,943
	109,461,247	109,150,701

The average credit period on insurance receivables is 90 days. No interest is charged on insurance receivables. Due from policyholders outstanding more than 365 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience and accordingly the Company has made an allowance of AED 800,000 (2011: Nil) during the year.

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

12. Insurance and other receivables (continued)

Due from policyholders – ageing of past due but not impaired:

	2012 AED	2011 AED
91 – 180 days	**19,267,438**	20,173,552
181 – 270 days	**13,900,744**	18,114,760
271 – 365 days	**11,043,385**	9,900,483
Above 365 days	**6,694,545**	13,702,385
	50,906,112	61,891,180

Due from policyholders – ageing of impaired:

	2012 AED	2011 AED
Above 180 days	**2,725,000**	1,925,000

Before accepting any new customer, the Company assesses the potential customer's credit quality and defines credit limits by customer. Of the due from policyholders balance at the end of year, AED 10,099,544 (2011: AED 9,106,520) is due from the Company's largest customer.

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

13. Bank balances and cash

	2012 AED	2011 AED
Cash on hand	**15,834**	33,961
Bank balances:		
Current accounts	**2,666,662**	1,188,577
Call accounts	**11,561,548**	7,812,980
Fixed deposits	**163,120,549**	138,021,195
	177,364,593	147,056,713

Bank balances are maintained with banks in United Arab Emirates.

Fixed deposit of AED 300,000 (2011: AED 300,000) is under lien in respect of carrying out commercial activities in Abu Dhabi, United Arab Emirates.

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

14. Share capital

	2012 **AED**	2011 AED
Issued and fully paid:		
100 million ordinary shares of AED 1 each (2011: 100 million ordinary shares of AED 1 each)	**100,000,000**	100,000,000

15. Statutory reserve

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

16. Special reserve

In accordance with the Company's Articles of Association, an amount equal to 10% of profit for the year is transferred to a special reserve. This reserve can be used for specific purposes to be decided upon by the Company's shareholders based on the recommendations of the Board of Directors. Transfers to this reserve are required to be made until such time as it equals 20% of the Company's paid up capital.

17. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2012 **AED**	2011 AED
Balance at the beginning of the year	**4,408,430**	3,801,151
Amounts charged during the year	**927,804**	999,680
Amounts paid during the year	**(47,654)**	(392,401)
Balance at the end of the year	**5,288,580**	4,408,430

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

18. Insurance and other payables

	2012 AED	2011 AED
Payables arising from insurance and re-insurance contracts:		
Trade payables	**3,116,150**	5,388,689
Due to local insurance companies	**8,963,266**	8,572,597
Due to foreign insurance companies	**11,977,338**	3,231,361
Due to brokers	**6,078,441**	8,476,002
Insurance related accruals	**3,658,812**	3,661,242
Other payables:		
Other accruals	**2,288,722**	1,621,414
Unclaimed dividends	**1,956,817**	987,398
Provision for staff bonus	**4,681,269**	3,862,260
Sundry payables	**3,144,175**	2,868,704
	45,864,990	38,669,667

19. Net insurance premium revenue

	2012 AED	2011 AED
Gross premium written		
Gross premium written	**210,362,900**	196,248,020
Change in unearned premium (Note 10)	**(12,833,351)**	(13,757,825)
	197,529,549	182,490,195
Re-insurance premium ceded		
Re-insurance premium ceded	**(89,102,475)**	(80,475,635)
Change in unearned premium (Note 10)	**2,190,592**	6,047,925
	(86,911,883)	(74,427,710)
Net insurance premium revenue	**110,617,666**	108,062,485

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

20. Investment and other income

	2012 AED	2011 AED
Investment income		
Interests on bank fixed deposits	**4,483,347**	5,290,898
Income from investment properties (Note 6)	**199,081**	274,853
Dividend from available-for-sale investments	**415,793**	275,721
Impairment loss on available-for-sale investments (Note 8)	**(533,707)**	(3,717,123)
Unrealised gain/(loss) on financial assets at FVTPL (Note 11)	**301,589**	(444,458)
	4,866,103	1,679,891
Other income		
Other income	**702,925**	344,565
	5,569,028	2,024,456

21. Profit for the year

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

	2012 AED	2011 AED
Staff costs	**10,933,423**	10,842,327
Depreciation of property and equipment	**328,330**	371,638
Depreciation of investment properties	**194,765**	194,765

22. Basic earnings per share

	2012	2011
Profit for the year (AED)	**28,124,323**	19,883,275
Number of shares	**100,000,000**	100,000,000
Basic earnings per share (in AED)	**0.28**	0.20

22. Basic earnings per share (continued)

Basic earnings per share have been calculated by dividing the profit for the year by the number of shares outstanding as at the end of the reporting period.

23. Cash and cash equivalents

Cash and cash equivalents at the end of the year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2012 AED	2011 AED
Bank balances and cash (Note 13)	**177,364,593**	147,056,713
Bank fixed deposits with maturity greater than three months	**(127,585,552)**	(113,638,770)
Bank fixed deposit under lien	**(300,000)**	(300,000)
	49,479,041	33,117,943

24. Proposed dividend and Board of Directors' remuneration

	2012 AED	2011 AED
Cash dividend – AED 15 fils per share (2011: AED 15 fils per share)	**15,000,000**	15,000,000
Dividend per share	**0.15**	0.15
Board of Directors' remuneration	**1,140,000**	1,140,000

The proposed dividends and Board of Directors' remuneration above are subject to the approval of the Shareholders at the Annual General Meeting and have not been included as a liability in the financial statements.

24.1 General reserve

Further during 2010, the Company has transferred the general reserve to retained earnings as recommended by the Board of Directors and approved by the Shareholders at the Annual General Meeting.

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

25. Related party transactions

Related parties include the Company's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

At the end of the reporting period, amounts due from/to related parties included in due from/to policyholders were as follows:

	2012 **AED**	2011 AED
Due from policyholders	**5,672,740**	2,381,989
Due to policyholders	**2,350**	3,100

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

Transactions:

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

	2012 **AED**	2011 AED
Gross premium	**19,385,962**	16,144,046
Claims paid	**471,820**	12,825,313

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

Compensation of Board of Directors'/key management personnel

	2012 **AED**	2011 AED
Short-term benefits	**1,200,000**	1,200,000
Long-term benefits	**116,986**	247,096
Board of Directors' remuneration paid	**1,140,000**	1,140,000

The remuneration of Board of Directors' is subject to approval by the Shareholders' and as per limits set by the Commercial Companies Law No. 8 of 1984, as amended.

26. Contingent liabilities

	2012 **AED**	2011 AED
Letter of guarantees	**10,300,000**	10,300,000

27. Insurance risk

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

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

27.1 Frequency and severity of claims

The Company has the right not to renew individual policies, re-price the risk, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation).

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

27. Insurance risk (continued)

27.1 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 limit of AED 300,000 in any one policy. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

27.2 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 an 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 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.

27. Insurance risk (continued)

27.2 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 reinsurance) are analysed below by type of risk where the insured operates for current and prior year premiums earned.

Type of risk	**2012**	2011
Motor	**50%**	19%
Non-Motor	**57%**	60%

27.3 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 has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

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

27.4 Concentration of insurance risk

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

The insurance risk before and after reinsurance in relation to the motor and non-motor insurance risk accepted is summarised below:

	2012			2011		
	Type of risk			Type of risk		
	Motor	**Non-Motor**	**Total**	Motor	Non-Motor	Total
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Gross	**433,234**	**48,153,879**	**48,587,113**	373,066	42,295,866	42,668,932
Net	**360,359**	**12,645,820**	**13,015,020**	327,638	11,965,642	12,293,280

27. Insurance risk (continued)

27.5 Reinsurance risk

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

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

27.6 Sensitivity of underwriting profits and losses

The contribution by the insurance operations in the profit of the Company amounts to AED 31.8 million for the year ended 31 December 2012 (2011: AED 25.6 million). The Company does not foresee any major impact from insurance operations due to the following reasons:

a) The Company has an overall risk retention level of 58% (2011: 59%) and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 83%. However, in this class the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.

b) The Company's gross commission earnings is 24.6% (2011: 28.7%) of the net insurance profit. These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

c) Because of low risk retention of 21.3% (2011: 22.4%) of the business volume and the limited exposure in high retention areas like motor, the Company is comfortable to maintain a net loss ratio in the region of 50% - 60% and does not foresee any serious financial impact in the insurance net profit.

28. Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by United Arab Emirates Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of Its Operations.

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

28. Capital risk management (continued)

- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to the Shareholders and benefits for other stakeholders; and
- to provide an adequate return to the Shareholders by pricing insurance contracts commensurately with the level of risk.

In United Arab Emirates, 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 table below summarises the minimum regulatory capital of the Company and the total capital held.

	2012 AED	2011 AED
Total capital held	**100,000,000**	100,000,000
Minimum regulatory capital	**100,000,000**	100,000,000

29. Financial instruments

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

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

29.1 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 recognised, 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)

29. Financial instruments (continued)

29.2 Categories of financial instruments

31 December 2012	Loans and receivables AED	Financial assets at FVTPL AED	Available-for-sale investments AED	Total AED
Financial assets				
Available-for-sale investments	-	-	8,604,542	8,604,542
Financial assets at FVTPL	-	2,842,625	-	2,842,625
Insurance and other receivables	109,461,247	-	-	109,461,247
Statutory deposit	10,000,000	-	-	10,000,000
Bank balances and cash	177,364,593	-	-	177,364,593
	296,825,840	2,842,625	8,604,542	308,273,007

	Other financial liabilities AED
Financial liabilities	
Insurance and other payables	45,864,990

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

29. Financial instruments (continued)

29.2 Categories of financial instruments (continued)

	Loans and receivables AED	Financial assets at FVTPL AED	Available-for-sale investments AED	Total AED
31 December 2011				
Financial assets				
Available-for-sale investments	-	-	8,605,800	8,605,800
Financial assets at FVTPL	-	2,541,036	-	2,541,036
Insurance and other receivables	109,150,701	-	-	109,150,701
Statutory deposit	10,000,000	-	-	10,000,000
Bank balances and cash	147,056,713	-	-	147,056,713
	266,207,414	2,541,036	8,605,800	277,354,250

	Other financial liabilities AED
Financial liabilities	
Insurance and other payables	38,669,667

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 fair values of financial assets and financial liabilities are determined as follows;

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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

29. Financial instruments (continued)

29.2 Categories of financial instruments (continued)

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

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

	Level 1 AED	**Level 2 AED**	**Level 3 AED**	**Total AED**
31 December 2012				
Financial assets at FVTPL	**2,842,625**	**-**	**-**	**2,842,625**
Available-for-sale investments				
Quoted equity instruments	**8,604,542**	**-**	**-**	**8,604,542**
	11,447,167	**-**	**-**	**11,447,167**

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
31 December 2011				
Financial assets at FVTPL	2,541,036	-	-	2,541,036
Available-for-sale investments				
Quoted equity instruments	8,478,300	-	-	8,478,300
Unquoted equity instruments	-	-	127,500	127,500
	11,019,336	-	127,500	11,146,836

There were no transfers between each of level during the year. There are no financial liabilities which should be measured at faire value and accordingly no disclosure is made in the above table.

29. Financial instruments (continued)

29.2 Categories of Financial instruments (continued)

Reconciliation of Level 3 fair value measurements of financial assets;

	Available-for-sale unquoted equity instruments	
	2012 AED	2011 AED
Balance at the beginning of the year	**127,500**	255,000
Impairment loss charged to profit or loss during the year	**(127,500)**	(127,500)
Balance at the end of the year	**-**	127,500

29.3 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity price risk.

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the market risk.

29.4 Foreign currency risk

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

29.5 Credit risk

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

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

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

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

29. Financial instruments (continued)

29.5 Credit risk (continued)

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

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

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks registered in the United Arab Emirates.

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.

29.6 Liquidity risk

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

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

29. Financial instruments (continued)

29.6 Liquidity risk (continued)

31 December 2012	Less than 30 days AED	31-90 days AED	91-180 days AED	After 180 days AED	Total AED
Financial assets					
Available-for-sale investments	-	-	-	8,604,542	8,604,542
Financial assets at FVTPL	2,842,625	-	-	-	2,842,625
Insurance and other receivables	27,365,312	32,838,374	38,311,436	10,946,125	109,461,247
Statutory deposit	-	-	-	10,000,000	10,000,000
Bank balances and cash – non-interest bearing	2,682,496	-	-	-	2,682,496
Bank balances and cash – interest bearing	11,561,548	45,534,997	51,374,108	66,211,444	174,682,097
	44,451,981	78,373,371	89,685,544	95,762,111	308,273,007
Financial liabilities					
Insurance and other payables	-	45,864,990	-	-	45,864,990

31 December 2011	Less than 30 days AED	31-90 days AED	91-180 days AED	After 180 days AED	Total AED
Financial assets					
Available-for-sale investments	-	-	-	8,605,800	8,605,800
Financial assets at FVTPL	2,541,036	-	-	-	2,541,036
Insurance and other receivables	27,287,675	32,745,210	38,202,746	10,915,070	109,150,701
Statutory deposit	-	-	-	10,000,000	10,000,000
Bank balances and cash – non-interest bearing	1,222,538	-	-	-	1,222,538
Bank balances and cash – interest bearing	7,812,980	24,082,425	95,968,584	17,970,186	145,834,175
	38,864,229	56,827,635	134,171,330	47,491,056	277,354,250
Financial liabilities					
Insurance and other payables	-	38,669,667	-	-	38,669,667

29. Financial instruments (continued)

29.7 Interest risk

The Company's exposure to interest rate risk relates to its bank deposits. At 31 December 2012, bank deposits carried an interest rate in the range of 2% to 3.5% per annum (2011: 2% to 5% per annum).

If interest rates had been 50 basis points lower/higher through out the year and all other variables were held constant, the Company's profit for the year ended 31 December 2012 and total equity as at 31 December 2011 would decrease/increase by approximately AED 815,602 (2011: decrease/increase by AED 690,105).

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

29.8 Equity price risk

29.8.1 Sensitivity analysis

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Company's:

- profit would have increased/decreased by AED 30,159 (2011: AED 44,446) in the case of investments at FVTPL.
- other comprehensive income would have increased/decreased by AED 53,245 (2011: AED 61,612) in the case of available-for-sale investments.

29.8.2 Method and assumptions used for sensitivity analysis

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

30. Segment information

30.1 Business segments

For management purposes, the Company is organised into two main business segments; general insurance and investments. These segments are the basis on which the Company reports its primary segment information to the Chief Operating Decision Maker.

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

Investments incorporating investments in U.A.E. marketable equity securities, term deposits with banks, investment properties, trading investments and other securities.

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

30. Segment information (continued)

30.1 Business segments (continued)

	2012 Underwriting AED	2012 Investments AED	2012 Total AED	2011 Underwriting AED	2011 Investments AED	2011 Total AED
Segment revenue (Note 30.2)	**210,362,900**	**-**	**210,362,900**	196,248,020	-	196,248,020
Segment result	**31,885,229**	**1,183,644**	**33,068,873**	25,645,659	(1,237,035)	24,408,624
Unallocated costs - net			**(4,944,550)**			(4,525,349)
Net profit for the year			**28,124,323**			19,883,275
Segment assets	**216,343,571**	**204,055,901**	**420,399,472**	191,470,282	183,177,774	374,648,056
Unallocated assets			**15,363,307**			9,678,521
Total assets			**435,762,779**			384,326,577
Segment liabilities	**238,613,792**	**-**	**238,613,792**	200,633,103	-	200,633,103
Unallocated liabilities			**5,288,580**			4,408,430
Total liabilities			**243,902,372**			205,041,533

There are no transactions between the business segments.

30. Segment information (continued)

30.2 Revenue from underwriting departments

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

	2012 **AED**	2011 AED
Motor	**39,813,656**	41,350,760
Marine and aviation	**24,363,483**	18,322,595
Group life and medical insurance	**76,250,020**	67,968,510
Engineering, fire, general accidents and others	**69,935,741**	68,606,155
	210,362,900	196,248,020

31. Approval of financial statements

The financial statements were approved by the Board of Directors' and authorised for issue on 25 March 2013.