

**Dubai Insurance Company**  
**and its subsidiary**  
(Public Shareholding Company)

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2013**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DUBAI INSURANCE COMPANY (PSC)**

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Dubai Insurance Company (PSC) and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of Dubai Insurance Company (PSC), the UAE Commercial Companies Law of 1984 (as amended) and the UAE Federal Law No. (6) of 2007, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
DUBAI INSURANCE COMPANY (PSC) (continued)**

**Report on Other Legal and Regulatory Requirements**

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), the UAE Federal Law No. (6) of 2007 and the articles of association of Dubai Insurance Company (PSC); proper books of account have been kept by the Company; and the contents of the report of the Board of Directors relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended), of the UAE Federal Law No. (6) of 2007, or of the articles of association of Dubai Insurance Company (PSC) have occurred during the year which would have had a material effect on the business of Dubai Insurance Company (PSC) or on its financial position.



Signed by:  
Ashraf Abu Sharkh  
Partner  
Registration No. 690  
13 February 2014  
Dubai, United Arab Emirates

Dubai Insurance Company (PSC) and its subsidiary

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2013

	<i>Notes</i>	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<b>UNDERWRITING INCOME</b>			
Gross premium		321,371	329,137
Movement in provision for unearned premium		(28,563)	5,974
Insurance premium revenue	3	<u>292,808</u>	<u>335,111</u>
Reinsurance share of premium		(226,086)	(254,109)
Movement in provision for reinsurance share of unearned premium		22,119	(5,168)
	3	<u>(203,967)</u>	<u>(259,277)</u>
Net insurance premium revenue		88,841	75,834
Reinsurance commission income		18,635	15,827
Other income		26	2,611
<b>Total underwriting income</b>		<u>107,502</u>	<u>94,272</u>
<b>UNDERWRITING EXPENSES</b>			
Claims incurred	4	155,563	134,120
Reinsurers' share of claims incurred	4	(114,427)	(101,365)
Net claims incurred		41,136	32,755
Commission expenses		31,235	27,802
Excess of loss reinsurance premium		1,605	999
General and administration expenses relating to underwriting activities		13,238	11,690
<b>Total underwriting expenses</b>		<u>87,214</u>	<u>73,246</u>
<b>NET UNDERWRITING INCOME</b>		<u>20,288</u>	<u>21,026</u>
<b>INVESTMENT INCOME</b>			
Realised gain on disposal of investment		26	35
Fair value gain on financial assets at fair value through profit or loss		652	249
Other investment income	6	15,430	12,500
Other investment costs		(211)	(273)
		<u>15,897</u>	<u>12,511</u>
<b>OTHER INCOME AND EXPENSES</b>			
General and administration expenses not allocated		(5,061)	(4,549)
Other income		393	118
		<u>(4,668)</u>	<u>(4,431)</u>
<b>PROFIT FOR THE YEAR</b>	7	<u>31,517</u>	<u>29,106</u>
Basic and diluted earnings per share (AED)	8	<u>0.30</u>	<u>0.28</u>

The attached explanatory notes 1 to 27 form part of these consolidated financial statements.

Dubai Insurance Company (PSC) and its subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	<i>Notes</i>	<i>2013 AED'000</i>	<i>2012 AED'000</i>
Profit for the year		31,517	29,106
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Other comprehensive income that could not be reclassified to profit or loss in subsequent periods</i>			
Net unrealised gain on financial assets at fair value through other comprehensive income	11 (b)	113,644	8,339
<b>Other comprehensive income for the year</b>		<b>113,644</b>	<b>8,339</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>145,161</b>	<b>37,445</b>

The attached explanatory notes 1 to 27 form part of these consolidated financial statements.


Dubai Insurance Company (PSC) and its subsidiary

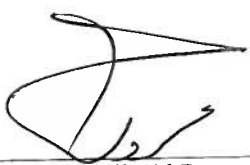
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 AED'000	2012 AED'000
<b>ASSETS</b>			
Property and equipment	9	47,563	44,226
Investment property	10	1,670	1,670
Financial instruments	11	372,370	229,568
Reinsurance assets	22	141,355	114,482
Insurance receivables	13	118,510	100,290
Prepayments and other receivables	14	5,931	5,361
Statutory deposits	15	10,000	10,000
Cash and cash equivalents	16	35,132	49,445
<b>TOTAL ASSETS</b>		<b>732,531</b>	<b>555,042</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17	100,000	100,000
Statutory reserve	18	50,000	50,000
General reserve	18	10,000	10,000
Retained earnings		87,344	82,227
Cumulative changes in fair value of investments	18	131,884	18,240
Proposed dividends – cash	19	25,000	20,000
<b>Total equity</b>		<b>404,228</b>	<b>280,467</b>
<b>Liabilities</b>			
Bank loan	20	18,412	18,416
Employees' end of service benefits	21	2,147	1,864
Insurance contract liabilities	22	195,308	157,086
Amounts held under reinsurance treaties		12,978	12,014
Reinsurance balances payable		73,287	56,885
Insurance and other payables	23	26,171	28,310
<b>Total liabilities</b>		<b>328,303</b>	<b>274,575</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>732,531</b>	<b>555,042</b>

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 13 February 2014.

  
Buti Obaid Almulla  
Chairman

  
Marwan Abdulla Al Rostamani  
Vice Chairman

The attached explanatory notes 1 to 27 form part of these consolidated financial statements.

**Dubai Insurance Company (PSC) and its subsidiary**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2013

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Retained earnings AED'000	Proposed dividends AED'000	Cumulative changes in fair value of investments AED'000	Total AED'000
Balance at 1 January 2013	100,000	50,000	10,000	82,227	20,000	18,240	280,467
Profit for the year	-	-	-	31,517	-	-	31,517
Other comprehensive income	-	-	-	-	-	113,644	113,644
Total comprehensive income for the year	-	-	-	31,517	-	113,644	145,161
Directors' fees	-	-	-	(1,400)	-	-	(1,400)
Cash dividend paid (note 19)	-	-	-	-	(20,000)	-	(20,000)
Proposed dividend-cash (note 19)	-	-	-	(25,000)	25,000	-	-
<b>Balance at 31 December 2013</b>	<b>100,000</b>	<b>50,000</b>	<b>10,000</b>	<b>87,344</b>	<b>25,000</b>	<b>131,884</b>	<b>404,228</b>
Balance at 1 January 2012	100,000	50,000	3,500	83,021	18,000	9,901	264,422
Profit for the year	-	-	-	29,106	-	-	29,106
Other comprehensive loss	-	-	-	-	-	8,339	8,339
Total comprehensive income for the year	-	-	-	29,106	-	8,339	37,445
Transfer	-	-	6,500	(6,500)	-	-	-
Directors' fees	-	-	-	(1,400)	-	-	(1,400)
Cash dividend paid (note 19)	-	-	-	(2,000)	(18,000)	-	(20,000)
Proposed dividend-cash (note 19)	-	-	-	(20,000)	20,000	-	-
<b>Balance at 31 December 2012</b>	<b>100,000</b>	<b>50,000</b>	<b>10,000</b>	<b>82,227</b>	<b>20,000</b>	<b>18,240</b>	<b>280,467</b>

The attached explanatory notes 1 to 27 form part of these consolidated financial statements.

Dubai Insurance Company (PSC) and its subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	<i>Notes</i>	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<b>OPERATING ACTIVITIES</b>			
Profit for the year		<b>31,517</b>	29,106
Adjustments for:			
Depreciation on property and equipment	9	685	583
Provision for employees' end of service benefits	21	397	377
Gain on sale of investments in debt instruments at amortised cost		26	35
		<u>32,625</u>	<u>30,101</u>
Changes in operating assets and liabilities:			
Reinsurance assets		(26,873)	(6,631)
Insurance receivables		(18,220)	18,941
Prepayments and other assets		(570)	(199)
Insurance contract liabilities		38,222	8,472
Amounts held under reinsurance treaties		964	1,684
Reinsurance balances payable		16,402	(7,171)
Insurance and other payables		(2,139)	286
		<u>40,411</u>	<u>45,483</u>
Cash generated from operations		40,411	45,483
Employees' end of service paid	21	(114)	(60)
		<u>40,297</u>	<u>45,423</u>
Net cash generated from operating activities		<u>40,297</u>	<u>45,423</u>
<b>INVESTING ACTIVITIES</b>			
Investments held at amortised cost		143	1,534
Financial instruments at fair value through profit or loss		(29,327)	(6,936)
Purchase of property and equipment	9	(4,022)	(697)
		<u>(33,206)</u>	<u>(6,099)</u>
Net cash used in investing activities		<u>(33,206)</u>	<u>(6,099)</u>
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(20,000)	(20,000)
Bank loan		(4)	(63)
Directors' fees		(1,400)	(1,400)
		<u>(21,404)</u>	<u>(21,463)</u>
Net cash used in financing activities		<u>(21,404)</u>	<u>(21,463)</u>
<b>(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(14,313)</b>	17,861
Cash and cash equivalents at 1 January		<u>49,445</u>	<u>31,584</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>16</b>	<b><u>35,132</u></b>	<b><u>49,445</u></b>

The attached explanatory notes 1 to 27 form part of these consolidated financial statements.



Dubai Insurance Company (PSC) and its subsidiary  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
As at 31 December 2013

**1 CORPORATE INFORMATION**

Dubai Insurance Company (PSC) (the "Company") is a public shareholding Company registered under the Federal Law No. 8 of 1984 (as amended) and the UAE Federal Law No. (6) of 2007 relating to commercial companies in the UAE. The Company mainly issues short term insurance contracts in connection with motor, marine, fire, engineering, general accident and medical risks (collectively known as general insurance) and group life and individual life risk (collectively referred to as life assurance). The Company also invests its funds in investment securities and properties. The registered address of the Company is P.O. Box 3027, Dubai, United Arab Emirates. The Company operates in the United Arab Emirates and most of the insurance policies are issued in the United Arab Emirates. The shares of the Company are listed on the Dubai Financial Market.

During 2011, the Company established a new subsidiary for investment purposes. These consolidated financial statements incorporate the financial statements of the Company and its subsidiary (collectively referred to as the "Group").

**2 SIGNIFICANT ACCOUNTING POLICIES**

**2.1 BASIS OF PREPARATION**

**Accounting convention**

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets carried at fair value. The consolidated financial statements have been presented in UAE Dirhams and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

The Group presents its consolidated statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current), presented in the notes.

**Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and applicable requirements of United Arab Emirates Laws.

**2.2 BASIS OF CONSOLIDATION**

The Group comprises the Company and the under-mentioned subsidiary Company.

<u>Subsidiary</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Ownership</u>
Vattaun Limited	Investment	British Virgin Island	100%

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 December 2013.

The subsidiary is consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statement of the subsidiary is prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 BASIS OF CONSOLIDATION (continued)**

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

**2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

**New standards and interpretations effective after 01 January 2013**

The following new and revised IFRSs have been applied in the current period in these consolidated financial statements.

Standard	Description
IFRS 10 - Consolidated Financial Statements	The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. The standard defines the principle of control, and establishes control as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the accounting requirements for the preparation of consolidated financial statements. The standard has no effect on the Group's financial position, performance or its disclosures.
IFRS 11 - Joint Arrangements	IFRS 11 relates to joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The standard has no effect on the Group's financial position, performance or its disclosures.
IFRS 12 - Disclosure of Interests in Other Entities	IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard has no effect on the Group's financial position, performance or its disclosures.
IFRS 13 - Fair value measurement'	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The standard has no effect on the Group's financial position, performance or its disclosures.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New standards and interpretations effective after 01 January 2013 (continued)

Standard	Description
IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1	The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Company's financial position or performance.
IAS 1 Clarification of the requirement for comparative information (Amendment)	These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendment has no effect on the Group's financial position, performance or its disclosures.
IAS 27 (revised 2011), 'Separate financial statements'	IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The amendment has no effect on the Group's financial position, performance or its disclosures.
IAS 28 (revised 2011), 'Associates and joint ventures'	IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The amendments has no effect on the Group's financial position, performance or its disclosures. The amendment has no effect on the Group's financial position, performance or its disclosures.
Amendment to IAS 19, 'Employee benefits'	These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendment has no effect on the Group's financial position, performance or its disclosures.

**New standards and interpretations not yet effective**

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description
IFRS 9 <i>Financial Instruments</i>	<p>IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date, which will not be specified until the completion of the project. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.</p> <p>Phase 1 of IFRS 9 is applicable to all financial assets within the scope of IAS 39. All financial assets that are equity investments are measured at fair value either through Other Comprehensive Income (OCI) or profit or loss. This is an irrevocable choice the entity makes by instrument unless the equity investments are held for trading, in which case they must be measured at fair value through profit or loss.</p> <p>The Group has early applied the new standard from 1 January 2010 and reclassified, with effect from 1 January 2010, all available for sale securities that were still held as at fair value through OCI. The impact of the remaining part of IFRS will depend on the outcome of the other phases of IASB's IAS 39 replacement project.</p>

## 2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

### New standards and interpretations not yet effective (continued)

Standard	Description
Amendment to IAS 32 and IFRS 7, 'Financial Instruments: Presentation'	These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

The Group has assessed the impact of the above standards, amendments to standards, revisions and interpretations. Based on the assessment, the above standards, amendments to standards, revisions and interpretations have no material impact on the consolidated financial statements of the Group as at the reporting date.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

### Revenue recognition

#### *Gross premiums*

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences. Gross premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written. Premiums on general insurance policies are accounted for on the date of writing of policies except premium income on marine cargo policies which is accounted for on the expected date of voyage. Premiums are adjusted for unearned premium.

#### *Reinsurance premiums*

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into during the period and are recognised on the date on which the policy incept. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

Gross reinsurance premiums on life are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

#### *Commissions earned*

Commissions earned are recognised at the time policies are written.

#### *Other investment income*

- (i) Interest income is recognised on a time proportion basis.
- (ii) Dividend income is accounted for when the right to receive payment is established.
- (iii) Rental income is recognised as income over the period to which it relates.

#### *Claims and expenses recognition*

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Provision for incurred but not reported claims is included within additional reserve.

The Group generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the underwriting account for that year.

#### *Reinsurance claims*

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Dubai Insurance Company (PSC) and its subsidiary  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
As at 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Finance cost**

Interest paid is recognised in the consolidated statement of income as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

**Policy acquisition costs**

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are charged to the consolidated statement of income when incurred.

**General and administration expenses**

Direct expenses of general insurance business are charged to respective departmental revenue accounts. Indirect expenses of the general insurance business are allocated to departmental revenue accounts on the basis of gross retained premiums of each department. Other administration expenses are charged to the consolidated statement of income.

**Leases**

The Group has no finance leases. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

**Liability adequacy test**

At each consolidated statement of financial position date the Group 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 light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision is created.

The Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the consolidated statement of financial position date.

**Foreign currency translation**

The presentation currency is UAE Dirhams (AED). Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. This is also the functional currency of the Group. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the consolidated statement of income, except when it relates to items when gains or losses are recognised directly in equity, the gain or loss is then recognised net of the exchange component in the consolidated statement of comprehensive income.

**Segment reporting**

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- a. The life insurance segment offers short term group life insurance. Revenue from this segment is derived primarily from insurance premium, fees and commission income, investment income and fair value gains and losses on investments.
- b. The non-life insurance segment comprises both general insurance and health insurance to individuals and businesses. General insurance products offered include motor, marine, fire, engineering, general accident and medical. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of policyholder's accident, e.g., employee liability claims and asbestos. Non-life healthcare contracts provide medical cover to policyholders. Revenue in this segment is derived primarily from insurance premiums, investment income and fair value gains and losses on investments.
- c. The investment segment includes investment in equity, fixed income securities such as bonds and fixed deposits and net rental income from investment properties.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Segment reporting (continued)**

No operating segments have been aggregated to form the above reportable operating segments. Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the consolidated financial statements. Unallocated administrative expenses are managed on a group basis and are not allocated to individual operating segments.

No inter-segment transactions occurred in 2013 and 2012. If any transaction were to occur, transfer prices between operating segments would be set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation.

**Product classification**

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception, if insurance risk becomes insignificant.

The Group does not have any investment contracts or any insurance contracts with Discretionary Participation Features (DPF).

**Property and equipment**

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives of property and equipment as follows:

Furniture and equipment	4 years
Motor vehicles	4 years

No depreciation charged on freehold land.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognised.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of comprehensive income as the expense is incurred.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Capital work in progress**

Capital work in progress is stated at the lower of cost or net realisable value. The cost includes the cost of construction and other related expenditure which are capitalised as and when activities that are necessary to get the assets ready for use are in progress. Net realisable value represents the estimated recoverable value based on expected future usage.

Management reviews the carrying values of the capital work in progress on an annual basis.

Capital work in progress are considered to be completed when all related activities, for the entire assets have been completed. Upon completion, those are transferred to property and equipment.

**Investment properties**

The Group has elected to adopt the cost model for investment properties. Accordingly, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

Building	25 years
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No depreciation is charged on freehold land.

**Trade and settlement date accounting**

All "regular way" purchases and sales of financial assets are recognised on the "trade date", i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**Fair value measurement**

The Group measures financial instruments, such as, equity instruments, and non-financial assets such as investment properties (for disclosure purposes), at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note (11c).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value measurement (continued)**

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**Financial assets**

At initial recognition, all financial assets are measured at fair value.

*Equity investments*

For subsequent measurements, all financial assets that are equity investments are measured at fair value either through Other Comprehensive Income (OCI) or through profit or loss. This is an irrevocable choice that the Group has made on early adoption of IFRS 9 or will make on subsequent acquisition of equity investments unless the equity investments are held for trading, in which case, they must be measured at fair value through profit or loss.

Gain or loss on disposal of equity investments at fair value through Other Comprehensive Income (OCI) are not recycled.

Dividend income for all equity investments at fair value through Other Comprehensive Income (OCI) are recorded through profit or loss.

*Debt instruments*

Debt instruments are also measured at fair value through profit or loss unless they are classified at amortised cost. They are classified at amortised cost only if:

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

**Derecognition of financial instruments**

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement
- The Group has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.



2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment and uncollectibility of financial assets**

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- (a) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (b) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

**Impairment of non-financial assets (excluding goodwill)**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

**Reinsurance contracts held**

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the consolidated statement of income.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for life insurance and general insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the consolidated statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Insurance receivables**

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of income.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the consolidated statement of financial position.

**Insurance contract liabilities**

*(i) Unearned premium reserve*

At the end of each year a proportion of net retained premiums of the general insurance, medical and group life business is provided to cover portions of risks which have not expired at the reporting date. The reserves are calculated in accordance with the requirements of the Insurance Law relating to insurance companies at 40% of annual premiums earned net of reinsurance for all classes of insurance, except marine which is calculated at 25%. Unearned premium reserves for medical and group life business are calculated on a time proportion basis.

*(ii) Additional reserve*

A provision is made for the estimated excess of potential claims over unearned premiums and for claims incurred but not reported at the financial position date.

The reserves represent the management's best estimates on the basis of:

- a) claims reported during the year
- b) delay in reporting these claims

*(iii) Outstanding claims*

Insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the contract expires, is discharged or is cancelled.

**Provisions**

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

**Employees' end of service benefits**

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

**Contingencies**

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

**2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

**Judgments**

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

*Classification of properties*

Management decides whether a property under construction will be used upon completion as owner-occupied property or for renting out to third parties. If used as owner-occupied property, the value in use of the property is determined as part of the cash generating unit to which it belongs. Otherwise, the asset is classified as investment property and its fair value is determined on an individual asset basis.

*Classification of investments*

Management decides on acquisition of an investment whether it should be classified as of fair value through profit or loss, at fair value through OCI or at amortised cost.

*Operating lease commitments*

The Group has entered into commercial property leases on its investment property. The Group, as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases.

*Additional reserve*

A provision is made for the estimated excess of potential claims over unearned premiums and for claims incurred but not reported at the financial position date.

The reserves represent the management's best estimates on the basis of:

- a) claims reported during the year
- b) delay in reporting these claims
- c) claim handling provision

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**Estimation uncertainty**

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

*Valuation of unquoted equity investments*

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same ;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or other valuation models.

*Provision for outstanding claims, whether reported or not*

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claim settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

*Impairment losses on insurance receivables*

The Group reviews its insurance receivables on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

In addition to specific provisions against individually significant insurance receivables, the Group also makes a collective impairment provision against insurance receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for insurance receivables within each grade and is adjusted to reflect current economic changes.

*Reinsurance*

The Group is exposed to disputes with, and possibility of defaults by, its reinsurers. The Group monitors on a regular basis the evolution of disputes with and the strength of its reinsurers.

*Going concern*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

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**3 INSURANCE PREMIUM REVENUE**

**Year 2013**

	General Insurance		Life Assurance		Total	
	Gross AED'000	Reinsurers' share AED'000	Gross AED'000	Reinsurers' share AED'000	Gross AED'000	Reinsurers' share AED'000
Gross premium	298,680	(207,639)	22,691	(18,448)	321,371	(226,086)
Movement in provision for unearned premium	(30,784)	24,368	2,221	(2,249)	(28,563)	22,119
Insurance premium revenue	267,896	(183,271)	24,912	(20,697)	292,808	(203,967)
Unearned premium as of 31 December (Note 22)	107,107	(82,181)	2,280	(2,110)	109,387	(84,290)

**Year 2012**

	General Insurance		Life Assurance		Total	
	Gross AED'000	Reinsurers' share AED'000	Gross AED'000	Reinsurers' share AED'000	Gross AED'000	Reinsurers' share AED'000
Gross premium	305,687	(234,955)	23,450	(19,154)	329,137	(254,109)
Movement in provision for unearned premium	5,469	(4,638)	505	(530)	5,974	(5,168)
Insurance premium revenue	311,156	(239,593)	23,955	(19,684)	335,111	(259,277)
Unearned premium as of 31 December (Note 22)	76,323	(57,813)	4,501	(4,359)	80,824	(62,172)

Insurance contracts premium includes AED 14,634 thousand (2012: AED 7,312 thousand) of reinsurance premium accepted.

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**4 CLAIMS INCURRED**

*Year 2013*

	General Insurance			Life Assurance			Total		
	Gross AED '000	Reinsurers' share AED '000	Net AED '000	Gross AED '000	Reinsurers' share AED '000	Net AED '000	Gross AED '000	Reinsurers' share AED '000	Net AED '000
Claims paid	136,354	(101,169)	35,185	9,551	(8,504)	1,047	145,905	(109,673)	36,232
Changes in provision for outstanding claim (note 22(b))	6,600	(5,229)	1,371	(542)	475	(67)	6,058	(4,754)	1,304
Movement in additional reserves (note 22(a))	3,600	-	3,600	-	-	-	3,600	-	3,600
	<u>146,554</u>	<u>(106,398)</u>	<u>40,156</u>	<u>9,009</u>	<u>(8,029)</u>	<u>980</u>	<u>155,563</u>	<u>(114,427)</u>	<u>41,136</u>

*Year 2012*

	General Insurance			Life Assurance			Total		
	Gross AED '000	Reinsurers' share AED '000	Net AED '000	Gross AED '000	Reinsurers' share AED '000	Net AED '000	Gross AED '000	Reinsurers' share AED '000	Net AED '000
Claims paid	114,974	(85,336)	29,638	4,700	(4,230)	470	119,674	(89,566)	30,108
Changes in provision for outstanding claim (note 22(b))	10,443	(12,754)	(2,311)	(1,107)	955	(152)	9,336	(11,799)	(2,463)
Movement in additional reserves (note 22(a))	5,110	-	5,110	-	-	-	5,110	-	5,110
	<u>130,527</u>	<u>(98,090)</u>	<u>32,437</u>	<u>3,593</u>	<u>(3,275)</u>	<u>318</u>	<u>134,120</u>	<u>(101,365)</u>	<u>32,755</u>

For details of the movement in the provision for outstanding claims and the related reinsurers' share, refer note 22(b).

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5 SEGMENTAL INFORMATION

Identification of reportable segments

*Primary segment information*

For management purposes, the Group is organised into business units based on its products and services and has three reportable operating segments as follows:

- The general insurance segment, comprises motor, marine, fire, engineering, general accident and medical.
- The life assurance segment, includes individual and group life insurance.
- Investment comprises investment and cash management for the Group's own account.

Transactions between operating segments are conducted at estimated market rates on an arm's length basis. Operating segment information is presented below:

	<i>General Insurance</i>		<i>Life Assurance</i>		<i>Total</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
<b>UNDERWRITING INCOME</b>						
Insurance premium revenue	267,896	311,156	24,912	23,955	292,808	335,111
Reinsurers' share of premium	(183,271)	(239,593)	(20,696)	(19,684)	(203,967)	(259,277)
Net insurance premium revenue	84,625	71,563	4,216	4,271	88,841	75,834
Reinsurance commission income	17,070	14,387	1,565	1,440	18,635	15,827
Other income	(15)	2,314	41	297	26	2,611
	<b>101,680</b>	<b>88,264</b>	<b>5,822</b>	<b>6,008</b>	<b>107,502</b>	<b>94,272</b>
<b>UNDERWRITING EXPENSES</b>						
Claims incurred	146,554	130,527	9,009	3,593	155,563	134,120
Reinsurers' share of claims incurred	(106,398)	(98,090)	(8,029)	(3,275)	(114,427)	(101,365)
Net claims incurred	40,156	32,437	980	318	41,136	32,755
Commission expenses	29,686	25,946	1,549	1,856	31,235	27,802
Excess of loss reinsurance premium	1,605	999	-	-	1,605	999
General and administration expenses relating to underwriting activities	12,316	10,449	922	1,241	13,238	11,690
	<b>83,763</b>	<b>69,831</b>	<b>3,451</b>	<b>3,415</b>	<b>87,214</b>	<b>73,246</b>
<b>NET UNDERWRITING INCOME</b>	<b>17,917</b>	<b>18,433</b>	<b>2,371</b>	<b>2,593</b>	<b>20,288</b>	<b>21,026</b>
<b>TOTAL INVESTMENT INCOME</b>					<b>15,897</b>	<b>12,511</b>
Unallocated other expenses					(4,668)	(4,431)
<b>PROFIT FOR THE YEAR</b>					<b>31,517</b>	<b>29,106</b>

For operational and management reporting purposes, the Group is organised as one geographical segment.

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5 SEGMENTAL INFORMATION (continued)

OTHER INFORMATION

	<i>General insurance</i>		<i>Life assurance</i>		<i>Investment</i>		<i>Total</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Segment assets	<u>352,277</u>	<u>311,823</u>	<u>6,214</u>	<u>11,981</u>	<u>374,040</u>	<u>231,238</u>	<u>732,531</u>	<u>555,042</u>
Segment liabilities	<u>303,108</u>	<u>243,558</u>	<u>6,783</u>	<u>12,601</u>	<u>18,412</u>	<u>18,416</u>	<u>328,303</u>	<u>274,575</u>
Capital expenditure	4,022	697	-	-	-	-	4,022	697
Depreciation	685	583	-	-	-	-	685	583

The Group's operations are primarily conducted in the United Arab Emirates. General Insurance figures reported above include certain assets and liabilities that are common for all three reportable segments. These amounts are not significant and are not reported separately to the chief decision maker.

6 OTHER INVESTMENT INCOME

	<i>2013</i>	<i>2012</i>
	<i>AED'000</i>	<i>AED'000</i>
Rental income from investment properties	1,363	1,422
Investment property expenses	(684)	(802)
	<u>679</u>	<u>620</u>
Dividend income - Financial assets at fair value through profit or loss	89	86
Dividend income - Financial assets at fair value through other comprehensive income	10,994	8,641
Interest income from bonds	1,275	1,307
Cash and cash equivalents and statutory deposits interest income	2,393	1,846
	<u>15,430</u>	<u>12,500</u>

7 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	<i>2013</i>	<i>2012</i>
	<i>AED'000</i>	<i>AED'000</i>
Staff costs	<u>11,910</u>	<u>10,899</u>
Rental costs – operating leases	<u>155</u>	<u>148</u>



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**8 BASIC AND DILUTED EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing the profit for the year, net of directors' fees, by the weighted average number of shares outstanding during the year as follows:

	<i>2013</i>	<i>2012</i>
Profit for the year (AED'000)	<b>31,517</b>	29,106
Directors' fees (AED'000)	<b>(1,400)</b>	(1,400)
Net (AED'000)	<b>30,117</b>	27,706
Weighted average number of shares outstanding during the year ('000)	<b>100,000</b>	100,000
Earnings per share (AED)	<b>0.30</b>	0.28

No figures for diluted earnings per share are presented as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

**9 PROPERTY AND EQUIPMENT**

	<i>Land AED'000</i>	<i>Furniture and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Capital Work in Progress AED'000</i>	<i>Total AED'000</i>
Cost:					
At 1 January 2013	43,307	4,990	666	-	48,963
Additions during the year	866	749	440	1,967	4,022
At 31 December 2013	44,173	5,739	1,106	1,967	52,985
Depreciation:					
At 1 January 2013	-	4,093	644	-	4,737
Charge for the year	-	566	119	-	685
At 31 December 2013	-	4,659	763	-	5,422
Net carrying amount: At 31 December 2013	<b>44,173</b>	<b>1,080</b>	<b>343</b>	<b>1,967</b>	<b>47,563</b>
	<i>Land AED'000</i>	<i>Furniture and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Capital Work in Progress AED'000</i>	<i>Total AED'000</i>
Cost:					
At 1 January 2012	43,307	4,319	640	-	48,266
Additions	-	671	26	-	697
At 31 December 2012	43,307	4,990	666	-	48,963
Depreciation:					
At 1 January 2012	-	3,536	618	-	4,154
Charge for the year	-	557	26	-	583
At 31 December 2012	-	4,093	644	-	4,737
Net carrying amount: At 31 December 2012	<b>43,307</b>	<b>897</b>	<b>22</b>	<b>-</b>	<b>44,226</b>

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**9 PROPERTY AND EQUIPMENT (continued)**

The depreciation charge for the year of AED 685 thousand (2012: AED 583 thousand) has been allocated as follows:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Underwriting expenses	514	437
Other expenses	171	146
	<u>685</u>	<u>583</u>

Included in property and equipment is land situated in the Emirate of Dubai, United Arab Emirates with a carrying value of AED 44,173 thousand. The Group's Board of Directors has resolved to construct the Group's head office on the land in the foreseeable future. The Group's management has completed the process of formalising the transfer of legal title in respect of the land.

**10 INVESTMENT PROPERTY**

	<i>Freehold land AED'000</i>	<i>Building AED'000</i>	<i>Total AED'000</i>
Cost:			
At 1 January 2013	1,670	18,392	20,062
At 31 December 2013	<u>1,670</u>	<u>18,392</u>	<u>20,062</u>
Depreciation:			
At 1 January 2013	-	18,392	18,392
At 31 December 2013	<u>-</u>	<u>18,392</u>	<u>18,392</u>
Net carrying amount: At 31 December 2013	<u>1,670</u>	<u>-</u>	<u>1,670</u>

*Land and Building at Deira, Dubai*

Investment property is carried at cost and the fair value of the investment property as of 31 December 2013, based on a valuation undertaken by an independent qualified valuer, amounted to AED 68,000 thousand (2012: AED 60,000 thousand).

The fair value of investment properties has been determined using level 2 fair value hierarchy.

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**10 INVESTMENT PROPERTY (continued)**

	<i>Freehold land AED'000</i>	<i>Building AED'000</i>	<i>Total AED'000</i>
Cost:			
At 1 January 2012	1,670	18,392	20,062
At 31 December 2012	1,670	18,392	20,062
Depreciation:			
At 1 January 2012	-	18,392	18,392
At 31 December 2012	-	18,392	18,392
Net carrying amount:			
At 31 December 2012	1,670	-	1,670

**11 FINANCIAL INSTRUMENTS**

	<i>Carrying value</i>		<i>Fair value</i>	
	<i>2013 AED'000</i>	<i>2012 AED'000</i>	<i>2013 AED'000</i>	<i>2012 AED'000</i>
<i>Financial instruments</i>				
At fair value through profit or loss (Note 11(a))	76,443	47,116	76,443	47,116
At fair value through other comprehensive income (Note 11(b))	258,226	144,582	258,226	144,582
Investments held at amortised cost (Note 11 (c))	37,701	37,870	37,738	39,802
	<u>372,370</u>	<u>229,568</u>	<u>372,407</u>	<u>231,500</u>

**11(a) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<i>2013 AED'000</i>	<i>2012 AED'000</i>
<i>a) Shares - quoted</i>	4,408	3,755
<i>b) Designated upon initial recognition</i>		
Bank deposits with maturity over three months - unquoted	72,035	43,361
	<u>76,443</u>	<u>47,116</u>

The entire shares and bank deposits are within United Arab Emirates.

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11 FINANCIAL INSTRUMENTS (continued)

11(b) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (OCI)

	2013 AED'000	2012 AED'000
Shares – quoted (within UAE)	248,026	134,382
Shares – unquoted (within UAE)	10,200	10,200
	<u>258,226</u>	<u>144,582</u>

The fair value changes amounting to AED 113,644 thousand (2012: AED 8,339 thousand) has been recognised in the consolidated statement of comprehensive income.

11(c) DEBT INSTRUMENTS AT AMORTISED COST

	2013 AED'000	2012 AED'000
<i>Amortised cost</i>		
Debt securities (within UAE)	3,675	3,675
Debt securities (outside UAE)	34,026	34,195
	<u>37,701</u>	<u>37,870</u>

Debt securities amounting to AED 34,026 (2012: AED 34,195 thousand) are pledged against bank loan (Note 20). The investments carry interest at an effective rate of 4.41% per annum (2012: 3.9% per annum). The maturity profile of these debt instruments is shown below:

	31 December 2013		
	<i>Less than 5 years AED'000</i>	<i>More than 5 years AED'000</i>	<i>Total AED'000</i>
Debt securities (within UAE)	3,675	-	3,675
Debt securities (outside UAE)	22,803	11,223	34,026
	<u>26,478</u>	<u>11,223</u>	<u>37,701</u>
	31 December 2012		
	<i>Less than 5 years AED'000</i>	<i>More than 5 years AED'000</i>	<i>Total AED'000</i>
Debt securities (within UAE)	3,675	-	3,675
Debt securities (outside UAE)	18,073	16,122	34,195
	<u>21,748</u>	<u>16,122</u>	<u>37,870</u>

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**12 FAIR VALUE OF FINANCIAL INSTRUMENTS**

**A. Determination of fair value and fair values hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	<i>Total</i> <i>Fair value</i> <i>AED'000</i>
<b>At 31 December 2013</b>				
<b>Financial instruments</b>				
<i>At fair value through profit or loss:</i>				
Bank deposits	-	72,035	-	72,035
Quoted equity securities	4,408	-	-	4,408
	<u>4,408</u>	<u>72,035</u>	<u>-</u>	<u>76,443</u>
<i>At fair value through other comprehensive income:</i>				
Quoted equity investments	248,026	-	-	248,026
Unquoted equity investments	-	-	10,200	10,200
	<u>248,026</u>	<u>-</u>	<u>10,200</u>	<u>258,226</u>
	<u>252,434</u>	<u>72,035</u>	<u>10,200</u>	<u>334,669</u>

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12 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

A. Determination of fair value and fair values hierarchy (continued)

	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	<i>Total</i> <i>Fair value</i> <i>AED'000</i>
At 31 December 2012				
Financial instruments				
<i>At fair value through profit or loss:</i>				
Bank deposits	-	43,361	-	43,361
Equity securities	3,755	-	-	3,755
	<u>3,755</u>	<u>43,361</u>	<u>-</u>	<u>47,116</u>
<i>At fair value through other comprehensive income:</i>				
Quoted equity investments	134,382	-	-	134,382
Unquoted equity investments	-	-	10,200	10,200
	<u>134,382</u>	<u>-</u>	<u>10,200</u>	<u>144,582</u>
	<u><u>138,137</u></u>	<u><u>43,361</u></u>	<u><u>10,200</u></u>	<u><u>191,698</u></u>

**Financial instruments recorded at fair value**

Included in the Level 1 category are financial assets that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data.

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12 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Movements in level 3 financial instruments measured at fair value

31 December 2013

	<i>At 1 January 2013 AED'000</i>	<i>Total gain or loss recorded in profit and loss AED'000</i>	<i>Purchases AED'000</i>	<i>Sales AED'000</i>	<i>Total gain or loss recorded in OCI AED'000</i>	<i>Transfers AED'000</i>	<i>At 31 December 2013 AED'000</i>
<b>Financial instruments</b>							
At fair value through other comprehensive income:							
Unquoted investments	10,200	-	-	-	-	-	10,200
<b>Total level 3 financial assets</b>	<b>10,200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,200</b>

31 December 2012

	<i>At 1 January 2012 AED'000</i>	<i>Total gain or loss recorded in profit and loss AED'000</i>	<i>Purchases AED'000</i>	<i>Sales AED'000</i>	<i>Total gain or loss recorded in OCI AED'000</i>	<i>Transfers AED'000</i>	<i>At 31 December 2012 AED'000</i>
<b>Financial assets</b>							
At fair value through other comprehensive income:							
Unquoted investments	10,200	-	-	-	-	-	10,200
<b>Total level 3 financial assets</b>	<b>10,200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,200</b>

**Gains or losses on level 3 financial instruments included in the profit or loss for the year:**

No gains or losses on level 3 financial instruments were included in the profit or loss for the year.

**Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions**

For equity securities, the Group does not have a material exposure as at 31 December 2013 and, accordingly no sensitivity analysis has been done.

**Fair value of financial assets and liabilities not carried at fair value**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements:

**Asset for which fair value approximates carrying value**

For financial assets and financial liabilities that have short term maturities (less than three months) it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to insurance receivable, reinsurance payable, demand deposits and savings accounts without specific maturity. Fair value of quoted bonds is based on price quotations at the reporting date. Long term bank loan is evaluated by Group based on parameters such as interest rates.

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**13 INSURANCE RECEIVABLES**

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Due from policyholders	21,747	20,869
Due from insurance companies	16,379	20,907
Due from insurance brokers	60,013	37,917
Other premium receivable	16,409	20,738
Due from re-insurance companies in respect of settled claims	7,372	2,769
Less : Provision for doubtful accounts	(3,410)	(2,910)
	<u>118,510</u>	<u>100,290</u>

All of the above amounts are due within twelve month of the reporting date. The reinsurers' share of claims not paid by the Group at the reporting date are disclosed in note 22. The amounts due from reinsurers are normally settled on a quarterly basis.

As at 31 December 2013, premiums and insurance companies' balances receivable at nominal value of AED 3,410 thousand (2012: AED 2,910 thousand) were impaired. Movements in the allowance for impairment of receivables were as follows:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
At 1 January	2,910	2,410
Charge for the year	500	500
At 31 December	<u>3,410</u>	<u>2,910</u>

**14 PREPAYMENTS AND OTHER RECEIVABLES**

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Accrued income	2,028	1,814
Prepayments	1,062	758
Staff debtors and advances	390	350
Other receivables	2,451	2,439
	<u>5,931</u>	<u>5,361</u>

**15 STATUTORY DEPOSITS**

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<b>Bank deposits:</b> Amounts that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 42 of Federal Law No. 6 of 2007	<u>10,000</u>	<u>10,000</u>

The bank deposit expires after one year and is renewable every year and earns an interest of 3% per annum.



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**16 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Bank balances and cash	35,132	39,445
Bank deposits maturing within three months	-	10,000
	<u>35,132</u>	<u>49,445</u>

The entire cash and cash equivalents are within United Arab Emirates.

**17 SHARE CAPITAL**

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Issued and fully paid 100,000,000 shares of AED 1 each (2012: 100,000,000 shares of AED 1 each)	<u>100,000</u>	<u>100,000</u>

**18 RESERVES**

**NATURE AND PURPOSE OF RESERVES**

• **STATUTORY RESERVE**

In accordance with UAE Commercial Companies Law No. 8 of 1984 (as amended) and the Group's Articles of Association, the Group has resolved to discontinue the annual transfer of 10% of the profit for the year since the statutory reserve reached 50% of the paid up share capital. The reserve is not available for distribution, except in the circumstances stipulated by the UAE Commercial Companies Law No. 8 of 1984 (as amended).

• **GENERAL RESERVE**

Transfers to the general reserve are made on the recommendation of the Board of Directors. During the year, the Board of Directors has recommended to transfer AED Nil (2012: AED 6,500 thousand) to the general reserve. This reserve may be used for such purposes as deemed appropriate by the Board of Directors.

• **CUMULATIVE CHANGES IN FAIR VALUE OF INVESTMENTS**

This reserve records fair value changes on financial instrument held at fair value through other comprehensive income.

**19 DIVIDENDS**

For the year ended 31 December 2013, the Board of Directors in its meeting dated 13 February 2014 proposed a cash dividend of 25% (AED 0.25 per share) totalling AED 25 million.

For the year ended 31 December 2012, the Shareholders at the annual general meeting dated 5 March 2013 approved a cash dividend of 20% (AED 0.20 per share) totalling AED 20 million.

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**20 BANK LOAN**

The Group entered into a credit facility agreement with an international bank for USD 5 million (equivalent AED 18,416 thousand). The loan facility is secured against investments in debt instruments held at amortised cost amounting to AED 34,026 thousand (31 December 2012: AED 34,195 thousand) (Note 11.c)) used for the Group's investment operations. The loan carries interest at 3 months LIBOR plus 0.85% per annum and the tenure of the loan is directly linked to the maturity period of the debt instruments which are financed by the loan. The debt instruments have maturity periods of 2 to 10 years.

**21 EMPLOYEES' END OF SERVICE BENEFITS**

Movements in the provision recognised in the consolidated statement of financial position are as follows:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Provision as at 1 January	1,864	1,547
Provided during the year	397	377
End of service benefits paid	(114)	(60)
Provision as at 31 December	<u>2,147</u>	<u>1,864</u>

**22 INSURANCE CONTRACT ASSETS AND LIABILITIES**

	<i>Gross</i>		<i>Reinsurers' share</i>		<i>Net</i>	
	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Unearned premium reserve (Note 3)	109,387	80,824	(84,290)	(62,172)	25,097	18,652
Additional reserve (Note 22(a))	14,600	11,000	-	-	14,600	11,000
Outstanding claims (Note 22(b))	71,321	65,262	(57,065)	(52,310)	14,256	12,952
	<u>195,308</u>	<u>157,086</u>	<u>(141,355)</u>	<u>(114,482)</u>	<u>53,953</u>	<u>42,604</u>

**22 (a) Additional Reserve**

	<i>General Insurance</i> <i>AED'000</i>	<i>Life Assurance</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
1 January 2012	5,890	-	5,890
Increase (Note 4)	5,110	-	5,110
31 December 2012	11,000	-	11,000
Increase (Note 4)	3,600	-	3,600
<b>31 December 2013</b>	<u>14,600</u>	<u>-</u>	<u>14,600</u>

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22 INSURANCE CONTRACT ASSETS AND LIABILITIES (continued)

22 (b) Outstanding claims

	<i>General Insurance AED'000</i>	<i>Life Assurance AED'000</i>	<i>Total AED'000</i>
At 1 January 2012:			
Outstanding claims	52,119	3,807	55,926
Due from reinsurers	(37,085)	(3,426)	(40,511)
	<u>15,034</u>	<u>381</u>	<u>15,415</u>
Net decrease (Note 4)	(2,311)	(152)	(2,463)
At 31 December 2012:			
Outstanding claims	62,562	2,700	65,262
Due from reinsurers	(49,839)	(2,471)	(52,310)
	<u>12,723</u>	<u>229</u>	<u>12,952</u>
Net (decrease) (Note 4)	1,371	(67)	1,304
At 31 December 2013:			
Outstanding claims	69,162	2,159	71,321
Due from reinsurers	(55,068)	(1,997)	(57,065)
	<u>14,094</u>	<u>162</u>	<u>14,256</u>

**Claims development table for gross general insurance claims (excluding Medical):**

The following table reflects the cumulative incurred claims, including both claims notified and claims incurred but not reported (IBNR) for each successive accident year at each statement of financial position date, together with cumulative payments to date:

Year 2013

<i>Accident year</i>	<i>2008 AED' 000</i>	<i>2009 AED' 000</i>	<i>2010 AED' 000</i>	<i>2011 AED' 000</i>	<i>2012 AED' 000</i>	<i>2013 AED' 000</i>	<i>Total AED' 000</i>
At the end of accident year	46,506	68,741	75,812	83,577	81,630	91,453	
One year later	58,995	49,528	81,811	90,327	85,993	-	
Two years later	61,290	46,912	80,321	86,141	-	-	
Three years later	60,079	45,834	79,964	-	-	-	
Four years later	60,022	45,668	-	-	-	-	
Five years later	60,006						
<b>Current estimate of cumulative claims</b>	<u>60,006</u>	<u>45,668</u>	<u>79,964</u>	<u>86,141</u>	<u>85,993</u>	<u>91,453</u>	
At the end of accident year	(19,229)	(25,088)	(50,011)	(55,967)	(50,270)	(62,991)	
One year later	(40,882)	(40,017)	(73,533)	(78,766)	(68,666)		
Two years later	(50,053)	(41,900)	(76,130)	(81,641)	-		
Three years later	(51,927)	(43,507)	(76,730)	-	-		
Four years later	(51,951)	(43,615)	-	-	-		
Five years later	(51,951)						
<b>Cumulative payments to date</b>	<u>(51,951)</u>	<u>(43,615)</u>	<u>(76,730)</u>	<u>(81,641)</u>	<u>(68,666)</u>	<u>(62,991)</u>	
<b>Total gross outstanding claims</b>	<u>8,055</u>	<u>2,053</u>	<u>3,234</u>	<u>4,500</u>	<u>17,327</u>	<u>28,462</u>	<u>63,631</u>

(Note 22b)

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**23 INSURANCE AND OTHER PAYABLES**

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Premiums collected in advance	-	3,554
Provision for staff costs	1,500	2,071
Other creditors and accruals	24,671	22,685
	<u>26,171</u>	<u>28,310</u>

**24 RELATED PARTY TRANSACTIONS**

Related parties represent, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. The pricing policies and terms of these transactions are approved by the Group's management.

The significant balances outstanding at 31 December in respect of related parties included in the consolidated financial statements are as follows:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<i>Affiliates of major shareholders:</i>		
Due from policyholders	15,099	13,544
Outstanding claims	38,954	41,345

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<i>Affiliates of major shareholders:</i>		
Premiums	88,136	86,680
Claims	13,608	19,224
Rent received	60	60
Rent paid	96	96

Compensation of the key management personnel is as follows:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Short term employee benefits	3,632	3,088
End of service benefits	140	117
	<u>3,772</u>	<u>3,205</u>

Outstanding balances at the year-end arise in the normal course of business. For the years ended 31 December 2013 and 31 December 2012, the Group has not recorded any impairment of amounts owed by related parties.

**25 DIRECTORS' FEES**

Directors' fees have been included as an appropriation of net profit for the year in accordance with the interpretation of the Commercial Companies Law of 1984 (as amended) by the Ministry of Economy.

## 26 RISK MANAGEMENT

### (a) Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Group's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the Chief Executive Officer and senior managers.

The board of directors meets regularly to approve any commercial, regulatory and organisational decisions. The Chief Executive Officer under the authority delegated from the board of directors defines the Group's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

The Group's current enterprise risk management framework is formally documented and divided into three phases. The Group's enterprise risk management framework is established to identify and analyze the key risks faced by the Group to set appropriate controls and manage those risks. As part of the risks identification process, the Group uses risk based capital model to assess the capital requirement and uses stress analysis to apply changes to capital. The Group's risk appetite is derived from the changes to capital.

### (b) Capital management framework

The primary objective of the Group's capital management is to comply with the regulatory requirements in the UAE and to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012.

### (c) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Group are also subject to regulatory requirements within the jurisdiction where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

### (d) Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The Chief Executive Officer actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts.

The Chief Executive Officer regularly monitors the financial risks associated with the Group's other financial assets and liabilities not directly associated with insurance liabilities.

The risks faced by the Group and the way these risks are mitigated by management are summarised below.

**26 RISK MANAGEMENT (continued)**

**26A Insurance risk**

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Group has a small portfolio of life assurance contracts.

*Frequency and amounts of claims*

The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly property, motor, marine, medical, group life and personal accident risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

*Property*

Property insurance is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the loss of earnings caused by the inability to use the insured properties. For property insurance contracts the main risks are fire and business interruption. In recent years the Group has only underwritten policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Group has reinsurance cover for such damage to limit losses for any individual claim to AED 750 thousand (2012: AED 750 thousand).

*Motor*

Motor insurance is designed to compensate contract holders for damage suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for the fire or theft of their vehicles.

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Group has reinsurance cover for such claims to limit losses for any individual claim to AED 200 thousand (2012: AED 200 thousand).

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

*Marine*

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes.

For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes. The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Group has reinsurance to limit losses for any individual claim to AED 125 thousand (2012: AED 125 thousand).

*Medical, group life and personal accident*

Medical insurance is designed to compensate the contract holders for medical costs. Group life and personal accident insurance entitles the contract holders or their beneficiaries to specified amounts in case of death or permanent or partial disability.

For medical insurance, the main risks are illness and related healthcare costs. For group life and personal accident the main risks are claims from death and permanent or partial disability. The Group generally does not offer medical insurance to walk-in customers. Medical, group life and personal accident insurance are generally offered to corporate customers with large population to be covered under the policy.

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26 RISK MANAGEMENT (continued)

26A Insurance risk (continued)

*Reinsurance risk*

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers. The Group deals with reinsurers approved by the Board of Directors.

The five largest reinsurers account for 83% of amounts due from reinsurance companies at 31 December 2013 (2012: 81%). The maximum theoretical credit risk exposure in this connection is mainly in Europe.

26B Financial risk

The Group's principal financial instruments include financial assets and financial liabilities which comprise financial investments (at fair value through profit or loss and / or other comprehensive income), receivables arising from insurance and reinsurance contracts, statutory deposits, cash and cash equivalents, trade and other payables, and re-insurance balance payables.

The Group does not enter into derivative transactions.

The main risks arising from the Group's financial instruments are credit risk, geographical risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk. The board reviews and agrees policies for managing each of these risks and they are summarised below:

*Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Group, the maximum exposure to credit risk to the Group is the carrying value as disclosed in the consolidated statement of financial position.

The following policies and procedures are in place to mitigate the Group's exposure to credit risk:

- The Group only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Group's exposure to bad debts.
- The Group seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Group's investments at fair value through profit or loss or OCI are managed by the Chief Executive Officer in accordance with the guidance of the Chairman and the supervision of the Board of Directors.
- The Group's bank balances are maintained with a range of international and local banks in accordance with limits set by the management.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position:

	Notes	2013 AED'000	2012 AED'000
Financial instruments		109,736	81,231
Reinsurance assets	22	141,355	114,482
Insurance receivables	13	118,510	100,290
Other receivables (excluding prepayments)		4,869	4,603
Statutory deposits	15	10,000	10,000
Cash and cash equivalents		35,132	49,433
<b>Total credit risk exposure</b>		<b>419,602</b>	<b>360,039</b>

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26 RISK MANAGEMENT (continued)

26B Financial risk (continued)

*Credit risk (continued)*

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in value.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes.

Insurance receivables comprise a large number of customers and insurance companies mainly within the United Arab Emirates. Reinsurance assets are from reinsurance companies based mainly in Europe and the Middle East.

The Group's financial position can be analysed by the following geographical regions:

	2013			2012		
	<i>Assets AED'000</i>	<i>Liabilities and equity AED'000</i>	<i>Contingent liabilities and commitments AED'000</i>	<i>Assets AED'000</i>	<i>Liabilities and equity AED'000</i>	<i>Contingent liabilities and commitments AED'000</i>
United Arab Emirates	548,089	621,110	10,237	400,326	459,843	10,204
Europe	139,407	96,247	-	119,207	82,347	-
Rest of the world	45,035	15,174	-	35,509	12,852	-
<b>Total</b>	<b>732,531</b>	<b>732,531</b>	<b>10,237</b>	<b>555,042</b>	<b>555,042</b>	<b>10,204</b>

The table below provides information regarding the credit risk exposure of the Group by classifying assets according to the Group's credit rating of counterparties.

31 December 2013

	<i>Neither past due nor impaired</i>				<i>Total AED'000</i>
	<i>High grade AED'000</i>	<i>Standard grade AED'000</i>	<i>Sub-standard grade AED'000</i>	<i>Past due and impaired AED'000</i>	
Financial instruments	109,736	-	-	-	109,736
Reinsurance assets	-	141,355	-	-	141,355
Insurance receivables	-	118,510	-	3,410	121,920
Other receivables (excluding prepayments)	4,869	-	-	-	4,869
Statutory deposits	10,000	-	-	-	10,000
Cash and cash equivalents	35,132	-	-	-	35,132
	<b>159,737</b>	<b>259,865</b>	<b>-</b>	<b>3,410</b>	<b>423,012</b>
Less: Impairment provision					<b>(3,410)</b>
					<b>419,602</b>



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26 RISK MANAGEMENT (continued)

26B Financial risk (continued)

Credit risk (continued)

31 December 2012

	<i>Neither past due nor impaired</i>				<i>Total AED'000</i>
	<i>High grade AED'000</i>	<i>Standard grade AED'000</i>	<i>Sub-standard grade AED'000</i>	<i>Past due and impaired AED'000</i>	
Financial instruments	81,231	-	-	-	81,231
Reinsurance assets	-	114,482	-	-	114,482
Insurance receivables	-	100,290	-	2,910	103,200
Other receivables (excluding prepayments)	4,603	-	-	-	4,603
Statutory deposits	10,000	-	-	-	10,000
Cash and cash equivalents	49,433	-	-	-	49,433
	<u>145,267</u>	<u>214,772</u>	<u>-</u>	<u>2,910</u>	<u>362,949</u>
Less: Impairment provision					<u>(2,910)</u>
					<u>360,039</u>

The following table provides an ageing analysis of receivables arising from insurance and reinsurance contracts past due but not impaired:

	<i>Past due but not impaired</i>					<i>Total AED'000</i>	<i>Past due and impaired AED'000</i>	<i>Total AED'000</i>
	<i>90 days AED'000</i>	<i>91 to 180 days AED'000</i>	<i>181 to 270 days AED'000</i>	<i>271 to 365 days AED'000</i>	<i>&gt; 365 days AED'000</i>			
2013	74,450	14,594	11,489	2,751	18,636	121,920	(3,410)	118,510
2012	55,498	16,121	8,710	4,630	18,241	103,200	(2,910)	100,290

For assets to be classified as 'past due and impaired' the contractual payments in arrears are more than 180 days and an impairment adjustment is recorded in the consolidated statement of income for this. When the credit exposure is adequately secured or when management is confident of settlement, arrears more than 180 days might still be classified as 'past due but not impaired', with no impairment adjustment recorded.

**Geographical risk**

The Group has geographical risk exposure. Such exposure arises from investments, cash and cash equivalents and insurance contracts concentrated within certain geographical areas. The investments and cash and cash equivalents are primarily with local companies and financial institutions. The risk arising from insurance contracts is concentrated mainly in the United Arab Emirates. The geographical concentration of risks is similar to previous year.

In accordance with the requirement of the Securities and Commodities Authority (Circular dated 12-10-2011) following are the details of the geographical concentration of assets in the Group's consolidated financial statements as of 31 December 2013:

**(a) Investment property**

Investment property represents the Group's investment in a freehold land and building situated in the Emirate of Dubai, United Arab Emirates.

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26 RISK MANAGEMENT (continued)

26B Financial risk (continued)

*Geographical risk (continued)*

(b) Financial instruments – investments

Investments in financial assets represent investments in quoted and unquoted shares of companies incorporated in the United Arab Emirates and investments in bonds issued locally and outside United Arab Emirates.

(c) Cash and cash equivalents

Cash and cash equivalents of the Group are with banks registered and operate in the United Arab Emirates and in Europe.

*Currency risk*

The Group also has transactional currency exposures. Such exposure arises from investments in securities and reinsurance transactions in currencies other than the Group's functional currency.

At 31 December, the Group's exposure to foreign currency risk was as follows:

		2013 AED'000	2012 AED'000
Debt instruments at amortised cost	- US Dollars	37,701	37,870
Insurance receivables	- US Dollars	5,256	7,089
	- Euro	1,293	2,199
	- GBP	628	109
	- Others	807	275
Other receivables	- US Dollars	1,513	1,419
Cash and cash equivalents	- US Dollars	9,538	12,005
	- Euro	2,305	3,092
	- GBP	852	43
Reinsurance balances payable	- US Dollars	3,879	8,457
	- Euro	1,402	2,007
	- GBP	6	80
	- Others	(156)	252
Other creditors and accruals	- US Dollars	6,180	4,655
	- Euro	2,623	2,032
	- GBP	1,365	43
	- Others	(147)	39

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26 RISK MANAGEMENT (continued)

26B Financial risk (continued)

*Currency risk (continued)*

The following table demonstrates the sensitivity to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit. The effect of decreases in exchange rates is expected to be equal and opposite to the effect of the increases shown. There is no effect on equity.

	<i>Increase in exchange rate</i>	<i>Effect on profit AED'000</i>
<i>31 December 2013</i>		
<i>Assets</i>		
US Dollars	+5%	2,700
Euro	+5%	180
GBP	+5%	74
Others	+5%	40
<i>Liabilities</i>		
US Dollars	+5%	(503)
Euro	+5%	(201)
GBP	+5%	(69)
Others	+5%	(15)
	<i>Increase in exchange rate</i>	<i>Effect on profit AED'000</i>
<i>31 December 2012</i>		
<i>Assets</i>		
US Dollars	+5%	2,919
Euro	+5%	265
GBP	+5%	8
Others	+5%	14
<i>Liabilities</i>		
US Dollars	+5%	(656)
Euro	+5%	(202)
GBP	+5%	(6)
Others	+5%	(15)

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its commitments associated with insurance contracts and financial liabilities when they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

Dubai Insurance Company (PSC) and its subsidiary

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26 RISK MANAGEMENT (continued)

26B Financial risk (continued)

*Liquidity risk (continued)*

The table below summarises the maturity of the assets and liabilities of the Group based on remaining contractual settlement dates.

	31 December 2013			31 December 2012				
	Less than one year AED'000	More than one year AED'000	No Term AED'000	Total AED'000	Less than one year AED'000	More than one year AED'000	No Term AED'000	Total AED'000
<b>ASSETS</b>								
Property and equipment	-	-	47,563	47,563	-	-	44,226	44,226
Investment property	-	-	1,670	1,670	-	-	1,670	1,670
Financial instruments	72,035	37,701	262,634	372,370	43,361	37,870	148,337	229,568
Reinsurance assets	141,355	-	-	141,355	114,482	-	-	114,482
Insurance receivables	118,510	-	-	118,510	100,290	-	-	100,290
Prepayments and other assets	5,931	-	-	5,931	5,361	-	-	5,361
Statutory deposits	-	10,000	-	10,000	-	10,000	-	10,000
Cash and cash equivalents	35,132	-	-	35,132	49,445	-	-	49,445
<b>TOTAL ASSETS</b>	<b>372,963</b>	<b>47,701</b>	<b>311,867</b>	<b>732,531</b>	<b>312,939</b>	<b>47,870</b>	<b>194,233</b>	<b>555,042</b>

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26 RISK MANAGEMENT (continued)

26B Financial risk (continued)

Liquidity risk (continued)

	31 December 2013			31 December 2012				
	Less than one year AED '000	More than one year AED '000	No Term AED '000	Total AED '000	Less than one year AED '000	More than one year AED '000	No Term AED '000	Total AED '000
<b>EQUITY AND LIABILITIES</b>								
Equity								
Share capital	-	-	100,000	100,000	-	-	100,000	100,000
Statutory reserve	-	-	50,000	50,000	-	-	50,000	50,000
General reserve	-	-	10,000	10,000	-	-	10,000	10,000
Retained earnings	-	-	87,344	87,344	-	-	82,227	82,227
Proposed dividends	-	-	25,000	25,000	-	-	20,000	20,000
Cumulative change in fair value reserve	-	-	131,884	131,884	-	-	18,240	18,240
<b>Total equity</b>	-	-	<b>404,228</b>	<b>404,228</b>	-	-	<b>280,467</b>	<b>280,467</b>
Liabilities								
Bank loan	-	18,412	-	18,412	-	18,416	-	18,416
Employees' end of service benefits	-	2,147	-	2,147	-	1,864	-	1,864
Insurance contract liabilities	195,308	-	-	195,308	157,086	-	-	157,086
Amounts held under reinsurance treaties	12,978	-	-	12,978	12,014	-	-	12,014
Reinsurance balances payable	73,287	-	-	73,287	56,885	-	-	56,885
Trade and other payables	26,171	-	-	26,171	28,310	-	-	28,310
<b>Total liabilities</b>	<b>307,744</b>	<b>20,559</b>	-	<b>328,303</b>	<b>254,295</b>	<b>20,280</b>	-	<b>274,575</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>307,744</b>	<b>20,559</b>	<b>404,228</b>	<b>732,531</b>	<b>254,295</b>	<b>20,280</b>	<b>280,467</b>	<b>555,042</b>

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26 RISK MANAGEMENT (continued)

26B Financial risk (continued)

*Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge its foreign currency exposure.

*Interest rate risk*

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group is exposed to interest rate risk on certain of its investment in financial instruments held at fair value through profit or loss, designated upon initial recognition, statutory deposits and bank loan. The Group limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and interest bearing investments and borrowings are denominated.

*Interest rate sensitivity*

The effective interest rates for all major classes of interest bearing financial instruments, that fall due within less than 1 year as at 31 December, are as follows:

*31 December 2013*

	<i>Total AED'000</i>	<i>Effective interest rate %</i>
Time deposits	82,035	1.6% to 8%
Bank loan	(18,412)	3 months USD Libor plus 0.85
	<u>63,623</u>	

*31 December 2012*

	<i>Total AED'000</i>	<i>Effective interest rate %</i>
Time deposits	63,361	1.75 to 3.75
Bank loan	(18,416)	3 months USD Libor plus 0.85
	<u>44,945</u>	

There is no significant difference between contractual repricing or maturity dates.

The following table demonstrates the sensitivity of consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the Group's profit for the year, based on the floating rate financial assets and financial liabilities held at 31 December 2013.

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26 RISK MANAGEMENT (continued)

26B Financial risk (continued)

*Interest rate risk (continued)*

	<i>Increase/ decrease in basis points</i>	<i>Effect on profit for the year AED'000</i>
2013	5 -10	36 (72)
2012	5 -10	22 (45)

*Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as financial assets at fair value through others comprehensive income at 31 December 2013) and on consolidated statement of income (as a result of changes in value of financial assets through profit or loss) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<u>2013</u>			<u>2012</u>		
	<i>Change in equity price %</i>	<i>Effect on equity AED'000</i>	<i>Effect on income statement AED'000</i>	<i>Change in equity price %</i>	<i>Effect on equity AED'000</i>	<i>Effect on income statement AED'000</i>
All investments – (Mainly Dubai Financial Market and Abu Dhabi Stock Market)	10	24,803	441	10	13,438	376

26C Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

27 CONTINGENCIES

*Contingent liabilities*

At 31 December 2013 the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 10,237 thousand (2012: AED 10,204 thousand).

*Legal claims*

The Group, in common with the significant majority of insurers, is subject to litigation in the normal course of its business. The Group, based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Group's income or financial condition.