ANNUAL REPORT 2012

# orient

## orient insurance pjsc

*Innovation and Excellence*

RATED STRONG
STANDARD &POOR'S
A

2013
MENA INSURANCE AWARDS
WINNER
Orient Insurance PJSC
UAE insurer of the year

Financial Strength Rating
A.M. BEST
A Excellent

Registration No. (14)
Dated 29 December 1984
Under the provisions of
Federal Law No. (6) of 2007

HEAD OFFICE
Orient Building
Al Badia Business Park
Dubai Festival City
P.O. Box 27966, Dubai, UAE
Tel: (04) 253 1300, Fax: (04) 253 1500

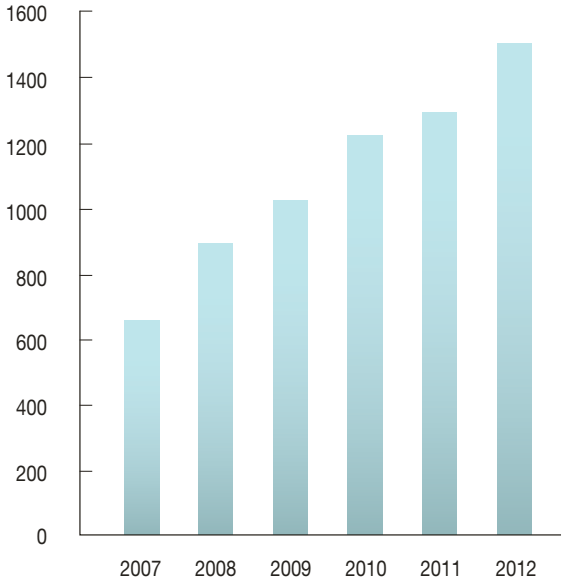
AUDITORS
ERNST & YOUNG

ANNUAL REPORT 2012

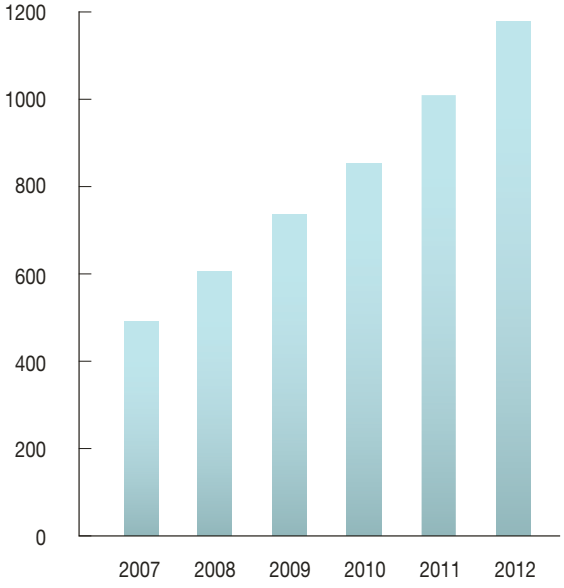
# CONTENTS


| | |
|---|---|
| Report of the Directors | 5 - 6 |
| Auditors' Report | 7 - 8 |
| Consolidated statement of financial position | 9 |
| Consolidated Statement of Income | 10 |
| Consolidated Statement of Comprehensive Income | 11 |
| Consolidated Statement of Cash Flows | 12 |
| Consolidated Statement of Changes in Equity | 13 |
| Notes to the Consolidated Financial Statements | 14 - 49 |

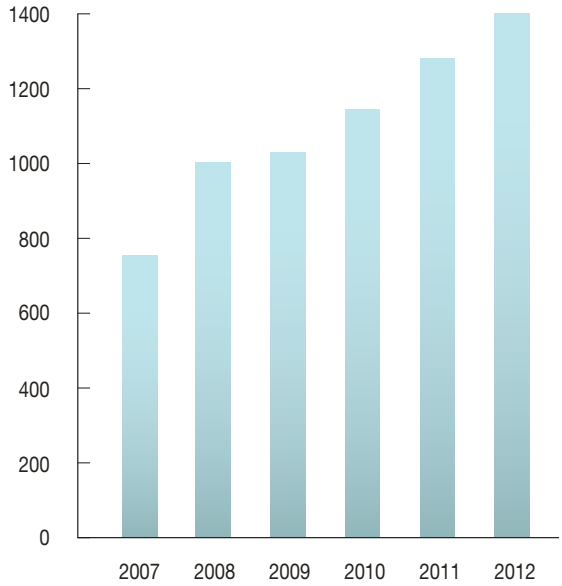
## Total Investments
(In Dirhams Millions)



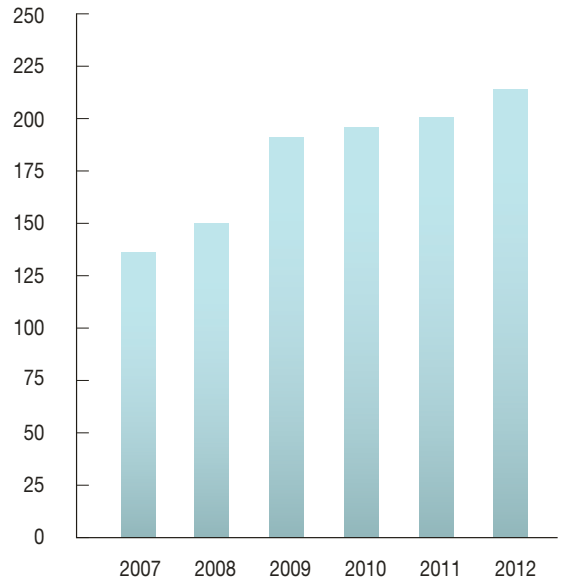

## Shareholders' Equity
(In Dirhams Millions)




## Gross Premium
(In Dirhams Millions)




## Net Profits
(In Dirhams Millions)





H. H. SHEIKH KHALIFA BIN ZAYED AL NAHYAN
President of the United Arab Emirates
Ruler of Abu Dhabi



H. H. SHEIKH MOHAMED BIN RASHID AL MAKTOUM
Vice President and Prime Minister of the United Arab Emirates
Ruler of Dubai

# Directors and Management

## BOARD OF DIRECTORS

| | |
|---|---|
| Chairman | Abdulla Hamad Al Futtaim<br>(representative of Al-Futtaim Company L.L.C.) |
| Vice Chairman | Omar Abdulla Al Futtaim<br>(representative of Al-Futtaim Development Services Co L.L.C.) |
| Director | Ahmed Zaky Haroun<br>(representative of Al-Futtaim Private Company L.L.C.) |
| Director | Khalid Abdulla Al Futtaim<br>(representative of Al-Futtaim Development Services Co L.L.C.) |
| Director | Buti Obaid Buti Al Mulla |

## MANAGEMENT

| | |
|---|---|
| Senior Managing Director | Omer Hassan Elamin |

## Department and Branches

**General Manager - Technical**
Rohana Alagiyage – F.C.I.I

**General Manager – Business Development**
Syed Muhammad Asim - A.C.I.I., M.B.A

**General Manager – Life & Medical**
Xavier Arputharaj - A.C.I.I

**Country Manager – Oman**
Adil Hassan Al Lawati – C.I.P, A.C.I.I, C.B.M

**Assistant General Manager – Sales and Marketing**
Fadi Awni Al Ahmadi, P.I.C

**Assistant General Manager – Brokers**
K.V. Suresh – M.Sc, F.I.I.I.

**Assistant General Manager – Medical**
Wissam Khalifeh - F.L.M.I., Diploma in Actuarial Sciences

**Assistant General Manager – Life**
Selvan Raman - M.Sc, DAT, A.I.A.I

**Assistant General Manager – Finance**
Mohammed Husain Suleman - B.Com, F.C.A.

**Assistant General Manager – Operations Control**
S. Raj Gopal – A.C.A, A.I.I.I

**Assistant General Manager – Claims**
Natarajan Ramesh - F.C.I.I, M.I.R.M

**Assistant General Manager – Reinsurance**
Nadia Saleh – F.C.I.I

**Assistant General Manager – Marine and Energy**
Upali Wijeratne A.C.I.I B.Sc.

**Assistant General Manager – Human Resource**
Gilbert Espiritu – B.Sc. Psychology

**BRANCHES:**

**Bur Dubai**
P.O. Box 27966, Suite No. 401 – 403 & 417,
4th Floor, Business Venue Building
Oud Metha, Bur Dubai
Tel: (04) 3352400, Fax: (04) 3352015

**Jebel Ali**
P.O. Box 17292, JAFZA View 19, Office. 2507,
25th Floor, Jebel Ali
Tel: (04) 884 7471, Fax: (04) 884 7449

**Sharjah**
P.O. Box 6654, Suite No. 203 and 204, 2nd Floor
Al Hisn Tower, Bank Street, Sharjah
Tel: (06) 5682045, Fax: (06) 5681334

**Ras Al-Khaimah**
P.O Box 33217, Red Crescent Bldg
Office No. 304, Al Jissir Road, Ras Al-Khaimah
Tel: (07) 2260540, Fax: (07) 2264296

**Mussafah**
P.O. Box 37035, Street No : 10, M3
New Honda Showroom Building, 1st floor
Mussafah Industrial City
Tel: (02) 5548718, Fax: (02) 5538513

**Muscat**
P.O. Box 1534, PC 133
401 City Seasons Building
Al-Khuwair - Muscat, Sultanate of Oman
Tel: (+968) 24475410, Fax: (+968) 24475262

**Dubai Health Care City**
P.O. Box 27966
Office No. 101, 1st Floor,
Building No.AP24
Tel: (04) 3635321, Fax: (04) 3635320

**Sheikh Zayed Road**
P.O. Box 27966
Office No. 117, Al Quoz Business Centre
Tel: (04) 3381880, Fax: (04) 3380363

**Deira**
P.O Box 27966, Business Point Building,
Office 203, Behind Nissan Service Center,
Port Saeed Deira
Tel: (04) 2942415, Fax: (04) 2989702

**Abu Dhabi**
P.O. Box 37035, Suite No. 1 Mezzanine Floor,
New Honda Showroom Building,
Zayed the 1st Street (Electra), Abu Dhabi
Tel: (02) 6763222, Fax: (02) 6722236

**Al Ain**
P.O. Box 18800,
Al Ain ,Main Street - Near Clock Signal
Melli Iran Bank Building, M2 Floor
Tel: (03) 7377012, Fax: (03) 7377013

# Report of the Directors

The Board of Directors has the pleasure to present the 31st Annual report of Orient Group together with the Audited Financial Statement for the year ended 31st December 2012.

## BUSINESS OVERVIEW

The general economic situation in the UAE and Dubai is indeed very positive. There is an improvement in all sectors of business. Tourism has truly picked up with a high occupancy rate in hotels, substantial increase in car sales and a noticeable increase in imports and exports. The stock market which has been very volatile for 3 years has now picked up by the end of 2012 and the first quarter of 2013. The market is back to almost its levels before the crisis. Real estate market is also showing very encouraging signs of recovery with prices going up and an increase in the demand. Most of the public shareholding companies/banks have shown remarkable increase in profits during 2012 based on the results published in the Financial Market. This is all music to the ears and an indication of a very promising 2013.

## UAE INSURANCE MARKET

Regrettably there is no good news to report on the condition of the UAE insurance market during 2012. The severe competition, very thin rates and a total relaxation on Terms and Conditions are just a small part of the very soft local market. There is no indication of any improvement in 2013. The rates have reached their record low level in 2012 especially in motor and medical where both have become the battleground of the market. This is the result of too many players and an overcrowded market. In a market where we have 62 Insurance companies with more to be licensed and 175 insurance brokers we can only expect a severe fight for a market share. With 7 companies controlling 60% of the market leaving the balance to the majority the battle will continue with no hope of improvement.

The solution to our local market can only be in merger and acquisition. In the absence of a desire to follow this route which is mainly due to the small size of the market the only solution is to enforce it. The best way to achieve this goal is to increase the capital requirement substantially. The small companies can either group together or be taken over by the big players. A reduction in the number of companies by 30-40% will be a first step for recovery. Without merger and acquisition taking place the large number of companies will continue to reflect on the results pushing the market for further deterioration.

## ORIENT GROUP PERFORMANCE

The mother company Orient UAE has done exceptionally well in 2012. Our technical profit has seen substantial hike from Dhs. 115 million to Dhs. 138 million recording a 20% increase. Our equity rose from Dhs. 1.019 billion to Dhs. 1.197 billion with almost 18% increase. Our net profit has increased from Dhs. 204 million to Dhs 213 million reflecting a 5% increase over the year 2011. The drop in our investment income is attributable to the reduction in interest rates.

Our overseas companies have done exceptionally well. Despite the critical political situation in Syria we have still recorded a net profit of SYP 106 million. In Egypt the company has seen substantial increase in profit from EGP 4 million to EGP 9 million. In Oman the profit has increased from RO 154 thousand to RO 364 thousand. In Sri Lanka our first year of operation has been very encouraging and promising and we have achieved our budget for 2012. All in all our overseas operations are all on track, successful and ready for major achievements in 2013.

Our plans to expand further are continuing. We are about to be licensed in Turkey and conclude a Joint Venture in Libya. We are also exploring other markets like Saudi, Qatar and Bahrain. We expect our operation to start in Turkey in the last quarter of 2013 and in Libya around the same time.

## ORIENT RATING

We have maintained our highest rating in the region and in the UAE. The combined "A" Rating from S&P and AM Best is a recognition from the prestigious rating agencies of our financial strength and outstanding performance. We are well positioned with this rating to offer an impeccable security to our clients, brokers and business associates.

## REINSURANCE TREATIES

We have finalized successfully our Reinsurance treaty programme for 2013 with our leader Swiss Re and the following markets. The long term relationship with the high rated reinsurers has continued uninterrupted for over number of years. We believe in long term relationship and in profitable partnership, a theory that has worked well supporting the continuity.

## TOMORROW

We look forward with great confidence to the future. We have all the ingredients for success; very strong rating, very strong financials, very strong capital, well experienced management team, impeccable security, ambitious plans for expansion and a very powerful supportive group backing us.

We are very optimistic about 2013 with all indications that it will be another record year for Orient.

## FINANCIAL HIGHLIGHTS

The highlights of the Group's financial performance for the years 2011 and 2012 are set below.

| | 2012 AED'000 | 2011 AED'000 | %Increase over 2011 |
|---|---|---|---|
| Gross Premium written | 1,400,082 | 1,265,214 | 11% |
| Net Premium written | 386,472 | 335,490 | 15% |
| Net claims incurred | 167,069 | 150,810 | 11% |
| Net Underwriting Income | 138,192 | 115,067 | 20% |
| Net Profit | 213,478 | 204,234 | 5% |
| Dividend to shareholders | 81,000 | 75,000 | 8% |
| Provision for unearned premiums | 169,265 | 142,471 | 19% |
| Share Capital | 405,000 | 375,000 | 8% |
| Reserves | 696,736 | 556,453 | 25% |

We greatly appreciate the efforts of the management and the staff resulting in the excellent performance of the company. It is due to their dedication, loyalty and sincerity such an achievement has been possible. We would like to thank our clients, brokers and business associates for their support and we look forward to an enhanced relationship in the future.

We are also thankful to our long term leading Reinsurer Swiss Re and the following markets for the continuous and unlimited support to the company.

# Independent Auditors' Report to the Shareholders of Orient Insurance Company (PJSC) (formerly Arab Orient Insurance Company (PSC))

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Orient Insurance Company (PJSC) (formerly Arab Orient Insurance Company (PSC)) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

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

## OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as 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

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

ERNST & YOUNG

Signed by:
Anthony O' Sullivan
Partner
Registration No. 687

30th January 2013
Dubai, United Arab Emirates

# Consolidated statement of financial position at 31 December 2012

| | Notes | 2012 AED'000 | 2011 AED'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Property and equipment | 3 | **122,318** | 124,560 |
| Investment in associated company | 4 | **29,847** | 37,881 |
| Investment securities | 5 | **675,381** | 111,687 |
| Reinsurance assets | 12 | **851,351** | 709,168 |
| Insurance receivables | 6 | **238,151** | 204,674 |
| Prepayments and other receivables | | **8,887** | 12,650 |
| | | **1,925,935** | 1,200,620 |
| Deposits with banks | 7 | **770,738** | 1,124,196 |
| Cash and cash equivalents | 8 | **69,498** | 58,185 |
| | | **840,236** | 1,182,381 |
| **TOTAL ASSETS** | | **2,766,171** | 2,383,001 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | 9 | **405,000** | 375,000 |
| Statutory reserve | 10 | **101,250** | 93,750 |
| Legal reserve | 10 | **152,331** | 131,325 |
| Exceptional loss reserve | 10 | **107,740** | 92,635 |
| General reserve | 10 | **299,981** | 243,592 |
| Retained earnings | 10 | **1,110** | 752 |
| Available-for-sale reserve | 10 | **41,967** | (1,952) |
| Foreign currency translation reserve | 10 | **(7,643)** | (3,649) |
| Proposed dividends | 11 | **81,000** | 75,000 |
| | | **1,182,736** | 1,006,453 |
| **Non-controlling interests** | | **14,996** | 12,876 |
| **Total equity** | | **1,197,732** | 1,019,329 |
| **LIABILITIES** | | | |
| Insurance contract liabilities | 12 | **1,158,669** | 972,000 |
| Reinsurance payables | | **201,019** | 198,265 |
| Amounts held under reinsurance treaties | | **112,170** | 105,400 |
| Other payables and accruals | 13 | **96,581** | 88,007 |
| **Total liabilities** | | **1,568,439** | 1,363,672 |
| **TOTAL EQUITY AND LIABILITIES** | | **2,766,171** | 2,383,001 |

These consolidated financial statements were approved by the Board of Directors on 30 January 2013 and signed on its behalf by:

**ABDULLA HAMAD AL FUTTAIM**
Chairman

**OMAR ABDULLA AL FUTTAIM**
Vice Chairman

The attached notes 1 to 21 form part of these consolidated financial statements.

# Consolidated statement of income year ended 31 December 2012

| | Notes | 2012 AED'000 | 2011 AED'000 |
|---|---|---|---|
| **UNDERWRITING INCOME** | | | |
| **Gross premiums** | | | |
| Insurance contracts premium | 12 | **1,400,082** | 1,265,214 |
| Movement in provision for unearned premiums | 12 | **(62,663)** | (64,454) |
| Insurance premium revenue | 12 | **1,337,419** | 1,200,760 |
| **Less: Reinsurers' share of premium** | | | |
| Insurance contracts premium | 12 | **1,013,610** | 929,724 |
| Movement in provision for unearned premiums | 12 | **(34,907)** | (46,653) |
| | | **978,703** | 883,071 |
| Net insurance premium revenue | | **358,716** | 317,689 |
| Commission income | | **139,021** | 116,377 |
| **Total underwriting income** | | **497,737** | 434,066 |
| **UNDERWRITING EXPENSES** | | | |
| Claims paid | 12 | **572,451** | 510,818 |
| Less: re-insurance share | 12 | **(424,281)** | (364,572) |
| Net claims | 12 | **148,170** | 146,246 |
| Increase in outstanding claims | 12 | **18,899** | 4,564 |
| Claims incurred | | **167,069** | 150,810 |
| Commission expenses | | **83,056** | 80,787 |
| General and administration expenses | | **109,420** | 87,402 |
| **Total underwriting expenses** | | **359,545** | 318,999 |
| **NET UNDERWRITING INCOME** | | **138,192** | 115,067 |
| **INVESTMENT INCOME** | | | |
| Interest income | | **33,110** | 42,197 |
| Dividend income | | **34,630** | - |
| Gain on sale of investment property | | **-** | 22,198 |
| Rental and other income | | **4,143** | 21,863 |
| Fair value gain (loss) on investments carried at fair value through profit or loss | | **1,242** | (449) |
| | | **73,125** | 85,809 |
| Share of associate's profit | 4 | **2,161** | 3,358 |
| **PROFIT FOR THE YEAR** | | **213,478** | 204,234 |
| Attributable to: | | | |
| Equity holders of the parent | | **211,358** | 203,238 |
| Non-controlling interests | | **2,120** | 996 |
| | | **213,478** | 204,234 |
| Basic and diluted earnings per share (AED) attributable to equity holders of the parent | 16 | **52.19** | 50.18 |

The attached notes 1 to 21 form part of these consolidated financial statements.

# Consolidated statement of comprehensive income year ended 31 December 2012

| | 2012 AED'000 | 2011 AED'000 |
|---|---|---|
| **Profit for the year** | **213,478** | 204,234 |
| **Other comprehensive income** | | |
| Exchange differences on translation of foreign operations | **(3,994)** | (2,457) |
| Net unrealized gain (loss) on available -for- sale investments | **43,919** | (816) |
| Total comprehensive income for the year | **253,403** | 200,961 |
| Attributable to: | | |
| Equity holders of parent | **251,283** | 199,965 |
| Non-controlling interests | **2,120** | 996 |
| | **253,403** | 200,961 |

The attached notes 1 to 21 form part of these consolidated financial statements.

# Consolidated statement of Cash flows year ended 31 December 2012

| | Notes | 2012 AED'000 | 2011 AED'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **213,478** | 204,234 |
| Adjustments for: | | | |
| Depreciation | 3 | **6,190** | 1,613 |
| (Gain)/Loss on sale of property and equipment | | **(379)** | 67 |
| Gain on sale of investment property | | **-** | (22,198) |
| Interest income | | **(33,110)** | (42,197) |
| Rental income | | **(1,629)** | (19,250) |
| Share of associate's profit | 4 | **(2,161)** | (3,358) |
| Fair value gain (loss)on investments at fair value through profit or loss | | **(1,242)** | 449 |
| Foreign exchange loss on dividend received | | **3,445** | - |
| Operating profit before changes in operating assets and liabilities | | **184,592** | 119,360 |
| Insurance receivables | | **(33,477)** | 28,924 |
| Reinsurance assets | | **(142,183)** | (128,576) |
| Prepayments and other receivables | | **3,763** | 2,392 |
| Insurance contract liabilities | | **186,669** | 150,251 |
| Reinsurance payables | | **9,524** | (2,209) |
| Other payables and accruals | | **8,574** | 4,285 |
| Net cash from operating activities | | **217,462** | 174,427 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | 3 | **(4,232)** | (121,473) |
| Proceeds from sale of investment property | | **-** | 150,000 |
| Proceeds from sale of property and equipment | | **663** | 749 |
| Interest income | | **33,110** | 42,197 |
| Rental income | | **1,629** | 19,250 |
| Bank deposits | | **353,458** | (124,358) |
| Purchase of held to maturity investments | | **(15,921)** | (41,473) |
| Purchase of available-for-sale investments | | **(506,179)** | (21,683) |
| Sale of available for sale investments | | **3,567** | - |
| Net cash used in investing activities | | **(133,905)** | (96,791) |
| **FINANCING ACTIVITIES** | | | |
| Dividends received | 4 | **6,750** | - |
| Dividends paid | 11 | **(75,000)** | (60,000) |
| Net cash used in financing activities | | **(68,250)** | (60,000) |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | | **15,307** | 17,636 |
| Cash and cash equivalents at 1 January | 8 | **58,185** | 43,006 |
| Movement in foreign currency translation reserve | | **(3,994)** | (2,457) |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 8 | **69,498** | 58,185 |

The attached notes 1 to 21 form part of these consolidated financial statements.

# Consolidated statement of changes in equity year ended 31 December 2012

| | Attributable to shareholders of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital AED'000 | Statutory reserve AED'000 | Legal reserve AED'000 | Exceptional loss reserve AED'000 | General reserve AED'000 | Retained earnings AED'000 | Available for-sale reserve AED'000 | Foreign currency translation reserve AED'000 | Proposed dividend AED'000 | Total AED'000 | Non-controlling interests AED'000 | Total AED'000 |
| At 1 January 2012 | 375,000 | 93,750 | 131,325 | 92,635 | 243,592 | 752 | (1,952) | (3,649) | 75,000 | 1,006,453 | 12,876 | 1,019,329 |
| Profit for the year | - | - | - | - | - | 211,358 | - | - | - | 211,358 | 2,120 | 213,478 |
| Other comprehensive income for the year | - | - | - | - | - | - | 43,919 | (3,994) | - | 39,925 | - | 39,925 |
| Total comprehensive income | - | - | - | - | - | 211,358 | 43,919 | (3,994) | - | 251,283 | 2,120 | 253,403 |
| Capitalisation of reserves | 30,000 | - | - | - | (30,000) | - | - | - | - | - | - | - |
| Transfers | - | 7,500 | 21,006 | 15,105 | 86,389 | (130,000) | - | - | - | - | - | - |
| Dividend paid | - | - | - | - | - | - | - | - | (75,000) | (75,000) | - | (75,000) |
| Dividend proposed | - | - | - | - | - | (81,000) | - | - | 81,000 | - | - | - |
| **At 31 December 2012** | **405,000** | **101,250** | **152,331** | **107,740** | **299,981** | **1,110** | **41,967** | **(7,643)** | **81,000** | **1,182,736** | **14,996** | **1,197,732** |
| At 1 January 2011 | 300,000 | 75,000 | 111,115 | 80,055 | 242,132 | 514 | (1,136) | (1,192) | 60,000 | 866,488 | 11,880 | 878,368 |
| Profit for the year | - | - | - | - | - | 203,238 | - | - | - | 203,238 | 996 | 204,234 |
| Other comprehensive income for the year | - | - | - | - | - | - | (816) | (2,457) | - | (3,273) | - | (3,273) |
| Total comprehensive income | - | - | - | - | - | 203,238 | (816) | (2,457) | - | 199,965 | 996 | 200,961 |
| Capitalisation of reserves | 75,000 | - | - | - | (75,000) | - | - | - | - | - | - | - |
| Transfers | - | 18,750 | 20,210 | 12,580 | 76,460 | (128,000) | - | - | - | - | - | - |
| Dividend paid | - | - | - | - | - | - | - | - | (60,000) | (60,000) | - | (60,000) |
| Dividend proposed | - | - | - | - | - | (75,000) | - | - | 75,000 | - | - | - |
| **At 31 December 2011** | **375,000** | **93,750** | **131,325** | **92,635** | **243,592** | **752** | **(1,952)** | **(3,649)** | **75,000** | **1,006,453** | **12,876** | **1,019,329** |

The attached notes 1 to 21 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION

Orient Insurance Company (PJSC) (formerly Arab Orient Insurance Company (PSC) was incorporated with limited liability on 22 July 1980 in the Emirate of Dubai by a decree of His Highness The Ruler of Dubai and commenced operations on 1 January 1982. The Company was registered in accordance with the UAE Federal Law No.(9) of 1984, as amended, ("The Insurance Companies Law") on 29 December 1984 with registration No.14. On 2 May 1988 the Company was converted into a public shareholding company in accordance with the requirements of the Insurance Companies Law and has since been registered under UAE Federal Law No.(8) of 1984, as amended, relating to commercial companies. The Company is subject to the regulations of UAE Federal Law No. 6 of 2007, on Establishment of Insurance Authority and organisation of its operations. The registered address of the Company is P.O. Box 27966, Dubai United Arab Emirates.

The Company engages in the business of issuing short term insurance contracts in connection with property, engineering, motor, marine, miscellaneous accidents and medical (collectively referred as general insurance) and group life and individual life classes (collectively referred as life insurance). The Company's insurance portfolio includes relatively small number of life assurance contracts all of which are long term insurance contracts. The Company also invests its funds in investment securities.

The Company has established subsidiary companies in Sri Lanka and Egypt. During the year, the Company has established a subsidiary company in Turkey but the commercial activities of the subsidiary has not commenced as at the date of the statement of financial position.

During the year, the Company changed its name from Arab Orient Insurance Company (PSC) to Orient Insurance Company (PJSC). The change of name was approved in an extra ordinary general meeting held on 16 August 2012.

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's share of the results.

## 2.1 BASIS OF PREPARATION

### Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for certain financial instruments that have been measured at amortised cost or fair value as explained in the accounting policies in note 2.5. The consolidated financial statements have been presented in UAE Dirhams and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

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

### Statement of compliance

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

## 2.2 BASIS OF CONSOLIDATION

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

| Subsidiaries | Principal activity | Country of incorporation | Ownership |
|---|---|---|---|
| Arab Orient Takaful Insurance Company | General Insurance | Egypt | 60% |
| Orient Insurance Limited | General Insurance | Sri Lanka | 100% |
| Orient Sigorta Anonim Sirketi | General Insurance | Turkey | 100% |

Non-controlling interests represents the portion of the profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity, separately from shareholder's equity.

**Basis of consolidation**

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

The subsidiaries are fully consolidated from the date of formation, being the date on which the Group obtained control and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions, are eliminated in full.

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

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

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

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

**New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective as of 1 January 2012:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES - continued

**New and amended standards and interpretations (continued)**
The adoption of the above standards is described below:

*IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*
The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and there has been no effect on the Group's financial position, performance or its disclosures.

*IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*
The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

*IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

**IASB Standards and Interpretations issued at 31 December 2012 but not effective**
Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards, if applicable, when they become effective.

*IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

*IAS 19 Employee Benefits (Revised)*
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The revision is expected to have no impact on the group's financial statements.

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES - continued

### IASB Standards and Interpretations issued at 31 December 2012 but not effective (continued)

*IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*
As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013. The revision is expected to have no impact on the group's financial statements.

*IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32*
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

*IFRS 1 Government Loans – Amendments to IFRS 1*
These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

*IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7*
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32.

*Financial Instruments: Presentation.*
The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

*IFRS 9 Financial Instruments: Classification and Measurement*
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES - continued

*IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The group is in the process of assessing the impact of this standard on its financial statements. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 11 Joint Arrangements*
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013, and is to be applied retrospectively for joint arrangements held at the date of initial application.This new standard will not have impact on the financial position or performance of the Group.

*IFRS 12 Disclosure of Interests in Other Entities*
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but the standard has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 13 Fair Value Measurement*
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analysis, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

*Annual Improvments 2012 to IFRSs*
These improvements will not have any impact on the Group, but include:

*IFRS 1 First-time Adoption of International Financial Reporting Standards:*
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

*IAS 1 Presentation of Financial Statements*
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES - continued

*IAS 16 Property,Plant and Equipment*
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

*IAS 32 Financial Instruments, Presentation*
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

*IAS 34 Interim Financial Reporting*
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

## 2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

*Classification of investments*
Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, fair value though profit or loss or available-for-sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, that the Group has the intention and ability to hold these to maturity.

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through profit or loss depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through profit or loss.

All other investments are classified as available-for-sale.

*Operating lease commitments-group as lessor*
The Group has entered into commercial property leases on its property and equipment. The Group, as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of its property and so accounts for them as operating leases.

*Impairment losses on available for sale investments*
The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. Where fair values are not available, the recoverable amount of such investment is estimated to test for impairment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities.

*Impairment losses on held-to-maturity investments*
The Group reviews its individually significant held-to-maturity investments at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of income.

## 2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS - continued

In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

*Impairment losses on receivables*
Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the inability to pay all amounts due as per contractual terms.

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

*Medical and Group life insurance*
The assumptions used in actuarial valuations for unearned premium reserves for medical and group life business are based on experience relating to insurance industry.

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

*Provision for outstanding claims, whether reported or not*
Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainity and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

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

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

All insurance contracts are subject to a liability adeqaucy test, which reflect management's best current estimate of future cash flows.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

| | |
|---|---|
| Building | 25 years |
| Furniture and fixtures | 4 to 7 years |
| Office equipment | 3 to 5 years |
| Motor vehicles | 5 years |

No depreciation is charged on freehold land.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

**Investments in associates**
The Group's investments in associates are accounted for under the equity method of accounting. These are entities over which the Group exercises significant influence and which are neither subsidiaries nor joint ventures. Investments in associates are carried in the statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated statement of income reflects the Group's share of the results of its associates. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate.

**Investment securities**
The Group classifies its investment securities into held for trading, financial assets at fair value through profit or loss, available-for-sale and held to maturity financial assets.The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit or loss, as the Group's strategy is to manage financial investments acquired to cover its insurance and investments contract liabilities (including shareholders' funds), on the same basis, being fair value. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) are passively managed.

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

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The subsequent measurement of financial assets depends on their classification as described below:

*Financial assets at fair value through profit or loss*
Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of income.

*Held to maturity*
Non-derivative financial assets which have fixed or determinable payments are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are carried at amortised cost using the effective interest rate method, less provision for impairment in value.

*Available-for-sale*
Available-for-sale investments include equity and debt securities. These are non-derivative financial assets that are designated as available-for-sale and which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, these investments are measured at fair value. Fair value gains and losses are recognised as other comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported as other comprehensive income is transferred to the consolidated statement of income.

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

a. For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;

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

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

**Impairment of non-financial assets (excluding goodwill)**
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

**Derecognition of financial instruments**
The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

### Insurance contract liabilities
*Unearned premium reserve*
The unearned premium reserve represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date.Unearned premiums relating to general insurance business are computed based on percentages of net premium written and are at least equal to the minimum stipulated in the Insurance Laws of the respective region. Unearned premium reserves for medical and group life business are calculated based on independent actuarial valuation as required by Article 44 of the UAE Insurance Companies Law and Insurance Laws of the respective territories where subsidiaries are registered.

*Outstanding claims*
Insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. 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 statement of financial position date. The liability is not discounted for the time value of money. The liability is derecognised when the contract expires, is discharged or is cancelled.

### Other payables and accruals
Liabilities are recognised for amounts to be paid in the future for goods and services rendered, whether billed by the supplier or not.

### Provisions
Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

### Employees' end of service benefits
The Group provides end of service benefits to its employees employed in UAE in accordance with the UAE Labour Law and for employees employed in the Oman branch of the Group and subsidiary Companies in accordance with respective region's labour Law. The entitlement of these benefits is based upon employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

**Insurance premium revenue**

*Gross premiums*

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. The proportion attributable to subsequent periods is deferred as an unearned premium reserve.

*Reinsurance premiums*

Reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

*Commission income*

Commission income on policies written is recognised at the time policies are written.

**Interest income**

Interest income is recognised in the consolidated statement of income as it accrues and is calculated by using the effective interest rate method.

**Other income**

- Dividend income is accounted for when the right to receive payment is established.
- Rental income is recognised as income over the period to which it relates.

**Claims**

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries made are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group and those not reported at the statement of financial position date.

The Group generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition a provision based on management's judgement and the Group's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the consolidated statement of income for that year. Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

**Commission expenses**

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Interest expense
Interest paid is recognised in the consolidated statement of income as it accrues and is calculated by using the effective interest rate method.

### Liability adequacy test
At each statement of financial position date the Group assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision created. The Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

### Reinsurance contracts held
The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. These amounts are shown as "reinsurance assets" in the statement of financial position until the claim is paid by the Group. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to "insurance receivables".

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

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

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

At each reporting date, the Group assesses whether there is any indication that a reinsurance asset may be impaired. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. The impairment loss is recognised in the consolidated statement of income.

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

*Group as a lessor*
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

### Offsetting
Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is legally enforceable right to offset the recognised amounts and there is no intention to settle on net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the consolidated statement of income unless required or permitted by an accounting standard or interpretation.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fair value of financial instruments**
For financial instruments traded in active markets, fair value at each reporting date is determined by reference to Stock Exchange quoted market bid prices, without any deduction for transaction costs.

For financial instruments not traded in active market, fair value is determined by reference to the current market value of a similar instrument, recent arm's length market transactions or is based on the expected discounted cash flows or any other valuation model.

**Foreign currencies**
Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denomintaed in foreign currencies are translated into UAE Dirhams at middle market rates of exchange ruling at the date of statement of financial position. Any resultant gains and losses are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the conolisdated statement of income, except for differences relating to items where gains or losses are recognised directly in equity, in which case the gain or loss is recognised net of the exchange component in equity.

The assets and liabilities of the subsdiaries are translated into UAE Dirhrams at the rate of exchange prevailing at the statement of financial position date and the statement of income is translated at average exchange rates for the period. The exchange differences arising on the translation are taken directly to the consolidated statement of income.

**Segment reporting**
The Group's segmental reporting is based on the following operating segments: General insurance, Life assurance and Investment segment.

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

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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

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

# Notes to the consolidated financial statements at 31 December 2012 (continued)

## 3 PROPERTY AND EQUIPMENT

| | Land AED'000 | Building AED'000 | Office equipment, furniture & fixtures AED'000 | Motor vehicles AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2012 | 20,000 | 96,456 | 12,794 | 2,014 | 131,264 |
| Additions | - | - | 3,807 | 425 | 4,232 |
| Disposals | - | - | (53) | (951) | (1,004) |
| **At 31 December 2012** | **20,000** | **96,456** | **16,548** | **1,488** | **134,492** |
| Depreciation: | | | | | |
| At 1 January 2012 | - | 74 | 5,597 | 1033 | 6,704 |
| Depreciation charge for the year | - | 3858 | 1,956 | 376 | 6,190 |
| Relating to disposals | - | - | (44) | (676) | (720) |
| **At 31 December 2012** | **-** | **3,932** | **7,509** | **733** | **12,174** |
| Net carrying amount: | | | | | |
| **At 31 December 2012** | **20,000** | **92,524** | **9,039** | **755** | **122,318** |

| | Land AED'000 | Building AED'000 | Office equipment, furniture & fixtures AED'000 | Motor vehicles AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2011 | - | - | 9,794 | 2,663 | 12,457 |
| Additions | 20,000 | 96,456 | 4,939 | 78 | 121,473 |
| Disposals | - | - | (1,939) | (727) | (2,666) |
| At 31 December 2011 | 20,000 | 96,456 | 12,794 | 2,014 | 131,264 |
| Depreciation: | | | | | |
| At 1 January 2011 | - | - | 6,008 | 933 | 6,941 |
| Depreciation charge for the year | - | 74 | 1,061 | 478 | 1,613 |
| Relating to disposals | - | - | (1,472) | (378) | (1,850) |
| At 31 December 2011 | - | 74 | 5,597 | 1,033 | 6,704 |
| Net carrying amount: | | | | | |
| At 31 December 2011 | 20,000 | 96,382 | 7,197 | 981 | 124,560 |

The depreciation charge for the year of AED 6,190 thousand (2011: AED 1,613 thousand) has been included in general and administrative expenses.

## 4 INVESTMENT IN ASSOCIATED COMPANY

| | 2012 AED'000 | 2011 AED'000 |
|---|---|---|
| Shares at cost | **24,351** | 24,351 |
| The Group's share of post acquisition reserves: | | |
| As at 1 January | **13,530** | 10,172 |
| Share of results for the year | **2,161** | 3,358 |
| Dividend received | **(10,195)** | - |
| Balance at year end | **5,496** | 13,530 |
| Investment in net equity at year end | **29,847** | 37,881 |

The investment in associated company represents a 40% interest in Arab Orient Insurance Company, Syria, a public shareholding company registered and incorporated in Syria.

The following table illustrates summarised information of the Group's investment in associated company:

| | 2012 AED'000 | 2011 AED'000 |
|---|---|---|
| Share of associate's statement of financial position: | | |
| Current assets | **51,798** | 66,993 |
| Non-current assets | **947** | 1,675 |
| Current liabilities | **(22,898)** | (30,787) |
| Net assets | **29,847** | 37,881 |
| Share of associate's revenues and results: | | |
| Revenues | **9,755** | 22,414 |
| Results | **2,161** | 3,358 |

**Impact of political unrest in Syria**

Although the business activities of the Syrian associated company have been impacted due to ongoing political unrest, the Group's management is of the opinion that the ongoing events in Syria do not materially affect the Group's financial position or performance.

# Notes to the consolidated financial statements at 31 December 2012 (continued)

## 5 INVESTMENT SECURITIES

| | Carrying value | | Fair Value | |
|---|---|---|---|---|
| | ***2012*** | 2011 | ***2012*** | 2011 |
| | ***AED'000*** | AED'000 | ***AED'000*** | AED'000 |
| **Investments carried at fair value through profit or loss** | | | | |
| Managed portfolios | | | | |
| (outside UAE) | **1,825** | 1,932 | **1,825** | 1,932 |
| | **1,825** | 1,932 | **1,825** | 1,932 |
| Held for trading-quoted shares (within UAE) | **7,849** | 6,500 | **7,849** | 6,500 |
| | **9,674** | 8,432 | **9,674** | 8,432 |
| **Held to maturity** | | | | |
| Debt | | | | |
| Unquoted (outside UAE) | **60,582** | 44,661 | **60,582** | 44,661 |
| | **60,582** | 44,661 | **60,582** | 44,661 |
| **Available-for-sale investments** | | | | |
| Debt | | | | |
| Quoted (within UAE) | **9,100** | 8,450 | **9,100** | 8,450 |
| Unquoted (outside UAE) | **13,370** | 16,937 | **13,370** | 16,937 |
| | **22,470** | 25,387 | **22,470** | 25,387 |
| Equity | | | | |
| Quoted (within UAE) | **546,533** | 2,596 | **546,533** | 2,596 |
| Unquoted (within UAE) | **36,122** | 30,611 | **36,122** | 30,611 |
| | **605,125** | 58,594 | **605,125** | 58,594 |
| | **675,381** | 111,687 | **675,381** | 111,687 |

Unquoted equity securities are carried at cost due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at reliable fair values.

Unquoted Held to Maturity investments include investments under lien to comply with Insurance regulatory requirements in Egypt.

## 6 INSURANCE RECEIVABLES

| | ***2012*** | 2011 |
|---|---|---|
| | ***AED'000*** | AED'000 |
| Premiums and insurance companies | **158,591** | 150,787 |
| Due from reinsurance companies in respect of claims settled | **34,597** | 31,915 |
| Due from related parties (note 17) | **44,963** | 21,972 |
| | **238,151** | 204,674 |

All the above amounts are due within twelve months of the statement of financial position date. The reinsurers' share of claims not recovered by the Group at the statement of financial position date are disclosed in note 12. The amounts due from treaty reinsurers are normally settled on a quarterly basis.

## 6 INSURANCE RECEIVABLES (continued)

As at 31 December 2012, premiums and insurance companies' balances at nominal value of AED 15,172 thousand (2011: AED 11,475 thousand) were impaired.

Movements in the allowance for impairment of receivables were as follows:

| | *2012* | 2011 |
|---|---|---|
| | *AED'000* | AED'000 |
| At 1 January | **11,475** | 8,493 |
| Charge for the year | **3,697** | 2,982 |
| At 31 December | **15,172** | 11,475 |

## 7 DEPOSITS WITH BANKS

Deposits with banks include the following:

| | *2012* | 2011 |
|---|---|---|
| | *AED'000* | AED'000 |
| a) Statutory deposit that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 42 of Federal Law No.6 of 2007 | **10,000** | 10,000 |
| b) Amounts under lien with Capital Market Authority, Sultanate of Oman towards license of Muscat branch | **17,746** | 11,708 |
| c) Amounts under lien with Omani Unified Bureau for the Orange Card (SAOC) | **478** | 478 |
| d) Fixed term deposits maturing after three months | **742,514** | 550,506 |
| e) Fixed term deposits maturing within three months (note 8) | **-** | 551,504 |
| | **770,738** | 1,124,196 |

## 8 CASH AND CASH EQUIVALENTS

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

| | *2012* | 2011 |
|---|---|---|
| | *AED'000* | AED'000 |
| Bank balances and cash | **69,498** | 58,185 |
| Deposits with banks maturing within three months | **-** | 551,504 |
| | **69,498** | 609,689 |
| Less: disclosed under fixed term deposits (note 7) | **-** | (551,504) |
| | **69,498** | 58,185 |

# Notes to the consolidated financial statements at 31 December 2012 (continued)

## 9 SHARE CAPITAL

| | 2012 AED'000 | 2011 AED'000 |
|---|---|---|
| Issued and fully paid 4,050,000 shares of AED 100 each (2011: 3,750,000 shares of AED 100 each) | **405,000** | 375,000 |

The shareholders approved an increase in the share capital by AED 30 million by the capitalisation of general reserve in the annual general meeting held on 15 March 2012. The legal formalities in respect of the increase in the share capital were completed during the year.

## 10 RESERVES

### NATURE AND PURPOSE OF RESERVES

- STATUTORY RESERVE

In accordance with the Company's Articles of Association, the company has resolved not to increase the statutory reserve above an amount equal to 25% of its paid up capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year is the amount required to raise the reserve to 25% of the paid up capital. The reserve can be used for any purpose to be decided by the shareholders upon the recommendation of the Board of Directors.

- LEGAL RESERVE

In accordance with the Commercial Companies Law and the Company's Articles of Association, 10% of the profit for the year has been transferred to the legal reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital. The reserve is not available for distribution except in the circumstances stipulated by the law.

- EXCEPTIONAL LOSS RESERVE

An amount equal to 10% of the net underwriting income for the year is transferred to an exceptional loss reserve to ensure that the Company has sufficient solvency to meet exceptional, non-recurring claims which may arise in future years.

- GENERAL RESERVE

Transfers to the general reserve are made on the recommendation of the Board of Directors. This reserve may be used for such purposes as deemed appropriate by the Board of Directors.

- AVAILABLE-FOR-SALE RESERVE

This reserve records fair value changes on available-for-sale financial assets.

- FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of foreign subsidiaries.

## 11 PROPOSED DIVIDENDS

Dividends of AED 20 per share (totalling AED 75 million) relating to the year 2011 were declared and paid during the year. During 2011, dividends of AED 20 per share (totalling AED 60 million) relating to the year 2010 were declared and paid.

The Board of Directors has proposed a cash dividend amounting to AED 81 million at AED 20 per share for the year 2012. This is subject to the approval of the shareholders at the Annual General Meeting to be held during February 2013.

## 12 INSURANCE CONTRACT ASSETS AND LIABILITIES

| | Gross | | Reinsurers' share | | Net | |
|---|---|---|---|---|---|---|
| | ***2012*** | 2011 | ***2012*** | 2011 | ***2012*** | 2011 |
| | ***AED'000*** | AED'000 | ***AED'000*** | AED'000 | ***AED'000*** | AED'000 |
| Unearned premium reserve (note 12A) | **605,305** | 544,274 | **(436,040)** | (401,803) | **169,265** | 142,471 |
| Deferred acquisition cost | **(571)** | 83 | **143** | (5) | **(428)** | 78 |
| Outstanding claims (note 12B) | **553,935** | 427,643 | **(415,454)** | (307,360) | **138,481** | 120,283 |
| | **1,158,669** | 972,000 | **(851,351)** | (709,168) | **307,318** | 262,832 |

## 12 (A) NET INSURANCE PREMIUM REVENUE

### Year 2012

| | *General Insurance* | | | *Life Assurance* | | | *Total* | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Gross* | *Reinsurers' share* | *Net* | *Gross* | *Reinsurers' share* | *Net* | *Gross* | *Reinsurers' share* | *Net* |
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| Gross premiums | **1,286,738** | **(930,537)** | **356,201** | **113,344** | **(83,073)** | **30,271** | **1,400,082** | **(1,013,610)** | **386,472** |
| Movement in provision for unearned premiums | **(58,417)** | **31,892** | **(26,525)** | **(4,246)** | **3,015** | **(1,231)** | **(62,663)** | **34,907** | **(27,756)** |
| Insurance premium revenue | **1,228,321** | **(898,645)** | **329,676** | **109,098** | **(80,058)** | **29,040** | **1,337,419** | **(978,703)** | **358,716** |
| Unearned premium as of 31 December | **568,826** | **(409,303)** | **159,523** | **36,479** | **(26,737)** | **9,742** | **605,305** | **(436,040)** | **169,265** |

Year 2011

| | *General Insurance* | | | *Life Assurance* | | | *Total* | | |
|---|---|---|---|---|---|---|---|---|---|
| | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| Gross premiums | 1,162,574 | (854,187) | 308,387 | 102,640 | (75,537) | 27,103 | 1,265,214 | (929,724) | 335,490 |
| Movement in provision for unearned premiums | (64,328) | 46,406 | (17,922) | (126) | 247 | 121 | (64,454) | 46,653 | (17,801) |
| Insurance premium revenue | 1,098,246 | (807,781) | 290,465 | 102,514 | (75,290) | 27,224 | 1,200,760 | (883,071) | 317,689 |
| Unearned premium as of 31 December | 512,041 | (378,081) | 133,960 | 32,233 | (23,722) | 8,511 | 544,274 | (401,803) | 142,471 |

# Notes to the consolidated financial statements at 31 December 2012 (continued)

## 12 (B) OUTSTANDING CLAIMS

| | General Insurance AED'000 | Life Assurance AED'000 | Total AED'000 |
|---|---|---|---|
| At 1 January 2011: | | | |
| Outstanding claims | 319,263 | 21,866 | 341,129 |
| Due from reinsurers | (208,993) | (16,205) | (225,198) |
| | 110,270 | 5,661 | 115,931 |
| Exchange differences | (212) | - | (212) |
| Net increase | 3,713 | 851 | 4,564 |
| At 31 December 2011: | | | |
| Outstanding claims | 403,355 | 24,288 | 427,643 |
| Due from reinsurers | (289,584) | (17,776) | (307,360) |
| | 113,771 | 6,512 | 120,283 |
| Exchange differences | (701) | - | (701) |
| Net increase | 18,181 | 718 | 18,899 |
| At 31 December 2012: | | | |
| Outstanding claims | 526,331 | 27,604 | 553,935 |
| Due from reinsurers | (395,080) | (20,374) | (415,454) |
| | 131,251 | 7,230 | 138,481 |

| | General Insurance AED'000 | Life Assurance AED'000 | Total AED'000 |
|---|---|---|---|
| At 1 January 2010: | | | |
| Outstanding claims | 350,589 | 31,242 | 381,831 |
| Due from reinsurers | (249,668) | (25,233) | (274,901) |
| | 100,921 | 6,009 | 106,930 |
| Net increase | 9,349 | (348) | 9,001 |
| At 31 December 2010: | | | |
| Outstanding claims | 319,263 | 21,866 | 341,129 |
| Due from reinsurers | (208,993) | (16,205) | (225,198) |
| | 110,270 | 5,661 | 115,931 |
| Exchange differences | (212) | - | (212) |
| Net increase | 3,713 | 851 | 4,564 |
| At 31 December 2011: | | | |
| Outstanding claims | 403,355 | 24,288 | 427,643 |
| Due from reinsurers | (289,584) | (17,776) | (307,360) |
| | 113,771 | 6,512 | 120,283 |

## 12 (B) OUTSTANDING CLAIMS (continued)

### Outstanding claims

The movement in the provision for outstanding claims, and the related reinsurers' share, was as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurer's share | Net | Gross | Reinsurer's share | Net |
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| At 1 January | | | | | | |
| Claims incurred | **401,409** | **(307,360)** | **94,049** | 322,097 | (225,198) | 96,899 |
| Claims incurred but not reported | **26,234** | **-** | **26,234** | 19,032 | - | 19,032 |
| | **427,643** | **(307,360)** | **120,283** | 341,129 | (225,198) | 115,931 |
| Insurance claims paid in the year | **(572,451)** | **424,281** | **(148,170)** | (510,818) | 364,572 | (146,246) |
| Claims incurred | **699,870** | **(532,801)** | **167,069** | 597,611 | (446,801) | 150,810 |
| Exchange differences | **(1,127)** | **426** | **(701)** | (279) | 67 | (212) |
| At 31 December | **553,935** | **(415,454)** | **138,481** | 427,643 | (307,360) | 120,283 |
| Analysis of outstanding claims | | | | | | |
| At 31 December | | | | | | |
| Claims incurred | **525,653** | **(415,454)** | **110,199** | 401,409 | (307,360) | 94,049 |
| Claims incurred but not reported | **28,282** | **-** | **28,282** | 26,234 | - | 26,234 |
| | **553,935** | **(415,454)** | **138,481** | 427,643 | (307,360) | 120,283 |

The amounts due from reinsurers are contractually due as per the terms of reinsurance agreements from the date of the payment of the claims.

There are no material amounts for which amount and timing of claims payment is not resolved within one year of the statement of financial position date.

### Claims development table

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

| Accident year | Before 2009 | 2009 | 2010 | 2011 | 2012 | Total |
|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| At the end of accident year | - | 510,192 | 549,726 | 627,545 | 671,923 | |
| One year later | - | 516,091 | 574,834 | 688,142 | - | |
| Two years later | - | 502,125 | 569,222 | - | - | |
| Three years later | - | 480,500 | - | - | - | |
| Four years later | 1,581,889 | - | - | - | - | |
| **Current estimate of cumulative claims** | **1,581,889** | **480,500** | **569,222** | **688,142** | **671,923** | |
| At the end of accident year | - | (336,959) | (383,957) | (356,273) | (331,754) | |
| One year later | - | (415,885) | (512,734) | (550,336) | - | |
| Two years later | - | (431,739) | (534,766) | - | - | |
| Three years later | - | (449,333) | - | - | - | |
| Four years later | (1,571,552) | - | - | - | - | |
| **Cumulative payments to date** | **(1,571,552)** | **(449,333)** | **(534,766)** | **(550,336)** | **(331,754)** | |
| **Total gross outstanding claims** | **10,337** | **31,167** | **34,456** | **137,806** | **340,169** | **553,935** |

# Notes to the consolidated financial statements at 31 December 2012 (continued)

## 13 OTHER PAYABLES AND ACCRUALS

| | 2012 AED'000 | 2011 AED'000 |
|---|---|---|
| Provision for staff costs | **13,161** | 11,552 |
| Other creditors and accruals | **63,831** | 52,224 |
| Employees' end of service benefits (Note 14) | **11,113** | 10,459 |
| Amounts due to related parties (Note 17) | **8,476** | 13,772 |
| | **96,581** | 88,007 |

## 14 EMPLOYEES' END OF SERVICE BENEFITS

Movement in the provision recognised in the statement of financial position is as follows:

| | 2012 AED'000 | 2011 AED'000 |
|---|---|---|
| Provision as at 1 January | **10,459** | 8,976 |
| Provided during the year | **1,807** | 2,056 |
| End of service benefits paid | **(1,153)** | (573) |
| Provision as at 31 December | **11,113** | 10,459 |

## 15 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

| | 2012 AED'000 | 2011 AED'000 |
|---|---|---|
| Staff costs | **69,761** | 61,260 |
| Rental costs – Operating leases | **3,062** | 5,590 |

## 16 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is computed by dividing the profit attributable to the shareholders by the weighted average number of shares outstanding during the year of 4,050,000 shares (2011: 3,750,000). The number of shares outstanding has been adjusted for all periods since the capitalisation of general reserves did not increase the total available resources. No figure for diluted earnings per share has been presented because the Group has not issued any instruments which would have an impact on earnings per share when exercised.

## 17 RELATED PARTY TRANSACTIONS

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

## 17 RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties included in the consolidated statement of income are as follows:

| | Al-Futtaim Group companies | Other related parties | *2012* *AED'000* | 2011 AED'000 |
|---|---|---|---|---|
| Gain on sale of investment property | - | - | **-** | 22,198 |
| Administrative expenses | 17,680 | - | **17,680** | 15,446 |
| Gross premium written | 162,178 | 131 | **162,309** | 127,774 |
| Motor vehicle repair charges paid relating to claims | 55,405 | - | **55,405** | 62,243 |
| Rental income | 1,629 | - | **1,629** | 19,250 |

Transactions with related parties included in the consolidated statement of financial position are as follows:

| | | | | |
|---|---|---|---|---|
| Purchase of property and equipment | - | - | - | 108,750 |

Balances with related parties included in the consolidated statement of financial position date are as follows:

| | *2012* | | 2011 | |
|---|---|---|---|---|
| | *Amounts owed by related parties AED'000* | *Amounts owed to related parties AED'000* | Amounts owed by related parties AED'000 | Amounts owed to related parties AED'000 |
| Al-Futtaim Group Companies | **44,963** | **8,476** | 21,972 | 13,772 |

Amounts due from and due to related parties are disclosed in notes 6 and 13 respectively.

### Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

| | *2012* *AED'000* | 2011 AED'000 |
|---|---|---|
| Short-term benefits | **12,755** | 11,739 |
| Employees' end of service benefits | **520** | 787 |
| | **13,275** | 12,526 |

# Notes to the consolidated financial statements at 31 December 2012 (continued)

## 18 SEGMENT INFORMATION

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

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

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

### 18.1 SEGMENT INCOME, EXPENSES AND RESULTS

| | General Insurance | | Life Assurance | | Total | |
|---|---|---|---|---|---|---|
| | ***2012*** | 2011 | ***2012*** | 2011 | ***2012*** | 2011 |
| | ***AED'000*** | AED'000 | ***AED'000*** | AED'000 | ***AED'000*** | AED'000 |
| **UNDERWRITING INCOME** | | | | | | |
| Insurance premium revenue | **1,228,321** | 1,098,246 | **109,098** | 102,514 | **1,337,419** | 1,200,760 |
| Reinsurers' share of premium | **(898,645)** | (807,781) | **(80,058)** | (75,290) | **(978,703)** | (883,071) |
| Net insurance premiums revenue | **329,676** | 290,465 | **29,040** | 27,224 | **358,716** | 317,689 |
| Commission income | **131,461** | 110,992 | **7,560** | 5,385 | **139,021** | 116,377 |
| **TOTAL INCOME** | **461,137** | 401,457 | **36,600** | 32,609 | **497,737** | 434,066 |
| **UNDERWRITING EXPENSES** | | | | | | |
| Claims incurred | **626,185** | 531,555 | **73,685** | 66,056 | **699,870** | 597,611 |
| Reinsurers' share of claims | **(468,877)** | (389,233) | **(63,924)** | (57,568) | **(532,801)** | (446,801) |
| Net claims incurred | **157,308** | 142,322 | **9,761** | 8,488 | **167,069** | 150,810 |
| Commission paid | **75,147** | 75,104 | **7,909** | 5,683 | **83,056** | 80,787 |
| General and administration expenses relating to underwriting activities | **99,473** | 79,017 | **9,947** | 8,385 | **109,420** | 87,402 |
| **TOTAL EXPENSES** | **331,928** | 296,443 | **27,617** | 22,556 | **359,545** | 318,999 |
| **NET UNDERWRITING INCOME** | **129,209** | 105,014 | **8,983** | 10,053 | **138,192** | 115,067 |

### 18.2 SEGMENT ASSETS & LIABILITIES

| | General Insurance | | Life Assurance | | Investment | | Total | |
|---|---|---|---|---|---|---|---|---|
| | ***2012*** | 2011 | ***2012*** | 2011 | ***2012*** | 2011 | ***2012*** | 2011 |
| | ***AED'000*** | AED'000 | ***AED'000*** | AED'000 | ***AED'000*** | AED'000 | ***AED'000*** | AED'000 |
| Segment assets | **1,194,515** | 1,040,215 | **95,690** | 69,022 | **1,475,966** | 1,273,764 | **2,766,171** | 2,383,001 |
| Segment liabilities | **1,477,749** | 1,299,650 | **90,690** | 64,022 | **-** | - | **1,568,439** | 1,363,672 |
| Capital expenditure | **4,232** | 120,983 | **-** | 490 | **-** | - | **4,232** | 121,473 |
| Depreciation | **6,092** | 1,481 | **98** | 132 | **-** | - | **6,190** | 1,613 |

## 18.3 GEOGRAPHIC INFORMATION

| | 2012 AED'000 | 2011 AED'000 |
|---|---|---|
| United Arab Emirates | **447,387** | 401,567 |
| Egypt and others | **50,350** | 32,499 |
| **TOTAL UNDERWRITING INCOME** | **497,737** | 434,066 |

**Non-current assets**

| | 2012 AED'000 | 2011 AED'000 |
|---|---|---|
| United Arab Emirates | **119,994** | 122,432 |
| Egypt and others | **2,324** | 2,128 |
| | **122,318** | 124,560 |

Non-current assets for this purpose consist of property and equipment.

## 19 RISK MANAGEMENT

The risks faced by the Group and the manner these risks are managed by management are summarised below.

### (A) GOVERNANCE FRAMEWORK

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

The Group's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the Senior Managing Director and Senior Managers.

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

### (B) CAPITAL MANAGEMENT FRAMEWORK

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

## 19 RISK MANAGEMENT (continued)

### *(C) REGULATORY FRAMEWORK*

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

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

### (D) ASSET LIABILITY MANAGEMENT (ALM) FRAMEWORK

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

The Senior Managing Director actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts.

The Senior Managing Director regularly monitors the financial risks associated with the Group's other financial assets and liabilities not directly associated with insurance liabilities.

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

### *19 A INSURANCE RISK*

Insurance risk is where the Group agrees to indemnify the insured parties against happening of unforeseen future insured events. The frequency and severity of claims are the main risk factors. As per the practices adopted by the Group, actual claim amounts can vary marginally compared to the outstanding claim reserves but are not expected to have a material impact.

*Frequency and Severity of Claims*

The frequency and severity of claims can be affected by several factors. The Group underwrites mainly property, engineering, motor, miscellaneous accident, marine, medical and group life and personal accident classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

*Property*

For property insurance contracts, the main perils are fire damage and other allied perils and business interruption resulting therefrom.

These contracts are underwritten either on replacement value or indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption and the basis of insurance are the main factors that influence the level of claims.

*Engineering*

For engineering insurance contracts, the main elements of risks are loss or damage to insured project works and resultant third party liabilities, loss or damage to insured plant, machinery and equipment and resultant business interruption losses. The extent of the loss or damage is the main factor that influences the level of claims.

## 19 RISK MANAGEMENT (continued)

### *19 A Insurance Risk (continued)*

*Motor*

For motor insurance contracts, the main elements of risks are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles.

The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims.

*Miscellaneous Accident*

For miscellaneous accident classes of insurance such as loss of money, infidelity of employees, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten.

The extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

*Marine*

In marine insurance the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in the total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

*Medical, Group Life and Personal Accident*

In medical insurance, the main risk elements are illness and accidents and related healthcare costs. For group life and personal accident the main risks elements are claims arising from death and/or permanent or partial disability.

The Group has adequate reinsurance arrangements to protect its financial viability against such claims for all the above classes.

***Geographical concentration of risks***

The insurance risk arising from insurance contracts is primarily concentrated mainly in the United Arab Emirates. The geographical concentration of risks is similar to last year.

***Reinsurance risk***

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

Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

The five largest reinsurers account for 42% of the maximum credit exposure at 31 December 2012 (2011: 34%). The maximum theoretical credit risk exposure in this connection is mainly in Europe.

## 19 RISK MANAGEMENT (continued)

### *19 B Financial risk*

Financial instrument consists fo financial assets and financial liabilities. The Group has no derivative financial instruments.

Financial assets of the Group include cash and cash equivalents, deposits with banks, other receivables, insurance receivables and investment securities.

Financial liabilities of the Group include reinsurance payables, amounts held under reinsurance treaties and other payables and accruals.

The Group does not enter into derivative transactions.

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

***Interest rate risk***

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

The Group's only exposure to interest rate risk is on account of its investment in floating rate bond included under available-for-sale investments. The Group limits interest rate risk by monitoring changes in interest rates in the currencies in which its investment is denominated.

Details of maturities of the major classes of financial assets as at 31 December are as follows:

| 31 December 2012 | Less than 1 year AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Non interest bearing items AED'000 | Total AED'000 | Effective interest rate |
|---|---|---|---|---|---|---|
| Investment securities | 13,370 | 69,682 | - | 592,329 | 675,381 | (1.6%-12.5%) |
| Insurance receivables | - | - | - | 238,151 | 238,151 | - |
| Other receivables | - | - | - | 8,887 | 8,887 | - |
| Deposits with banks | 770,738 | - | - | - | 770,738 | (1.4%-14.6%) |
| Bank balances and cash | - | - | - | 69,498 | 69,498 | - |
| | 784,108 | 69,682 | - | 908,865 | 1,762,655 | |

| 31 December 2011 | Less than 1 year AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Non interest bearing items AED'000 | Total AED'000 | Effective interest rate |
|---|---|---|---|---|---|---|
| Investment securities | 16,937 | 53,111 | - | 41,639 | 111,687 | (1.7%-11.4%) |
| Insurance receivables | - | - | - | 204,674 | 204,674 | - |
| Other receivables | - | - | - | 12,650 | 12,650 | - |
| Deposits with banks | 1,124,196 | - | - | - | 1,124,196 | (2.5%-10.8%) |
| Bank balances and cash | - | - | - | 58,185 | 58,185 | - |
| | 1,141,133 | 53,111 | - | 317,148 | 1,511,392 | |

## 19 RISK MANAGEMENT (continued)

### *19 B Financial risk (continued)*

***Interest rate risk (continued)***
There is no significant difference between contractual repricing or maturity dates.

The sensitivity of Group's consolidated statement of income to reasonably possible changes in interest rates, with all other variables constant is considered insignificant.

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge its foreign currency exposure. Other than balances in United States Dollars to which the UAE Dirham is effectively pegged, the Group has minimal exposure arising from assets and liabilities denominated in Egyptian Pounds and Sri Lankan Rupees.

***Equity price risk***
Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices. The Group's equity investments comprise securities quoted on the Stock Exchanges in United Arab Emirates.

The effect on equity (as a result of a change in the fair values of equity instruments-available-for-sale investments at 31 December 2012) and on consolidated statement of income (as a result of a changes in the fair values of investments carried at fair value through profit or loss at 31 December 2012) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

| | *2012* | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Change in equity price %** | **Effect on equity AED'000** | **Effect on income statement AED'000** | Change in equity price % | Effect on equity AED'000 | Effect on income statement AED'000 |
| All Investments – (Mainly Dubai Financial Market and Abu Dhabi Stock Market) | **10** | **54,653** | **784** | 10 | 259 | 650 |

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

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

- The Group only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Group's exposure to bad debts.
- The Group seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Group's bank balances are maintained with a range of local banks in accordance with limits set by the board of directors.
- There are no significant concentrations of credit risk within the Group.

# Notes to the consolidated financial statements at 31 December 2012 (continued)

## 19 RISK MANAGEMENT (continued)

### *19 B Financial risk (continued)*

***Credit risk (continued)***

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

| | Notes | *2012 AED'000* | 2011 AED'000 |
|---|---|---|---|
| Investment securities | 5 | **675,381** | 111,687 |
| Insurance receivables | 6 | **238,151** | 204,674 |
| Reinsurance assets | 12 | **851,351** | 709,168 |
| Cash and deposits with banks | 7 & 8 | **840,236** | 1,182,381 |
| **TOTAL CREDIT RISK EXPOSURE** | | **2,605,119** | 2,207,910 |

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The table below provides information regarding the credit risk exposure of the Group by classifying assets according to the Group's credit rating of counterparties.

| 31 December 2012 | *Neither past due nor impaired* | | | | |
|---|---|---|---|---|---|
| | *Investment grade AED'000* | *Non Investment grade (satisfactory) AED'000* | *Non investment grade (unsatisfactory) AED'000* | *Past due or impaired AED'000* | *Total AED'000* |
| Investment securities | **675,381** | **-** | **-** | **-** | **675,381** |
| Insurance receivables | **-** | **238,151** | **-** | **15,172** | **253,323** |
| Reinsurance assets | **-** | **851,351** | **-** | **-** | **851,351** |
| Cash and deposits with banks | **770,738** | **69,498** | **-** | **-** | **840,236** |
| | **1,446,119** | **1,159,000** | **-** | **15,172** | **2,620,291** |
| Less: impairment provision | **-** | **-** | **-** | **-** | **(15,172)** |
| | | | | | **2,605,119** |

## 19 RISK MANAGEMENT (continued)

### *19 B Financial risk (continued)*

***Credit risk (continued)***

| 31 December 2011 | | | | | |
|---|---|---|---|---|---|
| | *Neither past due nor impaired* | | | | |
| | Investment grade AED'000 | Non Investment grade (satisfactory) AED'000 | Non investment grade (unsatisfactory) AED'000 | Past due or impaired AED'000 | Total AED'000 |
| Investment securities | 111,687 | - | - | - | 111,687 |
| Insurance receivables | - | 204,674 | - | 11,475 | 216,149 |
| Reinsurance assets | - | 709,168 | - | - | 709,168 |
| Cash and deposits with banks | 572,692 | 609,689 | - | - | 1,182,381 |
| | 684,379 | 1,523,531 | - | 11,475 | 2,219,385 |
| Less: impairment provision | | | | | (11,475) |
| | | | | | 2,207,910 |

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

| | Neither past due nor impaired AED'000 | *Past due but not impaired* <120 days AED'000 | 120 -180 days AED'000 | >180 days AED'000 | Total AED'000 | Past due and impaired AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2012** | **24,948** | **115,437** | **12,015** | **21,363** | **173,763** | **(15,172)** | **158,591** |
| 31 December 2011 | 24,619 | 107,577 | 13,137 | 16,929 | 162,262 | (11,475) | 150,787 |

The Group provides credit facilities upto 120 days. For assets to be classified as 'past due and impaired' contractual payments in arrears are more than 120 days and an impairment adjustment is recorded in the consolidated statement of income for this. When the credit exposure is adequately secured, arrears more than 120 days might still be classified as "past due but not impaired", with no impairment adjustment recorded.

***Liquidity risk***

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

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. The table in the following page summarises, in AED'000 the maturity of the assets and liabilities of the Group based on remaining undiscounted contractual obligations. As the Group does not have any interest bearing liabilities, the totals in the table match the statement of financial position.

# Notes to the consolidated financial statements at 31 December 2012 (continued)

## 19 RISK MANAGEMENT (continued)

### *19 B Financial risk (continued)*

*Liquidity risk (continued)*

| | 31 December 2012 | | | | 31 December 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than one year | More than one year | No term | Total | Less than one year | More than one year | No term | Total |
| **ASSETS** | | | | | | | | |
| Property and equipment | - | - | 122,318 | 122,318 | - | - | 124,560 | 124,560 |
| Investment in associated company | - | - | 29,847 | 29,847 | - | - | 37,881 | 37,881 |
| Investment in securities | 13,370 | 69,682 | 592,329 | 675,381 | - | 70,048 | 41,639 | 111,687 |
| Reinsurance assets | 851,351 | - | - | 851,351 | 709,168 | - | - | 709,168 |
| Insurance receivables | 238,151 | - | - | 238,151 | 204,674 | - | - | 204,674 |
| Prepayments and other receivables | 8,887 | - | - | 8,887 | 12,650 | - | - | 12,650 |
| Cash and short term deposits | 840,236 | - | - | 840,236 | 1,182,381 | - | - | 1,182,381 |
| **TOTAL ASSETS** | 1,951,995 | 69,682 | 744,494 | 2,766,171 | 2,108,873 | 70,048 | 204,080 | 2,383,001 |
| **EQUITY AND LIABILITIES** | | | | | | | | |
| **Equity** | | | | | | | | |
| Share capital | - | - | 405,000 | 405,000 | - | - | 375,000 | 375,000 |
| Statutory reserve | - | - | 101,250 | 101,250 | - | - | 93,750 | 93,750 |
| Legal reserve | - | - | 152,331 | 152,331 | - | - | 131,325 | 131,325 |
| Exceptional loss reserve | - | - | 107,740 | 107,740 | - | - | 92,635 | 92,635 |
| General reserve | - | - | 299,981 | 299,981 | - | - | 243,592 | 243,592 |
| Retained earnings | - | - | 1,110 | 1,110 | - | - | 752 | 752 |
| Available-for-sale reserve | - | - | 41,967 | 41,967 | - | - | (1,952) | (1,952) |
| Foreign currency translation reserve | - | - | (7,643) | (7,643) | - | - | (3,649) | (3,649) |
| Proposed dividends | 81,000 | - | - | 81,000 | 75,000 | - | - | 75,000 |
| Non-controlling interest | - | - | 14,996 | 14,996 | - | - | 12,876 | 12,876 |
| **Total equity** | 81,000 | - | 1,116,732 | 1,197,732 | 75,000 | - | 944,329 | 1,019,329 |
| **Liabilities** | | | | | | | | |
| Insurance contracts liabilities | 1,158,669 | - | - | 1,158,669 | 972,000 | - | - | 972,000 |
| Reinsurance payables | 201,019 | - | - | 201,019 | 198,265 | - | - | 198,265 |
| Amounts held under reinsurance treaties | 112,170 | - | - | 112,170 | 105,400 | - | - | 105,400 |
| Other payables and accruals | 85,468 | - | 11,113 | 96,581 | 77,548 | - | 10,459 | 88,007 |
| **Total liabilities** | 1,557,326 | - | 11,113 | 1,568,439 | 1,353,213 | - | 10,459 | 1,363,672 |
| **TOTAL EQUITY AND LIABILITIES** | 1,638,326 | - | 1,127,845 | 2,766,171 | 1,428,213 | - | 954,788 | 2,383,001 |

## 19 RISK MANAGEMENT (continued)

### *19 B Financial risk (continued)*

***Capital management***

Capital requirements are set and regulated by the regulatory requirements in the UAE, Egypt and Sri Lanka. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Group to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Group manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to shareholders or issue capital securities.

The Group fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its objectives, policies and processes from the previous year.

***Operational risk***

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

## 20 CONTINGENCIES AND COMMITMENTS

### A) Legal Claims

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

### B) Contingent liabilities

At 31 December 2012, guarantees, other than those relating to claims for which provisions are held, amounting to AED 15,527,858 (2011: AED 13,188,785) had been issued on behalf of the Group by its banker in the ordinary course of business.

### C) Capital commitments

The Group has the following capital commitments at the statement of financial position date:

| | *2012* *AED'000* | 2011 AED'000 |
|---|---|---|
| Commitment for investments | **25,463** | 29,867 |
| Uncalled capital of subsidiary company | **17,351** | 18,201 |
| | **42,814** | 48,068 |

## 21 FAIR VALUE OF FINANCIAL INSTRUMENTS

### A. Determination of fair value and fair value hierarchy

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

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

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

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

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

| | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| 31 December 2012 | | | | |
| Financial assets held-for-trading: | | | | |
| Equity securities | 7,849 | - | - | 7,849 |
| Financial assets designated at fair value through profit or loss | | | | |
| Equity securities | - | - | 1,825 | 1,825 |
| Available-for-sale financial assets: | | | | |
| Equity securities | 546,533 | - | - | 546,533 |
| Debt securities | 9,100 | - | - | 9,100 |
| | **563,482** | **-** | **1,825** | **565,307** |

| | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| 31 December 2011 | | | | |
| Financial assets held-for-trading: | | | | |
| Equity securities | 6,500 | - | - | 6,500 |
| Financial assets designated at fair value through profit or loss | | | | |
| Equity securities | - | - | 1,932 | 1,932 |
| Available-for-sale financial assets: | | | | |
| Equity securities | 2,596 | - | - | 2,596 |
| Debt securities | 8,450 | - | - | 8,450 |
| | 17,546 | - | 1,932 | 19,478 |

## 21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### Financial instruments recorded at fair value

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

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

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

### Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

**31 December 2012**

| | *At 1 January 2012* | *Total gain or loss recorded in profit and loss* | *Purchase* | *Sales* | *Total gain or loss recorded in equity* | *Transfer from level 1* | *At 31 December 2012* |
|---|---|---|---|---|---|---|---|
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| **Financial assets designated at fair value through profit or loss** | | | | | | | |
| Equity securities | 1,932 | (107) | - | - | - | - | 1,825 |
| **Total** | 1,932 | (107) | - | - | - | - | 1,825 |

## 21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### Movements in level 3 financial instruments measured at fair value (continued)

31 December 2011

| | At 1 January 2011 | Total gain or loss recorded in profit and loss | Purchase | Sales | Total gain or loss recorded in equity | Transfer from level 1 | At 31 December 2011 |
|---|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| Financial assets designated at fair value through profit or loss | | | | | | | |
| Equity securities | 2,279 | (347) | - | - | - | - | 1,932 |
| Total | 2,279 | (347) | - | - | - | - | 1,932 |

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

**Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions**
For equity securities, the Group does not have a material exposure as at 31 December 2012 and accordingly no sensitivity analysis has been done.

**Fair value of financial assets and liabilities not carried at fair value**
The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

**Asset for which fair value approximates carrying value**
For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

**Fixed rate financial instruments**
The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit and maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.