Al-Sagr National Insurance Company
(Public Shareholding Company)

Report and consolidated financial statements
for the year ended 31 December 2012

Al-Sagr National Insurance Company (Public Shareholding Company)

Table of contents

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Al-Sagr National Insurance Company
(Public Shareholding Company)
Dubai, United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Al-Sagr National Insurance Company (Public Shareholding Company) - Dubai, United Arab Emirates** (the "Company") and **its Subsidiary** (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated income statement, 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 for such internal control as management determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Al-Sagr National Insurance Company (Public Shareholding Company), Dubai, United Arab Emirates** and **its Subsidiary**, as at 31 December 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Deloitte & Touche (M.E.)

Mohammad Khamees Al Tah
Registration No. 717
28 March 2013

Consolidated statement of financial position
As at 31 December 2012

	Notes	2012 AED	2011 AED
ASSETS			
Non-current assets			
Property and equipment	5	4,609,135	4,845,992
Investment properties	6	211,193,163	238,123,186
Investments in associates	7	541,010	65,530,928
Held to maturity investments	8	6,799,474	6,799,474
Available for sale investments	8	2,539,123	3,979,973
Total non-current assets		225,681,905	319,279,553
Current assets			
Reinsurance contract assets	9	118,687,160	107,354,952
Insurance and other receivables	10	199,972,272	183,927,424
Due from related parties	23	162,541,656	205,133,700
Held for trading investments	8	167,969,818	54,014,152
Bank balances and cash	11	289,469,826	276,756,108
Total current assets		938,640,732	827,186,336
Total Assets		1,164,322,637	1,146,465,889
EQUITY AND LIABILITIES			
Equity			
Share capital	12	230,000,000	230,000,000
Statutory reserve	13	52,011,356	49,209,674
General reserve	14	200,000,000	200,000,000
Investments revaluation reserve		(1,298,925)	(32,976)
Retained earnings		106,449,561	91,567,776
Equity attributable to equity holders of the parent		587,161,992	570,744,474
Non-controlling interests		4,146,458	4,159,540
Total Equity		591,308,450	574,904,014
Non-current liabilities			
Due to related parties	23	2,719,273	18,073,204
Provision for employees' end of service indemnity	15	9,506,175	10,910,440
Total non-current liabilities		12,225,448	28,983,644
Current liabilities			
Insurance contract liabilities	9	253,434,704	236,383,850
Bank borrowings	16	202,679,506	207,456,809
Insurance and other payables	17	104,674,529	98,737,572
Total current liabilities		560,788,739	542,578,231
Total Liabilities		573,014,187	571,561,875
Total Equity and Liabilities		1,164,322,637	1,146,465,889

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Director and CEO

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

Consolidated income statement
for the year ended 31 December 2012

	Notes	2012 AED	2011 AED
Gross insurance premium revenue		373,936,867	396,519,808
Less: Insurance premium ceded to reinsurers		(141,249,378)	(179,384,240)
Net premium revenue		232,687,489	217,135,568
Net changes in unearned premium	9	(206,270)	(4,043,156)
Net insurance premium revenue		232,481,219	213,092,412
Gross claims settled	9	(271,363,870)	(346,312,137)
Insurance claims recovered from reinsurers	9	74,401,518	149,303,496
Net claims settled	9	(196,962,352)	(197,008,641)
Net changes in outstanding claims		(5,512,376)	(6,650,873)
Net claims incurred	9	(202,474,728)	(203,659,514)
Gross commissions earned and documentation fees		61,508,792	69,299,646
Commissions incurred		(26,735,500)	(28,764,401)
Net commissions earned and documentation fees		34,773,292	40,535,245
Underwriting profit		64,779,783	49,968,143
General and administrative expenses relating to underwriting activities		(34,168,888)	(34,288,928)
Net underwriting profit		30,610,895	15,679,215
Investment revenue - net	18	87,607,654	3,408,530
Share of (loss)/profit from associates		(35,827)	7,828,971
Net (loss)/gain on revaluation of investment properties		(26,930,023)	20,411,336
Finance costs		(9,087,941)	(11,455,612)
Other income	19	2,158,287	1,742,003
Unallocated general and administrative expenses		(54,985,924)	(28,057,287)
Profit for the year	20	29,337,121	9,557,156
Attributable to:			
Equity holders of the Parent		29,183,467	10,756,535
Non-controlling interests		153,654	(1,199,379)
		29,337,121	9,557,156
Basic earnings per share	21	0.13	0.05

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

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	Notes	2012 AED	2011 AED
Profit for the year		**29,337,121**	9,557,156
Other comprehensive (loss)/income			
(Loss)/gain on revaluation of available for sale investments	8(b)	**(1,432,685)**	65,104
Total other comprehensive (loss)/income		**(1,432,685)**	65,104
Total comprehensive income for the year		**27,904,436**	9,622,260
Total comprehensive income attributable to:			
Equity holders of the Parent		**27,917,518**	10,813,468
Non-controlling interests		**(13,082)**	(1,191,208)
		27,904,436	9,622,260

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

Al-Sagr National Insurance Company (Public Shareholding Company)

Consolidated statement of changes in equity for the year ended 31 December 2012

	Share capital AED	Statutory reserve AED	General reserve AED	Investments revaluation reserve AED	Retained earnings AED	Attributable to equity holders of parent AED	Non-controlling interests AED	Total AED
Balance at 31 December 2010	**230,000,000**	**46,953,554**	**200,000,000**	**(89,909)**	**83,067,361**	**559,931,006**	**5,350,748**	**565,281,754**
Profit for the year	-	-	-	-	10,756,535	10,756,535	(1,199,379)	9,557,156
Other comprehensive income	-	-	-	56,933	-	56,933	8,171	65,104
Total comprehensive income for the year	-	-	-	**56,933**	**10,756,535**	**10,813,468**	**(1,191,208)**	**9,622,260**
Transfer to statutory reserve	-	2,256,120	-	-	(2,256,120)	-	-	-
Balance at 31 December 2011	**230,000,000**	**49,209,674**	**200,000,000**	**(32,976)**	**91,567,776**	**570,744,474**	**4,159,540**	**574,904,014**
Profit for the year	-	-	-	-	29,183,467	29,183,467	153,654	29,337,121
Other comprehensive income	-	-	-	(1,265,949)	-	(1,265,949)	(166,736)	(1,432,685)
Total comprehensive income for the year	-	-	-	**(1,265,949)**	**29,183,467**	**27,917,518**	**(13,082)**	**27,904,436**
Transfer to statutory reserve	-	2,801,682	-	-	(2,801,682)	-	-	-
Dividend paid	-	-	-	-	(11,500,000)	(11,500,000)	-	(11,500,000)
Balance at 31 December 2012	**230,000,000**	**52,011,356**	**200,000,000**	**(1,298,925)**	**106,449,561**	**587,161,992**	**4,146,458**	**591,308,450**

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

Consolidated statement of cash flows
for the year ended 31 December 2012

	2012 AED	2011 AED
Cash flows from operating activities		
Profit for the year	29,337,121	9,557,156
Adjustments for:		
Depreciation of property and equipment	1,904,187	2,035,797
Allowance for doubtful debts	38,495,142	16,207,751
Investment revenue - net	(1,974,098)	(3,069,307)
Net (gain)/loss on revaluation of held for trading investments	(69,311,083)	13,287,966
Impairment of held to maturity investments	-	416,424
Loss/(gain) on revaluation of investment properties	26,930,023	(20,411,336)
(Reversal)/provision for employees' end of service indemnity	(357,535)	1,422,313
Interest income	(8,379,820)	(11,088,423)
Share of loss/(profit) from associates	35,827	(7,828,971)
Finance costs	9,087,941	11,455,612
Gain on sale of investment in associate	(4,538,000)	-
Operating cash flows before movement in working capital	21,229,705	11,984,982
Decrease/(increase) in fixed deposits with banks	1,965,664	(3,940,559)
(Increase)/decrease in insurance and other receivables	(19,039,990)	4,465,838
Increase/(decrease) in insurance and other payables	5,936,957	(19,128,713)
Net increase in due from related parties	13,763,519	14,427,531
(Increase)/decrease in reinsurance contract assets	(11,332,208)	64,309,493
Increase/(decrease) in insurance contract liabilities	17,050,854	(53,615,464)
Cash generated from operations	29,574,501	18,503,108
Interest paid	(9,087,941)	(11,455,612)
Employees' end of service indemnity paid	(1,046,730)	(871,291)
Net cash generated from operating activities	19,439,830	6,176,205
Cash flows from investing activities		
Purchase of investment property	-	(45,000,000)
Proceeds from disposal of investment property	-	15,000,000
Net proceeds from sale of investments in securities	2,830,267	5,854,933
Proceeds from sale of property and equipment	2,897	138,474
Purchase of property and equipment	(1,670,227)	(1,108,055)
Interest received	8,379,820	11,088,423
Dividends received	1,974,098	2,554,968
Net cash generated from/(used in) investing activities	11,516,855	(11,471,257)
Cash flows from financing activities		
Repayment of bank borrowings	(4,777,303)	(2,572,842)
Dividend paid	(11,500,000)	-
Net cash used in financing activities	(16,277,303)	(2,572,842)
Net increase/(decrease) in cash and cash equivalents	14,679,382	(7,867,894)
Cash and cash equivalents at beginning of the year	6,574,608	14,442,502
Cash and cash equivalents at end of the year (Note 22)	21,253,990	6,574,608
Non cash transactions:		
Transfer of investment in Al Sagr Co-operative Insurance Company to held for trading investments [Note 7(a)]	47,466,685	-

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

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

1. General information

Al-Sagr National Insurance Company (Public Shareholding Company), Dubai (the "Company") was incorporated on 25 December 1979 as a public shareholding company by an Emiri Decree from His Highness, The Ruler of Dubai, and is registered with the Ministry of Economy of the United Arab Emirates under registration No. (16). The Company's address in Dubai is P.O. Box 14614, Dubai, U.A.E.

The principal activity of the Company is the writing of insurance of all types. The Company operates through its Head Office in Dubai and its branches in Dubai, Sharjah, Abu Dhabi, Al Ain, Ras Al Khaima and Ajman in the U.A.E.

The consolidated financial statements incorporate the financial statements of Al Sagr National Insurance Company PSC and its subsidiary (together the "Group"). Details of the subsidiary are as follows:

Company name	Activity	Country of incorporation	Ownership held
Jordan Emirates Insurance Company PSC	Underwriting of insurance of all types	Jordan	88.362%

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

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

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

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

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

- Amendments to IFRS 1 *Severe Hyperinflation*

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

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

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

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

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

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

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

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

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

New and revised IFRSs	**Effective for annual periods beginning on or after**
• Amendments to IFRS 1 *Government Loans* provide relief to first-time adopters of IFRSs by amending IFRS 1 to allow prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to government loans outstanding at the date of transition to IFRSs.	1 January 2013
• Amendments to IFRS 7 *Financial Instruments*: Disclosures relating to disclosures about the initial application of IFRS.	1 January 2015 (or otherwise when IFRS 9 is first applied)
• Amendments to IFRS 7 *Financial Instruments: Disclosures* enhancing disclosures about offsetting of financial assets and liabilities.	1 January 2013
• IFRS 9 *Financial Instruments* issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.	1 January 2015

Key requirements of IFRS 9 are described as follows:

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Key requirements of IFRS 9 are described as follows (continued):	
▪ The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.	
• IFRS 10 *Consolidated Financial Statements** uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly, IAS 27 *Separate Financial Statements** and IAS 28 *Investments in Associates and Joint Ventures** have been amended for the issuance of IFRS 10.	1 January 2013
• IFRS 11 *Joint Arrangements** establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11.	1 January 2013
• IFRS 12 *Disclosure of Interests in Other Entities** combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard.	1 January 2013
• IFRS 13 *Fair Value Measurement* issued in May 2011 establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.	1 January 2013

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IAS 1 - *Presentation of Other Comprehensive Income*. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis.	1 July 2012
• Amendments to IAS 19 *Employee Benefits* eliminate the "corridor approach" and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.	1 January 2013
• Amendments to IAS 32 *Financial Instruments: Presentation* relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2014
• IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.	1 January 2013
• Annual Improvements to *IFRSs 2009 - 2011 Cycle* The annual improvements include the amendments to five IFRSs which have been summarized below:	1 January 2013

- IFRS 1 *First Time Adoption of International Financial Reporting Standards* - Repeated application of IFRS 1
- IFRS 1 *First Time Adoption of International Financial Reporting Standards* - Borrowing costs
- IAS 1 *Presentation of Financial Statements* - Clarification of the requirements for comparative information
- IAS 32 *Financial Instruments: Presentation* - Tax effect of the distribution to the holders of equity instruments.
- IAS 34 *Interim Financial Reporting* - Interim financial reporting and segment information for total assets and liabilities.

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

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

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

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

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

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

3. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of U.A.E. Federal Law No. 6 of 2007, concerning the formation of Insurance Authority of U.A.E.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and investment properties that have been measured at fair value. The principal accounting policies adopted are set out below.

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

3. **Significant accounting policies (continued)**

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of entities so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to effective date of disposal, as appropriate.

Where necessary, adjustments are made to the consolidated financial information of a subsidiary to bring the accounting policies in line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interest in subsidiary is identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Changes in the Group's interests in subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to consolidated income statement or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under *IAS 39 Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Insurance contracts

Definition

The Group issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

Recognition and measurement

Insurance contracts are classified into two main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

3. Significant accounting policies (continued)

Insurance contracts (continued)

Short-term insurance contracts

These contracts are casualty and property insurance contracts.

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

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

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

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

Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due. The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Group reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the consolidated income statement. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

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

3. **Significant accounting policies (continued)**

Insurance contracts (continued)

Insurance contract liabilities

Insurance contract liabilities towards claims are made for all claims intimated to the Group and still unpaid at the reporting date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the reporting date and is estimated using the $1/24^{th}$ method. The unearned premium calculated by the above methods (after reducing the reinsurance share) complies with the minimum unearned premium amounts to be maintained using the 25% and 40% method for marine and non-marine business respectively, as required by U.A.E. Federal Law No. 6 of 2007, concerning Insurance Authority. The unearned premium calculated by the $1/24^{th}$ method accounts for the estimated acquisition costs incurred by the Group to acquire policies and defers these over the period of the policy.

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

Deferred acquisition costs

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are amortised over the terms of the policies as premium is earned.

Salvage and subrogation reimbursements

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

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. Any deficiency is immediately charged to consolidated income statement initially by writing off the deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Receivables and payables related to insurance contracts

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

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

3. Significant accounting policies (continued)

Revenue recognition

Revenue from insurance contracts

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these consolidated financial statements.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Dividend income

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Rental income

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

General and administrative expenses

The twenty percent of the Group's general and administrative expenses for the year are allocated to insurance departments in proportion to each department's share of written premiums.

Foreign currencies

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

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

Exchange differences are recognized in consolidated income statement in the year in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in consolidated income statement on disposal of the net investment.

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

3. Significant accounting policies (continued)

Foreign currencies (continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Arab Emirate Dirham using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in consolidated statement of comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs are recognised in the consolidated income statement in the year in which they are incurred.

Leasing

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes), are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties is measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in consolidated income statement in the year in which they arise

Investment properties under construction that are being constructed or developed for future use as investments property are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment properties under construction is measured at fair value. Gains and losses arising from changes in the fair value of investment properties under construction are included in the consolidated income statement in the year in which they arise. Upon completion of construction or development, such properties are transferred to investment properties.

3. Significant accounting policies (continued)

Property and equipment

Property and equipment excluding capital work in progress are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, over the estimated useful lives of the respective assets.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Building (Jordan)	50 years
Office improvements	4 years
Furniture and equipments	4 to 11 years
Motor vehicles	4 to 6 years

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated income statement.

The capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with Group's policies when the assets are ready for intended use.

Impairment of tangible assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

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

3. Significant accounting policies (continued)

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

The Group classifies its financial assets at initial recognition in the following categories:

- Cash and cash equivalents;
- Insurance and other receivables; and
- Investments

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks net of fixed deposits in banks with maturity over three months from the date of deposit.

Insurance and other receivables

Insurance and other receivables that have fixed or determinable payments are measured at amortised cost using the effective interest method, less any impairment.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Investments

Held for trading investments

These represent investments acquired or incurred principally for the purpose of generating profit from short term fluctuations in price. The fair value of the investments under this classification can be reliably measured and gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise.

These investments are initially recognised at cost, being the fair value of the consideration given, excluding all acquisition costs associated with the investment.

After initial recognition, investments held for trading are measured at fair value. The fair value of securities traded in recognised financial markets is their quoted price. For securities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on discounted cash flow analysis, option pricing models or other reliable valuation methods.

Any gain or loss arising from a change in the fair value of these investments is recognised in the consolidated income statement for the year in which it arises. Dividend, interest and other revenues generated from these investments are included in the consolidated income statement.

Held to maturity investments

Investments with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held to maturity investments. Held to maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Available for sale investments

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value gains and losses are reported as a separate component of equity 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 in equity is transferred to the consolidated income statement.

If an available for sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the consolidated income statement. Reversals of impairment losses on debt instruments classified as available for sale are reversed through the consolidated income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the consolidated income statement.

3. **Significant accounting policies (continued)**

Financial instruments (continued)

Financial assets (continued)

Investments (continued)

Available for sale investments (continued)

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the financial position date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognized in the consolidated income statement, and other changes are recognised in equity.

Effective interest method

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

Income is recognised on an effective interest method for debt instruments other than those financial assets designated as at held for trading.

Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

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

Derecognition of financial assets

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definition of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities

Insurance and other payables, bank borrowings and due to related parties are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

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

Dividend distribution

Dividend distribution to the Group's shareholders is recognized as a liability in the Group's consolidated financial statements in the year in which the dividends are approved by the Group's shareholders.

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

The significant judgments and estimates made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

Critical accounting judgements

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on 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 for trading, held to maturity or available for sale.

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. The Group classifies investments held to maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. Other investments are classified as available for sale.

Valuation of unquoted equity investments

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

Impairment of financial assets

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

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

Critical accounting judgements (continued)

Unearned premiums

The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the reporting date and is estimated using the 1/24th method. The unearned premium calculated by the above method (after reducing the reinsurance share) complies with the minimum unearned premium amounts to be maintained using the 25% and 40% method for marine and non-marine business respectively, as required by U.A.E. Federal Law No. 6 of 2007, concerning Insurance Authority. The unearned premium calculated by the 1/24th method accounts for the estimated acquisition costs incurred by the Group to acquire policies and defers these over the life of the policy.

In deciding whether to apply the 1/24th method or the legal requirement in respective countries for calculating unearned premium, management in choosing to recognise the higher of the two, believe that they have adopted a conservative policy.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the 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:

The ultimate liability arising from claims made under insurance contracts

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

Note 26, claims development process, present the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Group's estimation technique for claims payments.

Impairment of insurance receivables

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

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

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

Key sources of estimation uncertainty (continued)

Liability adequacy test

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

Useful lives of property and equipment

The cost of property and equipment is depreciated over the estimated useful life of the asset. The estimated useful life is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors. The management has not considered any residual value, as it is deemed immaterial.

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

5. Property and equipment

	Building AED	Office fixtures AED	Furniture and equipment AED	Motor vehicles AED	Capital work in progress AED	Total AED
Cost						
At 31 December 2010	463,275	2,338,435	7,656,449	894,386	-	11,352,545
Additions	-	78,657	690,098	339,300	-	1,108,055
Disposals	-	-	(11,827)	(228,704)	-	(240,531)
At 31 December 2011	463,275	2,417,092	8,334,720	1,004,982	-	12,220,069
Additions	-	163,178	724,049	-	783,000	1,670,227
Disposals	-	-	(12,654)	(46,980)	-	(59,634)
At 31 December 2012	**463,275**	**2,580,270**	**9,046,115**	**958,002**	**783,000**	**13,830,662**
Accumulated depreciation						
At 31 December 2010	6,175	1,570,280	3,610,006	364,049	-	5,550,510
Charge for the year	9,266	341,996	1,488,072	196,463	-	2,035,797
On disposals	-	-	(4,114)	(208,116)	-	(212,230)
At 31 December 2011	15,441	1,912,276	5,093,964	352,396	-	7,374,077
Charge for the year	9,266	274,846	1,426,860	193,215	-	1,904,187
On disposals	-	-	(9,757)	(46,980)	-	(56,737)
At 31 December 2012	**24,707**	**2,187,122**	**6,511,067**	**498,631**	-	**9,221,527**
Carrying amount						
At 31 December 2012	**438,568**	**393,148**	**2,535,048**	**459,371**	**783,000**	**4,609,135**
At 31 December 2011	447,834	504,816	3,240,756	652,586	-	4,845,992

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

6. Investment properties

	2012 AED	2011 AED
Cost at beginning of the year	**305,347,114**	275,347,114
Additions during the year	-	45,000,000
Disposal during the year	-	(15,000,000)
Cost at end of the year	**305,347,114**	305,347,114
Net loss on revaluation of investment properties	**(94,153,951)**	(67,223,928)
	211,193,163	238,123,186

Investment properties represent the fair value of the properties located in U.A.E. and Jordan. The fair value of the Group's investment properties at 31 December 2012 has been arrived at on the basis of valuations carried out at that date by independent valuers that are not related to the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The Group has certain investment properties jointly controlled with Gulf General Investment Company PSC (referred hereafter as "GGICO") the details of which are as follows:

(i) A 10% ownership share in Meydan Tower, a property located in Dubai. The Group has contributed AED 152.96 million as at 31 December 2012 (31 December 2011: AED 152.96 million). The 10% ownership is held in the name of GGICO on trust and for the benefit of the Group. The Group has additional commitment of AED 46 million as at 31 December 2012 (31 December 2011: AED 46 million) in relation to the property.

(ii) A 30% ownership share in the purchase of 4 plots of land at Emirates Industrial City. The 30% ownership is held in the name of GGICO on trust and for the benefit of the Group.

7. Investments in associates

	2012 AED	2011 AED
Al Sagr Cooperative Insurance Company, Kingdom of Saudi Arabia [Note 7 (a)]	-	64,954,091
Green Air Technology L.L.C, United Arab Emirates [Note 7 (b)]	**391,010**	426,837
Sogour Al Khaleej General Trading Company, United Arab Emirates [Note 7 (c)]	**150,000**	150,000
	541,010	65,530,928

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

7. Investments in associates (continued)

a) Al Sagr Co-operative Insurance Company

	2012 AED
Balance at beginning of the year	64,954,091
Disposal during the year [Note 7 (a)(i)]	(17,487,406)
Transfer to held for trading investments [Note 7 (a)(ii)]	(47,466,685)
Balance at end of the year	-

i) At 15 October 2012, the Group disposed of 7% of its shareholding in Al Sagr Co-operative Insurance Company at a fair value of AED 22.03 million recognising a gain of AED 4.53 million in the consolidated income statement.

ii) Subsequent to disposal, the Group reclassified its investment in Al Sagr Co-operative Insurance Company as held for trading at a carrying value of AED 47.47 million as disposal resulted in a loss of significant influence and the Group continues to hold 19% shareholding at reporting date. Subsequent to reclassification, the Group recognised its investment at fair value with resulting gain recognised in consolidated income statement.

Details of the Group's associates at 31 December 2012 are as follows:

Company name	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Green Air Technology L.L.C.	United Arab Emirates	50	50	General trading
Sogour Al Khaleej General Trading Company	United Arab Emirates	50	50	General trading

Although, the Group holds 50% share in the net assets of the associates, these are controlled by GGICO.

The Group does not participate in the financial and operating policy decisions of these associates.

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

7. Investments in associates (continued)

b) Green Air Technology L.L.C.:	2012 AED	2011 AED
Total assets	**12,000,655**	11,779,981
Total liabilities	**(11,218,635)**	(10,926,307)
Net assets	**782,020**	853,674
Share of associate's net assets	**391,010**	426,837
Revenue	**96,104**	789,328
Loss for the year	**(71,654)**	(258,588)
Share of associate's loss for the year	**(35,827)**	(129,294)

The Group holds 50% ownership in Green Air Technology LLC which commenced its commercial operations in 2009. The remaining 50% ownership is owned equally by GGICO and the CEO of Al-Sagr National Insurance Company (Public Shareholding Company). The 50% share of the Group is registered in the name of GGICO on behalf and for the benefit of the Group.

c) Sogour Al Khaleej General Trading Company

The Group holds 50% ownership in Sogour Al Khaleej General Trading Company. The remaining 50% is owned by GGICO, a related party. Sogour Al Khaleej General Trading Company has not commenced its commercial operations at end of the year.

8. Investments in securities

	2012 AED	2011 AED
Held for trading investments	**167,969,818**	54,014,152
Available for sale investments	**2,539,123**	3,979,973
Held to maturity investments	**6,799,474**	6,799,474
	177,308,415	64,793,599

Held to maturity investments include investment in a fund with a related party amounting to AED 3.3 million (2011: AED 3.3 million).

All investments in securities are held within U.A.E. except for held for trading and available for sale investments amounting to AED 120.9 million (2011: AED 0.8 million) and AED 2.5 million (2011: AED 3.9 million), respectively, which are invested in securities listed in Jordan and Kingdom of Saudi Arabia.

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

8. Investments in securities (continued)

Following are the movement of investments in securities during the year:

a) **Held for trading investments**	2012 AED	2011 AED
Fair value at beginning of the year	54,014,152	76,577,975
Transfer from investment in associate [Note 7 (a)(ii)]	47,466,685	-
Net disposals during the year	(2,822,102)	(9,275,857)
Increase/(decrease) in fair value	69,311,083	(13,287,966)
Fair value at end of the year	167,969,818	54,014,152
b) **Available for sale investments**		
Fair value at beginning of the year	3,979,973	89,779
Net (disposals)/additions during the year	(8,165)	3,825,090
(Decrease)/increase in fair value	(1,432,685)	65,104
Fair value at end of the year	2,539,123	3,979,973
c) **Held to maturity investments**		
Cost at beginning of the year	6,799,474	7,215,898
Impairment during the year	-	(416,424)
Amortised cost at end of the year	6,799,474	6,799,474

9. Insurance contract liabilities and reinsurance contract assets

	2012 AED	2011 AED
Gross		
Insurance contract liabilities		
Claims reported unsettled	128,562,399	121,295,712
Claims incurred but not reported	10,351,983	7,758,165
Unearned premiums	114,520,322	107,329,973
Total insurance contract liabilities (gross)	253,434,704	236,383,850
Recoverable from reinsurers		
Claims reported unsettled	78,591,554	74,243,425
Unearned premiums	40,095,606	33,111,527
Total recoverable from reinsurers	118,687,160	107,354,952
Net		
Claims reported unsettled	49,970,845	47,052,287
Claims incurred but not reported	10,351,983	7,758,165
Unearned premiums	74,424,716	74,218,446
	134,747,544	129,028,898

9. Insurance contract liabilities and reinsurance contract assets (continued)

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

	31 December 2012			31 December 2011		
	Gross AED	**Reinsurance AED**	**Net AED**	Gross AED	Reinsurance AED	Net AED
Claims						
Reported claims	**121,295,712**	**(74,243,425)**	**47,052,287**	164,516,135	(124,448,656)	40,067,479
Incurred but not reported	**7,758,165**	**-**	**7,758,165**	8,092,100	-	8,092,100
Total at beginning of the year	**129,053,877**	**(74,243,425)**	**54,810,452**	172,608,235	(124,448,656)	48,159,579
Claims settled during the year	**(271,363,870)**	**74,401,518**	**(196,962,352)**	(346,312,137)	149,303,496	(197,008,641)
Increase in liabilities	**281,224,375**	**(78,749,647)**	**202,474,728**	302,757,779	(99,098,265)	203,659,514
Total at end of the year	**138,914,382**	**(78,591,554)**	**60,322,828**	129,053,877	(74,243,425)	54,810,452
Reported claims	**128,562,399**	**(78,591,554)**	**49,970,845**	121,295,712	(74,243,425)	47,052,287
Incurred but not reported	**10,351,983**	**-**	**10,351,983**	7,758,165	-	7,758,165
Total at end of the year	**138,914,382**	**(78,591,554)**	**60,322,828**	129,053,877	(74,243,425)	54,810,452
Unearned premium						
Balance at beginning of the year	**107,329,973**	**(33,111,527)**	**74,218,446**	117,391,079	(47,215,789)	70,175,290
Net (increase)/decrease during the year	**7,190,349**	**(6,984,079)**	**206,270**	(10,061,106)	14,104,262	4,043,156
Total at end of the year	**114,520,322**	**(40,095,606)**	**74,424,716**	107,329,973	(33,111,527)	74,218,446

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

10. Insurance and other receivables

	2012 AED	2011 AED
Receivables arising from insurance and reinsurance contracts		
Due from policy holders, insurance and reinsurance companies	214,704,176	194,628,043
Allowance for doubtful debts	(27,600,924)	(24,605,782)
	187,103,252	170,022,261
Other receivables		
Accrued interest income	2,717,939	2,981,993
Prepaid expenses and refundable deposits	831,819	956,314
Staff advances	962,463	635,866
Other receivables	8,356,799	9,330,990
	12,869,020	13,905,163
	199,972,272	183,927,424
Movement in the allowance for doubtful debts		
Balance at beginning of the year	24,605,782	20,398,031
Impairment losses recognized on receivables	2,995,142	4,207,751
Balance at end of the year	27,600,924	24,605,782

The average credit period is 120 days (2011: 120 days). Due from policyholders outstanding for more than 365 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

Analysis of due from policyholders, insurance and reinsurance companies over 120 days are as follows:

	2012 AED	2011 AED
Past due and impaired	27,600,924	24,605,782
Post dated cheques received from policyholders	12,638,948	15,797,315
Past due but not impaired	52,305,216	39,549,278
	92,545,088	79,952,375

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

10. Insurance and other receivables (continued)

Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customer. There are 10 customers (2011: 10 customers) whose combined balances represent more than 30% (2011: 38%) of the total balance of due from policyholders.

Included in the Group's due from policyholders balance are debtors with a carrying amount of AED 64.9 million (31 December 2011: AED 55.3 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

In determining the recoverability of an insurance receivable, the Group considers any change in the credit quality of the insurance receivable from the date credit was initially granted up to the reporting date. The concentration of credit risks is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

11. Bank balances and cash

	2012 AED	2011 AED
Cash on hand	**1,058,978**	295,199
Bank balances:		
Current accounts	**6,502,715**	6,218,002
Fixed deposits	**281,908,133**	270,242,907
	289,469,826	276,756,108

Fixed deposits with banks as at 31 December 2012 include AED 10 million (31 December 2011: AED 10 million) deposited in the name of the Company to the order of the Ministry of Economy and Trade of the United Arab Emirates as required by the Federal Law Number (6) of 2007 relating to Insurance Authority.

Fixed deposits amounting to AED 180 million (31 December 2011: AED 180 million) are under lien in respect of bank credit facilities granted to the Group (Note 16).

All fixed deposits with banks mature within different periods not exceeding one year from the financial date of deposit and carry interest rates between 2.5% to 5.5% per annum (31 December 2011: 3.0% to 4.5% per annum).

12. Share capital

	2012 AED	2011 AED
Issued and fully paid:		
230,000,000 shares of AED 1 each		
(31 December 2011: 230,000,000 share of AED 1 each)	**230,000,000**	230,000,000

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

13. Statutory reserve

In accordance with U.A.E. Federal Commercial Companies Law Number 8 of 1984, as amended, the Company has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law.

14. General reserve

The general reserve is established through transfers from profit for the year as recommended by the Board of Directors and approved by the Shareholders at the Annual General Meeting. The reserve is distributable based on a recommendation by the Board of Directors approved by a Shareholders' resolution.

15. Provision for employees' end of service indemnity

Movement in the net liability is as follows:

	2012 AED	2011 AED
Balance at beginning of the year	**10,910,440**	10,359,418
(Reversal)/charge during the year	**(357,535)**	1,422,313
Paid during the year	**(1,046,730)**	(871,291)
Balance at end of the year	**9,506,175**	10,910,440

Provision for employees' end of service indemnity is made in accordance with the Company's policy which is in compliance with U.A.E. labour laws and is based on current remuneration and cumulative years of service at reporting date.

Defined contribution plan

U.A.E. national employees of the Company are members of the Government managed retirement pension and social security benefit scheme established pursuant to U.A.E. Federal Labour Law No. 7 of 1999. The Group is required to contribute 12.5% of "employees' salary" to the retirement benefit scheme to fund the benefits. These employees are also required to contribute 5% of their salaries to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the consolidated income statement.

16. Bank borrowings

	2012 AED	2011 AED
Secured at amortised cost		
Bank overdrafts	**202,679,506**	207,456,809

The Group has bank facilities in the form of overdrafts repayable upon demand and bearing interest ranging from 3.1% to 3.9% per annum (31 December 2011: 3.5% to 4.6% per annum). These facilities are secured by lien on fixed deposits amounting to AED 180 million (31 December 2011: AED 180 million). The bank overdraft limit provided under the facilities is AED 247 million (31 December 2011: AED 247 million).

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

17. Insurance and other payables

	2012 AED	2011 AED
Due to insurance and reinsurance companies	67,700,618	60,997,655
Other payables:		
Insurance customers payable	28,320,096	26,710,095
Accrued expenses and provisions	3,498,319	3,422,396
Other	5,155,496	7,607,426
	104,674,529	98,737,572

18. Investment revenue - net

	2012 AED	2011 AED
Net gain on sale of investment in securities	5,479,807	404,166
Rental income	2,462,846	3,065,363
Interest income	8,379,820	11,088,423
Dividend income	1,974,098	2,554,968
Gain/(loss) on revaluation of held for trading investments	69,311,083	(13,287,966)
Impairment on held to maturity investments	-	(416,424)
	87,607,654	3,408,530

19. Other income

	2012 AED	2011 AED
Recovery against bad debts	1,222,685	1,598,128
Other	935,602	143,875
	2,158,287	1,742,003

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

20. Profit for the year

Profit for the year has been arrived at after charging the following expenses which are included in the general and administrative expenses.

	2012 AED	2011 AED
Staff costs	**22,648,574**	21,807,744
Depreciation of property and equipment [Note 5]	**1,904,187**	2,035,797
Allowance for doubtful debts	**27,600,924**	16,207,751

21. Basic earnings per share

	2012	2011
Profit for the year attributable to equity holders of the Parent- AED	**29,183,467**	10,756,535
Weighted average number of shares	**230,000,000**	230,000,000
Basic earnings per share - AED	**0.13**	0.05

Basic earnings per share are calculated by dividing the profit for the year attributable to equity holders of the Parent by the weighted average number of shares outstanding at reporting date.

No figure for diluted earnings per share has been presented since the Group has not issued any instruments which would have an impact on earnings per share when exercised.

22. Cash and cash equivalents

	2012 AED	2011 AED
Bank balances and cash (Note 11)	**289,469,826**	276,756,108
Fixed deposits under lien and maturity over three months from the date of deposits	**(268,215,836)**	(270,181,500)
	21,253,990	6,574,608

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

23. Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard 24. Related parties comprise companies and entities under common ownership and/or common management and control, their partners and key management personnel. The management decides on the terms and conditions of the transactions with related parties.

At reporting date, amounts due from/to related parties were as follows:

	2012 AED	2011 AED
Included in insurance and other receivables		
Due from policyholders	**1,894,985**	767,906
Due from shareholders	**8,864,483**	1,316,599
Included in due from related parties		
Due from related parties	**210,041,656**	217,133,700
Allowance for doubtful debts	**(47,500,000)**	(12,000,000)
	162,541,656	205,133,700
Movement in allowance for doubtful debt is as follows;		
Balance at beginning of the year	**12,000,000**	-
Allowance made during the year	**35,500,000**	12,000,000
Balance at end of the year	**47,500,000**	12,000,000
Included in due to related parties		
Due to shareholders	**2,719,273**	18,073,204
Included in insurance and other payables		
Gross outstanding claims	**14,141**	10,000

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

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

23. Related party transactions (continued)

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

	2012 AED	2011 AED
Gross premium	**13,683,737**	18,508,429
Claims paid	**161,243**	1,208,404

Compensation of key management personnel

	2012 AED	2011 AED
Short and long term benefits	**6,216,003**	6,099,687

The remuneration of directors is subject to approval by the shareholders and as per limits set by the U.A.E. Commercial Companies Law No. 8 of 1984, as amended.

24. Contingent liabilities

	2012 AED	2011 AED
Letters of guarantee	**18,351,134**	13,363,539
Capital commitments	**46,610,000**	46,610,000

25. Operating lease arrangements

At reporting date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2012 AED	2011 AED
Within one year	**2,681,514**	1,170,097

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

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

26. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable.

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

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

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

Frequency and severity of claims

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

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

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

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

26. Insurance risk (continued)

Sources of uncertainty in the estimation of future claim payments

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

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

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

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

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

Type of risk	2012	2011
Motor	76%	85%
Non-motor	75%	74%

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

26. Insurance risk (continued)

Process used to decide on assumptions

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

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

Concentration of insurance risk

The Group's underwriting activities are carried out in the United Arab Emirates and other Middle East countries.

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 arrangement with other parties for reinsurance purposes.

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

Sensitivity of underwriting profit and losses

The contribution by the insurance operations in the profit of the Group amounts to AED 30.6 million for the year ended 31 December 2012 (31 December 2011: AED 15.6 million). The Group does not foresee any major impact from insurance operations due to the following reasons:

The Group has an overall retention level of 62% (31 December 2011: 55%) and the same is mainly contributed by two classes of business i.e., Motor and Medical line wherein the retention levels are 83% and 95% respectively. However, in Motor and Medical class the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Group has net commission earnings of AED 34.7 million (31 December 2011: AED 40.5 million) of the net insurance profit. These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

Claims development process

The following schedules reflect the actual claims based on year end estimates compared to the previous estimates for the last five years on an accident year basis:

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

26. Insurance risk (continued)

	Upto 2006 AED	2007 AED	2008 AED	2009 AED	2010 AED	2011 AED	2012 AED	Total AED
Outstanding claims - Gross								
At the end of the accident year	280,715,247	308,655,172	133,973,373	152,471,963	90,743,405	56,929,974	56,658,552	-
One year later	287,167,274	329,656,446	145,672,363	156,977,358	110,376,572	60,825,335	-	-
Two years later	319,368,178	354,964,337	170,674,954	166,108,451	117,769,161	-	-	-
Three years later	336,071,034	350,626,046	165,923,030	170,046,180	-	-	-	-
Four years later	356,446,586	341,967,632	167,924,236	-	-	-	-	-
Five years later	353,427,979	341,971,560	-	-	-	-	-	-
Six years later	353,424,051	-	-	-	-	-	-	-
Current estimate of cumulative claims	353,424,051	341,971,560	167,924,236	170,046,180	117,769,161	60,825,335	56,658,552	1,268,619,075
Cumulative payments to date	(352,623,040)	(341,284,960)	(151,618,946)	(167,083,228)	(96,178,361)	(31,268,141)	-	(1,140,056,676)
Liability recognised in the consolidated statement of financial position	**801,011**	**686,600**	**16,305,290**	**2,962,952**	**21,590,800**	**29,557,194**	**56,658,552**	**128,562,399**
Outstanding claims - net retention								
At the end of the accident year	81,953,510	40,700,449	35,799,878	42,901,112	24,244,236	37,591,983	37,624,682	-
One year later	87,427,697	54,063,727	44,742,843	43,973,949	31,585,228	20,546,196	-	-
Two years later	103,624,251	61,349,161	75,799,918	44,906,277	32,865,202	-	-	-
Three years later	112,264,682	61,447,992	75,213,796	45,385,111	-	-	-	-
Four years later	110,292,267	62,301,402	75,240,994	-	-	-	-	-
Five years later	110,017,404	62,233,525	-	-	-	-	-	-
Six year later	110,016,001	-					-	
Current estimate of cumulative claims	110,016,001	62,233,525	75,240,994	45,385,111	32,865,202	20,546,196	37,624,682	383,911,711
Cumulative payments to date	(109,940,391)	(61,884,705)	(73,290,194)	(45,009,244)	(29,541,302)	(14,275,030)	-	(333,940,866)
Liability recognised in the consolidated statement of financial position	**75,610**	**348,820**	**1,950,800**	**375,867**	**3,323,900**	**6,271,166**	**37,624,682**	**49,970,845**

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

27. Capital risk management

The Group's objectives when managing capital are:

- to comply with the insurance capital requirements required by U.A.E. Federal Law No. 6 of 2007, concerning Insurance Authority. Management considers the quantitative threshold of 20% -25% sufficient to maximise shareholders' return and to support the capital required;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

In U.A.E., the insurance regulator specifies the minimum amount and type of capital that must be held by the Group in addition to its insurance liabilities. The minimum required capital (presented in the table below) must be maintained at all times throughout the year. The Group is subject to insurance solvency regulations with which it has complied with during the year. The Group has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

The table below summarises the minimum required capital of the Group and the total capital held.

	2012 AED	2011 AED
Total capital held	**230,000,000**	230,000,000
Minimum regulatory capital	**100,000,000**	100,000,000

Gearing ratio

The Group's management reviews the capital structure on regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the yearend was as follows:

	2012 AED	2011 AED
Debt (i)	**202,679,506**	207,456,809
Cash and cash equivalents (Note 22)	**(21,253,990)**	(6,574,608)
Net debt	**181,425,516**	200,882,201
Equity (ii)	**587,161,992**	570,744,474
Net debt to equity ratio	**30.90%**	35.20%

(i) Debt is defined as long and short-term borrowings (Note 16).

(ii) Equity includes all capital and reserves of the Group.

28. Financial instruments

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

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

Significant accounting policies

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

Categories of financial instruments and others - 31 December 2012

Assets	Loans and receivables AED	Held for trading AED	Held-to-maturity AED	Available -for-sale AED	Re-Insurance contract assets AED	Total AED
Available for sale investments	-	-	-	2,539,123	-	2,539,123
Re-insurance contract assets	-	-	-	-	118,687,160	118,687,160
Insurance and other receivables	199,140,453		-	-	-	199,140,453
Held for trading investments	-	167,969,818	-	-	-	167,969,818
Due from related parties	162,541,656	-	-	-	-	162,541,656
Bank balances and cash	289,469,826	-	-	-	-	289,469,826
Held to maturity	-	-	6,799,474	-	-	6,799,474
Total assets	651,151,935	167,969,818	6,799,474	2,539,123	118,687,160	947,147,510

Liabilities	At amortised cost AED	Insurance contract liabilities AED	Total AED
Bank borrowings	202,679,506	-	202,679,506
Insurance contract liabilities	-	253,434,704	253,434,704
Insurance and other payables	104,674,529	-	104,674,529
Due to related parties	2,719,273	-	2,719,273
Total liabilities	310,073,308	253,434,704	563,508,012

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

28. Financial instruments (continued)

Categories of financial instruments and others - 31 December 2011

Assets	Loans and receivables AED	Held for trading AED	Held-to-maturity AED	Available -for-sale AED	Re-insurance contract assets AED	Total AED
Available for sale investments	-	-	-	3,979,973	-	3,979,973
Re-insurance contract assets	-	-	-	-	107,354,952	107,354,952
Insurance and other receivables	182,971,110	-	-	-	-	182,971,110
Held for trading investments	-	54,014,152	-	-	-	54,014,152
Due from related parties	205,133,700	-	-	-	-	205,133,700
Bank balances and cash	276,756,108	-	-	-	-	276,756,108
Held to maturity	-	-	6,799,474	-	-	6,799,474
Total assets	664,860,918	54,014,152	6,799,474	3,979,973	107,354,952	837,009,469

Liabilities	At amortised cost AED	Insurance contract liabilities AED	Total AED
Bank borrowings	207,456,809	-	207,456,809
Insurance contract liabilities	-	236,383,850	236,383,850
Insurance and other payables	98,737,572	-	98,737,572
Due to related parties	18,073,204	-	18,073,204
Total liabilities	324,267,585	236,383,850	560,651,435

The management considers that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate to their fair values.

Foreign currency risk

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

28. Financial instruments (continued)

Credit risk

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

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

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

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

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

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

Insurance receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of insurance receivable.

The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

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

28. Financial instruments (continued)

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial assets. The contractual maturities of the financial assets have been determined on the basis of the remaining period at the financial position date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at reporting date based on contractual repayment arrangements was as follows:

2012	Less than 30 days AED	30-90 days AED	90-180 days AED	After 180 days AED	Total AED
Due from related parties	162,541,656	-	-	-	162,541,656
Reinsurance contract assets	-	-	-	118,687,160	118,687,160
Held to maturity investments	-	-	-	6,799,474	6,799,474
Available for sale investments	-	-	-	2,539,123	2,539,123
Insurance and other receivables	60,425,390	32,119,700	72,300,600	34,294,763	199,140,453
Held for trading investments	167,969,818	-	-	-	167,969,818
Bank balances and cash - non- interest bearing	7,561,693	-	-	-	7,561,693
Fixed deposits - interest bearing	8,209,047	5,483,250	105,424,064	162,791,772	281,908,133
	406,707,604	37,602,950	177,724,664	325,112,292	947,147,510
Due to related parties	2,719,273	-	-	-	2,719,273
Insurance contract liabilities	-	-	-	253,434,704	253,434,704
Bank borrowings	10,000,000	50,000,000	50,000,000	92,679,506	202,679,506
Insurance and other payables	30,000,000	50,000,000	20,000,000	4,674,529	104,674,529
	42,719,273	100,000,000	70,000,000	350,788,739	563,508,012

Interest rates have been disclosed in the respective notes.

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

28. Financial instruments (continued)

Liquidity risk (continued)

2011	Less than 30 days AED	30-90 days AED	90-180 days AED	After 180 days AED	Total AED
Due from related parties	205,133,700	-	-	-	205,133,700
Reinsurance contract assets	-	-	-	107,354,952	107,354,952
Held to maturity investments	-	-	-	6,799,474	6,799,474
Available for sale investments	-	-	-	3,979,973	3,979,973
Insurance and other receivables	49,474,782	81,180,199	27,060,066	25,256,063	182,971,110
Held for trading investments	54,014,152	-	-	-	54,014,152
Bank balances and cash - non- interest bearing	6,513,201	-	-	-	6,513,201
Fixed deposits - interest bearing	19,742,045	5,272,356	101,943,334	143,285,172	270,242,907
	334,877,880	86,452,555	129,003,400	286,675,634	837,009,469
Due to related parties	18,073,204	-	-	-	18,073,204
Insurance contract liabilities	-	-	-	236,383,850	236,383,850
Bank borrowings	53,938,770	93,355,564	31,118,521	29,043,954	207,456,809
Insurance and other payables	25,327,921	43,961,415	14,653,805	14,794,431	98,737,572
	97,339,895	137,316,979	45,772,326	280,222,235	560,651,435

Interest risk

The Group's exposure to interest rate risk relates to its bank deposits and bank borrowings. At 31 December 2012, bank deposits carried interest rates ranges from 2.5% to 5.5% per annum (31 December 2011: 3.0% to 4.5% per annum). The interest rate on bank borrowings ranges from 3.05% to 3.88% per annum (31 December 2010: 3.5% to 4.6% per annum). The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

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

28. Financial instruments (continued)

Interest risk (continued)

If interest rates had been 50 basis points lower/higher and all other variables were held constant, the Group's:

- Profit for the year ended 31 December 2012 would decrease/increase by AED 1.01 million (31 December 2011: decrease/increase by AED 1.03 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Equity price risk

Sensitivity analysis

At reporting date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Group's profit would have increased/decreased by AED 16.8 million (31 December 2011: AED 5.4 million).

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the financial position date.
- At reporting date if equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on consolidated income statement and equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

29. Fair value of financial instruments

The management considers that the fair values of the financial assets and liabilities are not materially different from their carrying values.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Fair value measurements recognised in the consolidated statement of financial position

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

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

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

29. Fair value of financial instruments (continued)

Fair value measurements recognised in the consolidated statement of financial position (continued)

	31 December 2012			
	Level 1	Level 2	Level 3	Total
	AED	AED	AED	AED
Held for trading	167,969,818	-	-	167,969,818
Held to maturity	-	6,799,474	-	6,799,474
Available for sale	2,539,123	-	-	2,539,123
Total	170,508,941	6,799,474	-	177,308,415

	31 December 2011			
	Level 1	Level 2	Level 3	Total
	AED	AED	AED	AED
Held for trading	54,014,152	-	-	54,014,152
Held to maturity	-	6,799,474	-	6,799,474
Available for sale	3,979,973	-	-	3,979,973
Total	57,994,125	6,799,474	-	64,793,599

There were no transfers between Level 1 and 2 during the year.

The table above only includes financial assets. There are no financial liabilities measured at fair value at reporting date.

All gain and losses included in consolidated statement of comprehensive income relate to available for sale investments held at the end of the year and are reported as changes to 'Investments revaluation reserve'.

30. Segment information

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the Group's 'system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

Management has determined the segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. There are no transactions between the business segments.

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

30. Segment information (continued)

Business segments

The Group has the following main business segments:

a) Insurance

- Accident and Liability: Covers damages resulting from work accidents, burglary, motor, civil responsibilities, engineering insurance, medical, life, personal and breach of trust.
- Fire: Covers insurance against damages caused by fire, explosions, natural phenomena and all kind of commotions.
- Marine and aviation: Covers the insurance of cargo and other movables, freight charges, ship and aircraft hulls, machinery and the insurance against risks incidental to its construction, operations, repairs and docking including damages which afflict others.

b) Investment comprising of investment in securities and investment property.

	Insurance AED	Investment AED	Total AED
Year ended 31 December 2012			
Total segment revenue	**293,990,011**	**60,641,804**	**354,631,815**
Less: allocated costs	**(263,379,116)**	**(6,929,654)**	**(270,308,770)**
Segment results	**30,610,895**	**53,712,150**	**84,323,045**
Less: unallocated costs			**(54,985,924)**
Profit for the year			**29,337,121**
Total assets at 31 December 2012	**612,738,393**	**551,584,244**	**1,164,322,637**
Year ended 31 December 2011			
Total segment revenue	282,392,058	32,807,264	315,199,322
Less: allocated costs	(266,712,843)	(10,872,036)	(277,584,879)
Segment results	15,679,215	21,935,228	37,614,443
Less: unallocated costs			(28,057,287)
Profit for the year			9,557,156
Total assets at 31 December 2011	507,775,269	638,690,620	1,146,465,889

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

30. **Segment information (continued)**

2012	Fire AED	Marine AED	Accident & liabilities AED	Total AED
Premium written	20,882,898	67,375,292	285,678,677	373,936,867
Less: Reinsurer's share	(19,051,707)	(59,041,971)	(63,155,700)	(141,249,378)
Net premium	1,831,191	8,333,321	222,522,977	232,687,489
Net movement during the year	(31,935)	(1,669,653)	1,495,318	(206,270)
Net premium earned	1,799,256	6,663,668	224,018,295	232,481,219
Claims paid	(8,796,286)	(38,007,147)	(224,560,437)	(271,363,870)
Less: Reinsurers' share	8,083,008	34,583,667	31,734,843	74,401,518
Net claims paid	(713,278)	(3,423,480)	(192,825,594)	(196,962,352)
Net movement during the year	(713,544)	410,471	(5,209,303)	(5,512,376)
Net claim incurred	(1,426,822)	(3,013,009)	(198,034,897)	(202,474,728)
Net commission earned and documentation fees	4,680,820	9,134,168	20,958,304	34,773,292
Underwriting profit	5,053,254	12,784,827	46,941,702	64,779,783
Less: general and administration expenses	(1,750,842)	(6,974,751)	(25,443,295)	(34,168,888)
Net underwriting profit	3,302,412	5,810,076	21,498,407	30,610,895

2011	Fire AED	Marine AED	Accident & liabilities AED	Total AED
Premium written	22,537,786	106,350,666	267,631,356	396,519,808
Less: Reinsurer's share	(20,779,587)	(100,126,722)	(58,477,931)	(179,384,240)
Net premium	1,758,199	6,223,944	209,153,425	217,135,568
Net movement during the year	(137,613)	1,478,427	(5,383,970)	(4,043,156)
Net premium earned	1,620,586	7,702,371	203,769,455	213,092,412
Claims paid	(15,176,583)	(106,115,610)	(225,019,944)	(346,312,137)
Less: Reinsurers' share	13,086,609	100,115,610	36,101,277	149,303,496
Net claims paid	(2,089,974)	(6,000,000)	(188,918,667)	(197,008,641)
Net movement during the year	2,067,865	5,895,430	(14,614,168)	(6,650,873)
Net claim incurred	(22,109)	(104,570)	(203,532,835)	(203,659,514)
Net commission earned and documentation fees	4,291,557	16,739,785	19,503,903	40,535,245
Underwriting profit	5,890,034	24,337,586	19,740,523	49,968,143
Less: general and administration expenses	(1,820,592)	(7,364,356)	(25,103,980)	(34,288,928)
Net underwriting profit	4,069,442	16,973,230	(5,363,457)	15,679,215

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

30. Segment information (continued)

2012	Within U.A.E. AED	Outside U.A.E. AED	Total AED
Insurance revenue	208,200,046	85,789,965	293,990,011
Insurance cost	(156,319,969)	(72,890,259)	(229,210,228)
General and administrative expenses	(25,056,506)	(9,112,382)	(34,168,888)
Segment result	26,823,571	3,787,324	30,610,895
Segment assets	1,064,088,071	100,234,566	1,164,322,637
Segment liabilities	488,902,464	84,111,722	573,014,186
2011			
Insurance revenue	220,885,695	61,506,363	282,392,058
Insurance cost	(167,685,303)	(64,738,612)	(232,423,915)
General and administrative expenses	(26,277,499)	(8,011,429)	(34,288,928)
Segment result	26,922,893	(11,243,678)	15,679,215
Segment assets	1,071,959,624	74,506,265	1,146,465,889
Segment liabilities	511,249,709	60,312,166	571,561,875

31. Approval of financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 28 March 2013.