

Al Buhaira National Insurance Company P.S.C.

**Report and consolidated financial statements
for the year ended 31 December 2011**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Al Buhaira National Insurance Company P.S.C.
Sharjah
United Arab Emirates

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Al Buhaira National Insurance Company P.S.C. (the "Company") - Sharjah and its subsidiary (together the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2011, 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 misstatements whether due to fraud or errors.

Auditor's responsibility

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

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

Cont'd...



INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Al Buhaira National Insurance Company P.S.C. - Sharjah and its subsidiary, as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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), the U.A.E. Federal Law No. (6) of 2007 concerning formation of Insurance Authority of U.A.E. or the Company Articles of Association which might have a material effect on the financial position of the Company or its financial performance.

Deloitte & Touche (M.E.)

A handwritten signature in blue ink, appearing to read 'Samir Madbak', is written over a horizontal line.

Samir Madbak
Registration Number 386
22 February 2012

**Consolidated statement of financial position
as at 31 December 2011**

	Notes	2011 AED	2010 AED
ASSETS			
Non-current assets			
Property and equipment	5	9,374,484	9,017,600
Investment property	6	962,375,698	897,820,955
Available-for-sale investments	7	70,939,933	90,534,168
Investment in an associate	8	22,170,185	27,121,714
Total non-current assets		1,064,860,300	1,024,494,437
Current assets			
Reinsurance contract assets	9	245,805,338	285,349,498
Insurance and other receivables	10	442,510,560	499,861,450
Bank balances and cash	11	182,089,573	196,928,615
Total current assets		870,405,471	982,139,563
Total Assets		1,935,265,771	2,006,634,000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	250,000,000	250,000,000
Statutory reserve	12	91,988,291	89,451,786
General reserve	12	200,000,000	235,000,000
Available-for-sale investments revaluation reserve		(16,418,752)	(11,536,981)
Retained earnings		67,538,407	66,109,862
Total capital and reserves		593,107,946	629,024,667
Non-current liabilities			
Provision for employees' end of service indemnity	13	29,728,407	30,146,083
Bank borrowings	14	316,401,709	260,906,293
Retention payable		39,631,550	33,064,747
Total non-current liabilities		385,761,666	324,117,123
Current liabilities			
Insurance contract liabilities	9	424,513,918	451,546,583
Insurance and other payables	15	292,783,126	367,485,661
Bank borrowings	14	239,099,115	234,459,966
Total current liabilities		956,396,159	1,053,492,210
Total liabilities		1,342,157,825	1,377,609,333
Total equity and liabilities		1,935,265,771	2,006,634,000

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Chairman

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

**Consolidated income statement
for the year ended 31 December 2011**

	Notes	2011 AED	2010 AED
Insurance premium revenue	17	626,868,760	666,479,000
Insurance premium ceded to reinsurers	17	(345,612,797)	(385,455,914)
Net insurance premium revenue	17	281,255,963	281,023,086
Gross claims incurred	9	(474,284,664)	(528,464,407)
Insurance claims recovered from re-insurers	9	205,355,965	284,299,102
Net claims incurred	9	(268,928,699)	(244,165,305)
Gross commission earned		94,964,586	101,812,337
Less: commission incurred		(20,459,635)	(22,951,832)
Net commission earned		74,504,951	78,860,505
Underwriting profit		86,832,215	115,718,286
General and administrative expenses relating to underwriting activities		(34,716,923)	(37,607,666)
Net underwriting profit		52,115,292	78,110,620
Investment income/(losses)	18	1,993,672	(9,828,264)
Finance costs		(18,992,086)	(14,421,492)
Unallocated general and administrative expenses		(9,751,828)	(10,281,033)
Profit for the year	19	25,365,050	43,579,831
Basic earnings per share	20	0.10	0.17

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

**Consolidated statement of comprehensive income
for the year ended 31 December 2011**

	2011 AED	2010 AED
Profit for the year	25,365,050	43,579,831
Other comprehensive loss		
Net unrealized loss on available-for-sale investments	(6,049,228)	(4,718,909)
Released gain/(loss) on disposal of available-for-sale investments	1,167,457	(356,640)
Board of Directors' remuneration paid (Note 14)	(1,400,000)	(2,150,000)
Other comprehensive loss for the year	(6,281,771)	(7,225,549)
Total comprehensive income for the year	19,083,279	36,354,282

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

Al Buhaira National Insurance Company P.S.C.

**Consolidated statement of changes in equity
for the year ended 31 December 2011**

	Share capital AED	Statutory reserve AED	General reserve AED	Available-for-sale reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2010	250,000,000	85,093,803	235,000,000	(6,461,432)	104,038,014	667,670,385
Profit for the year	-	-	-	-	43,579,831	43,579,831
Other comprehensive loss for the year	-	-	-	(5,075,549)	(2,150,000)	(7,225,549)
Total comprehensive income for the year	-	-	-	(5,075,549)	41,429,831	36,354,282
Dividends paid	-	-	-	-	(75,000,000)	(75,000,000)
Transfer to statutory reserve	-	4,357,983	-	-	(4,357,983)	-
Balance at 31 December 2010	250,000,000	89,451,786	235,000,000	(11,536,981)	66,109,862	629,024,667
Profit for the year	-	-	-	-	25,365,050	25,365,050
Other comprehensive loss for the year	-	-	-	(4,881,771)	(1,400,000)	(6,281,771)
Total comprehensive income for the year	-	-	-	(4,881,771)	23,965,050	19,083,279
Dividends paid (Note 16)	-	-	-	-	(55,000,000)	(55,000,000)
Transfer from general reserve (Note 12)	-	-	(35,000,000)	-	35,000,000	-
Transfer to statutory reserve	-	2,536,505	-	-	(2,536,505)	-
Balance at 31 December 2011	250,000,000	91,988,291	200,000,000	(16,418,752)	67,538,407	593,107,946

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

**Consolidated statement of cash flows
for the year ended 31 December 2011**

	2011 AED	2010 AED
Cash flows from operating activities		
Profit for the year	25,365,050	43,579,831
Adjustments for:		
Depreciation of property and equipment	1,279,319	1,416,602
Provision for doubtful debts	3,000,000	3,000,000
Interest income on deposits	(8,901,760)	(9,345,454)
Dividend from investments	(1,318,965)	(2,335,180)
Loss from investment in an associate (Note 8)	4,951,529	3,988,343
Rent income	(21,773,311)	(24,335,586)
Impairment on available-for-sale investments	4,000,000	12,000,000
Change in fair value for investment properties	20,000,000	20,000,000
Loss on sale of available-for-sale investments	1,048,835	9,861,481
Provision for employees' end of service indemnity and provident fund	1,996,995	3,227,066
Finance costs	18,992,086	14,421,492
Operating cash flows before changes in operating assets and liabilities	48,639,778	75,478,595
Decrease/(increase) in insurance and other receivables	54,350,890	(38,288,618)
(Decrease)/increase in insurance and other payables	(74,702,535)	44,235,509
Decrease in reinsurance contract assets	39,544,160	127,760,290
Decrease in insurance contract liabilities	(27,032,665)	(146,986,148)
Increase in retention payable	6,566,803	11,942,683
Cash generated from operating activities	47,366,431	74,142,311
Employees' end of service indemnity and provident fund paid	(2,414,671)	(749,209)
Interest paid	(18,992,086)	(14,421,492)
Net cash generated from operating activities	25,959,674	58,971,610
Cash flows from investing activities		
(Increase)/decrease in fixed deposits with banks	(21,327,038)	43,795,840
Purchase of available-for-sale investments	(183,724,630)	(327,820,884)
Proceeds from sale of available-for-sale investments	193,388,259	321,004,919
Purchase of property and equipment	(1,636,203)	(1,417,480)
Addition of properties under construction	(84,554,743)	(173,665,364)
Decrease/(increase) in fixed deposits with banks (under lien)	38,133,536	(52,879,380)
Interest received	8,901,760	9,345,454
Dividends received	1,318,965	2,335,180
Income from investment property	21,773,311	24,335,586
Net cash used in investing activities	(27,726,783)	(154,966,129)
Cash flows from financing activities		
Bank borrowings	60,134,565	166,982,698
Dividends paid	(55,000,000)	(75,000,000)
Board of directors' remuneration paid	(1,400,000)	(2,150,000)
Net cash generated from financing activities	3,734,565	89,832,698
Net increase/(decrease) in cash and cash equivalents	1,967,456	(6,161,821)
Cash and cash equivalents at the beginning of the year	11,627,371	17,789,192
Cash and cash equivalents at the end of the year (Note 21)	13,594,827	11,627,371

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011****1 General information**

Al Buhaira National Insurance Company P.S.C. – Sharjah, (the “Company”) is incorporated as a public shareholding company by an Emiri Decree issued by His Highness, The Ruler of Sharjah on May 16, 1978. The Company is subject to the regulations of UAE Federal Law No. 6 of 2007, concerning the formation of Insurance Authority of U.A.E. and is registered in the Insurance Companies register of Insurance Authority of UAE under registration number 15. The address of the Company’s registered corporate office is P.O. Box 6000, Sharjah, United Arab Emirates.

The Group consists of Al Buhaira National Insurance Company P.S.C. and its subsidiary (the “Group”) as disclosed in note 3 to the consolidated financial statements.

The principal activity of the Group is the writing of insurance of all types - other than savings and accumulation of funds. The Group operates through its Head Office in Sharjah and has branches in Dubai, Abu Dhabi, Al Ain, Khorfakkan, Fujairah and Ajman.

2. Application of new and revised International Financial Reporting Standards (IFRSs)**2.1 New and revised International Financial Reporting Standards (IFRSs) adopted with no material effect on the financial statements**

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

- Amendments to IAS 24 *Related Party Disclosures* modify the definition of a related party and simplify disclosures for government-related entities.
- Amendments to IAS 32 *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability.
- Amendments to IFRS 1 relating to *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*.
- Improvements to IFRSs issued in 2010 – Amendments to: IFRS 1; IFRS 3 (2008); IFRS 7; IAS 1; IAS 27 (2008); IAS 34; IFRIC 13.
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*. The amendments allow recognition of an asset in the form of prepaid minimum funding contribution.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements are measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued are recognised in profit or loss.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

**2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet
effective and not early adopted**

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

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IFRS 1 <i>Removal of Fixed Dates for First-Time Adopter</i> .	1 July 2011
• Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS.	1 January 2015 (or otherwise when IFRS 9 is first applied)
• Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> enhancing disclosures about offsetting of financial assets and liabilities.	1 January 2013
• Amendments to IFRS 7 <i>Disclosures Transfers of Financial Assets</i> increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.	1 July 2011
• IFRS 9 <i>Financial Instruments</i> issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.	1 January 2015

Key requirements of IFRS 9 are described as follows:

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

**2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet
effective and not early adopted (continued)**

New and revised IFRSs

**Effective for
annual periods
beginning on or after**

Key requirements of IFRS 9 are described as follows (continued):

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

1 January 2015
- IFRS 10 *Consolidated Financial Statements** uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly IAS 27 *Separate Financial Statements** and IAS 28 *Investments in Associates and Joint Ventures** have been amended for the issuance of IFRS 10.

1 January 2013
- IFRS 11 *Joint Arrangements** establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11.

1 January 2013
- IFRS 12 *Disclosure of Interests in Other Entities** combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard.

1 January 2013
- IFRS 13 *Fair Value Measurement* issued in May 2011 establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.

1 January 2013

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

**2.2 New and revised International Financial Reporting Standards (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"> • Amendments to IAS 1 – <i>Presentation of Other Comprehensive Income</i>. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis. 	1 July 2012
<ul style="list-style-type: none"> • Amendments to IAS 12 <i>Income Taxes</i> provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 <i>Investment Property</i> by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. 	1 January 2012
<ul style="list-style-type: none"> • Amendments to IAS 19 <i>Employee Benefits</i> eliminate the “corridor approach” and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur. 	1 January 2013
<ul style="list-style-type: none"> • Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities. 	1 January 2013
<ul style="list-style-type: none"> • IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>. 	1 January 2013

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

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s financial statements for the period beginning 1 January 2012 or as and when they are applicable and adoption of these new standards, interpretations and amendments except for IFRS 9, may have no material impact on the financial statements of the Group in the period of initial application.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****2. Application of new and revised International Financial Reporting Standards (IFRSs)
(continued)****2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet
effective and not early adopted (continued)**

Management anticipates that IFRS 9 will be adopted in the Group's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

3 Significant accounting policies**3.1 Statement of compliance**

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

3.2 Basis of preparation

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

3.3 Basis of consolidation

The consolidated financial statements of Al Buhaira National Insurance Company P.S.C. and its subsidiary (the "Group"), incorporate the financial statements of the Company and the entity controlled by the Company (its subsidiary). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses and profits and losses resulting from the intra-group transactions that are recognised in assets, are eliminated in full on consolidation.

The results of subsidiary acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiary to bring the accounting policies into line with those used by the Group.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3 Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Details of the Group's subsidiary at 31 December 2011 is as below:

<u>Name of subsidiary</u>	<u>Place of incorporation and operation</u>	<u>Proportion of ownership interest and voting power held</u>	<u>Principal activity</u>
Al Buhaira Economic Investments Establishment	Sharjah, U.A.E.	100%	Investing in economic projects.

3.4 Insurance contracts

3.4.1 Definition

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

3.4.2 Recognition and measurement

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

3.4.3 Short term insurance contracts

These contracts are casualty and property insurance contracts.

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

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

Short-duration life insurance contracts protect the Group's customers from the consequences of events that would affect on the ability of the customer or customer's dependents to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policy holder. There are no maturity or surrender benefits.

For all these insurance contracts, premiums are recognised 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Significant accounting policies (continued)****3.4 Insurance contracts (continued)***3.4.3 Short term insurance contracts(continued)*

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They 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 other than for disability 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).

3.4.4 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 recognised 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 recognised 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.

3.4.5 Insurance contract liabilities

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3 Significant accounting policies (continued)

Insurance contracts (continued)

3.4.6 Deferred policy 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.

3.4.7 Salvage and subrogation reimbursements

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

3.4.8 Liability adequacy test

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

3.4.9 Receivables and payables related to insurance contracts

Receivables and payables are recognised 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 the consolidated income statement.

3.5 Revenue recognition

3.5.1 Insurance contract income

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

3.5.2 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.

3.5.3 Dividend income

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

3.5.4 Rental income

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Significant accounting policies (continued)****3.6 General and administrative expenses**

Direct expenses of general insurance business are charged to respective departmental revenue accounts. Indirect expenses of the general insurance business are allocated to departmental revenue accounts on the basis of gross written premiums of each department. Other administration expenses are charged to profit or loss as unallocated general and administrative expenses.

3.7 Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity 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 entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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 recognised in the 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 recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

3.8 Provision for employees' end of service indemnity

Provision for employees' end of service indemnity is made in accordance with the Group's policy which meets the requirements of U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the financial position date.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Significant accounting policies (continued)****3.9 Defined contribution plan**

U.A.E. national employees of the Group 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 “contribution calculation salary” to the retirement benefit scheme to fund the benefits. These employees are also required to contribute 5% of the “contribution calculation salary” 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.

3.10 Property and equipment

Land is stated at its cost.

Other property and equipment are carried at cost less any accumulated depreciation and any identified impairment losses.

Depreciation is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on 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 the consolidated income statement.

3.11 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is stated at its fair value at the end of each reporting period. Gains or losses arising from changes in the fair value of investment property are included in the consolidated income statement.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Significant accounting policies (continued)****3.12 Impairment of tangible assets**

At the end of each reporting period, 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 recognised immediately in the 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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the 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.

3.13 Provisions

Provisions are recognised 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 recognised 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Significant accounting policies (continued)****3.14 Investment in associate**

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligation or made payments on behalf of associates.

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 the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part 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.

3.15 Financial instruments*3.15.1 Recognition and measurement*

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 or 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 (FVTPL) are recognised immediately in profit or loss.

A financial asset and financial liability is offset and the net amount is reported in the consolidated financial statements only when there is legally enforceable right to set off the recognised amount and the Group intends either to settle on a net basis or realise the assets and settle the liabilities simultaneously.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Significant accounting policies (continued)****3.16 Financial assets**

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets of the Group are classified into the following specified categories: cash and cash equivalents, financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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 basis for financial assets other than those financial assets classified as at FVTPL.

3.16.1 Cash and cash equivalents

Cash and cash equivalents, which include cash on hand and deposits held with banks with original maturities of three months or less, are classified as financial assets at amortised cost.

3.16.2 Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Significant accounting policies (continued)****3.16 Financial assets (continued)***3.16.2 Financial assets at FVTPL (continued)*

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement incorporates any dividend or interest earned on the financial asset and is included in the 'investment revenue/(losses)' line item in the consolidated income statement.

3.16.3 Available for sales financial assets (AFS)

Listed shares held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but are also classified as AFS financial assets and stated at fair value because management considers that fair value can be reliably measured. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the cumulative change in fair value with the exception of impairment losses, which are recognised in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the cumulative change in fair value is reclassified to the consolidated income statement.

3.16.4 Loans and receivables

Insurance and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are initially measured at fair value, plus transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.16.5 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 interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3 Significant accounting policies (continued)

3.16 Financial assets (continued)

3.16.5 Impairment of financial assets (continued)

For certain categories of financial asset, such as insurance receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of insurance receivables, where the carrying amount is reduced through the use of an allowance account. When an insurance receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in 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 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.

3.16.6 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when 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 recognises 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 recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in consolidated income statement.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Significant accounting policies (continued)****3.17 Financial liabilities and equity instruments issued by the Group***3.17.1 Classification as debt or equity*

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3.17.2 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 recognised at the proceeds received, net of direct issue costs.

3.17.3 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Group does not have any financial liabilities measured at FVTPL.

3.17.4 Other financial liabilities

Insurance and other payables are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest 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 through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

3.17.5 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.

3.18 Dividend distribution

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

3.19 Bank borrowings

Interest bearing bank borrowing is recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****4 Critical accounting judgements 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 judgements, 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 judgements 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:

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, 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.

4.1.1 Classification of investments

Management decides on acquisition of an investment whether it should be classified as FVTPL - held for trading or available-for-sale. The Group classifies investments as FVTPL - held for trading if they are acquired primarily for the purpose of making a short term profit by the dealers. Other investments are classified as available-for-sale.

4.1.2 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.

4.1.3 Impairment of AFS financial assets

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

4.1.4 Classification of properties

In the process of classifying properties, management has made various judgments. Judgments are needed to determine whether a property qualifies as an investment property, property and equipment, property under development and/or property held for sale. Management develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment, property under development and property held for sale. In making its judgment, management has considered the detailed criteria and related guidance set out in IAS 2 – Inventories, IAS 16 – Property, Plant and Equipment, and IAS 40 – Investment Property, with regards to the intended use of the property.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****4 Critical accounting judgements and key sources of estimation uncertainty (continued)****4.2 Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 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 end of each reporting period and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of each reporting period. 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.

4.2.2 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 2011 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised 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 recognised in the consolidated income statement at the time of collection.

4.2.3 Liability adequacy test

At end of each reporting period, 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

4.2 Key sources of estimation uncertainty (continued)

4.2.4 Fair value of investment properties and investment properties under construction

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determined the amount within a range of reasonable fair value estimates. In making its judgment, the Group considered recent prices of similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

The continuing volatility in the global financial system and in real estate industry has contributed to the significant reduction in transaction volumes in the UAE. Therefore, in arriving at their estimates of market values as at 31 December 2011, the valuers and management have used their market knowledge and professional judgement and have not only relied solely on historic transactional comparables. In these circumstances, there is greater degree of uncertainty than which exists in a more active market in estimating market values of investment property.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

5 Property and equipment

	Land AED	Furniture and equipment AED	Computer equipment AED	Office fixture and fittings AED	Manager's residential villa AED	Capital work in progress AED	Total AED
<i>Cost</i>							
At 1 January 2010	649,000	4,195,709	4,812,117	5,118,682	1,057,827	3,065,900	18,899,235
Additions	-	146,445	207,472	110,100	-	953,463	1,417,480
Disposals	-	(11,059)	(18,425)	-	-	-	(29,484)
31 December 2010	649,000	4,331,095	5,001,164	5,228,782	1,057,827	4,019,363	20,287,231
Additions	-	118,979	108,800	8,950	-	1,399,474	1,636,203
Disposals	-	(4,300)	-	-	-	-	(4,300)
31 December 2011	649,000	4,445,774	5,109,964	5,237,732	1,057,827	5,418,837	21,919,134
<i>Accumulated depreciation</i>							
1 January 2010	-	2,939,430	3,725,454	2,177,615	1,040,014	-	9,882,513
Charge for the year	-	437,668	508,283	470,651	-	-	1,416,602
Disposals	-	(11,059)	(18,425)	-	-	-	(29,484)
31 December 2010	-	3,366,039	4,215,312	2,648,266	1,040,014	-	11,269,631
Charge for the year	-	410,654	372,568	478,284	17,813	-	1,279,319
Disposals	-	(4,300)	-	-	-	-	(4,300)
31 December 2011	-	3,772,393	4,587,880	3,126,550	1,057,827	-	12,544,650
<i>Carrying amount</i>							
31 December 2011	649,000	673,381	522,084	2,111,182	-	5,418,837	9,374,484
31 December 2010	649,000	965,056	785,852	2,580,516	17,813	4,019,363	9,017,600

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

5 Property and equipment (continued)

The following useful lives are used in the calculation of depreciation:

	<u>Years</u>
Furniture and equipment	5
Computer equipment	5
Office fixture and fittings	10
Manager's residential villa	15

At 31 December 2011, the cost of fully depreciated property and equipment that was still in use amounted to AED 6.9 million (31 December 2010: AED 5.08 million).

6 Investment property

Investment property comprises the following at fair value:

	2011	2010
	AED	AED
Land	126,288,000	126,288,000
Buildings	302,655,456	312,655,456
Properties under construction	533,432,242	458,877,499
	962,375,698	897,820,955
	=====	=====

Movement during the year is as follows:

	2011	2010
	AED	AED
Fair value, at the beginning of the year	897,820,955	744,155,591
Additions during the year	84,554,743	173,665,364
Change in fair value during the year (Note 18)	(20,000,000)	(20,000,000)
Fair value, at the end of the year	962,375,698	897,820,955
	=====	=====

The fair value of the Group's investment property at 31 December 2011 has been determined by an independent valuer. Fair value represents the amounts at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of the valuation. Valuations are performed on a periodic basis and the fair value gains and losses are recorded in the consolidated income statement.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

6 Investment property (continued)

Investment property under construction with cost of AED 534 million (2010: AED 459 million) is mortgaged to a bank towards credit facilities granted to the Group (Note 14).

The property rental income earned by the Group from its investment property, which are leased out under operating leases, and direct operating expenses arising on the investment property are as follows:

	2011	2010
	AED	AED
Rental income	27,907,799	30,630,498
Direct operating expenses	(6,134,488)	(6,294,912)
	21,773,311	24,335,586
	=====	=====

Rental income includes AED 840,000 (2010: AED 840,000) being rent for the office premises occupied by the Group.

7 Available-for-sale investments (AFS)

Available for sale investments comprise the following:

	2011	2010
	AED	AED
Within U.A.E.	60,208,806	78,581,752
Outside U.A.E.	10,731,127	11,952,416
	70,939,933	90,534,168
	=====	=====

Movement during the year is as follows:

	2011	2010
	AED	AED
Fair value, at the beginning of the year	90,534,168	110,655,233
Purchases during the year	183,724,630	327,820,884
Disposals during the year	(194,437,094)	(330,866,400)
Change in fair value	(4,881,771)	(5,075,549)
Impaired during the year (Note 18)	(4,000,000)	(12,000,000)
	70,939,933	90,534,168
	=====	=====

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

7 Available-for-sale investments (AFS) (continued)

	Domestic		International		Total	
	2011	2010	2011	2010	2011	2010
	AED	AED	AED	AED	AED	AED
- Quoted	41,583,423	61,144,253	4,777,364	8,859,878	46,360,787	70,004,131
- Unquoted	18,625,383	17,437,499	5,953,763	3,092,538	24,579,146	20,530,037
	60,208,806	78,581,752	10,731,127	11,952,416	70,939,933	90,534,168

8 Investment in an associate

	2011	2010
	AED	AED
Balance, at the beginning of the year	27,121,714	31,110,057
Share in loss for the year (Note 18)	(4,951,529)	(3,988,343)
Balance, at the end of the year	22,170,185	27,121,714

Details of the associate at 31 December 2011 are as follows:

<u>Name of associates</u>	<u>Place of incorporation and operation</u>	<u>Proportion of ownership interest</u>	<u>Proportion of voting power held</u>	<u>Principal activity</u>
Takaful Emarat Insurance P.S.C.	United Arab Emirates	20.55%	20.55%	Takaful insurance for life, medical and savings and accumulation of funds.

Summarised financial information in respect of the Group's associate is set out below:

	2011	2010
	AED	AED
Total assets	127,267,604	157,454,959
Total liabilities	(20,582,693)	(19,842,780)
Net assets	106,684,911	137,612,179
Group's share of associate's net assets	21,923,749	28,279,303

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

8 Investment in an associate (continued)

	2011	2010
	AED	AED
Revenue	8,646,063	8,902,480
Loss for the year	(12,768,565)	(19,407,995)
Group's share of associate's loss for the year	(2,623,940)	(3,988,343)

Fair value of the investment in associate as of 31 December 2011 was AED 18 million (2010: AED 22.80 million).

9 Insurance contract liabilities and re-insurance contract assets

	2011	2010
	AED	AED
Gross		
Insurance contract liabilities		
- Claims reported unsettled	178,110,559	188,830,727
- Claims incurred but not reported	9,000,000	9,000,000
- Unearned premiums	237,403,359	253,715,856
Total insurance contract liabilities, gross	424,513,918	451,546,583
Recoverable from reinsurers		
- Claims reported unsettled	126,322,921	145,939,114
- Unearned premiums	119,482,417	139,410,384
Total reinsurers' share of insurance liabilities	245,805,338	285,349,498
Net		
- Claims reported unsettled	51,787,638	42,891,613
- Claims incurred but not reported	9,000,000	9,000,000
- Unearned premiums	117,920,942	114,305,472
	178,708,580	166,197,085
	=====	=====

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

9. Insurance contract liabilities and re-insurance contract assets (continued)

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

	Year ended 31 December 2011			Year ended 31 December 2010		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
Claims						
Notified claims	188,830,727	(145,939,114)	42,891,613	322,924,572	(266,937,737)	55,986,835
Incurred but not reported	9,000,000	-	9,000,000	6,000,000	-	6,000,000
Total at the beginning of the year	197,830,727	(145,939,114)	51,891,613	328,924,572	(266,937,737)	61,986,835
Claims settled during the year	(485,004,832)	224,972,158	(260,032,674)	(659,558,252)	405,297,725	(254,260,527)
Increase in liabilities	474,284,664	(205,355,965)	268,928,699	528,464,407	(284,299,102)	244,165,305
Total at the end of the year	187,110,559	(126,322,921)	60,787,638	197,830,727	(145,939,114)	51,891,613
Notified claims	178,110,559	(126,322,921)	51,787,638	188,830,727	(145,939,114)	42,891,613
Incurred but not reported	9,000,000	-	9,000,000	9,000,000	-	9,000,000
Total at the end of the year	187,110,559	(126,322,921)	60,787,638	197,830,727	(145,939,114)	51,891,613
Unearned premium						
Total at the beginning of the year	253,715,856	(139,410,384)	114,305,472	269,608,159	(146,172,051)	123,436,108
Increase during the year	237,403,359	(119,482,417)	117,920,942	253,715,856	(139,410,384)	114,305,472
Release during the year	(253,715,856)	139,410,384	(114,305,472)	(269,608,159)	146,172,051	(123,436,108)
Net change during the year (Note 17)	(16,312,497)	19,927,967	3,615,470	(15,892,303)	6,761,667	(9,130,636)
Total at the end of the year	237,403,359	(119,482,417)	117,920,942	253,715,856	(139,410,384)	114,305,472

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

10 Insurance and other receivables

	2011	2010
	AED	AED
Receivables arising from insurance and reinsurance contracts:		
Due from policy holders	230,747,048	205,449,524
Less: Allowance for doubtful debts	(12,000,000)	(9,000,000)
	218,747,048	196,449,524
Notes receivable - post dated cheques	20,253,217	22,403,101
Due from insurance companies	61,967,912	115,233,121
Due from reinsurance companies	135,605,192	159,531,882
Other receivables		
Staff receivables	1,765,605	1,455,365
Prepayments and others	4,171,586	4,788,457
	442,510,560	499,861,450

The average credit period is 120 days. Due from policyholders outstanding above 270 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

Due from policyholders - aging of past due but not impaired receivables:

	2011	2010
	AED	AED
120 - 270 days	77,596,645	61,610,294
Above 270 days	51,398,666	50,386,690
	128,995,311	111,996,984

Due from policyholders - aging of impaired receivables:

	2011	2010
	AED	AED
Above 270 days	12,000,000	9,000,000

Movement in the allowance for doubtful debts:

	2011	2010
	AED	AED
Balance at beginning of the year	9,000,000	6,000,000
Additions during the year	3,000,000	3,000,000
Balance at end of the year	12,000,000	9,000,000

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (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. Of the due from policyholders balance at the end of year AED 25 million (2010: AED 10.1 million) is due from the Group's largest customer. There are 2 (2010: 2) other customer who represents more than 5% of the total balance of due from policy holders.

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 upto the reporting date. The concentration of credit risks is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

11 Bank balances and cash

	2011	2010
	AED	AED
Cash on hand	389,043	340,241
Bank balances:		
Current accounts	10,817,532	10,115,931
Call accounts	2,388,252	1,171,199
Fixed deposits	168,494,746	185,301,244
	182,089,573	196,928,615
	=====	=====

Fixed deposits amounting to AED 161 million (2010: AED 141 million) are under lien in respect of bank credit facilities granted to the Group.

Fixed deposits include a statutory deposit of AED 6 million (2010: AED 6 million) maintained in accordance with the requirements of UAE Federal Law No. 6 of 2007, concerning formation of Insurance Authority of U.A.E.

The interest rate on fixed deposits and call accounts with banks ranges between 3.50% and 5% (2010: 4.00% and 6.75%) per annum. All bank deposits are held in local banks in the United Arab Emirates.

12 Share capital

	2011	2010
	AED	AED
Issued and fully paid:		
250,000,000 ordinary shares of AED 1 each (31 December 2010: AED 250,000,000 ordinary shares of AED 1 each)	250,000,000	250,000,000
	=====	=====

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

12 Share capital (continued)

Statutory reserve

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

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.

The Board of Directors resolved in their meeting held on 28 February 2011 to transfer an amount of AED 35 million from general reserve to retained earning. The resolution was ratified by the shareholder in the Ordinary General Assembly meeting held on 23 March 2011.

13 Provision for employees' end of service indemnity

Movements in the provision was as follows:

	2011 AED	2010 AED
Balance, at the beginning of the year	30,146,083	27,668,226
Amounts charged during the year	1,996,995	3,227,066
Amounts paid	(2,414,671)	(749,209)
Balance, at the end of the year	29,728,407	30,146,083

14 Bank borrowings

	2011 AED	2010 AED
Bank loans	356,011,709	280,621,293
Overdraft	199,489,115	214,744,966
	555,500,824	495,366,259
Bank borrowings are repayable as follows:		
On demand or within one year	239,099,115	234,459,966
In the second year	39,610,000	33,030,000
In the third to fifth year - inclusive	118,830,000	99,090,000
After the fifth year	157,961,709	128,786,293
Balance, at the end of the year	555,500,824	495,366,259
Less: Amount due for settlement within 12 months (shown under current liabilities)	(239,099,115)	(234,459,966)
Amount due for settlement after 12 months	316,401,709	260,906,293

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

14 Bank borrowings (continued)

The Group has availed two term loans amounting to AED 64 million and AED 216 million to partially finance the properties under construction for two towers in Al Khan and Al Nahda respectively. These loans are repayable over 20 semi-annual installments starting from September 30, 2010 for Al Khan property and November 2011 for Al Nadha property.

Long term loans carries interest at 3 month EIBOR + 3.5% and is repayable in 20 semi-annual equal installments of AED 14 million.

The bank overdraft carries interest at 1 month EIBOR + 1% to 3.5%.

At 31 December 2011, bank borrowings are secured by lien on fixed deposits amounting to AED 161 million (2010: AED 141 million) and mortgage of investment property under construction at a cost of AED 534 million (2010: AED 459 million) along with the assignment of insurance policy and future rentals.

15 Insurance and other payables

	2011	2010
	AED	AED
Payables arising from insurance and reinsurance contracts:		
Trade payables	54,360,778	126,824,226
Due to insurance companies	36,103,036	38,340,583
Due to reinsurance companies	43,075,150	46,370,396
Portfolio withdrawal	101,869,683	82,373,768
Premium reserve withheld	17,710,691	19,546,821
Other payables:		
Rental income received in advance	12,274,153	12,797,756
Accrued expenses and others	13,847,796	23,990,621
Accruals for staff leave and incentive	5,379,237	9,359,525
Due to employees	8,162,602	7,881,965
	292,783,126	367,485,661
	=====	=====

The average credit period is 120 days. The Group has financial risk management policies in place to ensure that all payables are paid within stipulated credit period.

Due to employees include AED 7,899,669 (2010: AED 7,585,914) being the employees' contribution to the Provident Fund and interest thereon. The Group's contribution amounting to AED 7,899,669 (2010: AED 7,585,914) is included under provision for employees' end of service indemnity and provident fund in these consolidated financial statements.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

16 Dividends

	2011	2010
	AED	AED
Cash dividends - AED Nil fils per share (2010: AED 0.22 fils per share)	-	55,000,000
Board of Directors remuneration	-	1,400,000

The Board of Directors resolved in their meeting held on 22 February 2012 not to distribute any dividends for the year ended 31 December 2011, this resolution is subject to the approval of the Shareholders at the Annual General Meeting.

17 Net insurance premium revenue

	2011	2010
	AED	AED
Gross premium written		
Gross premium written	610,556,263	650,586,697
Change in unearned premium (Note 9)	16,312,497	15,892,303
	626,868,760	666,479,000
Reinsurance premium ceded		
Reinsurance premium ceded	(325,684,830)	(378,694,247)
Change in unearned premium (Note 9)	(19,927,967)	(6,761,667)
	(345,612,797)	(385,455,914)
Net insurance premium revenue	281,255,963	281,023,086

18 Investment income/(losses)

	2011	2010
	AED	AED
Interest income on deposits	8,901,760	9,345,454
Dividend from investments	1,318,965	2,335,180
Loss on sale of available-for-sale investments	(1,048,835)	(9,861,481)
Loss from investment in an associate (Note 8)	(4,951,529)	(3,983,003)
Impairment loss on available-for-sale investments (Note 7)	(4,000,000)	(12,000,000)
Rental income (Note 6)	21,773,311	24,335,586
Change in fair value of investment properties (Note 6)	(20,000,000)	(20,000,000)
	1,993,672	(9,828,264)

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

19 Profit for the year

Profit for the year has been arrived at after charging the following expenses:

	2011	2010
	AED	AED
Staff costs	18,034,324	20,100,672
Depreciation of property and equipment	1,279,319	1,416,602
	<u>=====</u>	<u>=====</u>

20 Basic earnings per share

	2011	2010
	AED	AED
Profit for the year (in AED)	25,365,050	43,579,831
	<u>=====</u>	<u>=====</u>
Number of shares	250,000,000	250,000,000
	<u>=====</u>	<u>=====</u>
Basic earnings per share (in AED)	0.10	0.17
	<u>=====</u>	<u>=====</u>

Basic earnings per share have been calculated by dividing the profit for the year by the number of shares outstanding at the end of the reporting period.

21 Cash and cash equivalents

	2011	2010
	AED	AED
Bank balances and cash (Note 11)	182,089,573	196,928,615
Fixed deposits under lien	(161,905,761)	(140,578,723)
Fixed deposits with banks (maturity after 3 months and before 1 year)	(6,588,985)	(44,722,521)
	<u>=====</u>	<u>=====</u>
	13,594,827	11,627,371
	<u>=====</u>	<u>=====</u>

22 Related party transactions

Related parties include the Group's major shareholders, directors and businesses controlled by them and their families or over which they exercise significant management influence as well as key management personnel.

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

	2011	2010
	AED	AED
Due from policy holders (under insurance and other receivables)	38,835,753	18,057,873
Gross outstanding claims (under insurance contract liabilities)	3,478,288	7,241,446
	<u>=====</u>	<u>=====</u>

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

22 Related party transactions (continued)

Transactions:

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

	2011	2010
	AED	AED
Gross premium	29,360,114	40,558,725
Claims paid	1,990,416	8,210,379

Premiums are charged to related parties at rates agreed with the management.

Compensation of board of directors/ key management personnel

	2011	2010
	AED	AED
Short-term benefits	2,786,535	3,591,160
Long-term benefits	188,204	257,666
Board of directors' remuneration	1,400,000	1,400,000

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.

23 Commitment and contingent liabilities

	2011	2010
	AED	AED
Commitments for construction of investment property	9,705,000	79,600,000
Letters of guarantee	14,110,525	14,492,576

24 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****24 Insurance risk (continued)**

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

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

Frequency and severity of claims

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

Property insurance contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, on replacement value 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 of loss and catastrophe coverage. The effect of such reinsurance arrangements is that the Group should not suffer net insurance losses of a set limit of AED 2,000,000 in any one incident/claim for property and less for other classes. 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.

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 an 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

24 Insurance risk (continued)

Sources of uncertainty in the estimation of future claim payments (continued)

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 end of reporting period.

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

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

Type of risk	2011	2010
Motor	86%	88%
Non-Motor	93%	71%

Process used to decide on assumptions

The risks associated with the 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 date 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

24 Insurance risk (continued)

Concentration of Insurance risk

Substantially all of the Group's underwriting activities are carried out in the United Arab Emirates.

The insurance risk before and after reinsurance in relation to the motor and non-motor insurance risk accepted is summarised below:

	Year ended 31 December 2011			Year ended 31 December 2010		
	Type of risk			Type of risk		
	Motor	Non-Motor	Total	Motor	Non-motor	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Gross	11,031,192	572,258,421	583,289,613	9,743,404	607,608,214	617,351,618
Net	6,083,005	94,066,136	100,149,141	4,134,614	102,701,110	106,835,724

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 its insured 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 52 million for the year ended 31 December 2011 (2010: AED 78 million). The Group does not foresee any major impact from insurance operations due to the following reasons:

The Group has an overall risk retention level of 48% (2010: 42%) and the same is mainly contributed by motor and medical class of business. However, in all classes the risk is adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Group has gross commission earnings in 2011 of 110% (2010: 129%) 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 2011 (continued)**

25 Capital risk

The Group objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007, concerning formation of Insurance Authority of U.A.E. The Group manages its capital based on its minimum regulatory capital position presented in the table below. Management considers the quantitative threshold of 20% - 25% sufficient to maximise shareholders' equity 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 local 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 local 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 regulatory capital of the Group and the total capital held.

	2011	2010
	AED	AED
Total capital and reserves held	593,107,946	629,024,667
	=====	=====
Minimum regulatory capital	50,000,000	50,000,000
	=====	=====

The Insurance Authority of U.A.E. has announced the new capital requirement of AED 100 million for insurance companies. The requirement is applicable from January 2013.

26. Gearing ratio

The Group reviews the capital structure on a semi-annual basis. As part of this review, the Group considers the cost of capital and the risks associated with capital.

The gearing ratio at the year end was as follows:

	2011	2010
	AED	AED
Debt (i)	555,500,824	495,366,259
Bank balances and cash (see Note 11)	(182,089,573)	(196,928,615)
	373,411,251	298,437,644
	=====	=====
Equity (ii)	593,107,946	629,024,667
	=====	=====
Net debt to equity ratio	63%	47%
	=====	=====

- (i) Debt is defined as long and short term loans (see Note 14)
(ii) Equity includes capital and reserves of the Company.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

27 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 and credit 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 financial assets 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 recognised, 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

31 December 2011

	Loans and receivables AED	Available- for-sale AED	Total AED
Financial assets			
Available-for-sale investments	-	70,939,933	70,939,933
Insurance and other receivables	438,338,974	-	438,338,974
Bank balances and cash	182,089,573	-	182,089,573
Total financial assets	620,428,547	70,939,933	691,368,480
			At amortised cost AED
Financial liabilities			
Insurance and other payables			332,414,676
Bank borrowings			555,500,824
Total financial liabilities			887,915,500

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

27 Financial instruments (continued)

Categories of financial instruments (continued)

31 December 2010

	Loans and receivables AED	Available- for-sale AED	Total AED
Financial assets			
Available-for-sale investments	-	90,534,168	90,534,168
Insurance and other receivables	495,072,993	-	495,072,993
Bank balances and cash	196,928,615	-	196,928,615
Total financial assets	692,001,608	90,534,168	782,535,776
	=====	=====	=====
			At amortised cost AED
Financial liabilities			
Insurance and other payables			400,550,408
Bank borrowings			495,366,259
Total financial liabilities			895,916,667
			=====

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

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 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.

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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

27 Financial instruments (continued)

Categories of financial instruments (continued)

31 December 2011

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Available-for-sale financial assets				
Quoted equities	46,360,787	-	-	46,360,787
Unquoted equities	-	18,625,383	5,953,763	24,579,146
	<u>46,360,787</u>	<u>18,625,383</u>	<u>5,953,763</u>	<u>70,939,933</u>
	=====	=====	=====	=====

31 December 2010

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Available-for-sale financial assets				
Quoted equities	70,004,130	-	-	70,004,130
Unquoted equities	-	9,000,000	11,530,038	20,530,038
	<u>70,004,130</u>	<u>9,000,000</u>	<u>11,530,038</u>	<u>90,534,168</u>
	=====	=====	=====	=====

Reconciliation of Level 3 fair value measurements of financial assets

	2011 AED	2010 AED
At 1 January	11,530,038	16,651,245
Less: Disposals during the year	(8,437,500)	(5,121,207)
At 31 December	3,092,538	11,530,038
	=====	=====

There were no transfers between each of level during the year. There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity price risk.

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

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. currencies or US Dollars to which the Dirham is fixed.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****27 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 management 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 does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 20% of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks registered in the United Arab Emirates.

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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

27 Financial instruments (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

31 December 2011	Less than 30 days AED	30-90 days AED	91-180 days AED	After 180 days AED	Total AED
Financial assets					
Available-for-sale investments	-	-	-	70,939,933	70,939,933
Insurance and other receivables	240,993,796	53,154,645	41,726,713	102,463,820	438,338,974
Bank balances and cash - non interest bearing	11,206,575	-	-	-	11,206,575
Bank balances and cash - interest bearing	65,983,970	5,263,854	39,179,418	60,455,756	170,882,998
	318,184,341	58,418,499	80,906,131	233,859,509	691,368,480
Financial liabilities					
Bank borrowing	-	-	16,515,000	538,985,824	555,500,824
Insurance and other payables	-	54,360,778	67,263,744	210,790,154	332,414,676
	-	54,360,778	83,778,744	749,775,978	887,915,500
31 December 2010					
	Less than 30 days AED	30-90 days AED	91-180 days AED	After 180 days AED	Total AED
Financial assets					
Available-for-sale investments	-	-	-	90,534,168	90,534,168
Insurance and other receivables	283,321,950	102,754,058	38,687,642	70,309,343	495,072,993
Bank balances and cash - non interest bearing	10,456,172	-	-	-	10,456,172
Bank balances and cash - interest bearing	26,125,568	5,069,190	37,825,239	117,452,446	186,472,443
	319,903,690	107,823,248	76,512,881	278,295,957	782,535,776
Financial liabilities					
Bank borrowings	-	-	3,200,000	492,166,259	495,366,259
Insurance and other payables	-	126,824,228	71,939,565	201,786,615	400,550,408
	-	126,824,228	75,139,565	693,952,874	895,916,667

Interest risk

The Group's exposure to interest rate risk relates to its bank deposits and bank loan. During the year, bank deposits carried an interest rate in the range of 3% to 4% per annum (31 December 2010: 3.50% to 6.00% per annum) and bank loan carried an average interest rate of 3.25% per annum over three months EIBOR.

If interest rates had been 50 basis points lower throughout the year and all other variables were held constant, the Group's profit for the year ended 31 December 2011 and equity as at 31 December 2011 would increase by approximately AED 1,923,000 (2010: increase by AED 1,544,000).

The Group's sensitivity to interest rates has not changed significantly from the prior year.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

27 Financial instruments (continued)

Equity price risk

Sensitivity analysis

At the 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 comprehensive income would have increased/decreased by AED 7 million (2010: AED 9 million).

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the balance sheet date.
- As at the 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 profit or loss and equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

28 Segment information

The Group is organised into two main business segments:

Underwriting of general insurance business incorporating all classes of general insurance including fire, marine, motor, general accident and miscellaneous.

Investments incorporating investments in marketable equity securities, term deposits with banks and investment properties.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

28 Segment information (continued)

	2011			2010		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment revenue	610,556,263	-	610,556,263	650,586,697	-	650,586,697
Segment result	52,115,292	(16,998,414)	35,116,878	78,110,620	(24,249,756)	53,860,864
Unallocated costs (net)			(9,751,828)			(10,281,033)
Net profit for the year			25,365,050			43,579,831
Segment assets	697,690,382	1,223,980,562	1,921,670,944	794,228,548	1,200,778,081	1,995,006,629
Unallocated assets			13,594,827	-	-	11,627,371
Total assets			1,935,265,771			2,006,634,000
Segment liabilities	747,025,451	395,643,259	1,142,668,710	849,178,327	313,686,040	1,162,864,367
Unallocated liabilities			199,489,115	-	-	214,744,966
Total liabilities			1,342,157,825			1,377,609,333

There are no transactions between the business segments.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

29 Approval of financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 22 February 2012.