Grant Thornton

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C)
DUBAI - UNITED ARAB EMIRATES

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2012

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai - United Arab Emirates

Index to the financial statements
for the year ended December 31, 2012

Directors' Report

I am pleased to welcome you to this Ordinary General Assembly of Dubai National Insurance & Reinsurance PSC, on behalf of the Board of Directors, and to present its twenty first annual report and accounts for the financial year 2012.

The UAE Insurance industry is heading for a period of vibrant growth with UAE government taking various initiatives in the support of the insurance sector. The introduction of innovative health insurance products and government's positive approach to make medical insurance mandatory along with the compulsory motor insurance, will provide significant increase in the insurance penetration levels. The spurt of the non-oil sector business activities, a rising young population, revival of construction activity and the growth in the real estate market will all support the industry expansion.

In synchronization with growth in the economy, your company has also registered a growth both in premiums and underwriting profits. Initiatives such as new insurance products, control over claim costs, enhanced claim service to policy holders & service level agreements with business partners have yielded improved results.

To exploit the business opportunities generated by government initiatives, your company has developed new insurance schemes that meets with market requirements and are also price attractive. Enhanced business relations with local and international brokers, reinsurers and major corporate clients, direct personal contact through call centers, continued compliance with corporate governance regulations, rewarding its human capital were the other initiatives undertaken, which will be long term business productive.

The year 2012 has been again a rewarding one for your company on profitability as well as growth. The gross written premium during the year 2012 is AED 128.193 Million as compared to AED 114.770 Million in year 2011; an increase of 11.7% over the previous year. The underwriting income improved by 48.8% to AED 33.007 Million in year 2012 from 22.185 Million in the year 2011.

The net profit for the year 2012 before appropriation amounted to AED 29.113 Million (AED 23.620 Million in year 2011).

The Board would like to thank all our shareholders, policyholders, business partners and employees for their continued support and look forward to further strengthen our relationship in the coming years.

We recommend to the shareholders the following appropriations from the net profit for the year 2012

- Transfer to Legal Reserve AED 2.911 Million
- Transfer to Obligatory Reserve AED 1.375 Million

We take pride in maintaining a consistent dividend history since the company's inception & are pleased to recommend

- Cash Dividend @ 20% AED 23.100 Million

The following recommendations are placed for your approval & ratification:

1) To approve the Board of Directors' and Auditors' Report for 2012.
2) To ratify the company's financial statements for the year ended 31st December 2012.
3) To approve the Board of Directors' proposal relating to appropriation of profit and retained earnings.
4) To release the Chairman, the Members of the Board and the auditors from any liabilities related to the performance of their duties during the year under review.
5) To appoint statutory auditors for the year 2013.

KHALAF AHMED AL HABTOOR
Chairman of the Board of Directors

Grant Thornton

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Independent Auditor's Report
To the Shareholders of
DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai, United Arab Emirates

Report on the Financial Statements

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, these financial statements present a true and fair view of the financial position of the Company as at December 31, 2012, and of 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

As required by the U.A.E. Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organization of the Insurance Operations & Executive Regulations of 2010 and U.A.E. Federal Law No. 8 of 1984 (as amended), we also confirm that we have obtained all the information and explanations necessary for our audit, proper books of account have been kept by the Company and the contents of the Directors' report which relate to the financial statements are in agreement with the Company's books of account. To the best of our knowledge and belief, no violations of above mentioned laws and regulations or of the Articles of Association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Grant Thornton

GRANT THORNTON

Farouk Mohamed
Insurance Registration No. 54
Dubai, United Arab Emirates
14 February 2013

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai - United Arab Emirates

Statement of financial position as at December 31, 2012

	Notes	2012 AED '000	2011 AED '000
ASSETS			
Non-current			
Statutory deposits	3	10,268	10,268
Property and equipment	4	1,055	1,764
Investment property	5	86,988	88,841
		98,311	**100,873**
Current			
Financial assets	6	118,562	105,077
Insurance receivables	7	35,228	55,393
Other receivables	8	2,382	1,091
Due from related parties	9	15,342	11,327
Reinsurance contract assets	10	95,068	91,588
Cash and cash equivalents	11	31,304	11,223
		297,886	**275,699**
TOTAL ASSETS		**396,197**	**376,572**
EQUITY AND LIABILITIES			
Equity			
Share capital	12	115,500	110,000
Legal reserve	13	57,448	54,537
Obligatory reserve	14	28,875	27,500
General reserve	15	220,000	220,000
Retained earnings		29,851	28,927
Fair value reserve on financial assets at fair value through other comprehensive income		(260,932)	(274,417)
Total equity		**190,742**	**166,547**
Liabilities			
Non-current			
Employees' end of service benefits	16	**2,116**	**1,761**
Current			
Insurance contract provisions	10	142,702	134,848
Insurance payables	17	42,705	44,102
Other payables	18	13,721	12,968
Due to related parties	9	4,211	16,346
		203,339	**208,264**
Total liabilities		**205,455**	**210,025**
TOTAL EQUITY AND LIABILITIES		**396,197**	**376,572**

These financial statements were approved by the Board of Directors on February 14, 2013 and signed on their behalf by:

Khalaf Ahmed Al Habtoor
Chairman

Mohammed Khalaf Al Habtoor
Managing Director

The notes from 1 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai - United Arab Emirates

Income statement
for the year ended December 31, 2012

	Notes	2012 AED '000	2011 AED '000
Gross premium		128,193	114,770
Reinsurance share of premium		(79,569)	(70,776)
Net premium		48,624	43,994
Net transfer to unearned premium reserve		(4,682)	(1,318)
Net premium earned		43,942	42,676
Commission earned		13,825	11,567
Commission paid		(11,602)	(8,955)
Other		6,648	4,374
Gross underwriting income		52,813	49,662
Gross claims paid		47,375	225,207
Reinsurance share		(27,262)	(185,672)
Net claims paid		20,113	39,535
Provision for outstanding claims and technical provisions		(1,196)	(255,158)
Reinsurance share of outstanding claims		889	243,100
Net claims incurred		19,806	27,477
Net underwriting income		33,007	22,185
Income from investments - net	19	6,084	6,399
Income from investment property - net	20	10,210	11,962
Other income	21	41	199
Gross income		49,342	40,745
General and administrative expenses	22	(20,229)	(17,125)
Net profit for the year		**29,113**	**23,620**
Earnings per share:			
Basic and diluted	23	0.25	0.20

The notes from 1 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai - United Arab Emirates

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

	2012 AED '000	2011 AED '000
Net profit for the year	**29,113**	**23,620**
Other comprehensive income		
Net unrealized gain / (loss) on investments	13,485	(4,113)
Adjustment arising on translation of operating assets and liabilities of overseas branch	2	-
Total comprehensive income for the year	42,600	19,507

The notes from 1 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C)
Dubai - United Arab Emirates

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

	Share capital AED'000	Legal reserve AED'000	Obligatory reserve AED'000	General reserve AED'000	Fair value reserve on financial assets at fair value through other comprehensive income AED'000	Retained earnings AED'000	Total AED'000
Balance as at January 1, 2011	110,000	52,175	27,175	220,000	(270,304)	31,538	170,584
Dividend paid	-	-	-	-	-	(22,000)	(22,000)
Directors' remuneration	-	-	-	-	-	(1,544)	(1,544)
Transfer to legal reserve	-	2,362	-	-	-	(2,362)	-
Transfer to obligatory reserve	-	-	325	-	-	(325)	-
Transactions with owners	-	2,362	325	-	-	(26,231)	(23,544)
Profit for the year	-	-	-	-		23,620	23,620
Other comprehensive income :							
Net unrealized loss on investments	-	-	-	-	(4,113)	-	(4,113)
Balance as at December 31, 2011	110,000	54,537	27,500	220,000	(274,417)	28,927	166,547
Balance as at January 1, 2012	110,000	54,537	27,500	220,000	(274,417)	28,927	166,547
Dividend paid	-	-	-	-	-	(16,500)	(16,500)
Bonus share issue	5,500	-	-	-	-	(5,500)	-
Directors' remuneration	-	-	-	-	-	(1,905)	(1,905)
Transfer to legal reserve	-	2,911	-	-	-	(2,911)	-
Transfer to obligatory reserve	-	-	1,375	-	-	(1,375)	-
Transactions with owners	5,500	2,911	1,375	-	-	(28,191)	(18,405)
Profit for the year	-	-	-	-	-	29,113	29,113
Other comprehensive income :							
Net unrealized gain on investments	-	-	-	-	13,485	-	13,485
Adjustment arising on translation of operating assets and liabilities of overseas branch	-	-	-	-	-	2	2
Balance as at December 31, 2012	115,500	57,448	28,875	220,000	(260,932)	29,851	190,742

The notes from 1 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai - United Arab Emirates

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

	Notes	2012 AED '000	2011 AED '000
Operating activities			
Net profit for the year		29,113	23,620
Adjustments for:			
Depreciation on property and equipment	4	963	1,039
Depreciation on investment property	5	1,853	1,847
Profit on disposal of property and equipment	21	(41)	(199)
Net transfer to employees' end-of-service benefits		355	190
Insurance contract provisions		7,854	(253,839)
Reinsurance contract assets		(3,480)	243,101
Dividend and interest on long-term deposits	19	(6,084)	(6,399)
Directors remuneration	18	(1,905)	(1,544)
Income from investment property - net		(12,063)	(13,809)
Operating profit/(loss) before changes in working capital		16,565	(5,993)
Changes in working capital			
Insurance receivables		20,165	52
Other receivables		(1,291)	6
Insurance payables		(1,397)	(27,889)
Other payables		753	(2,626)
Due from/(to) related parties-net		(16,150)	7,583
Cash flow from (used in) operating activities		18,645	(28,867)
Investing activities			
Purchase of property and equipment	4	(343)	(699)
Proceeds from disposals of property and equipment		130	376
Decrease in statutory deposits		-	-
Dividend and interest on long-term deposits		6,084	6,399
Income from investment property - net		12,063	13,809
Cash flow from investing activities		17,934	19,885
Financing activities			
Dividends paid	25	(16,500)	(22,000)
Cash flow used financing activities		(16,500)	(22,000)
Net increase/(decrease) in cash and cash equivalents		20,079	(30,982)
Cash and cash equivalents at January 1,		11,223	42,205
Exchange differences on cash and cash equivalents		2	-
Cash and cash equivalents at December 31,	11	31,304	11,223

The notes from 1 to 32 form an integral part of these financial statements.

1 Legal status and activities

Dubai National Insurance & Reinsurance (P.S.C.) (the "Company") is a public shareholding company incorporated in Dubai on 6 January 1992 with an overseas branch in Beirut, Lebanon.

The Company is engaged in insurance and reinsurance of all classes of business in accordance with the provisions of the United Arab Emirates ("U.A.E.") Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organization of the Insurance Operations relating to insurance companies and insurance agents.

The registered address of the Company is at Floor 7 & 9, Dubai National Insurance Building, Port Saeed, P.O Box 1806, Dubai, U.A.E.

The total number of staff employed by the Company as at December 31, 2012 was 88 (2011: 87).

The overseas branch in Beirut is in the process of being wound down. Accordingly, the related license as required by local regulations has been terminated. The related guarantee is blocked with the Ministry of Economic & Commerce, Insurance Affairs Department in Lebanon until it meets all its obligations, as published in the official gazette dated April 2004. The branch has no operations and the total expenses and assets of the branch are not material to these financial statements. Hence, these financial statements do not separately disclose the expenses, assets, liabilities and cash flows for the discontinued operations of the branch.

2 Significant Accounting Policies

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by International Accounting Standards Board (IASB) and interpretations thereof issued by the International Financial Reporting Interpretation Committee and applicable requirements of U.A.E. Federal Law No. 8 of 1984 (as amended) relating to commercial companies, and of U.A.E. Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organization of the Insurance Operations, concerning insurance companies and agents.

The financial statements are prepared in U.A.E. Dirhams ("AED"), rounded off to the nearest thousand.

2 Significant Accounting Policies (continued)

b) Standards, interpretations and amendments to existing standards

2.1 Standards, interpretations and amendments to existing standards that are effective in 2012

Certain revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period on or after January 1, 2012. The following are relevant to the Company:

IFRS 7 (Amendment)	Financial Instruments: Disclosures (effective for accounting period on or after July 1, 2011).

2.2 Standards, interpretations and amendments to existing standards that are effective after 2012

At the date of authorisation of these financial statements, the following new standards, interpretations and amendments to existing standards have been published but are not yet effective, and have not been adopted early by the Company:

Standard number	**Title**	**Effective date**
IAS 1	Presentation of Financial Statements - Amendment	July 1, 2012
IAS 19	Employee Benefits - Amendment	January 1, 2013
IAS 27	Separate Financial Statements - Revised 2011	January 1, 2013
IAS 28	Investments in Associates and Joint Ventures - Revised 2011	January 1, 2013
IFRS 1	First-time Adoption of IFRS - Amendment	January 1, 2013
IFRS 7	Financial Instruments: Disclosures - Amendment	January 1, 2013
IFRS 10	Consolidated Financial Statements - New and Amendment	January 1, 2013
IFRS 11	Joint Arrangements - New and Amendment	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities - New and Amendment	January 1, 2013
IFRS 13	Fair Value Measurement - New	January 1, 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine - New	January 1, 2013
IAS 32	Financial Instruments: Presentation - Amendment	January 1, 2014
	Annual Improvements 2009 - 2011	
IAS 1	Presentation of Financial Statements - Amendment	January 1, 2013
IAS 16	Property, Plant and Equipment - Amendment	January 1, 2013
IAS 32	Financial Instruments: Presentation - Amendment	January 1, 2013
IAS 34	Interim Financial Reporting - Amendment	January 1, 2013

2 Significant Accounting Policies (continued)

b) Standards, interpretations and amendments to existing standards (continued)

2.2 Standards, interpretations and amendments to existing standards that are effective after 2012 (continued)

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on the relevant new standards, amendments and interpretations that are not yet effective have been provided below and are not expected to have a material impact on the Company's financial statements, except stated specifically. The impact of all other standards and interpretations not yet adopted is not expected to be material.

IFRS 7 Financial Instruments: Disclosures – Amendment (effective for accounting period on or after January 1, 2013)

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position.

The required disclosures should be provided retrospectively.

IFRS 13 Fair Value Measurement – New (effective for accounting period on or after January 1, 2013)

This standard does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements.

IAS 32 Financial Instruments: Presentation – Amendment (effective for accounting period on or after January 1, 2014)

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

The Amendments are required to be applied retrospectively.

c) Accounting convention

The financial statements are prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more described in the accounting policies below

2 Significant Accounting Policies (continued)

d) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the property and equipment.

The rates of depreciation used are based on the following estimated useful lives of the assets.

	Years
Furniture and fixtures	4-11
Motor vehicles	3
Computer equipment	4
Buildings	40

e) Investment property

Investment property is measured at cost and are carried net of accumulated depreciation. Depreciation is determined on a straight-line basis over the estimated useful life of the property which is considered to be 40 years.

No depreciation is charged on freehold land.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Fair value of investment properties are determined by open market values based on valuations performed by an independent surveyor only for disclosure purposes.

f) Revenue recognition

Gross premium
Gross premium and policy fees are recognised as income when insurance policies are issued to the insured, consequent to the acceptance of the risk.

Commission on reinsurance
Commission is recognised at the time the policies are written excluding profit commission which is recognised at the time of settlement.

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

2 **Significant Accounting Policies** (continued)

f) **Revenue recognition** (continued)

Interest income
Interest income is recognised on accrual basis taking into account effective interest rates on the instrument, on a time proportionate basis.

Investment income
Investment income is recognised at the time the securities are liquidated and the proceeds are realised or realisable.

Fair value gains and losses are recognised in accordance with specific policies for different classes of financial instruments.

Rental income
Rental income from investment property is recognised on a straight line basis over the term of the lease.

Dividend income
Dividend income is recognised when the right to receive payment is established.

g) **Claims**

Claims incurred comprise actual claims and other related costs paid and incurred in the year and movement in outstanding claims. Claim handling costs are recognised at the time of registering the claims.

On account of uncertainties involved in non-motor claim recoveries, salvage and subrogation rights are recognised only at the time of actual recovery. For motor claim recoveries, salvage is accounted at the time of registering the claims.

Provision for outstanding claims represents the estimated settlement values of all claims notified, but not settled at the statement of financial position date on the basis of individual case estimates.

The reinsurers' portion towards the above outstanding claims is classified as reinsurance contract assets and it is showed as current assets in the financial statements.

h) **Provision for IBNR**

In addition to outstanding claims a provision for Incurred But Not Reported claims ("IBNR") is made at the statement of financial position date based on management estimates of net claims. The method used by the Company to calculate the provisions takes into account past estimates and details of reinsurance programmes to assess the expected size of reinsurance recoveries.

2 Significant Accounting Policies (continued)

i) Liability adequacy test

All recognised insurance liabilities including provision for outstanding claims are subject to liability adequacy test at each reporting date. This involves comparison of current estimates of all contractual cash flows attached to these liabilities with their carrying amounts. Estimates of contractual cash flows include expected claim handling costs as also recoveries from third parties. Any deficiency in carrying amounts is charged to the income statement by establishing a provision for losses arising from liability adequacy test.

j) Unearned Premium Reserve

The Unearned Premium Reserve (UPR) represents that portion of premiums earned gross of reinsurance, which relate to the period of insurance subsequent to the statement of financial position date and computed on percentages equal to minimum percentage stipulated in the U.A.E. Insurance Companies Law.

For periods up to one year, the provision is calculated at a minimum of 40% of the annual premiums earned for all categories, except for marine, which is calculated at a minimum of 25%. For periods of more than one year, the provision is calculated on a proportionate basis.

k) Reinsurance premium

Ceded reinsurance premiums are accounted for in the same accounting periods as the premiums for the related direct insurance, and are calculated in accordance with reinsurance arrangements in place.

l) Reinsurance assets

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

m) Financial assets

Recognition, initial measurement and derecognition

Financial assets are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

2 Significant Accounting Policies (continued)

m) Financial assets (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. After initial recognition, these are measured at amortised cost using effective interest method, less provision for impairment. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Classification and subsequent measurement of financial assets

The Company classifies its financial assets as investments at 'fair value through other comprehensive income' ('FVTOCI') and 'loans and receivables' at amortised cost. The classification depends on the nature of these investments.

Investments at fair value through other comprehensive income *('FVTOCI')*

Investments in equity securities are classified as FVTOCI. At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity investments at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading. They are initially recognised at fair value plus transaction costs.

Fair value measurement

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted prices at the close of business on the statement of financial position date. Investments in unquoted securities are measured at fair value, except in the limited circumstances where cost may be an appropriate estimate of fair value. This may be the case if insufficient more recent information is available to determine fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Gains or losses on subsequent measurement

Gain or loss arises from change in fair value of investments at FVTOCI and is recognised in other comprehensive income and reported within the fair value reserve for investments at FVTOCI within equity. When the asset is disposed of, the cumulative gain or loss recognised in other comprehensive income is not reclassified from the equity reserve to income statement, but is reclassified to retained earnings.

De-recognition

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or surrendered. A financial liability is derecognised when it is extinguished. The Company uses the specific identification method to determine the gains or losses on de-recognition.

2 Significant Accounting Policies (continued)

m) Financial assets (continued)

Impairment and un-collectability of financial assets at amortised cost

An assessment is made for financial assets at amortised costs 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 recognized in the income statement. The amount of the impairment loss recognised is the difference between the assets' carrying value and the present value of future cash flows, reflecting the impact of collateral and guarantees, discounted at the financial asset's original effective interest rate.

n) Receivables and payables related to insurance contracts

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

If there is objective evidence that the insurance receivables are impaired, the Company reduces the carrying amount of the insurance receivables accordingly and realises the impairment loss in the income statement.

o) End of service benefits

In compliance with U.A.E. Labour Law, the Company has gratuity benefits covering all of its non-national employees who have been with the Company for more than one year. The provision for staff terminal benefits is based on the liability that would arise if the employment of all the employees was terminated at the statement of financial position date.

Under Federal Labour Law No. 7 of 1999 for pension and social security employers are required to contribute 12.5% of the 'contribution calculation salary' (basic salary plus allowances) of those employees who are U.A.E. nationals. These employees are also required to contribute 5% of the 'contribution calculation salary' to the scheme. The Company's contribution is recognised as an expense in the income statement as incurred. The employees and employers' contribution, to the extent remaining unpaid at the statement of financial position date, are shown under provisions.

p) Foreign currency transactions

Transactions in foreign currencies are translated to U.A.E. Dirhams ('AED') at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to AED at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

2 Significant Accounting Policies (continued)

q) Impairment

The carrying amounts of the Company's assets are reviewed at each statement of financial position date or whenever there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment losses are recognised in the income statement.

r) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

s) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, current accounts and fixed deposits balances with original maturities of less than 3 months and free from lien. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of cash flows.

t) Critical accounting estimates and judgements in applying accounting policy

The Company makes estimates and assumption that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Outstanding claims, IBNR and UPR

The estimation of the ultimate liability (outstanding claims and IBNR) arising from claims and UPR made under insurance contracts is the Company's most critical accounting estimate. These estimates are continually reviewed and updated, and adjustments resulting from this review are reflected in the income statement. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events.

Classification of investment property

The Company makes judgement to determine whether a property qualifies as investment property and follows the guidance of IAS 40 'Investment Property' to consider whether any owner occupied property is not significant and is classified accordingly as investment property.

Value of investment property is estimated at open market value by an independent professional valuer.

2 Significant Accounting Policies (continued)

t) Critical accounting estimates and judgements in applying accounting policy (continued)

Unquoted investments

Unquoted securities as at December 31, 2012 were fair valued by an independent valuer based on the Net Assets Value.

Provision for doubtful debts

Management reviews the provision for doubtful debts at each reporting date by assessing the recoverability of insurance and reinsurance receivables.

u) Segment reporting

In identifying its operating segments, management generally follows the Company's lines of business. Each of these operating segments is managed separately as each of these business lines require different resources as well as marketing approaches.

Under IFRS 8 "Operating Segments", reported segment profits are based on internal management reporting information that is regularly reviewed by the chief operating decision maker. The measurement policies used by the Company for segment reporting under IFRS 8 are the same those used in its financial statements.

3 Statutory deposits

	2012 AED'000	2011 AED'000
(i) Deposit with a local bank in Dubai, U.A.E. held under a lien in favour of the Ministry of Economy and Planning in accordance with Article 42 of Federal Law No. (6) of 2007 on Establishment of the Insurance Authority and Organization of the Insurance Operations relating to insurance companies and brokers. The deposit cannot be withdrawn without prior approval from the Ministry of Economy and Planning.	10,000	10,000
(ii) Restricted fixed deposit in favour of the Ministry of Economy & Commerce, Government of Lebanon, as per law no. 31/91 of Insurance companies held under lien by bank against guarantee issued deposit in LL 110 million (2011: LL 110 million).	268	268
	10,268	10,268

4 Property and equipment

	Furniture and fixtures AED'000	Motor vehicles AED'000	Computer equipment AED'000	Land and buildings AED'000	Total AED'000
Cost					
At January 1, 2012	1,743	703	2,644	-	5,090
Additions	48	135	160	-	343
Disposals	(68)	(135)	(203)	-	(406)
At December 31, 2012	1,723	703	2,601	-	5,027
Accumulated depreciation					
At January 1, 2012	1,167	455	1,704	-	3,326
Charge for the year	316	130	517	-	963
Disposals	(50)	(64)	(203)	-	(317)
At December 31, 2012	1,433	521	2,018	-	3,972
Net book value At December 31, 2012	290	182	583	-	1,055
At 31 December 2011	576	248	940	-	1,764

	Furniture and fixtures AED'000	Motor vehicles AED'000	Computer equipment AED'000	Land and buildings AED'000	Total AED'000
Cost					
At January 1, 2011	1,664	500	2,463	101	4,728
Additions	93	395	211	-	699
Disposals	(14)	(192)	(30)	(101)	(337)
At December 31, 2011	1,743	703	2,644	-	5,090
Accumulated depreciation					
At January 1, 2011	801	423	1,223	-	2,447
Charge for the year	376	173	490	-	1,039
Disposals	(10)	(141)	(9)	-	(160)
At December 31, 2011	1,167	455	1,704	-	3,326
Net book value At December 31, 2011	576	248	940	-	1,764
At 31 December 2010	863	77	1,240	101	2,281

5 Investment property

	2012 AED'000	2011 AED'000
Cost		
At January 1	105,721	105,721
Accumulated Depreciation		
At January 1	16,880	15,033
Charge for the year (note 21)	1,853	1,847
At December 31	18,733	16,880
Net book value		
At December 31	86,988	88,841

On December 31, 2012, Land Sterling Property Consultants, independent professional valuers estimated the open market value of the investment properties at AED 160.5 million (2011: AED 160.4 million). The properties are held for capital appreciation and for rental purposes. The Company occupies an insignificant area (9%) of these properties for use in its own business.

6 Financial assets

Financial instruments measured at fair value

Financial assets measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

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

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

6 Financial assets (continued)

Financial instruments measured at fair value (continued)

The fair values of the financial assets are classified into these three levels as follows:

	Note	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
December 31, 2012					
Investment in quoted securities	(a)	93,716	-	-	93,716
Investment in unquoted securities*	(b)	-	-	24,846	24,846
Net fair value		93,716	-	24,846	118,562
December 31, 2011					
Investment in quoted securities	(a)	79,341	-	-	79,341
Investment in unquoted securities*	(b)	-	-	25,736	25,736
Net fair value		79,341	-	25,736	105,077

* The title of the unquoted securities is held by related parties for the beneficial interest of the Company.
(a) Investment in quoted securities:
Fair values have been determined by reference to their quoted prices at the reporting date.

(b) Investment in unquoted securities:
Unquoted securities as at December 31, 2012 were fair valued by an independent valuer based on the Net Assets Value as of the latest available financial statements of the investees', i.e. December 31, 2011. (2011: based on Net Assets Value as of the financial statements as on December 31, 2010).

Level 3 value measurements

The reconciliation of carrying amounts of financial instruments classified within level 3 is as follows:

	2012 AED'000	2011 AED'000
Investments in unquoted securities		
Balance as on January 1	25,736	18,437
Gains or losses recognised in other comprehensive income	(890)	7,299
Balance as on December 31	24,846	25,736

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

7 Insurance receivables

	2012	2011
	AED'000	AED'000
Due from policy holders	4,144	3,094
Due from insurance companies	10,126	10,849
Due from reinsurance companies	6,980	20,342
Due from insurance brokers	18,306	24,141
	39,556	58,426
Provision for doubtful debts	(4,328)	(3,033)
	35,228	55,393

The average credit period is 90 days. Insurance receivables outstanding over one year which in the management's estimate are impaired and not recoverable are fully provided.

8 Other receivables

	2012	2011
	AED'000	AED'000
Prepayments	1,709	686
Accrued interest	114	72
Other receivables	559	333
	2,382	1,091

9 Related party balances

Details of related parties' balances are as follows:

Amounts due from related parties

	2012	2011
	AED'000	AED'000
Al Habtoor Leighton L.L.C.	6,679	2,889
Diamond Lease L.L.C.	6,417	7,133
Other Habtoor Group companies	2,246	1,305
	15,342	11,327

Amounts due to related parties

	2012	2011
	AED'000	AED'000
Due to shareholder:		
Al Habtoor Motors Co L.L.C.	4,150	16,297
Other:		
Other Habtoor Group companies	61	49
	4,211	16,346

9 Related party balances (continued)

The Company, in the normal course of business, collects premiums from and settles claims of other businesses that fall within the definition of related parties as contained in IFRS. Management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

The following are the details of significant transactions with related parties:

	2012 AED'000	2011 AED'000
Premiums written	50,808	53,606
Claims paid	13,337	159,345
Commission paid	2,848	2,066
Agency repairs	14,384	14,850
Key management remuneration		
Short term benefits	2,789	2,443
Post-employment benefits	644	498
	3,433	2,941

10 Insurance contracts provisions and reinsurance contract assets

Assumptions and sensitivities

The process used to determine assumptions for assessing claims provisions is reviewed and updated to be consistent with observable market practices and other reliable information to result in most likely expected outcome.

However, considering the nature of business it cannot be predicted with certainty the likely outcome and the actual cost of the claim. But each claim is assessed on a case to case basis depending upon information available and past trends.

An analysis of sensitivity is carried out for various claims which are an indication for establishing the adequacy of the estimation process. The management believes that the liability for claims reported in the statement of financial position is adequate.

Claims development

For all classes of business underwritten by the Company the uncertainty is typically resolved generally within one year except for Motor Insurance where the uncertainty is generally resolved within three years. Claims development over the last five years is analysed below:

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

10 Insurance contracts provisions and reinsurance contract assets (continued)

Underwriting year	**2008 & prior AED'000**	**2009 AED'000**	**2010 AED'000**	**2011 AED'000**	**2012 AED'000**	**Total AED'000**
Estimate of cumulative claims						
At the end of underwriting year	461,633	298,773	67,934	68,554	43,524	
One year later	498,436	342,442	83,323	78,038		
Two years later	489,539	260,242	81,105			
Three years later	467,517	257,611				
Four years later	465,474					
Estimate of cumulative claims	465,474	257,611	81,105	78,038	43,524	**925,752**
Cumulative payments to date	425,908	248,027	71,273	68,893	29,135	**843,236**
Provision for outstanding claims as on December 31, 2012	39,566	9,584	9,832	9,145	14,389	**82,516**
IBNR and other reserves as on December 31, 2012	-	-	-	-	12,919	**12,919**
Gross outstanding claims as on December 31, 2012	39,566	9,584	9,832	9,145	27,308	**95,435**
Reinsurer's share of outstanding claims as on December 31, 2012	34,257	7,590	7,422	7,526	9,982	**66,777**
Net outstanding claims as on December 31, 2012	5,309	1,994	2,410	1,619	17,326	**28,658**
Provision for outstanding claims as on December 31, 2011	43,683	13,625	13,334	25,990	-	**96,632**
Reinsurer's share of outstanding claims as on December 31, 2011	38,316	12,173	10,832	6,345	-	**67,666**

10 Insurance contracts provisions and reinsurance contract assets (continued)

		2012			2011		
		Gross insurance contract liabilities AED	Reinsurance contract assets AED	Net insurance contract liabilities AED	Gross insurance contract liabilities AED	Reinsurance contract assets AED	Net insurance contract liabilities AED
Unearned Premium Reserves	a	47,267	(28,291)	18,977	38,216	(23,922)	14,294
Insurance contract provisions	b	82,516	(66,777)	15,739	83,775	(67,666)	37,089
Provision for IBNR	c	12,919	-	12,919	12,857	-	12,857
Closing balance		142,702	(95,068)	47,635	134,848	(91,588)	64,240

a) Unearned Premium Reserve

	2012			2011		
	Gross AED	Reinsurance share AED	Net AED	Gross AED	Reinsurance share AED	Net AED
Balance as at January 1,	38,216	(23,922)	14,294	44,773	(31,797)	12,976
Provision made during the year	47,267	(28,291)	18,977	38,216	(23,922)	14,294
Provision released during the year	(38,216)	23,922	(14,294)	(44,773)	31,797	(12,976)
Balance as at December 31,	47,267	(28,291)	18,977	38,216	(23,922)	14,294

10 Insurance contracts provisions and reinsurance contract assets (continued)

b) Insurance contract provisions

	2012			2011		
	Gross AED	Reinsurance share AED	Net AED	Gross AED	Reinsurance share AED	Net AED
Balance as at January 1,	83,775	(67,666)	16,109	329,322	(310,767)	18,555
Provision made during the year	46,116	(26,373)	19,743	(20,340)	57,429	37,089
Settled during the year	(47,375)	27,262	(20,113)	(225,207)	185,672	(39,535)
Balance as at December 31,	82,516	(66,777)	15,739	83,775	(67,666)	16,109

c) Provision for IBNR

	2012			2011		
	Gross AED	Reinsurance share AED	Net AED	Gross AED	Reinsurance share AED	Net AED
Balance as at January 1,	12,857	-	12,857	22,467	-	22,467
Provision made during the year	12,919	-	12,919	12,857	-	12,857
Provision released during the year	(12,857)	-	(12,857)	(22,467)	-	(22,467)
Balance as at December 31,	12,919	-	12,919	12,857	-	12,857

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

11 Cash and cash equivalents

	2012 AED'000	2011 AED'000
Cash in hand and at banks	31,304	11,223

(a) Cash at banks includes approximately AED 0.3 million (2011: AED 0.3 million) in converted Lebanese Lira (LL).

(b) Cash and bank includes short term deposits with local banks carrying interest ranging from 0.8% - 2.5% (2011: 1% - 2.5%).

12 Share capital

The authorised and issued share capital comprises 115,500,000 fully paid-up shares of AED 1 each (Previous year 110,000,000 fully paid-up share of AED 1 each):

	2012 No of shares	2012 AED'000	2011 No of shares	2011 AED'000
Balance at December 31	115,500,000	115,500	110,000,000	110,000

The Board proposed 5% bonus shares on paid up capital as at December 31, 2011. This was approved at the Annual General Meeting held on April 5, 2012.

13 Legal reserve

In accordance with the Company's Articles of Association and Article 192 of the U.A.E. Federal Law No. 8 of 1984 (as amended), a minimum of 10% of the Company's annual net profits must be transferred to a non-distributable legal reserve. As per the Company's Articles of Association, such transfers are required until the balance on the legal reserve equals 50% of the Company's paid-up share capital. During the year the Company has transferred AED 2.911 million (2011: AED 2.362 million), being 10% of the net profits to the Legal Reserve.

14 Obligatory reserve

In accordance with the Company's Articles of Association, at least 10% of the Company's annual net profits (before directors' fees) must be transferred to a non-distributable obligatory reserve. Such transfers are required until the balance on this reserve equals 25% of the Company's paid-up share capital, or until the transfer is suspended by resolution of the shareholders. During the year the Company has transferred AED 1.375 million (2011: AED 0.325 million), being 4.7% (2011: 25%) of the net profits to the Obligatory Reserve to meet the limit.

15 General reserve

This reserve is established by appropriations from net profits, as proposed by the Board of Directors and is subject to approval by the General Assembly.

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

16 Employees' end of service benefits

	2012	2011
	AED'000	AED'000
Balance at January 1, 2012	1,761	1,571
Charge for the year	442	500
Payments during the year	(87)	(310)
Balance at December 31, 2012	2,116	1,761

17 Insurance payables

	2012	2011
	AED'000	AED'000
Trade creditors	5,143	5,671
Insurance companies	2,198	3,140
Re-insurance companies	31,158	31,413
Brokers payable	1,218	1,202
Premium reserve withheld	2,988	2,676
	42,705	44,102

18 Other payables

	2012	2011
	AED'000	AED'000
Accrued expenses	2,926	1,578
Provision for staff benefits	1,798	1,521
Directors' remuneration *	1,905	1,544
Other payables	7,092	8,325
	13,721	12,968

* Directors' remuneration is an appropriation of net profit for the year in accordance with Article 118 of U.A.E. Commercial Companies Law No. 8 of 1984 (as amended), by The Ministry of Economy and Planning and also as per the Articles of Association of the Company.

19 Income from investments - net

	2012	2011
	AED'000	AED'000
Dividend income	5,718	5,541
Interest income – net	366	858
	6,084	6,399

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

20 Income from investment property - net

	2012 AED'000	2011 AED'000
Gross rental income	15,695	17,581
Maintenance expenses	(3,632)	(3,772)
Depreciation (note 5)	(1,853)	(1,847)
	10,210	11,962

21 Other income

	2012 AED'000	2011 AED'000
Profit on disposal of property and equipment	41	199
	41	199

22 General and administrative expenses

	2012 AED'000	2011 AED'000
Personnel costs	13,354	12,473
Other operational expenses	6,875	4,652
	20,229	17,125

23 Earnings per share

Basic and diluted

	2012 AED'000	2011 AED'000
Net profit for the year AED '000'	29,113	23,620
Weighted average number of shares outstanding (note 12)	115,500,000	115,500,000
Earnings per share (AED) Basic and diluted	0.25	0.20

Earnings per share for 2011 was adjusted for 5% bonus shares issued in 2012 as approved by shareholders at the Annual General Meeting held on April 5, 2012

24 Segment reporting

The Company operates two main business segments: Underwriting & Investments.

Underwriting segment is further classified into General Insurance and Life & Health Insurance. Investments segment comprises Investment Property and Financial Assets. The Life insurance provided by the Company is for a period of 12 months and does not include any investment portion.

	2012 AED'000			2011 AED'000		
	Underwriting	**Investments**	**Total**	**Underwriting**	**Investments**	**Total**
Segment revenue	128,193		**128,193**	114,770		114,770
Segment result	33,048	16,294	49,342	22,385	18,360	40,745
Unallocated administrative cost			(20,229)			(17,125)
Net profit for the year			**29,113**			**23,620**
Segment assets	149,075	205,550	354,625	161,163	193,918	355,081
Unallocated assets			41,572			21,491
Total assets			**396,197**			**376,572**
Segment liabilities	202,346	3,109	205,455	206,725	3,300	210,025
Unallocated liabilities			-			-
Total liabilities			**205,455**			**210,025**

Underwriting results are further classified as follows:

	AED'000		
	General business	**Life & health**	**Total**
2012			
Gross premiums written	94,185	34,008	**128,193**
Gross underwriting income	44,171	8,642	**52,813**
Net claims incurred	15,008	4,798	**19,806**
Net Underwriting income	29,163	3,844	**33,007**
2011			
Gross premiums written	75,222	39,548	**114,770**
Gross underwriting income	32,770	16,892	**49,662**
Net claims incurred	14,730	12,747	**27,477**
Net Underwriting income	18,040	4,145	**22,185**

25 Proposed dividend and bonus issue

The Board has proposed cash dividend of 20% of paid up capital, AED 23.1 million (AED 0.20 per share) for the year ended December 31, 2012.

During the previous year, the Board proposed a cash dividend of AED 16.50 million (AED 0.15 per share) representing 15% of the paid up capital and 5% bonus shares on paid up capital as at December 31, 2011 . This was approved at the Annual General Meeting held on April 5, 2012.

26 Commitments and contingencies

	2012 AED'000	2011 AED'000
Financial guarantee	3,908	268

Guarantees of AED 0.3 million (2011: AED 0.3 million) issued by banks are secured by way of deposits held. The additional guarantees given during the year includes a guarantee against a legal case.

27 Operating lease

Leases as a lessor

The Company has leased out its investment properties under various operating leases.

Operating lease rentals receivable are:

	2012 AED'000	2011 AED'000
Due within one year	9,946	10,018
Due within two to five years	2,467	277

Leases as a lessee

At the statement of financial position date, there were no major outstanding commitments under non-cancellable operating leases.

28 Capital commitments

At the statement of financial position date, there were no major capital commitments (2011: nil).

29 Insurance risk management

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to property, liability, life, accident health, financial or other perils that may arise from an insurable event. The Company also has exposure to market risk through its insurance and investment activities. The Company manages the risk through well laid out procedures and delegation levels for both underwriting and settlement of claims.

29 Insurance risk management (continued)

Risk management objectives and policies for mitigating insurance risk (continued)

The Company has structured policies for acceptance and pricing risks. Experienced and qualified professionals undertake the assessment of risks and pricing, with a conservative and cautious approach. Survey, risk measurement, sensitivity analysis, reinsurance term etc., are followed meticulously before acceptance of risk. Apart from these study of portfolio, probability, market trend, past history are all considered for pricing.

Underwriting strategy

This involves the Company's own risk assessment procedures and is based on a balanced portfolio. It is set out in terms of industry, type of exposures, limits for each class, and quality of risks with acceptance levels. This is percolated down to the lower levels of the underwriting sections with the authorities specified along with their limits. Risk selection is set out as per the Company's risk management policies.

Managing reinsurance risk

The Company carries reinsurance cover to minimise exposure to potential losses arising from large insurance claims and consequently in the normal course of business enters into arrangements with other parties for reinsurance purposes. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance arrangements.

This reinsurance is through proportional treaty and facultative reinsurance contracts. The reinsurers are selected based on their standing in the market, rating, relationship experience and length of association.

Reinsurance recoverable is monitored on a regular basis and through exchange of statements which are duly reconciled.

Terms and conditions of insurance contracts

Insurance contracts are based on uncertainty. As such the terms and conditions of Insurance contracts varies but are generally based on norms as applied in the Insurance Market.

Sensitivity of underwriting profits and losses

The contribution from insurance operations to the profit of the Company amounts to AED 33.007 million for the year ended December 31, 2012 (2011: AED 22.185 million)

29 Insurance risk management (continued)

Sensitivity of underwriting profits and losses (continued)

The Company does not foresee any major impact from insurance operations on account of the following:

- The overall risk retention level of the Company in the year ended December 31, 2012 is 38% (2011: 38%). The Company has initiated series of enterprise-wide risk management measures which includes acceptance and transfer of risks. Appropriate Excess of Loss protections have been designed and placed. The insurance liabilities of the Company are being adequately covered by Treaty/Facultative arrangements with rated reinsurance companies and Excess of Loss reinsurance programs to safeguard against any major financial impact.

- The Company's commissions earned from reinsurance placements are consistent and remain a comfortable source of income.

- Because of the risk retention in all classes of business, the Company does not foresee any serious financial impact in the insurance net profits due to changes in the loss ratios.

30 Financial instruments

The financial assets of the Company include cash at bank and in hand, insurance receivables, reinsurance contract assets, other receivables, due from related parties and investments. Financial liabilities include insurance payables, other payables and due to related parties and provisions. Accounting policies for each class of financial assets and liabilities are set out in note 2.

Categories of financial instruments

Year - 2012

Assets	**Loans and receivables AED'000**	**Financial instruments AED'000**	**Insurance contracts AED'000**	**Total AED'000**
Financial instruments				
Statutory deposits	10,268	-	-	10,268
Reinsurance contract assets	-	-	95,068	95,068
Cash in hand and at banks including deposits	-	31,304	-	31,304
Financial assets	-	118,562	-	118,562
Insurance receivables	35,228	-	-	35,228
Other receivables	673	-	-	673
Due from related parties	15,342	-	-	15,342
Total financial assets	61,511	149,866	95,069	306,446

Year - 2012

Liabilities	**At amortised cost**	**Insurance Contracts**	**Total AED'000**
Insurance contract provision	-	142,702	142,702
Insurance and other payables	13,721	42,705	56,425
Due to related parties	4,211	-	4,211
Total liabilities	17,392	185,407	203,338

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

30 Financial instruments (continued)

Categories of financial instruments (continued)

Year - 2011

Assets	**Loans and Receivables AED'000**	**Financial Instruments AED'000**	**Insurance Contracts AED'000**	**Total AED'000**
Financial instruments				
Statutory deposits	10,268	-	-	10,268
Reinsurance contract assets	-	-	91,588	91,588
Cash in hand and at banks including deposits	-	11,223	-	11,223
Financial assets	-	105,077	-	105,077
Insurance receivables	55,393	-	-	55,393
Other receivables	405	-	-	405
Due from related parties	11,223	-	-	11,223
Total financial assets	77,289	116,300	91,588	285,177

Year - 2011

Liabilities	**At amortised cost**	**Insurance contracts**	**Total AED'000**
Insurance contract provision	-	134,848	134,848
Insurance and other payables	12,968	44,102	57,070
Due to related parties	16,346	-	16,346
Total liabilities	29,314	178,950	208,264

30 Financial instruments (continued)

Capital management

The Company's objective when managing capital risks are:

1) To comply with the Insurance Capital Requirements required by the U.A.E. Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organization of the Insurance Operations concerning Insurance Companies and Agents. The minimum regulatory capital for Insurance Companies which must be maintained at all times throughout the year as per U.A.E. Law is AED 100,000,000/- (2011: AED 100,000,000/-).

2) To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to the shareholders.

3) To provide an adequate rate of return to shareholders by pricing products and services commensurate with the level of risk.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders or issue new shares.

There were no changes made in the objectives, policies or processes during the years ended December 31, 2012 and December 31, 2011.

The table below summarises the minimum regulatory capital of the Company and the actual equity held by the Company at the end of the year:

	2012 AED'000	2011 AED'000
Total equity held	190,742	166,547
Minimum Regulatory Capital	100,000	100,000

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, liquidity risk, foreign exchange risk and market risk. The broad review and agreed policies for management of these risks are summarised below:

Credit risk

Credit risk is the risk that one party to a contract underlying a financial instrument will fail to discharge its obligations causing the other party to incur a financial loss.

All of the Company's underwriting activities are carried out in the United Arab Emirates. Cash is placed with a group of banks with good credit ratings. Credit risk on account receivables is spread, as they are due from a large number of customers. Credit risk with respect to 'due from insurers' and due from brokers is diversified due to the dispersion of amounts recoverable over a large number of insurers.

30 Financial instruments (continued)

Credit risk (continued)

Credit risk with respect to reinsurers is mitigated by placement only with those Companies having an acceptable rating.

Credit risk is limited to the carrying values of financial assets in the statement of financial position.

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

	Neither past due nor impaired	Past due but not impaired				Past due and impaired	Total
		<120 days	120-180 days	>180 days	Total		
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2012	**22,227**	**4,131**	**4,936**	**8,262**	**39,556**	**(4,328)**	**35,228**
31 December 2011	23,702	5,821	4,086	24,817	58,426	(3,033)	55,393

The Company believes that overdue debtors are not impaired except those already provided for.

Liquidity risk

Liquidity risk is the risk that the Company faces in meeting its present and future financial obligations in a timely manner. Solvency risk refers to the excess of assets over liabilities, and hence, to the adequacy of the Company's capital. The Company is required to maintain an adequate level of liquidity by the regulatory requirements currently in force in the U.A.E.

Liquidity requirements are monitored by the management to ensure sufficient funds are available to meet commitments as they arise. The table below summarised the contractual maturity of various financial instruments:

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

30 Financial instruments (continued)

Liquidity risk (continued)

Year -2012

	Less than 30 days	30-90 days	90-180 days	After 180 days	Total AED'000
Statutory deposits				10,268	10,268
Financial assets				118,562	118,562
Insurance receivables	4,630	11,342	15,996	3,260	35,228
Other receivables	130	790	1,061	401	2,382
Due from related parties	767	6,447	6,921	1,207	15,342
Cash in hand and at banks including deposits:					
Interest bearing		21,292		10,000	31,292
Non-interest bearing	12				12
	5,409	39,181	23,490	143,297	211,377
Liabilities					
Insurance and other payables	3,506	23,016	19,646	10,257	56,425
Due to related parties	352	1,062	2,109	688	4,211
	3,858	24,078	21,755	10,945	60,636

30 Financial instruments (continued)

Liquidity risk (continued)

Year -2011

	Less than 30 days	30-90 days	90-180 days	After 180 days	Total AED'000
Statutory deposits	-	-	-	10,268	10,268
Financial assets	-	-	-	105,077	105,077
Insurance receivables	9,201	25,414	16,626	4,152	55,393
Other receivables	251	666	174	-	1,091
Due from related parties	982	6,428	3,322	595	11,327
Cash in hand and at banks including deposits:					
Interest bearing	-	11,211	-	-	11,211
Non-interest bearing	12	-	-	-	12
	10,446	43,719	20,122	120,092	194,379
Liabilities					
Insurance and other payables	6,838	26,368	13,724	10,140	57,070
Due to related parties	329	3,555	4,588	7,874	16,346
	7,167	29,923	18,312	18,014	73,416

Provisions have been excluded due to the uncertainty of timing of payments.

Interest rate risk

The interest risk is the risk that the value of future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company has interest bearing deposit in commercial banks having effective interest rate (0.8% - 2.5%). The interest rate is floating in nature. However, the Company does not foresee any material impacts due to interest rate fluctuations in the foreseeable future as the total amount interest income was not material.

30 Financial instruments (continued)

Exchange risk

A major portion of the Company's liabilities and assets are denominated in AED or US Dollars, barring Beirut Branch which is in Lebanese Lira. However since the US Dollar is effectively pegged to AED, there is minimal risk. Moreover assets and liabilities in Beirut branch are not considered to be significant to adversely result in significant exchange loss.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The Company is exposed to market risk with respect to its investments in quoted and unquoted shares.

The Company limits market risks by maintaining a diversified portfolio and by continuous monitoring of developments in stock markets. In addition, the Company actively monitors the key factors that affect stock movements, including analysis of the operational and financial performance of investee.

All the Company's investments are within the United Arab Emirates.

Sensitivity of equity prices

The Company is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Company does not actively trade these investments.

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 10% higher/lower:

- net profit for the year ended 31 December 2012 would have been unaffected as the equity investments are classified as Fair Value Through Other Comprehensive Income and no investments were disposed of during the year; and

- equity reserve for Fair Value Through Other Comprehensive Income investments would increase/decrease by AED 11.856 million (2011: increase/decrease by AED 7.934 million) as a result of the changes in Fair Value Through Other Comprehensive Income.

Method and assumptions for sensitivity analysis

- As at the statement of financial position date if the equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

31 Comparatives

The following balances in the statement of financial position for prior year have been reclassified to conform to the current year presentation.

	As previously reported at 31 December 2011 AED'000	Reclassifications AED'000	As stated at 31 December 2011 AED'000
Insurance receivables	46,393	9,000	55,393
Insurance payables	(35,102)	(9,000)	(44,102)
Reinsurance contract assets	67,666	23,922	91,588
Insurance contract provision	(83,775)	(51,073)	(134,848)
Technical provisions	(27,151)	27,151	-

The statement of cash flows has also been amended accordingly. There was no impact on the reported profit of the year or total equity due to the above reclassifications.

32 Post-reporting date events

Except for the proposed cash dividend of 20% of paid up capital for the year ended December 31, 2012 (note 25) there are no adjusting or significant non-adjusting events which have occurred between the reporting date and the date of authorisation of these financial statements.