

UNITED INSURANCE COMPANY P.S.C.

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

UNITED INSURANCE COMPANY P.S.C.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Cont'd....

INDEPENDENT AUDITOR'S REPORT (continued)*Opinion*

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

Report on other legal and regulatory requirements

Also, in our opinion, the Company has maintained proper books of account. We have obtained all the information which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, and of the U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its Operations or the Company's Articles of Association which might have a material effect on the financial position of the Company or its financial performance.

Deloitte & Touche (M.E.)



Samir Madbak
Registration Number 386
28 February 2013

**Statement of financial position
at 31 December 2012**

	Notes	2012 AED	2011 AED
ASSETS			
Non-current assets			
Property and equipment	5	1,565,398	1,977,490
Investment properties	6	72,900,000	92,900,000
Available-for-sale investments	7.1	25,010,162	26,773,609
Statutory deposit	8	6,000,000	6,000,000
Total non-current assets		105,475,560	127,651,099
Current assets			
Re-insurance contract assets	9	42,270,269	47,016,615
Insurance and other receivables	10	59,459,392	60,051,245
Investments held for trading	7.2	24,408,797	23,154,628
Bank balances and cash	11	35,767,591	28,277,473
Total current assets		161,906,049	158,499,961
Total assets		267,381,609	286,151,060
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	100,000,000	50,000,000
Statutory reserve	13	27,968,564	27,968,564
General reserve	14	2,969,044	15,965,568
Investments revaluation reserve		7,822,840	7,529,889
(Accumulated losses)/retained earnings		(21,926,920)	37,003,476
Total equity		116,833,528	138,467,497
Non-current liabilities			
Bank loan	15	-	4,050,000
Provision for employees' end of service benefits	16	1,571,463	1,500,951
Total non-current liabilities		1,571,463	5,550,951
Current liabilities			
Insurance contract liabilities	9	88,254,955	84,421,340
Bank loan	15	4,453,232	5,400,000
Insurance and other payables	17	56,268,431	52,311,272
Total current liabilities		148,976,618	142,132,612
Total liabilities		150,548,081	147,683,563
Total equity and liabilities		267,381,609	286,151,060



Chairman



General Manager

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

**Statement of income
for the year ended 31 December 2012**

	Notes	2012 AED	2011 AED
Insurance premium revenue	18	129,322,438	107,942,708
Insurance premium ceded to re-insurers	18	(50,003,116)	(52,424,507)
Net insurance premium revenue	18	79,319,322	55,518,201
Gross claims incurred	9	(95,588,827)	(91,442,173)
Insurance claims recovered from re-insurers	9	20,601,113	48,266,129
Net claims incurred	9	(74,987,714)	(43,176,044)
Gross commission earned		17,158,867	12,344,766
Less: commission incurred		(6,664,939)	(4,219,531)
Net commission earned		10,493,928	8,125,235
Underwriting profit		14,825,536	20,467,392
Allowance for doubtful debts		(3,481,033)	(15,572,439)
General and administrative expenses relating to underwriting activities		(19,683,538)	(17,167,639)
Net underwriting loss		(8,339,035)	(12,272,686)
Impairment on available-for-sale investments		-	(2,391,535)
Decrease in fair value of investment properties	6	(20,000,000)	-
Investment income and other income	19	7,628,666	1,817,296
Finance costs		(323,712)	(735,126)
Unallocated general and administrative expenses		(892,839)	(2,725,405)
Loss for the year	20	(21,926,920)	(16,307,456)
Basic loss per share	21	(0.22)	(0.16)

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

**Statement of comprehensive income
for the year ended 31 December 2012**

	2012 AED	2011 AED
Loss for the year	(21,926,920)	(16,307,456)
Other comprehensive income		
Net loss on revaluation of available-for-sale investments	(358,509)	(819,385)
Reclassification adjustments relating to available-for-sale investments impaired during the year	-	2,391,535
Transfer to statement of income on sale of available-for-sale investments	651,460	580,381
Board of Directors' remuneration paid	-	(500,000)
Total other comprehensive income for the year	292,951	1,652,531
Total comprehensive loss for the year	(21,633,969)	(14,654,925)

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

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

	Share capital AED	Statutory reserve AED	General reserve AED	Investments revaluation reserve AED	(Accumulated losses)/ retained earnings AED	Total AED
Balance at 31 December 2010	50,000,000	27,968,564	15,965,568	5,377,358	63,810,932	163,122,422
Loss for the year	-	-	-	-	(16,307,456)	(16,307,456)
Other comprehensive income for the year	-	-	-	2,152,531	(500,000)	1,652,531
Total comprehensive loss for the year	-	-	-	2,152,531	(16,807,456)	(14,654,925)
Dividend paid	-	-	-	-	(10,000,000)	(10,000,000)
Balance at 31 December 2011	50,000,000	27,968,564	15,965,568	7,529,889	37,003,476	138,467,497
Loss for the year	-	-	-	-	(21,926,920)	(21,926,920)
Other comprehensive income for the year	-	-	-	292,951	-	292,951
Total comprehensive loss for the year	-	-	-	292,951	(21,926,920)	(21,633,969)
Transfer to retained earnings (Note 22)	-	-	(12,996,524)	-	12,996,524	-
Bonus shares (Note 22)	50,000,000	-	-	-	(50,000,000)	-
Balance at 31 December 2012	100,000,000	27,968,564	2,969,044	7,822,840	(21,926,920)	116,833,528

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

**Statement of cash flows
for the year ended 31 December 2012**

	2012 AED	2011 AED
Cash flows from operating activities		
Loss for the year	(21,926,920)	(16,307,456)
Adjustments for:		
(Increase)/decrease in fair value of investment held for trading	(1,331,473)	3,025,528
Decrease in fair value of investment properties	20,000,000	-
Impairment loss on available-for-sale investments	-	2,391,535
Investment income	(6,488,769)	(5,343,810)
Allowance for doubtful debts	3,481,033	15,572,439
Finance costs	323,712	735,126
Depreciation of property and equipment	565,777	370,005
Gain on disposal of property and equipment	(800)	-
Provision for employees' end of service benefits	234,393	169,284
Operating cash flows before changes in operating assets and liabilities	(5,143,047)	612,651
Decrease/(increase) in re-insurance contract assets	4,746,346	(1,075,641)
Increase in insurance contract liabilities	3,833,615	7,204,482
Increase in insurance and other receivables	(2,889,180)	(1,921,292)
Increase in insurance and other payables	3,957,159	161,686
Cash generated from operations	4,504,893	4,981,886
Employees' end of service benefits paid	(163,881)	(982,323)
Interest paid	(323,712)	(735,126)
Net cash from operating activities	4,017,300	3,264,437
Cash flows from investing activities		
Increase in fixed deposits	(1,130,993)	-
Purchase of property and equipment	(157,506)	(1,390,846)
Proceeds from disposal of property and equipment	4,621	-
Proceeds from disposal of investments held for trading	77,304	60,199
Proceeds from disposal of available-for-sale investments	14,924,250	5,527,095
Purchase of available-for-sale investments	(12,590,512)	(6,636,898)
Interest received	990,793	999,139
Income from investment properties received	3,572,203	4,082,677
Dividend received	1,648,433	1,225,987
Net cash generated from investing activities	7,338,593	3,867,353
Cash flows used in financing activities		
Repayment of bank loan	(4,996,768)	(5,400,000)
Board of Directors' remuneration paid	-	(500,000)
Dividend paid	-	(10,000,000)
Net cash used in financing activities	(4,996,768)	(15,900,000)
Net increase/(decrease) in cash and cash equivalents	6,359,125	(8,768,210)
Cash and cash equivalents at the beginning of the year	11,277,473	20,045,683
Cash and cash equivalents at the end of the year (Note 11)	17,636,598	11,277,473

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

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

1. General information

United Insurance Company P.S.C. - Ras Al Khaimah (the "Company") is a public shareholding company, registered in the Emirate of Ras Al Khaimah by Emiri decree No. 13/76 issued by H.H. Sheikh Saqr Bin Mohammed Al Qasimi on 15 June, 1976, which was amended by the Emiri decree No. 10/77 issued on 15 December, 1977. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, concerning Establishment of Insurance Authority and Organization of its Operations, and is registered in the Insurance Companies Register of Insurance Authority of U.A.E. under registration number 8.

The Company is domiciled in the United Arab Emirates and the address of the Company's registered office is P. O. Box 1010, Ras Al Khaimah, United Arab Emirates.

The Company's ordinary shares are listed on Abu Dhabi Securities Exchange, United Arab Emirates.

The principal activity of the Company is the writing of all classes of general insurance other than life assurance. The Company operates through its head office in Ras Al Khaimah and branch offices in Dubai, Abu Dhabi and Sharjah.

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

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

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

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

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

- Amendments to IFRS 1 *Severe Hyperinflation*

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

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

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

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

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

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

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

2.2 New and revised IFRSs in issue but not yet effective and not early adopted:

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

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> Amendments to IFRS 1 <i>Government Loans</i> provide relief to first-time adopters of IFRSs by amending IFRS 1 to allow prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> to government loans outstanding at the date of transition to IFRSs. 	1 January 2013
<ul style="list-style-type: none"> Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS. 	1 January 2015 (or otherwise when IFRS 9 is first applied)
<ul style="list-style-type: none"> Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> enhancing disclosures about offsetting of financial assets and liabilities. 	1 January 2013
<ul style="list-style-type: none"> IFRS 9 <i>Financial Instruments</i> issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition. 	1 January 2015

Key requirements of IFRS 9 are described as follows:

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

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

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

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

New and revised IFRSs

**Effective for
annual periods
beginning on or after**

Key requirements of IFRS 9 are described as follows (continued):

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

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> IFRS 13 <i>Fair Value Measurement</i> issued in May 2011 establishes a single framework for measuring fair value and is applicable for both financial and non-financial items. 	1 January 2013
<ul style="list-style-type: none"> Amendments to IAS 1 – <i>Presentation of Other Comprehensive Income</i>. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis. 	1 July 2012
<ul style="list-style-type: none"> Amendments to IAS 19 <i>Employee Benefits</i> eliminate the “corridor approach” and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur. 	1 January 2013
<ul style="list-style-type: none"> Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities. 	1 January 2014
<ul style="list-style-type: none"> IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>. 	1 January 2013
<ul style="list-style-type: none"> Annual Improvements to <i>IFRSs 2009 – 2011 Cycle</i> <p>The annual improvements include the amendments to five IFRSs which have been summarized below:</p> <ul style="list-style-type: none"> ▪ <i>IFRS 1 First Time Adoption of International Financial Reporting Standards – Repeated application of IFRS 1.</i> ▪ <i>IFRS 1 First Time Adoption of International Financial Reporting Standards – Borrowing costs.</i> ▪ <i>IAS 1 Presentation of Financial Statements – Clarification of the requirements for comparative information.</i> ▪ <i>IAS 16 Property, Plant and Equipment – Classification of serving equipment.</i> ▪ <i>IAS 32 Financial Instruments: Presentation – Tax effect of the distribution to the holders of equity instruments.</i> ▪ <i>IAS 34 Interim Financial Reporting – Interim financial reporting and segment information for total assets and liabilities.</i> 	1 January 2013

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
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- Amendments to IFRS 10, IFRS 12 and IAS 27 – Guidance on Investment Entities 1 January 2014

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

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

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

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

3. Summary of significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of U.A.E. Federal Law No. 6 of 2007, concerning Establishment of Insurance Authority and Organization of its Operations and U.A.E Federal Law No.8 of 1984 (as amended).

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

3. Summary of significant accounting policies (continued)

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and investment properties that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies adopted are set out below.

3.3 Insurance contracts

3.3.1 Insurance contracts

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

3.3.2 Recognition and measurement

Insurance contracts are classified depending on the nature of risk, duration of risk and whether or not the terms and conditions are fixed.

3.3.3 Short term insurance contracts

These contracts are casualty and property insurance contracts.

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.4 Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Company reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

3.3.5 Insurance contract liabilities

3.3.5.1 Outstanding claims

Insurance contract liabilities towards outstanding claims are recognised for all claims intimated and unpaid at the end of the reporting period. 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 end of the reporting period 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 end of the reporting period. 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.

3.3.5.2 Unearned premium

The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the reporting date and is estimated using the 1/8th method for all lines of business. The unearned premium calculated by the above method (after reducing the reinsurance shares) complies with the minimum unearned premium amounts to be maintained using 25% and 40% method for marine and non-marine respectively, in accordance with regulations relating to insurance companies. The unearned premium calculated by the 1/8th method accounts for the estimated acquisition costs incurred by the Company to acquire policies and defers these over the life of the policy.

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

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

3. Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.6 Policy acquisition costs

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

3.3.7 Salvage and subrogation reimbursements

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

3.3.8 Liability adequacy test

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

3.3.9 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

3.4 Revenue recognition

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

3.4.1 Insurance contract income

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

3.4.2 Commission income

Commission income is recognised when the policies are written based on the terms and percentages agreed with the reinsurers.

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

3. Summary of significant accounting policies (continued)

3.4 Revenue recognition (continued)

3.4.3 Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.4.4 Dividend income

Dividend income from investments is recognised when the Company's right to receive payment has been established.

3.4.5 Rental income

Rental incomes from investment properties which are leased under operating leases are recognised on a straight line basis over the term of the relevant lease.

3.4.6 Realised gains and losses on investments in securities

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

3.5 General and administrative expenses

95% of general and administrative expenses for the year are allocated to insurance departments in proportion to each department's share of written premiums.

3.6 Foreign currencies

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

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

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

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

3. Summary of significant accounting policies (continued)

3.7 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any identified impairment losses.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The useful lives considered in the calculation of depreciation for all the assets are 5 years.

3.8 Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at their fair value at the reporting date. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss.

3.9 Impairment of tangible assets

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

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

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

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

3. Summary of significant accounting policies (continued)

3.10 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

3.11 Employee benefits

3.11.1 Defined contribution plan

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

3.11.2 Annual leave and leave passage

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

3.11.3 Provision for employees' end of service benefits

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

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

3.12 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Company has no finance leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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

3. Summary of significant accounting policies (continued)

3.13 Financial assets

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

The Company has the following financial assets: insurance and other receivables (except prepaid expenses) and statutory deposits which collectively are classified as 'loans and receivables' and bank balances and cash. Financial assets also include investments which are classified either as 'at fair value through profit or loss' (FVTPL) - held for trading investments or as available-for-sale (AFS). The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

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

3.13.1 Bank balance and cash

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

3.13.2 Loans and receivables

Loans and receivables are measured at amortised costs using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.13.3 Investments

Investments of the Company are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

3.13.3.1 Financial assets at FVTPL – Investment held for trading

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

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss.

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

3. Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

3.13.3 Investments (continued)

3.13.3.2. AFS investments

AFS investments comprise listed shares held by the Company traded in an active market and are stated at fair value. Gains and losses arising from the changes in the fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve with the exception of impairment losses. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is reclassified to profit or loss.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in income statement are determined based on the amortised cost of the monetary asset.

Dividend on available-for-sale investments are recognised in profit or loss when the Company's right to receive the dividend is established.

3.14 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When an AFS investment is considered to be impaired, cumulative gains or losses previous recognised in other comprehensive income are reclassified to profit or loss.

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

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

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

3. Summary of significant accounting policies (continued)

3.14 Impairment of financial assets (continued)

For certain categories of financial assets, such as insurance and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

3.15 Derecognition of financial assets

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

3.16 Financial liabilities and equity instruments issued by the Company

3.16.1 Classification as debt or equity

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

3.16.2 Equity instruments

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

3.16.3 Financial liabilities

Insurance and other payables and bank loan are classified as 'other financial liabilities' and are measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short term payables when the recognition of interest would be immaterial.

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

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

3. Summary of significant accounting policies (continued)

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

3.16.4 Derecognition of financial liabilities

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

3.17 Dividend distribution

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

4.1 Critical judgements in applying accounting policies

4.1.1 Classification of investments

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

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

4.1.2 Valuation of unquoted equity investments

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

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

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

4.1 Critical judgements in applying accounting policies (continued)

4.1.3 Impairment of available-for-sale investments

The Company determines whether available for sale investments are impaired when there has been a significant or prolonged decline in their fair value below cost. This determination of what is significant or prolonged requires judgement. In making this judgement and to record whether impairment occurred, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

Management has not considered impairment loss on available-for-sale investments for the year (2011: AED 2,391,535), based on the analysis of impairment test performed on available-for-sale investments.

4.1.4 Classification of properties

In the process of classifying properties, management has made various judgments. Judgements are needed to determine whether a property qualifies as an investment property, property and equipment, property under development and/or property held for sale. Management develops criteria so that it can exercise that judgement consistently in accordance with the definitions of investment property, property and equipment, property under development and property held for sale. In making its judgement, management has considered the detailed criteria and related guidance set out in IAS 2 – Inventories, IAS 16 – Property, Plant and Equipment, and IAS 40 – Investment Property, with regards to the intended use of the property.

4.2 Key sources of estimation uncertainty

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

4.2.1 The ultimate liability arising from claims made under insurance contracts

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

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

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

4.2 Key sources of estimation uncertainty (continued)

4.2.2 Impairment of insurance receivables

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

4.2.3 Liability adequacy test

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

5. Property and equipment

	Furniture, fixture and office equipment and improvements AED	Motor vehicles AED	Total AED
Cost			
31 December 2010	3,435,962	53,600	3,489,562
Additions	1,390,846	-	1,390,846
	<hr/>	<hr/>	<hr/>
31 December 2011	4,826,808	53,600	4,880,408
Additions	157,506	-	157,506
Disposals	(4,595)	-	(4,595)
	<hr/>	<hr/>	<hr/>
31 December 2012	4,979,719	53,600	5,033,319
Accumulated depreciation			
31 December 2010	2,480,953	51,960	2,532,913
Charge for the year	369,254	751	370,005
	<hr/>	<hr/>	<hr/>
31 December 2011	2,850,207	52,711	2,902,918
Charge for the year	564,957	820	565,777
Disposals	(774)	-	(774)
	<hr/>	<hr/>	<hr/>
31 December 2012	3,414,390	53,531	3,467,921
Carrying value			
31 December 2012	1,565,329	69	1,565,398
	<hr/>	<hr/>	<hr/>
31 December 2011	1,976,601	889	1,977,490
	<hr/>	<hr/>	<hr/>

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

5. Property and equipment (continued)

At 31 December 2012, the cost of fully depreciated property and equipment that was still in use amounted to AED 2,239,169 (2011: AED 1,957,765).

All of the Company's property and equipment are located in the U.A.E.

6. Investment properties

	2012 AED	2011 AED
Fair value at the beginning of the year	92,900,000	92,900,000
Decrease in fair value during the year	(20,000,000)	-
	<hr/>	<hr/>
Fair value at the end of the year	72,900,000	92,900,000
	<hr/> <hr/>	<hr/> <hr/>

Investment properties are stated at fair value, which has been principally determined based on valuations performed by management at the end of the year. Fair value represents the amounts at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of the valuation. Valuations are performed on a periodic basis, at least annually, and the fair value gains and losses are recorded in the profit or loss.

The property rental income earned by the Company from its investment properties, all of which are leased out under operating leases, and the direct operating expenses arising on the investment properties are as follows:

	2012 AED	2011 AED
Rental income	3,572,203	4,082,677
Direct operating expenses	(651,456)	(521,024)
	<hr/>	<hr/>
Income from investment properties (Note 19) - net	2,920,747	3,561,653
	<hr/> <hr/>	<hr/> <hr/>

Investment properties represent the fair value of the properties located in U.A.E.

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

7. Investments

7.1 Available-for-sale investments

Movements during the year were as follows:

	2012 AED	2011 AED
Fair value at the beginning of the year	26,773,609	26,866,803
Purchased during the year	12,590,512	6,636,898
Disposed during the year	(13,995,450)	(5,910,707)
Decrease in fair value during the year	(358,509)	(819,385)
	<hr/>	<hr/>
Fair value at the end of the year	25,010,162	26,773,609
	<hr/>	<hr/>

Available-for-sale investments comprise of the following:

	2012 AED	2011 AED
Within U.A.E.	22,754,706	24,766,860
Outside U.A.E.	2,255,456	2,006,749
	<hr/>	<hr/>
	25,010,162	26,773,609
	<hr/>	<hr/>

7.2 Investments held for trading

Movements during the year were as follows:

	2012 AED	2011 AED
Fair value at the beginning of the year	23,154,628	26,240,355
Disposed during the year	(77,304)	(60,199)
Increase/(decrease) in fair value during the year	1,331,473	(3,025,528)
	<hr/>	<hr/>
Fair value at the end of the year	24,408,797	23,154,628
	<hr/>	<hr/>

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

7. Investments (continued)

7.2 Investments held for trading (continued)

Investment held for trading comprise of the following:

	2012 AED	2011 AED
Within U.A.E.	19,936,791	18,997,919
Outside U.A.E.	4,472,006	4,156,709
	<hr/> 24,408,797 <hr/>	<hr/> 23,154,628 <hr/>

8. Statutory deposit

Statutory deposit is maintained in accordance with the requirements of U.A.E. Federal Law No. 6 of 2007 concerning the formation of Insurance Authority of U.A.E. and is not available to finance the day to day operations of the Company.

9. Insurance contract liabilities and re-insurance contract assets

	2012 AED	2011 AED
Gross		
Insurance contract liabilities:		
Claims reported unsettled	33,770,033	34,772,127
Claims incurred but not reported	3,033,599	1,172,000
Unearned premiums	51,451,323	48,477,213
	<hr/> 88,254,955 <hr/>	<hr/> 84,421,340 <hr/>
Total insurance contract liabilities, gross		
Recoverable from re-insurers		
Claims reported unsettled	25,131,662	26,930,370
Unearned premiums	17,138,607	20,086,245
	<hr/> 42,270,269 <hr/>	<hr/> 47,016,615 <hr/>
Total re-insurers' share of insurance liabilities		
Net		
Claims reported unsettled	8,638,371	7,841,757
Claims incurred but not reported	3,033,599	1,172,000
Unearned premiums	34,312,716	28,390,968
	<hr/> 45,984,686 <hr/>	<hr/> 37,404,725 <hr/>

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

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

Movements in the insurance contract liabilities and re-insurance contract assets during the year were as follows:

	Year ended 31 December 2012			Year ended 31 December 2011		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
Claims						
Notified claims	34,772,127	(26,930,370)	7,841,757	23,626,397	(14,170,206)	9,456,191
Incurred but not reported	1,172,000	-	1,172,000	2,285,455	-	2,285,455
Total at the beginning of the year	35,944,127	(26,930,370)	9,013,757	25,911,852	(14,170,206)	11,741,646
Claims settled during the year	(94,729,322)	22,399,821	(72,329,501)	(81,409,898)	35,505,965	(45,903,933)
Increase in liabilities	95,588,827	(20,601,113)	74,987,714	91,442,173	(48,266,129)	43,176,044
Total at the end of the year	36,803,632	(25,131,662)	11,671,970	35,944,127	(26,930,370)	9,013,757
Notified claims	33,770,033	(25,131,662)	8,638,371	34,772,127	(26,930,370)	7,841,757
Incurred but not reported	3,033,599	-	3,033,599	1,172,000	-	1,172,000
Total at the end of the year	36,803,632	(25,131,662)	11,671,970	35,944,127	(26,930,370)	9,013,757
Unearned premium						
Total at the beginning of the year	48,477,213	(20,086,245)	28,390,968	51,305,006	(31,770,768)	19,534,238
Increase during the year	51,451,323	(17,138,607)	34,312,716	48,477,213	(20,086,245)	28,390,968
Release during the year	(48,477,213)	20,086,245	(28,390,968)	(51,305,006)	31,770,768	(19,534,238)
Net increase/(decrease) during the year (Note 18)	2,974,110	2,947,638	5,921,748	(2,827,793)	11,684,523	8,856,730
Total at the end of the year	51,451,323	(17,138,607)	34,312,716	48,477,213	(20,086,245)	28,390,968

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

10. Insurance and other receivables

	2012	2011
	AED	AED
Receivables arising from insurance and re-insurance contracts		
Due from policyholders	68,412,231	66,915,628
Allowance for doubtful debts	(21,553,472)	(18,072,439)
	<hr/>	<hr/>
	46,858,759	48,843,189
Notes receivable – post-dated cheques	-	1,416,316
Due from insurance companies	7,084,676	6,597,233
Due from re-insurance companies	1,603,314	716,039
Other receivables		
Advance payments	1,854,098	702,020
Prepayments and others	2,058,545	1,776,448
	<hr/>	<hr/>
	59,459,392	60,051,245
	<hr/> <hr/>	<hr/> <hr/>

10.1 Insurance receivables

The average credit period is 60 days. Due from policyholders outstanding between 180 days and 365 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience in addition to specific provision made on identified customers.

Due from policyholders over 365 days amounted to AED 27,048,788 as of 31 December 2012 (2011: AED 15,627,197).

Before accepting any new customer, the Company assesses the potential customers credit quality and defines credit limits by customer. Of the due from policyholders balance at the end of year AED 3,267,426 (2011: AED 2,589,743) is due from the Company's largest customer. There are no (2011: Nil) customers who represents more than 5% of the total balance of due from policyholders.

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

10. Insurance and other receivables (continued)

10.1 Insurance receivables (continued)

Aging of due from policy holders:

	2012 AED	2011 AED
Not past due	23,477,817	19,670,200
Past due but not impaired		
60 to 365 days	17,816,719	23,008,598
More than 365 days	5,564,223	6,164,391
	23,380,942	29,172,989
Past due and impaired		
60 to 365 days	68,907	8,609,633
More than 365 days	21,484,565	9,462,806
	21,553,472	18,072,439
Total due from policyholders	68,412,231	66,915,628

Movement in the allowance of doubtful debts:

	2012 AED	2011 AED
Balance at the beginning of the year	18,072,439	2,500,000
Allowance made during the year	3,481,033	15,572,439
Balance at the end of the year	21,553,472	18,072,439

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

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

11. Bank balances and cash

	2012 AED	2011 AED
Cash on hand	16,500	17,500
Bank balances		
Current accounts	4,965,391	1,713,763
Call accounts	12,654,707	9,546,210
Fixed deposits	18,130,993	17,000,000
	<hr/>	<hr/>
	35,767,591	28,277,473
Less: Fixed deposits with maturity over 3 months	(18,130,993)	(17,000,000)
	<hr/>	<hr/>
Cash and cash equivalents	17,636,598	11,277,473
	<hr/> <hr/>	<hr/> <hr/>

Bank balances are maintained with banks in U.A.E. The interest rate on fixed deposits ranges between 3.8% to 4.9% (2011: 3.8% to 4.9%).

Fixed deposits amounting to AED 9,450,000 (31 December 2011: 17,000,000) are under lien against bank loan granted to the Company (Note 15).

12. Share capital

At 31 December 2012, the issued and fully paid share capital comprised 100,000,000 shares of AED 1 each (31 December 2011: 50,000,000 shares of AED 1 each).

During the year, the share capital of the Company was increased by AED 50 million by issuing bonus shares (Note 22)

13. Statutory reserve

In accordance with the Company's Articles of Association and the UAE Federal Law No. 8 of 1984, as amended, 10% of the net profit of the Company is transferred to a statutory reserve that is non-distributable. Transfers to this reserve are required to be made until such time as it equals at least 50% of the paid up share capital of the Company. This reserve is not available for distribution.

14. General reserve

The general reserve is established through transfers from profit for the year as recommended by the Board of Directors' and approved by the Shareholders' at the Annual General Meeting. The reserve is distributable based on a recommendation by the Board of Directors', approved by a Shareholders' resolution. The Shareholders approved transfer of AED 12,996,524 (2011: Nil) from general reserve to retained earnings during the year.

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

15. Bank loan

The bank loan is repayable as follows:

	2012 AED	2011 AED
<i>Current</i>		
Within one year	4,453,232	5,400,000
<i>Non-current</i>		
In the second year	-	4,050,000
	<hr/> 4,453,232 <hr/>	<hr/> 9,450,000 <hr/>

The Company has obtained a bank loan of AED 45 million in 2008 to finance the purchase of investment property and is repayable in 60 equal monthly installments. During 2009, the bank has rescheduled the loan and the revised monthly installment amount payable is AED 450,000, starting from January 2010.

At 31 December 2012, bank loan is secured by lien on fixed deposit amounting to AED 9,450,000 (2011: AED 17,000,000).

16. Provision for employee's end of service benefits

Movements in the net liability were as follows:

	2012 AED	2011 AED
Balance at the beginning of the year	1,500,951	2,313,990
Charge for the year	234,393	169,284
Paid during the year	(163,881)	(982,323)
	<hr/> 1,571,463 <hr/>	<hr/> 1,500,951 <hr/>

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

17. Insurance and other payables

	2012 AED	2011 AED
Payables arising from insurance and re-insurance contracts		
Trade payables	21,803,954	16,361,795
Due to insurance companies	8,894,835	10,238,310
Due to re-insurance companies	12,479,749	13,735,450
Premium reserve withheld	5,489,092	5,151,617
Accrued expenses and other payables		
Accrued expenses	1,505,425	1,433,834
Other payables	6,095,376	5,390,266
	<hr/> 56,268,431 <hr/>	<hr/> 52,311,272 <hr/>

18. Net insurance premium revenue

	2012 AED	2011 AED
Gross premium written		
Gross premium written (Note 28.2)	132,296,548	105,114,915
Change in unearned premium (Note 9)	(2,974,110)	2,827,793
	<hr/> 129,322,438 <hr/>	<hr/> 107,942,708 <hr/>
Re-insurance premium ceded		
Re-insurance premium ceded	(47,055,478)	(40,739,984)
Change in unearned premium (Note 9)	(2,947,638)	(11,684,523)
	<hr/> (50,003,116) <hr/>	<hr/> (52,424,507) <hr/>
Net insurance premium revenue	<hr/> 79,319,322 <hr/>	<hr/> 55,518,201 <hr/>

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

19. Investment income and other income

	2012 AED	2011 AED
Investment income		
Interest on fixed deposits	990,793	999,139
Income from investment property (Note 6) – net	2,920,747	3,561,653
Gain/(loss) on disposal of available-for-sale investments	277,340	(963,993)
Dividend from available-for-sale investments	1,525,659	932,744
Dividend from investments held for trading	122,774	293,243
Unrealised gain/(loss) on investments held for trading (Note 7.2)	1,331,473	(3,025,528)
	<hr/>	<hr/>
Total investment income	7,168,786	1,797,258
Other income	459,880	20,038
	<hr/>	<hr/>
Total investment income and other income	7,628,666	1,817,296
	<hr/> <hr/>	<hr/> <hr/>

20. Loss for the year

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

	2012 AED	2011 AED
Staff costs	11,606,616	11,903,159
Depreciation of property and equipment	565,777	370,005

21. Basic loss per share

	2012	2011
Loss for the year (in AED)	(21,926,920)	(16,307,456)
	<hr/>	<hr/>
Number of shares	100,000,000	100,000,000
	<hr/>	<hr/>
Basic loss per share (in AED)	(0.22)	(0.16)
	<hr/> <hr/>	<hr/> <hr/>

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

The denominator for the purpose of calculating basic loss per share for 2011 has been adjusted to reflect the issue of bonus shares during the current year (Note 12).

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

22. Bonus shares

During 2012, the Shareholders approved 1 bonus share for each 1 share as of 31 December 2011. The shareholders also approved the transfer of AED 12,996,524 from general reserve to retained earnings.

23. Related party transactions

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

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

	2012 AED	2011 AED
Due from policyholders	1,710,937	1,093,206
Due to policyholders	8,298	3,400

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

Transactions:

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

	2012 AED	2011 AED
Gross premium	6,375,117	5,782,376
Claims incurred	3,546,502	4,654,821

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

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

23. Related party transactions (continued)

Compensation of Board of Directors'/key management personnel

	2012 AED	2011 AED
Short-term benefits	1,723,089	1,539,932
Long-term benefits	13,906	20,000
Board of Directors' remuneration	-	500,000

24. Contingent liabilities

	2012 AED	2011 AED
Letters of guarantee	5,743,553	9,731,780

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

25. Insurance risk

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

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

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

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

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

25. Insurance risk (continued)

25.1 Frequency and severity of claims

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

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

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

25.2 Sources of uncertainty in the estimation of future claim payments

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

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

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

25. Insurance risk (continued)

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

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

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

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

Type of risk	2012	2011
Motor	85 - 90%	70 – 75%
Non-Motor	55 - 60%	90 – 95%

25.3 Process used to decide on assumptions

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

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

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

25. Insurance risk (continued)

25.4 Concentration of Insurance risk

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

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

	2012			2011		
	Type of risk			Type of risk		
	Motor AED '000	Non-Motor AED '000	Total AED '000	Motor AED '000	Non-Motor AED '000	Total AED '000
Gross	1,634,273	29,175,316	30,809,589	1,222,364	32,842,606	34,064,970
Net	1,634,273	4,338,369	5,972,642	1,222,364	4,809,615	6,031,979

25.5 Reinsurance risk

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

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

25.6 Sensitivity of underwriting profit and losses

The contribution by the insurance operations to the loss of the Company amounts to AED 8.3 million (loss) for the year ended 31 December 2012 (2011: AED 12.3 million (loss)). The Company does not foresee any major impact from insurance operations due to the following reasons:

- The Company has an overall risk retention level of 61% (2011: 51%) and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 97% (2011: 80%). However, in this class the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.
- The Company has net commission earnings in 2012 of AED 10.5 million (2011: AED 8.1 million) of the net insurance profit. These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

Because of low risk retention of 61% (2011: 51%) of the business volume and limited exposure in high retention areas like motor, the Company is comfortable to maintain a net loss ratio in the region of 85%-90% (2011: 75%-78%) and does not foresee any serious financial impact in the insurance net loss.

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

26. Capital risk management

26.1 Objectives

The Company's objectives when managing capital are:

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

26.2 Minimum regulatory capital

In U.A.E., the local insurance regulator specifies the minimum amount and type of capital that must be held by the Company in addition to its insurance liabilities. The minimum required capital (presented in the table below) must be maintained at all times throughout the year.

The table below summarises the minimum regularity capital and the total capital held

	2012 AED	2011 AED
Total capital held	100,000,000	50,000,000
Minimum regulatory capital	100,000,000	100,000,000

27. Financial instruments

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

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

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

27. Financial instruments (continued)

27.1 Significant accounting policies

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

27.2 Categories of financial instruments

31 December 2012

	Loans and receivables AED	Held for trading AED	Available- for-sale AED	Total AED
Financial assets				
Available-for-sale investments	-	-	25,010,162	25,010,162
Statutory deposit	6,000,000	-	-	6,000,000
Insurance and other receivables	58,994,969	-	-	58,994,969
Investments held-for-trading	-	24,408,797	-	24,408,797
Bank balances and cash	35,767,591	-	-	35,767,591
Total financial assets	100,762,560	24,408,797	25,010,162	150,181,519

31 December 2011

	Loans and receivables AED	Held for trading AED	Available- for-sale AED	Total AED
Financial assets				
Available-for-sale investments	-	-	26,773,609	26,773,609
Statutory deposit	6,000,000	-	-	6,000,000
Insurance and other receivables	58,909,339	-	-	58,909,339
Investments held-for-trading	-	23,154,628	-	23,154,628
Bank balances and cash	28,277,473	-	-	28,277,473
Total financial assets	93,186,812	23,154,628	26,773,609	143,115,049

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

27. Financial instruments (continued)

27.2 Categories of financial instruments (continued)

	2012	2011
	AED	AED
Financial liabilities		
Insurance and other payables	56,268,431	52,311,272
Bank loan	4,453,232	9,450,000
Total financial liabilities	60,721,663	61,761,272

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

27.3 Fair values

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices at the close of the business on the reporting date.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

27.3.1 Analysis of financial instruments

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

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

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

27. Financial instruments (continued)

27.3 Fair values (continued)

27.3.1 Analysis of financial instruments (continued)

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
31 December 2012				
AFS investments				
Quoted investments	25,010,162	-	-	25,010,162
Investment held for trading				
Unquoted investments	-	24,408,797	-	24,408,797
	<u>25,010,162</u>	<u>24,408,797</u>	<u>-</u>	<u>49,418,959</u>
 31 December 2011				
AFS investments				
Quoted investments	26,773,609	-	-	26,773,609
Investment held for trading				
Unquoted investments	-	23,154,628	-	23,154,628
	<u>26,773,609</u>	<u>23,154,628</u>	<u>-</u>	<u>49,928,237</u>

There were no transfers between each of level during the year. There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table. There are no financial assets that are measured at fair value using Level 3.

27.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and equity price risk.

27.4.1 Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Company. The Company is exposed to interest rate risk on its financial investments in term deposits and bank borrowings that carry both fixed and floating interest rates.

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

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

27. Financial instruments (continued)

27.4 Market risk (continued)

27.4.2 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the Company's exposure to interest rate risk relating to its bank deposits and bank loan, assuming that the amount of assets and liabilities at the end of the reporting period were outstanding for the whole year. At 31 December 2012, bank deposits carried an interest rate in the range of 3.8% - 4.9% per annum (2011: 3.8% - 4.9% per annum) and bank loan carried an interest rate of 0.6% per annum (2011: 1% per annum) over the fixed deposit rate Company is getting.

If interest rates had been 50 basis points higher/lower throughout the year and all other variables were held constant, the Company's net loss for the year ended 31 December 2012 and equity as at 31 December 2012 would increase/decrease by approximately AED 83,870 (2011: increase/decrease by AED 53,125).

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

27.4.3 Equity price risk and sensitivity analysis

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

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

- loss would have increased/decreased by AED 2.4 million (2011: AED 2.3 million) in the case of investments held for trading.
- other comprehensive income would have increased/decreased by AED 2.5 million (2011: AED 2.7 million) in the case of available-for-sale investments.

Method and assumptions for sensitivity analysis

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

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

27. Financial instruments (continued)

27.4 Market risk (continued)

27.4.4 Foreign currency risk

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

27.4.5 Credit risk

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

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

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

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

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

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

Insurance receivables consist of a large number of customers, spread across diverse industries. Ongoing credit evaluation is performed on the financial condition of insurance receivable. The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks registered in United Arab Emirates.

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

27. Financial instruments (continued)

27.4 Market risk (continued)

27.4.5 Credit risk (continued)

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk.

27.5 Liquidity risk

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

31 December 2012

	Less than 90 days AED	90 – 180 days AED	Above 180 days AED	Total AED
Financial assets				
Available-for-sale investments	-	-	25,010,162	25,010,162
Statutory deposit	-	-	6,000,000	6,000,000
Insurance and other receivables	30,605,618	8,823,289	19,566,062	58,994,969
Investments held-for-trading	24,408,797	-	-	24,408,797
Bank balances and cash - non interest bearing	4,981,891	-	-	4,981,891
Bank balances and cash - interest bearing	12,654,707	-	18,130,993	30,785,700
	<u>72,651,013</u>	<u>8,823,289</u>	<u>68,707,217</u>	<u>150,181,519</u>
Financial liabilities				
Bank loan	1,753,232	1,350,000	1,350,000	4,453,232
Insurance and other payables	55,608,115	660,316	-	56,268,431
	<u>57,361,347</u>	<u>2,010,316</u>	<u>1,350,000</u>	<u>60,721,663</u>

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

27. Financial instruments (continued)

27.5 Liquidity risk (continued)

31 December 2011

	Less than 90 days AED	90 – 180 days AED	Above 180 days AED	Total AED
Financial assets				
Available-for-sale investments	-	-	26,773,609	26,773,609
Statutory deposit	-	-	6,000,000	6,000,000
Insurance and other receivables	11,663,911	9,412,503	37,832,925	58,909,339
Investments held-for-trading	23,154,628	-	-	23,154,628
Bank balances and cash - non interest bearing	1,731,263	-	-	1,731,263
Bank balances and cash - interest bearing	9,546,210	-	17,000,000	26,546,210
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets	46,096,012	9,412,503	87,606,534	143,115,049
	<hr/>	<hr/>	<hr/>	<hr/>
Financial liabilities				
Bank loan	1,800,000	1,350,000	6,300,000	9,450,000
Insurance and other payables	51,788,172	523,100	-	52,311,272
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	53,588,172	1,873,100	6,300,000	61,761,272
	<hr/>	<hr/>	<hr/>	<hr/>

28. Segment information

28.1 Business Segments

For management purposes, the Company is organised into two business segments, general insurance and investments.

The general insurance segment comprises property, fire, marine, motor, medical, general accident and miscellaneous risks.

Investment comprises investments held for trading, AFS investments, investment properties and fixed deposits. Finance costs for the loan obtained for purchasing the investment property is reduced from investment income.

These segments are the basis on which the Company reports its primary segment information to the Chief Operating Decision Maker.

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

28. Segment information (continued)

28.1 Business segments (continued)

	2012			2011		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment revenue (Note 28.2)	132,296,548	-	132,296,548	105,114,915	-	105,114,915
Segment result	(8,339,035)	(13,154,926)	(21,493,961)	(12,272,686)	(1,329,403)	(13,602,089)
Unallocated costs (net)			(432,959)			(2,705,367)
Loss for the year			(21,926,920)			(16,307,456)
Segment assets	107,729,661	140,449,952	248,179,613	113,067,860	159,828,237	272,896,097
Unallocated assets			19,201,996			13,254,963
Total assets			267,381,609			286,151,060
Segment liabilities	144,523,386	4,453,232	148,976,618	136,732,612	9,450,000	146,182,612
Unallocated liabilities			1,571,463			1,500,951
Total liabilities			150,548,081			147,683,563

There are no transactions between the business segments.

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

28. Segment information (continued)

28. 2 Revenue from underwriting departments

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

	2012	2011
	AED	AED
Motor	59,891,251	50,464,609
Marine	5,496,573	6,734,697
Medical	43,121,792	20,849,861
Fire	12,479,839	11,017,422
Engineering, property, general accidents and others	11,307,093	16,048,326
	<hr/> 132,296,548 <hr/>	<hr/> 105,114,915 <hr/>

29. Approval of financial statements

The financial statements were approved by the Board of Directors' and authorised for issue on 28 February 2013.