Orient Insurance Company (PJSC) (formerly Arab Orient Insurance Company (PSC)) and its subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

ERNST & YOUNG

P.O. Box 9267
28th Floor - Al Attar Business Tower
Sheikh Zayed Road
Dubai, United Arab Emirates
Tel: +971 4 332 4000
Fax: +971 4 332 4004
dubai@ae.ey.com
www.ey.com/me

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.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB ORIENT INSURANCE COMPANY (PJSC) (FORMERLY ARAB ORIENT INSURANCE COMPANY (PSC)) (continued)

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

30 January 2013

Dubai, United Arab Emirates

Orient Insurance Company (PJSC) (formerly Arab Orient Insurance Company (PSC) and its subsidiaries

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:

.... Chairman

.... Vice Chairman

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

Orient Insurance Company (PJSC) (formerly Arab Orient Insurance Company (PSC)) and its subsidiaries

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		**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
PRDFIT 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 unrealised 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**

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 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 a 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.

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.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

IASB Standards and Interpretations issued at 31 December 2012 but not effective (continued)
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 Laons – Amendments to IFRS 1
These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting far Government Grants and Disclasure 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 ta 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: Presentatian.
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: Classificatian 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 ta IFRS 9 Mandatory Effective Date af IFRS 9 and Transitian Disclasures*, 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.

IFRS 10 Consalidated Financial Statements, IAS 27 Separate Financial Statements
IFRS 10 replaces the portion of IAS 27 *Cansalidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Cansalidatian — Special Purpase 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 Jaint Arrangements
IFRS 11 replaces IAS 31 *Interests in Jaint Ventures* and SIC-13 *Jointly-contralled Entities — Nan-manetary Contributians 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.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

IASB Standards and Interpretations issued at 31 December 2012 but not effective (continued)
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 analyses, 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 Praduction 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 Impravments 2012 ta IFRSs
These improvements will not have any impact on the Group, but include:

IFRS 1 First-time Adaptian 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 af 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.

IAS 16 Praperty, 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, Presentatian*
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Incame Taxes.*

IAS 34 Interim Financial Reparting
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-moturity 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. In particular, management judgement 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 concem. Therefore, the financial statements continue to be prepared on the going concern basis.

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

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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 uncertainly 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 recognised 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the 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 the 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 U.A.E. 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.

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 a 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
Commissions 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Interest expense
Interest paid is recognised in the income statement 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 bases 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.

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 isntruements 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 consolidated 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 subsidiaries are translated into UAE Dirhams 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

3 PROPERTY AND EQUIPMENT

	Land *AED'000*	*Building* *AED'000*	*Office equipment, furniture and 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	1,033	6,704
Depreciation charge for the year	-	3,858	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**

3 PROPERTY AND EQUIPMENT (continued)

	Land AED'000	*Building AED'000*	*Office equipment, furniture and 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.

4 INVESTMENT IN ASSOCIATEO COMPANY (continued)

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.

5 INVESTMENT SECURITIES

	Carrying value		*Fair Value*	
	2012 *AED'000*	*2011* *AED'000*	*2012* *AED'000*	*2011* *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

5 INVESTMENT SECURITIES (continued)

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 *AED'000*	*2011* *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.

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 *AED'000*	*2011* *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 *AED'000*	*2011* *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
	-	609,689
Less: disclosed under fixed term deposits (note 7)	-	(551,504)
	69,498	58,185

9 SHARE CAPITAL

	2012	*2011*
	AED'000	*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.

10 RESERVES (continued)

- **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 2013.

12 INSURANCE CONTRACT ASSETS AND LIABILITIES

	Gross		*Reinsurers' share*		*Net*	
	2012 AED'000	*2011 AED'000*	***2012 AED'000***	*2011 AED'000*	***2012 AED'000***	*2011 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 Insurance*			*Total*		
	Gross AED'000	*Reinsurers' share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurers' share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurers' share AED'000*	*Net AED'000*
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 Insurance*			*Total*		
	Gross AED'000	*Reinsurers' share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurers' share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurers' share AED'000*	*Net AED'000*
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

12 (B) OUTSTANDING CLAIMS

	General Insurance AED'000	*Life Assurance AED'000*	*Total AED'000*
At 1 January 20tt:			
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, is as follows:

	2012 Gross AED'000	*2012 Reinsurer's share AED'000*	*2012 Net AED'000*	*2011 Gross AED'000*	*2011 Reinsurer's share AED'000*	*2011 Net 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 2008 AED' 000***	***2008 AED' 000***	***2009 AED' 000***	***2011 AED' 000***	***2012 AED' 000***	*Total 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**

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.

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	-	**17,688**	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 porties AED'000	***Amounts owed to reloted 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

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

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

18.3 GEOGRAPHIC INFORMATION

	31 December 2012 AED'000	*31 December 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

	31 December 2012 AED'000	*31 December 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 reinsures.

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 of 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 (cantinued)
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 changes in 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

19 RISK MANAGEMENT (continued)

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.

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 grode 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)

Credit risk (continued)

31 December 2011	*Neither past due nor impaired*				
	Investment grade AED'000	*Nan Investment grade (satisfactory) AED'000*	*Nan 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 nar 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

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 securities	13,370	69,682	592,329	675,381	-	70,048	41,639	111,687
Investment in associated company	-	-	29,847	29,847	-	-	37,881	37,881
Insurance receivables	238,151	-	-	238,151	204,674	-	-	204,674
Prepayments and other receivables	8,887	-	-	8,887	12,650	-	-	12,650
Reinsurance assets	851,351	-	-	851,351	709,168	-	-	709,168
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
Exeeptional 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
Proposed dividends	81,000	-	-	81,000	75,000	-	-	75,000
Foreign currency translation reserve	-	-	(7,643)	(7,643)	-	-	(3,649)	(3,649)
Available-for-sale reserve	-	-	41,967	41,967	-	-	(1,952)	(1,952)
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
Insurance payables	201,019	-	-	201,019	198,265	-	-	198,265
Amouots 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 AED'000	*Total gain or loss recorded in profit and loss AED'000*	*Purchase AED'000*	*Sales AED'000*	*Total gain or loss recorded in equity AED'000*	*Transfer from level 1 AED'000*	*At 31 December 2012 AED'000*
Financial assets designated at fair value through profit or loss							
Equity securities	**1,932**	**(107)**	-	-	-	-	**1,825**
Tatal	**1,923**	**(107)**	-	-	-	-	**1,825**

31 December 2011

	At 1 January 2011 AED'000	*Total gain or loss recorded in profit and loss AED'000*	*Purchase AED'000*	*Sales AED'000*	*Total gain or loss recorded in equity AED'000*	*Transfer from level 1 AED'000*	*At 31 December 2011 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

21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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.