

**Al-Sagr National Insurance Company  
(Public Shareholding Company)**

**Report and consolidated financial statements  
for the year ended 31 December 2013**

## **Al-Sagr National Insurance Company (Public Shareholding Company)**

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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 2013 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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.

**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 2013 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**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.)**

Anis F. Sadek  
Registration Number 521  
25 March 2014



**Consolidated statement of financial position**  
**As at 31 December 2013**

	Notes	2013 AED	2012 AED
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	5,701,454	4,609,135
Investment properties	6	170,000,000	211,193,163
Investments in associates	7	541,010	541,010
Held to maturity investments	8	6,697,474	6,799,474
Available for sale investments	8	2,539,123	2,539,123
<b>Total non-current assets</b>		<b>185,479,061</b>	<b>225,681,905</b>
<b>Current assets</b>			
Reinsurance contract assets	9	157,010,552	118,687,160
Insurance and other receivables	10	222,310,719	199,972,272
Due from related parties	24	166,488,762	162,541,656
Held for trading investments	8	194,871,884	167,969,818
Bank balances and cash	11	335,968,453	289,469,826
<b>Total current assets</b>		<b>1,076,650,370</b>	<b>938,640,732</b>
<b>Total Assets</b>		<b>1,262,129,431</b>	<b>1,164,322,637</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	230,000,000	230,000,000
Statutory reserve	13	57,505,110	52,011,356
General reserve	14	200,000,000	200,000,000
Investments revaluation reserve		(1,298,925)	(1,298,925)
Retained earnings		136,915,271	106,449,561
<b>Equity attributable to equity holders of the parent</b>		<b>623,121,456</b>	<b>587,161,992</b>
<b>Non-controlling interests</b>		<b>1,282,199</b>	<b>4,146,458</b>
<b>Total Equity</b>		<b>624,403,655</b>	<b>591,308,450</b>
<b>Non-current liabilities</b>			
Due to related parties	24	419,174	2,719,273
Provision for employees' end of service indemnity	15	11,060,017	9,506,175
<b>Total non-current liabilities</b>		<b>11,479,191</b>	<b>12,225,448</b>
<b>Current liabilities</b>			
Insurance contract liabilities	9	293,348,157	253,434,704
Bank borrowings	16	235,458,953	202,679,506
Insurance and other payables	17	97,439,475	104,674,529
<b>Total current liabilities</b>		<b>626,246,585</b>	<b>560,788,739</b>
<b>Total Liabilities</b>		<b>637,725,776</b>	<b>573,014,187</b>
<b>Total Equity and Liabilities</b>		<b>1,262,129,431</b>	<b>1,164,322,637</b>



Director and CEO

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

**Consolidated income statement  
for the year ended 31 December 2013**

	Notes	2013 AED	2012 AED
Gross insurance premium revenue		393,022,708	373,936,867
Less: Insurance premium ceded to reinsurers		(163,508,926)	(141,249,378)
<b>Net premium revenue</b>		<b>229,513,782</b>	<b>232,687,489</b>
Net changes in unearned premium	9	130,078	(206,270)
<b>Net insurance premium revenue</b>		<b>229,643,860</b>	<b>232,481,219</b>
Gross claims settled	9	(305,145,810)	(271,363,870)
Insurance claims recovered from reinsurers	9	98,408,242	74,401,518
Net claims settled	9	(206,737,568)	(196,962,352)
Net changes in outstanding claims		(1,720,139)	(5,512,376)
<b>Net claims incurred</b>	9	<b>(208,457,707)</b>	<b>(202,474,728)</b>
Gross commissions earned and documentation fees		70,022,439	61,508,792
Commissions incurred		(27,032,871)	(26,735,500)
<b>Net commissions earned and documentation fees</b>		<b>42,989,568</b>	<b>34,773,292</b>
<b>Underwriting profit</b>		<b>64,175,721</b>	<b>64,779,783</b>
General and administrative expenses relating to underwriting activities		(35,617,480)	(34,168,888)
<b>Net underwriting profit</b>		<b>28,558,241</b>	<b>30,610,895</b>
Investment revenue - net	18	47,817,229	87,607,654
Share of loss from associates		-	(35,827)
Net loss on revaluation of investment properties		-	(26,930,023)
Finance costs		(8,825,282)	(9,087,941)
Other income	19	944,627	2,158,287
Unallocated general and administrative expenses		(17,699,610)	(54,985,924)
<b>Profit for the year</b>	20	<b>50,795,205</b>	<b>29,337,121</b>
<b>Attributable to:</b>			
Equity holders of the Parent		53,560,665	29,183,467
Non-controlling interests		(2,765,460)	153,654
		<b>50,795,205</b>	<b>29,337,121</b>
<b>Basic earnings per share</b>	21	<b>0.23</b>	<b>0.13</b>

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

**Consolidated statement of comprehensive income  
for the year ended 31 December 2013**

	Notes	2013 AED	2012 AED
<b>Profit for the year</b>		<b>50,795,205</b>	29,337,121
<b>Other comprehensive income</b>			
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Loss on revaluation of available for sale investments	8	-	(1,432,685)
<b>Total other comprehensive loss</b>		-	(1,432,685)
<b>Total comprehensive income for the year</b>		<b>50,795,205</b>	27,904,436
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Parent		53,560,665	27,917,518
Non-controlling interests		(2,765,460)	(13,082)
		<b>50,795,205</b>	27,904,436

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

# Al-Sagr National Insurance Company (Public Shareholding Company)

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## Consolidated statement of changes in equity for the year ended 31 December 2013

	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
<b>Balance at 1 January 2012</b>	<b>230,000,000</b>	<b>49,209,674</b>	<b>200,000,000</b>	<b>(32,976)</b>	<b>91,567,776</b>	<b>570,744,474</b>	<b>4,159,540</b>	<b>574,904,014</b>
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)
<b>Total comprehensive income for the year</b>				<b>(1,265,949)</b>	<b>29,183,467</b>	<b>27,917,518</b>	<b>(13,082)</b>	<b>27,904,436</b>
Transfer to statutory reserve	-	2,801,682	-	-	(2,801,682)	-	-	-
Dividend paid	-	-	-	-	(11,500,000)	(11,500,000)	-	(11,500,000)
<b>Balance at 31 December 2012</b>	<b>230,000,000</b>	<b>52,011,356</b>	<b>200,000,000</b>	<b>(1,298,925)</b>	<b>106,449,561</b>	<b>587,161,992</b>	<b>4,146,458</b>	<b>591,308,450</b>
Profit for the year	-	-	-	-	53,560,665	53,560,665	(2,765,460)	50,795,205
Other comprehensive income	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>					<b>53,560,665</b>	<b>53,560,665</b>	<b>(2,765,460)</b>	<b>50,795,205</b>
Transfer to statutory reserve	-	5,493,754	-	-	(5,493,754)	-	-	-
Dividend paid	-	-	-	-	(17,250,000)	(17,250,000)	-	(17,250,000)
Directors' fee paid during the period	-	-	-	-	(450,000)	(450,000)	-	(450,000)
Change in controlling interest	-	-	-	-	98,799	98,799	(98,799)	-
<b>Balance at 31 December 2013</b>	<b>230,000,000</b>	<b>57,505,110</b>	<b>200,000,000</b>	<b>(1,298,925)</b>	<b>136,915,271</b>	<b>623,121,456</b>	<b>1,282,199</b>	<b>624,403,655</b>

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



**Consolidated statement of cash flows  
for the year ended 31 December 2013**

	2013 AED	2012 AED
<b>Cash flows from operating activities</b>		
Profit for the year	50,795,205	29,337,121
Adjustments for:		
Depreciation of property and equipment	2,532,995	1,904,187
(Reversal)/allowance for doubtful debts	(6,217,001)	38,495,142
Investment revenue - net	(2,928,755)	(1,974,098)
Gain on revaluation of held for trading investments	(25,417,554)	(69,311,083)
Impairment of held to maturity investments	102,000	-
Loss on revaluation of investment properties	-	26,930,023
Provision/(reversal) for employees' end of service indemnity	1,682,583	(357,535)
Interest income	(8,882,191)	(8,379,820)
Share of loss from associates	-	35,827
Finance costs	8,825,282	9,087,941
Gain on sale of investment in associate	-	(4,538,000)
<b>Operating cash flows before movement in working capital</b>	<b>20,492,564</b>	<b>21,229,705</b>
(Increase)/decrease in fixed deposits with banks	(42,606,905)	1,965,664
Increase in insurance and other receivables	(16,121,446)	(19,039,990)
(Decrease)/increase in insurance and other payables	(7,235,054)	5,936,957
(Increase)/decrease in due from related parties	(3,947,106)	13,763,519
Increase in reinsurance contract assets	(38,323,392)	(11,332,208)
Increase in insurance contract liabilities	39,913,453	17,050,854
Decrease in due to related parties	(2,300,099)	-
<b>Cash (used in)/generated from operations</b>	<b>(50,127,985)</b>	<b>29,574,501</b>
Interest paid	(8,825,282)	(9,087,941)
Employees' end of service indemnity paid	(128,741)	(1,046,730)
<b>Net cash (used in)/generated from operating activities</b>	<b>(59,082,008)</b>	<b>19,439,830</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of investment property	41,193,163	-
Net (additions)/disposals from sale of investments in securities	(1,484,512)	2,830,267
Proceeds from sale of property and equipment	-	2,897
Purchase of property and equipment	(3,625,314)	(1,670,227)
Interest received	8,882,191	8,379,820
Dividends received	2,928,755	1,974,098
<b>Net cash generated from investing activities</b>	<b>47,894,283</b>	<b>11,516,855</b>
<b>Cash flows from financing activities</b>		
Increase/(repayment) of bank borrowings	32,779,447	(4,777,303)
Dividend paid	(17,250,000)	(11,500,000)
Payment of directors' fees	(450,000)	-
<b>Net cash from/(used in) financing activities</b>	<b>15,079,447</b>	<b>(16,277,303)</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,891,722</b>	<b>14,679,382</b>
Cash and cash equivalents at beginning of the year	21,253,990	6,574,608
<b>Cash and cash equivalents at end of the year (Note 22)</b>	<b>25,145,712</b>	<b>21,253,990</b>
<b>Non-cash transaction:</b>		
Transfer of investment in Al Sagr Co-operative Insurance Company to held for trading investments [Note 8(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 2013

### 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 Company is a subsidiary of Gulf General Investments Company (the "Parent Company"), a public company incorporated in 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 the Company and its subsidiary (collectively the "Group"). Details of the subsidiary are as follows:

<u>Company name</u>	<u>Activity</u>	<u>Country of incorporation</u>	<u>Ownership held</u>
Jordan Emirates Insurance Company PSC	Underwriting of insurance of all types	Jordan	88.9%

During the year, the Company increased its ownership of its subsidiary from 88.362% to 88.9% with no impact on profit or loss.

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

#### 2.1 *New and revised IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements*

In the current year, the Group for the first time has applied the following new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

#### **IFRS 12 *Disclosure of Interests in Other Entities***

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see Note 24).

#### **IFRS 13 *Fair Value Measurement***

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements in IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurement and disclosures about fair value measurements except for share-based payment transactions that are within the scope of IFRS 2 Share-based payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purpose).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

**2.1 New and revised IFRSs affecting amounts reported and/or disclosures in the consolidated  
financial statements (continued)**

**Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income***

The main amendment to IAS 1 requires items of other comprehensive income to be grouped into two categories in the other comprehensive income section:

- a) Items that will not be reclassified subsequently to profit or loss; and
- b) Items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

**2.2 New and revised IFRSs applied with no material effect on the consolidated financial  
statements**

The following new and revised IFRSs have been adopted in these consolidated financial statements. The application 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 *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.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* enhances disclosures about offsetting of financial assets and financial liabilities.
- 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.
- 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.
- 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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

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

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.
- Annual Improvements to IFRSs 2009 - 2011 Cycle

The annual improvements include the amendments to five IFRSs which have been summarized below:

- *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 16 Property, Plant and Equipment* - Classification of servicing equipment.
- *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.

**2.3 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 are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> <li>• Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9.</li> </ul>	When IFRS 9 is first applied
<ul style="list-style-type: none"> <li>• IFRS 7 <i>Financial Instruments: Additional hedge accounting disclosures</i> (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.</li> </ul>	When IFRS 9 is first applied

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

**2.3 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**

- IFRS 9 *Financial Instruments* (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial Instruments* (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

At its November 2013 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2018. However, IASB allows each version of the standard to be available for early application.

IFRS 9 *Financial Instruments* (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9.

IFRS 9 (2009) and IFRS 9 (2010) were superseded by IFRS 9 (2013) and IFRS 9 (2010) also superseded IFRS 9 (2009). The various standards also permit various transitional options. Accordingly, entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (1) the classification and measurement requirements for financial assets (2) the classification and measurement requirements for both financial assets and financial liabilities (3) the classification and measurement requirements and the hedge accounting requirements.

- Amendments to IAS 19 *Employee Benefits* - to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. 1 July 2014
- Amendments to IAS 32 *Financial Instruments: Presentation* relating to application guidance on the offsetting of financial assets and financial liabilities. 1 January 2014
- Amendments to IAS 36 – *Recoverable amount disclosures*. 1 January 2014

The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to the period in which an impairment loss has been recognised or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> <li>Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting</i>.</li> </ul>	1 January 2014
<p>The amendment allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.</p>	
<ul style="list-style-type: none"> <li>IFRIC 21 - <i>Levies</i>.</li> </ul>	1 January 2014
<p>Interpretation was developed to address the concerns about how to account for levies that are based on financial data of a period that is different from that in which the activity that give rise to the payment of the levy occurs.</p>	
<ul style="list-style-type: none"> <li>Amendments to IFRS 10, IFRS 12 and IAS 27 – Guidance on Investment Entities.</li> </ul>	1 January 2014
<p>On 31 October 2012, the IASB published a 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.</p>	
<ul style="list-style-type: none"> <li>Annual Improvements to IFRSs 2010 - 2012 Cycle</li> </ul>	1 July 2014
<ul style="list-style-type: none"> <li>▪ <i>IFRS 2 Share Based Payments</i> - definition of 'vesting condition'.</li> <li>▪ <i>IFRS 3 Business Combinations</i> - accounting for contingent consideration.</li> <li>▪ <i>IFRS 8 Operating Segments</i> - aggregation of segments, reconciliation of segment assets.</li> <li>▪ <i>IAS 16 Property, Plant and Equipment</i> - proportionate restatement of accumulated depreciation on revaluation.</li> <li>▪ <i>IAS 24 Related Party Disclosures</i> - management entities.</li> <li>▪ <i>IAS 38 Intangible Assets</i> - proportionate restatement of accumulated depreciation on revaluation.</li> </ul>	

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> <li>• Annual Improvements to <i>IFRSs 2011 - 2013 Cycle</i> <ul style="list-style-type: none"> <li>▪ <i>IFRS 1 First Time Adoption of International Financial Reporting Standards</i> - meaning of effective IFRSs.</li> <li>▪ <i>IFRS 3 Business Combinations</i> - scope exception for joint ventures.</li> <li>▪ <i>IFRS 13 Fair Value Measurement</i> - scope of the portfolio exception.</li> <li>▪ <i>IAS 40 Investment Property</i> - interrelationship between IFRS 3 and IAS 40.</li> </ul> </li> </ul>	1 July 2014

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the year beginning 1 January 2014 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 year 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 certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)****3. Significant accounting policies (continued)****Basis of preparation (continued)**

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest dirham, except when otherwise indicated.

The principal accounting policies are set out below.

**Basis of consolidation**

These consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group. Control is achieved where the Group has:

- power over an investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.



**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

**Basis of consolidation (continued)**

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

*Changes in the Group's ownership interest in existing subsidiaries*

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

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 interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss have been recognised in the consolidated statement of comprehensive income and accumulated in equity, the amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are accounted for as if the Parent had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). 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 a 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*

The Group only issues short term insurance contracts relating to property and casualty risks.

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).

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)****3. Significant accounting policies (continued)****Insurance contracts (continued)***Recognition and measurement (continued)*

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.

*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<sup>th</sup> 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<sup>th</sup> 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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

**Insurance contracts (continued)**

*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.

**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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)****3. Significant accounting policies (continued)****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.

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 directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)****3. Significant accounting policies (continued)****Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to the profit and loss on a straight-line basis over the term of the relevant lease.

**Investments in associates**

An associate is an entity over which the Group has significant influence. 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 and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of associates exceeds the Group's interest in that associates (which includes any long-term interests that, in substance, form part of the Group's net investment in the associates), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates.

An investment in associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of associates recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement in the period in which the investment is acquired.

The requirements of International Financial Reporting Standards are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in associates. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of equity method from the date when the investment ceases to be an associate. When the Group retains its interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

**Investments in associates (continued)**

Upon disposal of associates that results in the Group losing significant influence over those associates, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associates attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associates. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associates on the same basis as would be required if that associates had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associates would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associates.

When a Group's entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate is recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

**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

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

**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 equipment	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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)****3. Significant accounting policies (continued)****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.

**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 the 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.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

**Financial instruments (continued)**

***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.

***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.



**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

**Financial instruments (continued)**

*Financial assets (continued)*

*Investments (continued)*

*Held to maturity investments*

Held to maturity financial are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are measured at amortized 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.

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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

**Financial instruments (continued)**

*Financial assets (continued)*

*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.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in profit or principal payments; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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 profit rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

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.

*Financial liabilities and equity instruments issued by the Group*

*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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

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

**Financial instruments (continued)**

***Financial liabilities and equity instruments issued by the Group (continued)***

***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**

Financial liabilities are classified as other financial liabilities which include insurance and other payables, bank borrowings and due to related parties and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The interest profit method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

***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.

***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:

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)****4. Critical accounting judgments and key sources of estimation uncertainty (continued)****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.

***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 1/24<sup>th</sup> 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 1/24<sup>th</sup> 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 1/24<sup>th</sup> 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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)****4. Critical accounting judgments and key sources of estimation uncertainty (continued)****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.

***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.

***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  
for the year ended 31 December 2013 (continued)

## 5. Property and equipment

Cost	Building AED	Office fixtures AED	Furniture and equipment AED	Motor vehicles AED	Capital work in progress AED	Total AED
At 1 January 2012	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
Additions	-	-	1,413,438	52,570	2,159,306	3,625,314
At 31 December 2013	463,275	2,580,270	10,459,553	1,010,572	2,942,306	17,455,976
Accumulated depreciation						
At 1 January 2012	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
Charge for the year	9,266	226,015	2,130,840	166,874	-	2,532,995
At 31 December 2013	33,973	2,413,137	8,641,907	665,505	-	11,754,522
Carrying amount						
At 31 December 2013	429,302	167,133	1,817,646	345,067	2,942,306	5,701,454
At 31 December 2012	438,568	393,148	2,535,048	459,371	783,000	4,609,135

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**6. Investment properties**

	<b>2013 AED</b>	<b>2012 AED</b>
Cost at beginning of the year	<b>305,347,114</b>	305,347,114
Disposal during the year	<b>(41,193,163)</b>	-
<b>Cost at end of the year</b>	<b>264,153,951</b>	305,347,114
Net loss on revaluation of investment properties	<b>(94,153,951)</b>	(94,153,951)
	<b>170,000,000</b>	211,193,163

Investment properties represent the fair value of the properties located in U.A.E. The Group used the fair value model permitted under IAS 40 for determining the carrying value of the investment property. The fair value of the Group's investment properties at 31 December 2013 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 as of 31 December 2013, which conforms to international valuation standards, was arrived at by reference to market evidence of transaction prices for similar properties, and was determined by an independent valuation expert.

The Group has an investment property, Meydan Tower, a property located in Dubai controlled by GGICO Real Estate Development Co. L.L.C. in which the Group has a 10% ownership share. The Group has contributed AED 152.96 million as at 31 December 2013 (31 December 2012: AED 152.96 million). The Group has additional commitment of AED 46 million as at 31 December 2013 (31 December 2012: AED 46 million) in relation to the property.

Fair value hierarchy of the Group's investment properties are as follows:

**At 31 December 2013**

	<b>Level 1 AED</b>	<b>Level 2 AED</b>	<b>Level 3 AED</b>	<b>Total AED</b>
Investment properties	-	-	<b>170,000,000</b>	<b>170,000,000</b>

**At 31 December 2012**

	<b>Level 1 AED</b>	<b>Level 2 AED</b>	<b>Level 3 AED</b>	<b>Total AED</b>
Investment properties	-	-	211,193,163	211,193,163

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**7. Investments in associates**

	<b>2013 AED</b>	<b>2012 AED</b>
Green Air Technology L.L.C., United Arab Emirates [Note 7 (a)]	<b>391,010</b>	391,010
Sogour Al Khaleej General Trading L.L.C., United Arab Emirates [Note 7 (b)]	<b>150,000</b>	150,000
	<b>541,010</b>	541,010

Details of the Group's associates at 31 December 2013 are as follows:

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

Although, the Group holds 50% equity in 2 associates, these are controlled by the Parent Company. The Group does not participate in the financial and operating policy decisions of these associates. Consequently, these companies are not treated as subsidiaries.

**a) Green Air Technology L.L.C.:**

	<b>2013 AED</b>	<b>2012 AED</b>
Total assets	<b>12,060,159</b>	12,000,655
Total liabilities	<b>(11,278,139)</b>	(11,218,635)
Net assets	<b>782,020</b>	782,020
Share of associate's net assets	<b>391,010</b>	391,010
Revenue	-	96,104
Loss for the year	-	(71,654)
Share of associate's loss for the year	-	(35,827)

The Group holds 50% ownership in Green Air Technology L.L.C., a limited liability company incorporated in Dubai, United Arab Emirates. The remaining 50% ownership is owned equally by the Parent Company and the CEO of the Company. The 50% share is registered in the name of the Parent Company on behalf and for the benefit of the Company.



**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**7. Investments in associates (continued)**

**b) Sogour Al Khaleej General Trading L.L.C.**

The Group holds 50% ownership in Sogour Al Khaleej General Trading L.L.C., a limited liability company incorporated in Dubai, United Arab Emirates. The main activity of the Company is general trading. The remaining 50% ownership is owned by the Parent Company.

**8. Investments in securities**

	2013 AED	2012 AED
Held for trading investments	194,871,884	167,969,818
Available for sale investments	2,539,123	2,539,123
Held to maturity investments	6,697,474	6,799,474
	<u>204,108,481</u>	<u>177,308,415</u>

Held to maturity investments include investment in a fund with a related party amounting to AED 3.3 million (2012: 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 125.2 million (2012: AED 120.9 million) and AED 2.5 million (2012: AED 2.5 million), respectively, which are invested in securities listed in Jordan and Kingdom of Saudi Arabia.

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

	2013 AED	2012 AED
<b><i>Held for trading investments</i></b>		
Fair value at beginning of the year	167,969,818	54,014,152
Transfer from investment in associate [Note 8 (a)]	-	47,466,685
Net additions/(disposals) during the year	1,484,512	(2,822,102)
Increase in fair value	25,417,554	69,311,083
<b>Fair value at end of the year</b>	<u>194,871,884</u>	<u>167,969,818</u>
<b><i>Available for sale investments</i></b>		
Fair value at beginning of the year	2,539,123	3,979,973
Net disposals during the year	-	(8,165)
Decrease in fair value	-	(1,432,685)
<b>Fair value at end of the year</b>	<u>2,539,123</u>	<u>2,539,123</u>
<b><i>Held to maturity investments</i></b>		
Cost at beginning of the year	6,799,474	6,799,474
Impairment during the year	(102,000)	-
<b>Amortised cost at end of the year</b>	<u>6,697,474</u>	<u>6,799,474</u>

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**8. Investments in securities (continued)**

- a) During prior year, 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. 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.

**9. Insurance contract liabilities and reinsurance contract assets**

	<b>2013 AED</b>	<b>2012 AED</b>
<b>Gross</b>		
Insurance contract liabilities		
Claims reported unsettled	<b>162,605,790</b>	128,562,399
Claims incurred but not reported	<b>11,767,120</b>	10,351,983
Unearned premiums	<b>118,975,247</b>	114,520,322
<b>Total insurance contract liabilities (gross)</b>	<b>293,348,157</b>	253,434,704
<b>Recoverable from reinsurers</b>		
Claims reported unsettled	<b>112,329,943</b>	78,591,554
Unearned premiums	<b>44,680,609</b>	40,095,606
<b>Total recoverable from reinsurers</b>	<b>157,010,552</b>	118,687,160
<b>Net</b>		
Claims reported unsettled	<b>50,275,847</b>	49,970,845
Claims incurred but not reported	<b>11,767,120</b>	10,351,983
Unearned premiums	<b>74,294,638</b>	74,424,716
	<b>136,337,605</b>	134,747,544

Notes to the consolidated financial statements (continued)  
for the year ended 31 December 2013

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 2013			31 December 2012		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
<b>Claims</b>						
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
<b>Total at beginning of the year</b>	<b>138,914,382</b>	<b>(78,591,554)</b>	<b>60,322,828</b>	<b>129,053,877</b>	<b>(74,243,425)</b>	<b>54,810,452</b>
Claims settled during the year	(305,145,810)	98,408,242	(206,737,568)	(271,363,870)	74,401,518	(196,962,352)
Increase in liabilities	340,604,338	(132,146,631)	208,457,707	281,224,375	(78,749,647)	202,474,728
<b>Total at end of the year</b>	<b>174,372,910</b>	<b>(112,329,943)</b>	<b>62,042,967</b>	<b>138,914,382</b>	<b>(78,591,554)</b>	<b>60,322,828</b>
<b>Reported claims</b>	<b>162,605,790</b>	<b>(112,329,943)</b>	<b>50,275,847</b>	<b>128,562,399</b>	<b>(78,591,554)</b>	<b>49,970,845</b>
Incurred but not reported	11,767,120	-	11,767,120	10,351,983	-	10,351,983
<b>Total at end of the year</b>	<b>174,372,910</b>	<b>(112,329,943)</b>	<b>62,042,967</b>	<b>138,914,382</b>	<b>(78,591,554)</b>	<b>60,322,828</b>
<b>Unearned premium</b>						
Balance at beginning of the year	114,520,322	(40,095,606)	74,424,716	107,329,973	(33,111,527)	74,218,446
Net decrease/(increase) during the year	4,454,925	(4,585,003)	(130,078)	7,190,349	(6,984,079)	206,270
<b>Total at end of the year</b>	<b>118,975,247</b>	<b>(44,680,609)</b>	<b>74,294,638</b>	<b>114,520,322</b>	<b>(40,095,606)</b>	<b>74,424,716</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**10. Insurance and other receivables**

	2013 AED	2012 AED
<b>Receivables arising from insurance and reinsurance contracts</b>		
Due from policy holders, insurance and reinsurance companies	226,355,372	214,704,176
Allowance for doubtful debts	(21,383,923)	(27,600,924)
	<u>204,971,449</u>	<u>187,103,252</u>
<b>Other receivables</b>		
Accrued interest income	3,306,466	2,717,939
Prepaid expenses and refundable deposits	1,686,041	831,819
Staff advances	933,524	962,463
Other receivables	11,413,239	8,356,799
	<u>17,339,270</u>	<u>12,869,020</u>
	<u>222,310,719</u>	<u>199,972,272</u>
<i>Movement in the allowance for doubtful debts</i>		
Balance at beginning of the year	27,600,924	24,605,782
Impairment losses recognized on receivables	782,999	2,995,142
Reversals during the year	(7,000,000)	-
<b>Balance at end of the year</b>	<u>21,383,923</u>	<u>27,600,924</u>

The average credit period is 120 days (2012: 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:

	2013 AED	2012 AED
Past due and impaired	21,383,923	27,600,924
Post-dated cheques received from policyholders	19,384,614	12,638,948
Past due but not impaired	46,613,696	52,305,216
	<u>87,382,233</u>	<u>92,545,088</u>

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**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 3 customers (2012: 10 customers) whose combined balances represent more than 18% (2012: 30%) of the total balance of due from policyholders.

Included in the Group's due from policyholders balance are receivables with a carrying amount of AED 65.9 million (31 December 2012: AED 64.9 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 management believe that there is no further credit allowance required in excess of the recorded allowance for doubtful debts.

**11. Bank balances and cash**

	<b>2013 AED</b>	<b>2012 AED</b>
Cash on hand	<b>952,592</b>	1,058,978
Bank balances:		
Current accounts	<b>8,201,785</b>	6,502,715
Fixed deposits	<b>326,814,076</b>	281,908,133
	<b>335,968,453</b>	289,469,826

Fixed deposits with banks as at 31 December 2013 include AED 10.3 million (31 December 2012: 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 298 million (31 December 2012: 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 2.25% to 3.3% per annum (31 December 2012: 2.5% to 3.3% per annum).

**12. Share capital**

	<b>2013 AED</b>	<b>2012 AED</b>
Issued and fully paid:		
230,000,000 shares of AED 1 each		
(31 December 2012: 230,000,000 share of AED 1 each)	<b>230,000,000</b>	230,000,000

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**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:

	<b>2013</b>	2012
	<b>AED</b>	AED
Balance at beginning of the year	9,506,175	10,910,440
Charge/(reversal) during the year	1,682,583	(357,535)
Paid during the year	(128,741)	(1,046,730)
<b>Balance at end of the year</b>	<b>11,060,017</b>	<b>9,506,175</b>

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**

	<b>2013</b>	2012
	<b>AED</b>	AED
<i>Secured at amortised cost</i>		
Bank overdrafts	235,458,953	202,679,506

The Group has bank facilities in the form of overdrafts repayable upon demand and bearing interest ranging from 3.55% to 4.25% per annum (31 December 2012: 3.1% to 3.9% per annum). These facilities are secured by lien on fixed deposits amounting to AED 298 million (31 December 2012: AED 180 million). The bank overdraft limit provided under the facilities is AED 325 million (31 December 2012: AED 247 million).

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**17. Insurance and other payables**

	2013 AED	2012 AED
Due to insurance and reinsurance companies	59,967,967	67,700,618
<b>Other payables:</b>		
Insurance customers payable	25,982,316	28,320,096
Accrued expenses and provisions	2,946,499	3,498,319
Other	8,542,693	5,155,496
	<u>97,439,475</u>	<u>104,674,529</u>

**18. Investment revenue - net**

	2013 AED	2012 AED
Net gain on sale of investment in securities	10,305,854	5,479,807
Rental income	282,875	2,462,846
Interest income	8,882,191	8,379,820
Dividend income	2,928,755	1,974,098
Gain on revaluation of held for trading investments (Note 8)	25,417,554	69,311,083
	<u>47,817,229</u>	<u>87,607,654</u>

**19. Other income**

	2013 AED	2012 AED
Recovery against bad debts	-	1,222,685
Other	944,627	935,602
	<u>944,627</u>	<u>2,158,287</u>

**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.

	2013 AED	2012 AED
Staff costs	25,607,891	22,648,574
Depreciation of property and equipment (Note 5)	2,532,995	1,904,187
Allowance for doubtful debts (Note 10)	782,999	38,495,142

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**21. Basic earnings per share**

	2013	2012
Profit for the year attributable to equity holders of the Parent- AED	53,560,665	29,183,467
Less: Directors' fee paid during the year - AED	(450,000)	-
Adjusted profit for the year attributable to equity holders of the Parent - AED	53,110,665	29,183,467
Weighted average number of shares	230,000,000	230,000,000
Basic earnings per share - AED	0.23	0.13

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**

	2013 AED	2012 AED
Bank balances and cash (Note 11)	335,968,453	289,469,826
Fixed deposits under lien and maturity over three months from the date of deposits	(310,822,741)	(268,215,836)
	25,145,712	21,253,990

**23. Investment in subsidiary**

At 31 December 2013, the Group comprises the Company and the following direct subsidiary:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Jordan Emirates Insurance Company (PSC)	United Arab Emirates	88.90	88.90	Insurance



**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**23. Investment in subsidiary (continued)**

(a) Financial details of non-wholly owned subsidiary of the Company are as follows:

Name of Subsidiary	(Loss)/profit allocated to non-controlling interest		Accumulated non-controlling interest	
	2013	2012	2013	2012
	AED	AED	AED	AED
Jordan Emirates Insurance Company (PSC)	<u>(2,765,460)</u>	<u>153,654</u>	<u>1,282,199</u>	<u>4,146,458</u>

(b) Below is the summarised financial information of Jordan Emirates Insurance Company (PSC), the main subsidiary that has material non - controlling interest. The financial information represents balances before intra-group eliminations.

	2013 AED	2012 AED
<i>Statement of financial position</i>		
Total assets	<u>99,731,577</u>	<u>92,504,669</u>
Total liabilities	<u>88,180,233</u>	<u>79,404,536</u>
Net equity	<u>11,551,344</u>	<u>13,100,133</u>
<i>Statement of comprehensive income</i>		
Net insurance premium revenue	74,157,084	79,424,277
Net claims incurred	(61,239,845)	(66,258,279)
Net commission and other income	134,342	460,467
Net investment income/(loss)	1,276,629	(319,636)
General and administrative expenses	(15,877,001)	(11,986,526)
(Loss)/profit for the year	<u>(1,548,791)</u>	<u>1,320,303</u>
Other comprehensive income	-	-
Total comprehensive (loss)/income	<u>(1,548,791)</u>	<u>1,320,303</u>
<i>Statement of cash flows</i>		
Net cash flows from operating activities	804,579	1,053,637
Net cash flows used in investing activities	(2,351,386)	(879,525)
Net cash flows from financing activities	-	-
Net cash flows (used in)/generated during the year	<u>(1,546,807)</u>	<u>174,112</u>

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**24. 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 (IAS) 24: *Related Party Disclosures*. Related parties comprise companies and entities under common ownership and/or common management and control, shareholders, directors and key management personnel of the Group, their close family members and entities controlled, jointly controlled or significantly influenced by such parties. The management decides on the terms and conditions of services received from/rendered to related parties as well as on other charges.

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

	2013 AED	2012 AED
<b>Included in insurance and other receivables</b>		
Due from policyholders	2,827,367	1,894,985
Due from shareholders	15,903,338	8,864,483
<b>Included in due from related parties</b>		
Due from related parties	213,988,762	210,041,656
Allowance for doubtful debts	(47,500,000)	(47,500,000)
	<u>166,488,762</u>	<u>162,541,656</u>
 Movement in allowance for doubtful debt is as follows;		
Balance at beginning of the year	47,500,000	12,000,000
Allowance made during the year	-	35,500,000
	<u>47,500,000</u>	<u>47,500,000</u>
 <b>Included in due to related parties</b>		
Due to shareholders	419,174	2,719,273
 <b>Included in insurance and other payables</b>		
Gross outstanding claims	59,417	14,141

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

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

	2013 AED	2012 AED
Gross premium	13,088,355	13,683,737
Claims paid	179,355	161,243

***Compensation of key management personnel***

	2013 AED	2012 AED
Short and long term benefits	<u>7,138,202</u>	<u>6,216,003</u>

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**25. Contingent liabilities**

	2013 AED	2012 AED
Letters of guarantee	15,183,512	18,351,134
Capital commitments	46,610,000	46,610,000

**26. Operating lease arrangements**

Operating lease payments represent rentals payable by the Group for its office premises. At reporting date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2013 AED	2012 AED
Within one year	2,979,493	2,681,514

**27. 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).

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)****27. Insurance risk (continued)***Frequency and severity of claims (continued)*

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.

*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.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)****27. 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 28.6 million for the year ended 31 December 2013 (31 December 2012: AED 30.6 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 58% (31 December 2012: 62%) 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 42.9 million (31 December 2012: AED 34.7 million) of the net insurance profit. These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**28. 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.

	<b>2013</b>	2012
	<b>AED</b>	AED
Total capital held	<b>230,000,000</b>	230,000,000
Minimum regulatory capital	<b>100,000,000</b>	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:

	<b>2013</b>	2012
	<b>AED</b>	AED
Debt (i)	<b>235,458,953</b>	202,679,506
Cash and cash equivalents (Note 22)	<b>(25,145,712)</b>	(21,253,990)
Net debt	<b>210,313,241</b>	181,425,516
Equity (ii)	<b>623,121,456</b>	587,161,992
Net debt to equity ratio	<b>33.75%</b>	30.90%

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**29. 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 2013**

<b>Assets</b>	<b>Loans and receivables AED</b>	<b>Held for trading AED</b>	<b>Held-to- maturity AED</b>	<b>Available -for-sale AED</b>	<b>Re-insurance contract assets AED</b>	<b>Total AED</b>
Available for sale investments	-	-	-	2,539,123	-	2,539,123
Re-insurance contract assets	-	-	-	-	157,010,552	157,010,552
Insurance and other receivables	220,624,679	-	-	-	-	220,624,679
Held for trading investments	-	194,871,884	-	-	-	194,871,884
Due from related parties	166,488,762	-	-	-	-	166,488,762
Bank balances and cash	335,968,453	-	-	-	-	335,968,453
Held to maturity	-	-	6,697,474	-	-	6,697,474
<b>Total assets</b>	<b>723,081,894</b>	<b>194,871,884</b>	<b>6,697,474</b>	<b>2,539,123</b>	<b>157,010,552</b>	<b>1,084,200,927</b>

  

<b>Liabilities</b>	<b>At amortised cost AED</b>	<b>Insurance contract liabilities AED</b>	<b>Total AED</b>
Bank borrowings	235,458,953	-	235,458,953
Insurance contract liabilities	-	293,348,157	293,348,157
Insurance and other payables	97,439,475	-	97,439,475
Due to related parties	419,174	-	419,174
<b>Total liabilities</b>	<b>333,317,602</b>	<b>293,348,157</b>	<b>626,665,759</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**29. Financial instruments (continued)**

**Categories of financial instruments and others - 31 December 2012**

<b>Assets</b>	<b>Loans and receivables AED</b>	<b>Held for trading AED</b>	<b>Held-to- maturity AED</b>	<b>Available -for-sale AED</b>	<b>Re-insurance contract assets AED</b>	<b>Total AED</b>
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
<b>Total assets</b>	<b>651,151,935</b>	<b>167,969,818</b>	<b>6,799,474</b>	<b>2,539,123</b>	<b>118,687,160</b>	<b>947,147,510</b>

  

<b>Liabilities</b>	<b>At amortised cost AED</b>	<b>Insurance contract liabilities AED</b>	<b>Total AED</b>
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
<b>Total liabilities</b>	<b>310,073,308</b>	<b>253,434,704</b>	<b>563,508,012</b>

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.



**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**29. 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  
for the year ended 31 December 2013 (continued)**

**29. 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:

<b>2013</b>	<b>Less than 30 days AED</b>	<b>30-90 days AED</b>	<b>90-180 days AED</b>	<b>After 180 days AED</b>	<b>Total AED</b>
Due from related parties	166,488,762	-	-	-	166,488,762
Reinsurance contract assets	-	-	-	157,010,552	157,010,552
Held to maturity investments	-	-	-	6,697,474	6,697,474
Available for sale investments	-	-	-	2,539,123	2,539,123
Insurance and other receivables	85,004,109	36,690,620	10,362,576	88,567,374	220,624,679
Held for trading investments	194,871,884	-	-	-	194,871,884
Bank balances and cash - non-interest bearing	9,154,377	-	-	-	9,154,377
Fixed deposits - interest bearing	-	-	-	326,814,076	326,814,076
	<u>455,519,132</u>	<u>36,690,620</u>	<u>10,362,576</u>	<u>581,628,599</u>	<u>1,084,200,927</u>
Due to related parties	419,174	-	-	-	419,174
Insurance contract liabilities	-	-	-	293,348,157	293,348,157
Bank borrowings	34,203,642	85,509,105	115,746,206	-	235,458,953
Insurance and other payables	16,550,425	40,830,332	40,058,718	-	97,439,475
	<u>51,173,241</u>	<u>126,339,437</u>	<u>155,804,924</u>	<u>293,348,157</u>	<u>626,665,759</u>

Interest rates have been disclosed in the respective notes.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**29. Financial instruments (continued)**

**Liquidity risk (continued)**

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
	<u>406,707,604</u>	<u>37,602,950</u>	<u>177,724,664</u>	<u>325,112,292</u>	<u>947,147,510</u>
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
	<u>42,719,273</u>	<u>100,000,000</u>	<u>70,000,000</u>	<u>350,788,739</u>	<u>563,508,012</u>

**Interest rate risk**

The Group's exposure to interest rate risk relates to its bank deposits and bank borrowings. At 31 December 2013, bank deposits carried interest rates ranges from 2.25% to 3.3% per annum (31 December 2012: 2.5% to 3.3% per annum). The interest rate on bank borrowings ranges from 3.55% to 4.25% per annum (31 December 2012: 3.1% to 3.9% 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  
for the year ended 31 December 2013 (continued)****29. 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 2013 would decrease/increase by AED 1.18 million (31 December 2012: decrease/increase by AED 1.01 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 19.5 million (31 December 2012: AED 16.8 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.

**30. Fair value of financial instruments**

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.

*Valuation techniques and assumptions applied for the purposes of measuring fair value*

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**30. Fair value of financial instruments (continued)**

*Fair value of the financial assets that are measured at fair value on a recurring basis*

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).

31 December 2013				
	Level 1	Level 2	Level 3	Total
	AED	AED	AED	AED
<b>Financial assets measured at fair values</b>				
<i>Held for trading</i>				
- Equity securities	194,871,884	-	-	194,871,884
<i>Available for sale</i>				
- Equity securities	2,539,123	-	-	2,539,123
<b>Total</b>	<b>197,411,007</b>	<b>-</b>	<b>-</b>	<b>197,411,007</b>
31 December 2012				
	Level 1	Level 2	Level 3	Total
	AED	AED	AED	AED
Financial assets measured at fair values				
<i>Held for trading</i>				
- Equity securities	167,969,818	-	-	167,969,818
<i>Available for sale</i>				
- Equity securities	2,539,123	-	-	2,539,123
<b>Total</b>	<b>170,508,941</b>	<b>-</b>	<b>-</b>	<b>170,508,941</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**30. Fair value of financial instruments (continued)**

**Transfers between Level 1 and Level 2:**

There were no transfers between Level 1 and 2 during the years ended 31 December 2013 and 2012.

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'.

*Fair value of financial instruments measured at amortised cost*

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	Carrying amount AED	Fair value			Total AED
		Level 1 AED	Level 2 AED	Level 3 AED	
<b>2013</b>					
<i>Financial assets</i>					
Held to maturity investments	<u>6,697,474</u>	<u>-</u>	<u>6,697,474</u>	<u>-</u>	<u>6,697,474</u>
<b>2012</b>					
<i>Financial assets</i>					
Held to maturity investments	<u>6,799,474</u>	<u>-</u>	<u>6,799,474</u>	<u>-</u>	<u>6,799,474</u>

**31. 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  
for the year ended 31 December 2013 (continued)**

**31. 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
<b>Year ended 31 December 2013</b>			
Total segment revenue	299,666,299	47,817,229	347,483,528
Less: allocated costs	<u>(271,108,058)</u>	<u>(7,880,655)</u>	<u>(278,988,713)</u>
Segment results	28,558,241	39,936,574	68,494,815
Less: unallocated costs			<u>(17,699,610)</u>
<b>Profit for the year</b>			<u><b>50,795,205</b></u>
<b>Total assets at 31 December 2013</b>	<u><b>720,991,178</b></u>	<u><b>541,138,253</b></u>	<u><b>1,262,129,431</b></u>
 Year ended 31 December 2012			
Total segment revenue	293,990,011	60,641,804	354,631,815
Less: allocated costs	<u>(263,379,116)</u>	<u>(6,929,654)</u>	<u>(270,308,770)</u>
Segment results	30,610,895	53,712,150	84,323,045
Less: unallocated costs			<u>(54,985,924)</u>
<b>Profit for the year</b>			<u><b>29,337,121</b></u>
<b>Total assets at 31 December 2012</b>	<u><b>612,738,393</b></u>	<u><b>551,584,244</b></u>	<u><b>1,164,322,637</b></u>

**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**31. Segment information (continued)**

<b>2013</b>	<b>Fire AED</b>	<b>Marine AED</b>	<b>Accident and liabilities AED</b>	<b>Total AED</b>
Premium written	19,309,180	74,962,280	298,751,248	393,022,708
Less: Reinsurer's share	(17,747,072)	(68,769,341)	(76,992,513)	(163,508,926)
<b>Net premium</b>	<b>1,562,108</b>	<b>6,192,939</b>	<b>221,758,735</b>	<b>229,513,782</b>
Net movement during the year	221,725	1,033,630	(1,125,277)	130,078
<b>Net premium earned</b>	<b>1,783,833</b>	<b>7,226,569</b>	<b>220,633,458</b>	<b>229,643,860</b>
Claims paid	(3,446,412)	(57,689,888)	(244,009,510)	(305,145,810)
Less: Reinsurers' share	2,738,992	53,029,639	42,639,611	98,408,242
<b>Net claims paid</b>	<b>(707,420)</b>	<b>(4,660,249)</b>	<b>(201,369,899)</b>	<b>(206,737,568)</b>
Net movement during the year	(5,089)	(1,768,540)	53,490	(1,720,139)
<b>Net claim incurred</b>	<b>(712,509)</b>	<b>(6,428,789)</b>	<b>(201,316,409)</b>	<b>(208,457,707)</b>
Net commission earned and documentation fees	3,012,247	10,308,589	29,668,732	42,989,568
<b>Underwriting profit</b>	<b>4,083,571</b>	<b>11,106,369</b>	<b>48,985,781</b>	<b>64,175,721</b>
Less: general and administration expenses	(1,810,789)	(5,817,198)	(27,989,493)	(35,617,480)
<b>Net underwriting profit</b>	<b>2,272,782</b>	<b>5,289,171</b>	<b>20,996,288</b>	<b>28,558,241</b>
<b>2012</b>				
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)
<b>Net premium</b>	<b>1,831,191</b>	<b>8,333,321</b>	<b>222,522,977</b>	<b>232,687,489</b>
Net movement during the year	(31,935)	(1,669,653)	1,495,318	(206,270)
<b>Net premium earned</b>	<b>1,799,256</b>	<b>6,663,668</b>	<b>224,018,295</b>	<b>232,481,219</b>
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
<b>Net claims paid</b>	<b>(713,278)</b>	<b>(3,423,480)</b>	<b>(192,825,594)</b>	<b>(196,962,352)</b>
Net movement during the year	(713,544)	410,471	(5,209,303)	(5,512,376)
<b>Net claim incurred</b>	<b>(1,426,822)</b>	<b>(3,013,009)</b>	<b>(198,034,897)</b>	<b>(202,474,728)</b>
Net commission earned and documentation fees	4,680,820	9,134,168	20,958,304	34,773,292
<b>Underwriting profit</b>	<b>5,053,254</b>	<b>12,784,827</b>	<b>46,941,702</b>	<b>64,779,783</b>
Less: general and administration expenses	(1,750,842)	(6,974,751)	(25,443,295)	(34,168,888)
<b>Net underwriting profit</b>	<b>3,302,412</b>	<b>5,810,076</b>	<b>21,498,407</b>	<b>30,610,895</b>



**Notes to the consolidated financial statements  
for the year ended 31 December 2013 (continued)**

**31. Segment information (continued)**

<b>2013</b>	<b>Within U.A.E. AED</b>	<b>Outside U.A.E. AED</b>	<b>Total AED</b>
Insurance revenue	221,803,183	77,863,116	299,666,299
Insurance cost	(169,734,417)	(65,756,161)	(235,490,578)
General and administrative expenses	(30,321,537)	(5,295,943)	(35,617,480)
<b>Segment result</b>	<b>21,747,229</b>	<b>6,811,012</b>	<b>28,558,241</b>
<b>Segment assets</b>	<b>1,186,319,408</b>	<b>75,810,023</b>	<b>1,262,129,431</b>
<b>Segment liabilities</b>	<b>550,072,834</b>	<b>87,652,942</b>	<b>637,725,776</b>
<b>2012</b>			
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)
<b>Segment result</b>	<b>26,823,571</b>	<b>3,787,324</b>	<b>30,610,895</b>
<b>Segment assets</b>	<b>1,064,088,071</b>	<b>100,234,566</b>	<b>1,164,322,637</b>
<b>Segment liabilities</b>	<b>488,902,464</b>	<b>84,111,722</b>	<b>573,014,186</b>

**32. Approval of financial statements**

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 25 March 2014.