

**AL BUHAIRA NATIONAL INSURANCE COMPANY P.S.C.**

**Independent auditor's report and consolidated financial statements  
For the year ended 31 December 2013**

**AL BUHAIRA NATIONAL INSURANCE COMPANY P.S.C.**

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## INDEPENDENT AUDITOR'S REPORT

**The Shareholders**  
**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") and its subsidiary (together the "Group")**, Sharjah, United Arab Emirates, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determined is necessary to enable the preparation of the consolidated financial statements that are free from material 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, about 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.

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## 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. (the "Company") and its subsidiary (together the "Group")**, Sharjah, United Arab Emirates, as at 31 December 2013, and their financial performance and their 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 have 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 on Establishment of Insurance Authority and Organisation of its Operations or the Articles of Association of the Company which might have a material effect on the financial position of the Company or its financial performance.

Deloitte & Touche (M.E.)



Samir Madbak  
Registration Number 386  
19 March 2014

**Consolidated statement of financial position  
At 31 December 2013**

	Notes	2013 AED	2012 AED
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	6,445,052	8,378,778
Investment property	6	946,765,054	957,661,633
Available-for-sale investments	7	53,342,395	73,262,228
Investment in an associate	8	-	17,624,571
Statutory deposit	9	6,000,000	6,000,000
<b>Total non-current assets</b>		<b>1,012,552,501</b>	<b>1,062,927,210</b>
<b>Current assets</b>			
Reinsurance contract assets	10	256,365,645	192,244,979
Insurance and other receivables	11	540,260,923	440,801,936
Bank balances and cash	12	143,732,350	138,808,828
<b>Total current assets</b>		<b>940,358,918</b>	<b>771,855,743</b>
<b>Total Assets</b>		<b>1,952,911,419</b>	<b>1,834,782,953</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	13	250,000,000	250,000,000
Statutory reserve	14.1	94,736,762	93,699,561
General reserve	14.2	200,000,000	200,000,000
Cumulative changes in fair value of securities	14.3	(15,865,987)	(17,774,746)
Retained earnings		79,484,639	82,939,834
<b>Total equity</b>		<b>608,355,414</b>	<b>608,864,649</b>
<b>Non-current liabilities</b>			
Provision for employees' end of service indemnity	15	32,372,934	31,210,087
Bank borrowings	16	302,089,864	292,990,006
Retention payable		8,184,352	11,184,352
<b>Total non-current liabilities</b>		<b>342,647,150</b>	<b>335,384,445</b>
<b>Current liabilities</b>			
Insurance contract liabilities	10	406,063,713	336,334,287
Insurance and other payables	17	380,964,317	315,055,349
Bank borrowings	16	214,880,825	239,144,223
<b>Total current liabilities</b>		<b>1,001,908,855</b>	<b>890,533,859</b>
<b>Total liabilities</b>		<b>1,344,556,005</b>	<b>1,225,918,304</b>
<b>Total equity and liabilities</b>		<b>1,952,911,419</b>	<b>1,834,782,953</b>



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

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

	Notes	2013 AED	2012 AED
Insurance premium	18	519,639,630	559,219,880
Insurance premium ceded to reinsurers	18	(298,081,678)	(303,708,777)
<b>Net insurance premium</b>	<b>18</b>	<b>221,557,952</b>	<b>255,511,103</b>
Gross claims incurred	10	(495,596,775)	(419,470,334)
Insurance claims recovered from re-insurers	10	252,473,041	154,525,493
<b>Net claims incurred</b>	<b>10</b>	<b>(243,123,734)</b>	<b>(264,944,841)</b>
Gross commission earned		94,933,817	115,116,800
Less: commission incurred		(14,547,795)	(20,099,842)
<b>Net commission earned</b>		<b>80,386,022</b>	<b>95,016,958</b>
<b>Underwriting profit</b>		<b>58,820,240</b>	<b>85,583,220</b>
General and administrative expenses relating to underwriting activities		(36,944,925)	(36,558,185)
<b>Net underwriting profit</b>		<b>21,875,315</b>	<b>49,025,035</b>
Net investment income/(loss)	19	26,905,661	(446,746)
Finance costs		(27,677,866)	(22,257,257)
Unallocated general and administrative expenses		(10,731,104)	(9,208,335)
<b>Profit for the year</b>	<b>20</b>	<b>10,372,006</b>	<b>17,112,697</b>
<b>Basic earnings per share</b>	<b>21</b>	<b>0.04</b>	<b>0.07</b>

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

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

	<b>2013 AED</b>	2012 AED
<b>Profit for the year</b>	<b>10,372,006</b>	17,112,697
<b>Other comprehensive income/(loss)</b>		
<i>Items that maybe reclassified subsequently to profit or loss</i>		
Unrealised loss on revaluation of available for sale investments recognised directly in equity	<b>(2,091,241)</b>	(6,230,690)
<i>Transfer to profit or loss</i>		
Transfer to consolidated statement of income on sale of available for sale investments	-	874,696
Reclassification adjustment relating to available-for-sale investment impaired during the year	<b>4,000,000</b>	4,000,000
Board of Directors' remuneration paid	<b>(290,000)</b>	-
<b>Other comprehensive income/(loss) for the year</b>	<b>1,618,759</b>	(1,355,994)
<b>Total comprehensive income for the year</b>	<b>11,990,765</b>	15,756,703

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 2013**

	<b>Share capital AED</b>	<b>Statutory reserve AED</b>	<b>General reserve AED</b>	<b>Cumulative changes in fair value of securities AED</b>	<b>Retained earnings AED</b>	<b>Total AED</b>
Balance at 31 December 2011	250,000,000	91,988,291	200,000,000	(16,418,752)	67,538,407	593,107,946
Profit for the year	-	-	-	-	17,112,697	17,112,697
Other comprehensive loss for the year	-	-	-	(1,355,994)	-	(1,355,994)
Total comprehensive income for the year	-	-	-	(1,355,994)	17,112,697	15,756,703
Transfer to statutory reserve	-	1,711,270	-	-	(1,711,270)	-
Balance at 31 December 2012	250,000,000	93,699,561	200,000,000	(17,774,746)	82,939,834	608,864,649
Profit for the year	-	-	-	-	10,372,006	10,372,006
Other comprehensive income for the year	-	-	-	1,908,759	(290,000)	1,618,759
Total comprehensive income for the year	-	-	-	1,908,759	10,082,006	11,990,765
Transfer to statutory reserve	-	1,037,201	-	-	(1,037,201)	-
Dividend distribution (Note 29)	-	-	-	-	(12,500,000)	(12,500,000)
<b>Balance at 31 December 2013</b>	<b>250,000,000</b>	<b>94,736,762</b>	<b>200,000,000</b>	<b>(15,865,987)</b>	<b>79,484,639</b>	<b>608,355,414</b>

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

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

	2013 AED	2012 AED
<b>Cash flows from operating activities</b>		
Profit for the year	10,372,006	17,112,697
Adjustments for:		
Depreciation of property and equipment	1,891,980	1,397,964
Write off of property and equipment	633,857	633,856
Allowance for doubtful debts	5,000,000	3,000,000
Interest income on deposits	(3,382,177)	(5,547,568)
Dividend from investments	(1,364,235)	(1,055,965)
Group's share of associate's loss	-	3,055,665
Loss on disposal of investment in associate	166,601	-
Net rental income from investment properties	(37,291,185)	(20,305,703)
Impairment on available-for-sale investments	4,000,000	4,000,000
Change in fair value of investment properties	13,000,000	20,000,000
(Gain)/loss on sale of available-for-sale investments	(1,609,962)	313,595
Provision for employees' end of service indemnity	2,190,675	2,780,121
(Gain)/loss on disposal of property and equipment	(47,900)	6,200
Finance costs	27,677,866	22,257,257
<b>Operating cash flows before changes in operating assets and liabilities</b>	<b>21,237,526</b>	<b>47,648,119</b>
Increase in insurance and other receivables	(104,458,987)	(1,291,376)
Increase in insurance and other payables	65,908,968	22,272,223
(Increase)/decrease in reinsurance contract assets	(64,120,666)	53,560,359
Increase/(decrease) in insurance contract liabilities	69,729,426	(88,179,631)
Decrease in retention payable	(3,000,000)	(28,447,198)
<b>Cash (used in)/generated from operating activities</b>	<b>(14,703,733)</b>	<b>5,562,496</b>
Employees' end of service indemnity paid	(1,027,828)	(1,298,441)
Interest paid	(27,677,866)	(22,257,257)
<b>Net cash used in operating activities</b>	<b>(43,409,427)</b>	<b>(17,993,202)</b>
<b>Cash flows from investing activities</b>		
(Increase)/decrease in fixed deposits under lien	(632,378)	36,830,960
Increase in margin deposits	(3,000)	-
Purchase of available-for-sale investments	(431,866,074)	(300,717,657)
Proceeds from sale of available-for-sale investments	451,304,628	292,725,773
Proceeds from sale of shares in investment in associate	17,457,970	1,489,949
Purchase of property and equipment	(592,111)	(1,042,314)
Proceeds from disposal of property and equipment	47,900	-
Addition to investment property	(2,103,421)	(15,285,935)
Decrease/(increase) in fixed deposits maturing over 3 months	7,239,192	(650,207)
Interest received	3,382,177	5,547,568
Dividends received	1,364,235	1,055,965
Net rental income from investment properties	37,291,185	20,305,703
<b>Net cash generated from investing activities</b>	<b>82,890,303</b>	<b>40,259,805</b>

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

**Consolidated statement of cash flows**  
**For the year ended 31 December 2013 (continued)**

	<b>2013</b>	2012
	<b>AED</b>	AED
<b>Cash flows from financing activities</b>		
Decrease in bank borrowings	(15,163,540)	(23,366,595)
Dividends paid	(12,500,000)	-
Board of directors' remuneration paid	(290,000)	-
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<b>Net cash used in financing activities</b>	<b>(27,953,540)</b>	<b>(23,366,595)</b>
	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>11,527,336</b>	<b>(1,099,992)</b>
Cash and cash equivalents at the beginning of the year	5,924,835	7,024,827
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<b>Cash and cash equivalents at the end of the year (Note 22)</b>	<b>17,452,171</b>	<b>5,924,835</b>
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The accompanying notes form an integral part of these consolidated financial statements.

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

**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 3.3 to the consolidated financial statements.

The principal activity of the Company 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 IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements**

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

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

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see note 3.3 for more details).

- ***IFRS 13 Fair Value Measurement***

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

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

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

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

• **IFRS 13 *Fair Value Measurement* (continued)**

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

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for 2012 comparative periods (please see notes 6 and 27 for 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

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

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* for the first time in the current year except for the name changes described below. The amendments introduce new terminology, whose use is not mandatory, for the statement of income and statement of comprehensive income. Under the amendments to IAS 1, the statement of comprehensive income is renamed as the statement of profit or loss and other comprehensive income and the statement of income is renamed as the statement of profit or loss.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either single statement or in two separate, but consecutive statements. However, amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section:

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

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

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

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

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

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

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

- Amendments to IFRS 1 *Government Loans* provide relief to first-time adopters of IFRSs by amending IFRS 1 to allow prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to government loans outstanding at the date of transition to IFRSs.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* enhance disclosures about offsetting of financial assets and liabilities.
- IFRS 10 *Consolidated Financial Statements* uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* have been amended for the issuance of IFRS 10.
- IFRS 11 *Joint Arrangements* establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly, IAS 28 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11.
- Amendments to IAS 19 *Employee Benefits* eliminate the “corridor approach” and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.
- Annual Improvements to IFRSs 2009 - 2011 Cycle

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

- *IFRS 1 First Time Adoption of International Financial Reporting Standards* - Repeated application of IFRS 1.
- *IFRS 1 First Time Adoption of International Financial Reporting Standards* - Borrowing costs.
- *IAS 16 Property, Plant and Equipment* - Classification of serving equipment.
- *IAS 32 Financial Instruments: Presentation* - Tax effect of the distribution to the holders of equity instruments.
- *IAS 34 Interim Financial Reporting* - Interim financial reporting and segment information for total assets and liabilities.

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

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

**2.3 New and revised 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 are not yet effective:

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<ul style="list-style-type: none"> <li>• Amendments to IFRS 7 <i>Financial Instruments</i>: Disclosures relating to disclosures about the initial application of IFRS 9.</li> </ul>	When IFRS 9 is first applied
<ul style="list-style-type: none"> <li>• IFRS 7 <i>Financial Instruments</i>: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.</li> </ul>	When IFRS 9 is first applied
<ul style="list-style-type: none"> <li>• IFRS 9 <i>Financial Instruments (2009)</i> issued in November 2009 introduces new requirements for the classification and measurement of financial assets. <i>IFRS 9 Financial Instruments (2010)</i> revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</li> </ul> <p>IFRS 9 <i>Financial Instruments (2013)</i> was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9.</p> <p>IFRS 9 (2009) and IFRS 9 (2010) were superseded by IFRS 9 (2013) and IFRS 9 (2010) also superseded IFRS 9 (2009). The various standards also permit various transitional options. Accordingly, entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (1) the classification and measurement requirements for financial assets (2) the classification and measurement requirements for both financial assets and financial liabilities (3) the classification and measurement requirements and the hedge accounting requirements.</p>	At its November 2013 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017. However, IASB allows each version of the standard to be available for early application.
<ul style="list-style-type: none"> <li>• Amendments to IAS 19 <i>Employee Benefits</i> - to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.</li> </ul>	1 July 2014

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

- 2. Application of new and revised International Financial Reporting Standards (“IFRSs”)  
(continued)**
- 2.3 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet  
effective and not early adopted (continued)**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<ul style="list-style-type: none"> <li>• Amendments to IAS 32 <i>Financial Instruments</i>: Presentation relating to application guidance on the offsetting of financial assets and financial liabilities.</li> </ul>	1 January 2014
<ul style="list-style-type: none"> <li>• Amendments to IAS 36 – <i>recoverable amount disclosures</i> The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to the period in which an impairment loss has been recognized or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU’s recoverable amount has been determined on the basis of fair value less costs of disposal.</li> </ul>	1 January 2014
<ul style="list-style-type: none"> <li>• Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting</i> The amendment allows the continuation of hedge accounting when derivative is novated to a clearing counterparty and certain conditions are met.</li> </ul>	1 January 2014
<ul style="list-style-type: none"> <li>• IFRIC 21 – <i>Levies</i> Interpretation was developed to address the concerns about how to account for levies that are based on financial data of a period that is different from that in which the activity that give rise to the payment of the levy occurs.</li> </ul>	1 January 2014
<ul style="list-style-type: none"> <li>• Amendments to IFRS 10, IFRS 12 and IAS 27 – Guidance on Investment Entities On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs.</li> </ul>	1 January 2014

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

- 2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)**
- 2.3 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued)**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<ul style="list-style-type: none"> <li>• Annual Improvements to <i>IFRSs 2010 - 2012 Cycle</i> <ul style="list-style-type: none"> <li>▪ <i>IFRS 2 Share Based Payments</i> - definition of 'vesting condition'.</li> <li>▪ <i>IFRS 3 Business Combinations</i> - accounting for contingent consideration.</li> <li>▪ <i>IFRS 8 Operating Segments</i> - aggregation of segments, reconciliation of segment assets.</li> <li>▪ <i>IAS 16 Property Plant and Equipment</i> - proportionate restatement of accumulated depreciation on revaluation.</li> <li>▪ <i>IAS 24 Related Party Disclosures</i> - management entities.</li> <li>▪ <i>IAS 38 Intangible Assets</i> - proportionate restatement of accumulated depreciation on revaluation.</li> </ul> </li> </ul>	1 July 2014
<ul style="list-style-type: none"> <li>• Annual Improvements to <i>IFRSs 2011 - 2013 Cycle</i> <ul style="list-style-type: none"> <li>▪ <i>IFRS 1 First Time Adoption of International Financial Reporting Standards</i> - meaning of effective IFRSs.</li> <li>▪ <i>IFRS 3 Business Combinations</i> - scope exception for joint ventures.</li> <li>▪ <i>IFRS 13 Fair Value Measurement</i> - scope of the portfolio exception.</li> <li>▪ <i>IAS 40 Investment Property</i> - interrelationship between IFRS 3 and IAS 40.</li> </ul> </li> </ul>	1 July 2014

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2014 or as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

**3. Significant accounting policies**

**3.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates (U.A.E.) Federal Law No. 8 of 1984 (as amended), and Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations.

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

**3. Summary of significant accounting policies (continued)**

**3.2 Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that have been measured at revalued amounts, amortised cost or fair value as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

**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 when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

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

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

**3.3 Basis of consolidation (continued)**

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. 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.

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

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

Details of the Company's subsidiary at 31 December 2013 is as below:

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest and voting power held	Principal activity
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.

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

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

**3.4 Insurance contracts (continued)**

*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.

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*

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.

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

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

**3.4 Insurance contracts (continued)**

*3.4.4 Reinsurance contracts (continued)*

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 1/8th 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 Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its operations. The unearned premium calculated by the 1/8th 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.

*3.4.6 Policy acquisition costs*

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are deferred and amortised over the life of the policy.

*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, the Group assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision is created.

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

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

**3.4 Insurance contracts (continued)**

*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 (Note 3.4).

*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.

*3.5.5 Commission income*

Commission income is recognised when the reinsurance premium is ceded based on the terms and percentages agreed with the reinsurers.

**3.6 General and administrative expenses**

Direct expenses are charged to the respective departmental revenue accounts. Indirect expenses 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.

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

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

**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 profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those 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 (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

**3.8 Property and equipment**

Plot of land is stated at its cost.

Other property and equipment are stated at cost less accumulated depreciation and any identified impairment losses. The cost of property and equipment represents the purchase cost together with any incidental expenses of acquisition.

Plot of land is not depreciated. Depreciation on other assets is computed 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.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

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

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

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

**3.9 Investment property**

Investment property are properties held to earn rentals and/or for capital appreciation including property under construction for such purposes. Investment property 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.

Fair value is determined by open market values based on valuations performed by independent surveyors and consultants.

**3.10 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.

**3.11 Employee benefits**

*3.11.1 Defined contribution plan*

UAE national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Group is required to contribute 12.5% of the “contribution calculation salary” of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the “contribution calculation salary” respectively, 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 profit or loss.

*3.11.2 Annual leave and leave passage*

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

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

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

**3.11 Employee benefits** (continued)

*3.11.3 Provision for employees' end of service benefits*

Provision is also made for the full amount of end of service benefit due to non-U.A.E. national employees in accordance with the U.A.E. Labour Law and is based on current remuneration and their period of service at the end of the reporting period.

The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefit is disclosed as a non-current liability.

**3.12 Borrowing costs**

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**3.13 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.

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

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

**3.14 Financial instruments**

*3.14.1 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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.

**3.15 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, '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.

*3.15.1 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.

*3.15.2 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.

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

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

**3.15 Financial assets (continued)**

*3.15.3 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.

*3.15.4 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.

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.

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

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

**3.15 Financial assets (continued)**

*3.15.5 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.

**3.16 Financial liabilities and equity instruments issued by the Group**

*3.16.1 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.

*3.16.2 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.

*3.16.3 Financial liabilities*

All financial liabilities are initially measured at fair value net of transactions costs except financial liabilities at fair value through profit or loss (FVTPL) which are initially measured at fair value. All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL. The Group does not have any financial liabilities measured at FVTPL.

Financial liabilities are classified as 'other financial liabilities'.

*3.16.3.1 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.

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

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

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

*3.16.4 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.

**3.17 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.

**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 4.2 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 held for trading or available-for-sale. The Group classifies investments as held for trading if they are acquired primarily for the purpose of making a short term profit by the dealers. 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.

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

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

**4.1 Critical judgements in applying accounting policies (continued)**

*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.

**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 2013 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.

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

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

**4.2 Key sources of estimation uncertainty (continued)**

*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.

*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.

Notes to the consolidated financial statements  
For the year ended 31 December 2013 (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 31 December 2011	649,000	4,445,774	5,109,964	5,237,732	1,057,827	5,418,837	21,919,134
Additions	-	184,474	258,707	116,708	-	482,425	1,042,314
Disposals	-	(118,059)	(99,747)	-	-	-	(217,806)
Write off	-	-	-	-	-	(633,856)	(633,856)
Transfers	-	-	4,633,549	-	-	(4,633,549)	-
31 December 2012	649,000	4,512,189	9,902,473	5,354,440	1,057,827	633,857	22,109,786
Additions	-	222,793	369,318	-	-	-	592,111
Disposals	-	(420,709)	-	-	-	-	(420,709)
Write off	-	-	-	-	-	(633,857)	(633,857)
<b>31 December 2013</b>	<b>649,000</b>	<b>4,314,273</b>	<b>10,271,791</b>	<b>5,354,440</b>	<b>1,057,827</b>	-	<b>21,647,331</b>
<i>Accumulated depreciation</i>							
At 31 December 2011	-	3,772,393	4,587,880	3,126,550	1,057,827	-	12,544,650
Charge for the year	-	373,138	538,844	485,982	-	-	1,397,964
Disposals	-	(111,859)	(99,747)	-	-	-	(211,606)
31 December 2012	-	4,033,672	5,026,977	3,612,532	1,057,827	-	13,731,008
Charge for the year	-	257,146	1,183,665	451,169	-	-	1,891,980
Disposals	-	(420,709)	-	-	-	-	(420,709)
<b>31 December 2013</b>	-	<b>3,870,109</b>	<b>6,210,642</b>	<b>4,063,701</b>	<b>1,057,827</b>	-	<b>15,202,279</b>
<i>Carrying amount</i>							
<b>31 December 2013</b>	<b>649,000</b>	<b>444,164</b>	<b>4,061,149</b>	<b>1,290,739</b>	-	-	<b>6,445,052</b>
31 December 2012	649,000	478,517	4,875,496	1,741,908	-	633,857	8,378,778

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

**5. Property and equipment (continued)**

At 31 December 2013, the cost of fully depreciated property and equipment that was still in use amounted to AED 10.2 million (31 December 2012: AED 7.3 million).

**6. Investment property**

Investment property comprises the following at fair value:

	<b>2013</b>	2012
	<b>AED</b>	AED
Plots of land	<b>126,288,000</b>	126,288,000
Buildings	<b>820,477,054</b>	831,373,633
	<u><b>946,765,054</b></u>	<u>957,661,633</u>

Movement during the year is as follows:

	<b>2013</b>	2012
	<b>AED</b>	AED
Fair value at the beginning of the year	<b>957,661,633</b>	962,375,698
Additions during the year	<b>2,103,421</b>	15,285,935
Change in fair value during the year (Note 19)	<b>(13,000,000)</b>	(20,000,000)
<b>Fair value at the end of the year</b>	<u><b>946,765,054</b></u>	<u>957,661,633</u>

The fair value of the Group's investments properties as at 31 December 2013 and 31 December 2012 has been arrived at on the basis of valuations carried on the respective dates by independent valuers who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

The fair value was determined based on the market comparable approach that reflects recent transactions prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2013 are as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value as at 31 December 2013</b>
	<b>AED</b>	<b>AED</b>	<b>AED</b>	<b>AED</b>
Plots of land	-	126,288,000	-	126,288,000
Buildings	-	820,477,054	-	820,477,054
	<u>-</u>	<u>946,765,054</u>	<u>-</u>	<u>946,765,054</u>

There were no transfers between the levels during the year.

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

**6. Investment property (continued)**

Investment property with cost of AED 750 million (2012 investment property under construction: AED 565 million) is mortgaged to a bank towards credit facilities granted to the Group (Note 16).

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:

	<b>2013</b>	2012
	<b>AED</b>	AED
Rental income	<b>51,489,201</b>	27,040,284
Direct operating expenses	<b>(14,198,016)</b>	(6,734,581)
	<b>37,291,185</b>	20,305,703

**7. Available-for-sale investments**

Available for sale investments comprise the following:

	<b>2013</b>	2012
	<b>AED</b>	AED
Within U.A.E.	<b>44,753,027</b>	62,761,498
Outside U.A.E.	<b>8,589,368</b>	10,500,730
	<b>53,342,395</b>	73,262,228

Movement during the year is as follows:

	<b>2013</b>	2012
	<b>AED</b>	AED
Fair value at the beginning of the year	<b>73,262,228</b>	70,939,933
Purchases during the year	<b>431,866,074</b>	300,717,657
Disposals during the year	<b>(449,694,666)</b>	(293,039,368)
Decrease in fair value	<b>(2,091,241)</b>	(5,355,994)
<b>Fair value at the end of the year</b>	<b>53,342,395</b>	73,262,228

	<b>Domestic</b>		<b>International</b>		<b>Total</b>	
	<b>2013</b>	2012	<b>2013</b>	2012	<b>2013</b>	2012
	<b>AED</b>	AED	<b>AED</b>	AED	<b>AED</b>	AED
- Quoted	<b>31,315,527</b>	39,994,109	<b>4,446,752</b>	4,369,040	<b>35,762,279</b>	44,363,149
- Unquoted	<b>13,437,500</b>	22,767,389	<b>4,142,616</b>	6,131,690	<b>17,580,116</b>	28,899,079
	<b>44,753,027</b>	62,761,498	<b>8,589,368</b>	10,500,730	<b>53,342,395</b>	73,262,228

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

**8. Investment in an associate**

	<b>2013</b>	2012
	<b>AED</b>	AED
Balance at the beginning of the year	<b>17,624,571</b>	22,170,185
Share of loss for the year (Note 19)	-	(3,055,665)
Sale of the associate	<b>(17,624,571)</b>	(1,489,949)
<b>Balance, at the end of the year</b>	<b>-</b>	17,624,571

During the year, the Group sold its investment in associate “Takaful Emarat – Insurance (PSC)”, (31 December 2012: 19.04% share of ownership), resulting in a loss of AED 166,601 (Note 19).

**9. Statutory deposit**

In accordance with the requirements of Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its operations, the Group maintains a bank deposit of AED 6,000,000 (2012: AED 6,000,000) as a statutory deposit.

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

	<b>2013</b>	2012
	<b>AED</b>	AED
<b>Insurance contract liabilities</b>		
Claims reported unsettled	<b>197,436,270</b>	120,900,105
Claims incurred but not reported	<b>9,000,000</b>	9,000,000
Unearned premium	<b>199,627,443</b>	206,434,182
	<b>406,063,713</b>	336,334,287
<b>Recoverable from reinsurers</b>		
Claims reported unsettled	<b>141,897,485</b>	82,748,821
Unearned premium	<b>114,468,160</b>	109,496,158
	<b>256,365,645</b>	192,244,979
<b>Net</b>		
Claims reported unsettled	<b>55,538,785</b>	38,151,284
Claims incurred but not reported	<b>9,000,000</b>	9,000,000
Unearned premium	<b>85,159,283</b>	96,938,024
	<b>149,698,068</b>	144,089,308

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

**10. Insurance contract liabilities and reinsurance contract assets (continued)**

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

	Year ended 31 December 2013			Year ended 31 December 2012		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
<b>Claims</b>						
Notified claims	120,900,105	(82,748,821)	38,151,284	178,110,559	(126,322,921)	51,787,638
Incurred but not reported	9,000,000	-	9,000,000	9,000,000	-	9,000,000
<b>Total at the beginning of the year</b>	<b>129,900,105</b>	<b>(82,748,821)</b>	<b>47,151,284</b>	187,110,559	(126,322,921)	60,787,638
Claims settled during the year	(419,060,610)	193,324,377	(225,736,233)	(476,680,788)	198,099,593	(278,581,195)
Increase in liabilities	495,596,775	(252,473,041)	243,123,734	419,470,334	(154,525,493)	264,944,841
<b>Total at the end of the year</b>	<b>206,436,270</b>	<b>(141,897,485)</b>	<b>64,538,785</b>	129,900,105	(82,748,821)	47,151,284
Notified claims	197,436,270	(141,897,485)	55,538,785	120,900,105	(82,748,821)	38,151,284
Incurred but not reported	9,000,000	-	9,000,000	9,000,000	-	9,000,000
<b>Total at the end of the year</b>	<b>206,436,270</b>	<b>(141,897,485)</b>	<b>64,538,785</b>	129,900,105	(82,748,821)	47,151,284
<b>Unearned premium</b>						
<b>Total at the beginning of the year</b>	<b>206,434,182</b>	<b>(109,496,158)</b>	<b>96,938,024</b>	237,403,359	(119,482,417)	117,920,942
Increase during the year	199,627,443	(114,468,160)	85,159,283	206,434,182	(109,496,158)	96,938,024
Release during the year	(206,434,182)	109,496,158	(96,938,024)	(237,403,359)	119,482,417	(117,920,942)
Net change during the year (Note 18)	(6,806,739)	(4,972,002)	(11,778,741)	(30,969,177)	9,986,259	(20,982,918)
<b>Total at the end of the year</b>	<b>199,627,443</b>	<b>(114,468,160)</b>	<b>85,159,283</b>	206,434,182	(109,496,158)	96,938,024

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

**11. Insurance and other receivables**

	<b>2013</b>	2012
	<b>AED</b>	AED
<b>Receivables arising from insurance and reinsurance contracts:</b>		
Due from policy holders	<b>389,484,570</b>	237,421,330
Less: Allowance for doubtful debts	<b>(20,000,000)</b>	(15,000,000)
	<b>369,484,570</b>	222,421,330
Notes receivable - post dated cheques	<b>20,778,951</b>	38,678,165
Due from insurance companies	<b>55,023,158</b>	56,242,198
Due from reinsurance companies	<b>64,562,006</b>	102,377,304
<b>Other receivables</b>		
Staff receivables	<b>2,978,420</b>	1,725,465
Rent receivable	<b>22,679,924</b>	15,576,648
Prepayments and others	<b>4,753,894</b>	3,780,826
	<b>540,260,923</b>	440,801,936

The average credit period is 120 days. Due from policyholders outstanding above 270 days are provided for (other than government related entities and shareholders) based on estimated irrecoverable amounts determined by reference to past default experience.

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

	<b>2013</b>	2012
	<b>AED</b>	AED
120 - 270 days	<b>103,081,931</b>	73,154,669
Above 270 days	<b>79,206,411</b>	53,559,049
	<b>182,288,342</b>	126,713,718
Due from government related entities included in above	<b>131,019,653</b>	89,438,646

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

**11. 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 24 million (2012: AED 23 million) is due from the Group's largest customer. There are 3 (2012: 2) other customer who represents more than 5% (2012: 5%) of the total balance of due from policy holders.

*Movement in the allowance for doubtful debts:*

	<b>2013</b>	2012
	<b>AED</b>	AED
Balance at beginning of the year	<b>15,000,000</b>	12,000,000
Allowance made during the year	<b>5,000,000</b>	3,000,000
<b>Balance at end of the year</b>	<b>20,000,000</b>	15,000,000

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. Management believes no further allowance is required, as there was no significant change in credit quality of these insurance receivables and the amounts are considered recoverable.

**12. Bank balances and cash**

	<b>2013</b>	2012
	<b>AED</b>	AED
Cash on hand	<b>209,170</b>	558,674
Bank balances:		
Current accounts	<b>5,194,706</b>	4,173,577
Call accounts	<b>1,044,689</b>	268,652
Margin deposits	<b>573,000</b>	570,000
Fixed deposits	<b>136,710,785</b>	133,237,925
	<b>143,732,350</b>	138,808,828

Certain deposits with carrying value of AED 126 million (2012: AED 125 million) are subject to lien in respect of bank credit facilities granted to the Group (Note 16).

The interest rates on fixed deposits and call accounts with banks range between 1% and 3% (2012: 4%) per annum. All bank balances are held in local banks in the United Arab Emirates.

**13. Share capital**

	<b>2013</b>	2012
	<b>AED</b>	AED
Issued and fully paid:		
250,000,000 ordinary shares of AED 1 each (31 December 2012: AED 250,000,000 ordinary shares of AED 1 each)	<b>250,000,000</b>	250,000,000

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

**14. Reserves**

*14.1 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 Company 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.

*14.2 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.

*14.3 Cumulative changes in fair value of securities*

This reserve represents accumulated gains and losses arising on the revaluation of the available-for-sale investments.

**15. Provision for employees' end of service indemnity**

Movements in the net liability were as follows:

	<b>2013</b>	2012
	<b>AED</b>	AED
Balance at the beginning of the year	<b>31,210,087</b>	29,728,407
Amounts charged during the year	<b>2,190,675</b>	2,780,121
Amounts paid during the year	<b>(1,027,828)</b>	(1,298,441)
<b>Balance at the end of the year</b>	<b>32,372,934</b>	31,210,087

**16. Bank borrowings**

	<b>2013</b>	2012
	<b>AED</b>	AED
Bank overdraft	<b>160,279,403</b>	199,542,223
Term loans	<b>356,691,286</b>	332,592,006
	<b>516,970,689</b>	532,134,229

The bank borrowings are repayable as follows:

On demand or within one year	<b>214,880,825</b>	239,144,223
In the second year	<b>54,601,422</b>	39,602,000
In the third and subsequent years	<b>247,488,442</b>	253,388,006
	<b>516,970,689</b>	532,134,229

Less: Amount due for settlement within 12 months  
(shown under current liabilities)

	<b>(214,880,825)</b>	(239,144,223)
Amount due for settlement after 12 months (shown under non-current liabilities)	<b>302,089,864</b>	292,990,006

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

**16. Bank borrowings (continued)**

Bank overdrafts are repayable on demand and carry interest at rates ranging from 1% to 4% plus 3 months EIBOR (2012: 1% to 4% +3 months EIBOR) per annum.

Term loans represent finance obtained from local commercial banks. Term loans carry interest at rates ranging from 3% to 4% +plus 3 months EIBOR (2012: 3% to 4% plus 3 months EIBOR) per annum on the original loan amounts and repayable in monthly and semi-annual instalments.

At 31 December 2013, bank borrowings were secured by pledge of available-for-sale investments with a fair value of AED 12 million (2012: AED 16 million), mortgage of investment property with fair value of AED 750 million (2012: AED 565 million), lien over fixed deposits amounting to AED 126 million (2012: AED 125 million), assignment of annual rental proceeds and insurance policy.

**17. Insurance and other payables**

	<b>2013</b>	2012
	<b>AED</b>	AED
<b>Payables arising from insurance and reinsurance contracts</b>		
Trade payables	<b>212,526,603</b>	122,258,330
Due to insurance companies	<b>25,548,193</b>	35,211,158
Due to reinsurance companies	<b>70,198,571</b>	47,030,035
Portfolio withdrawal	<b>15,638,004</b>	58,523,813
Premium received in advance	<b>8,232,532</b>	14,079,059
<b>Other payables</b>		
Rental income received in advance	<b>22,670,835</b>	14,968,481
Accrued expenses and other payable	<b>16,444,147</b>	13,914,941
Due to employees	<b>9,705,432</b>	9,069,532
	<b>380,964,317</b>	315,055,349

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 time frame.

Due to employees include AED 9.14 million (2012: AED 8.54 million) being the employees' contribution to the Provident Fund and interest thereon. The Group's contribution amounting to AED 9.14 million (2012: AED 8.54 million) 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 2013 (continued)**

**18. Net insurance premium**

	2013 AED	2012 AED
<b>Gross premium written</b>		
Gross premium written	512,832,891	528,250,703
Change in unearned premium (Note 10)	6,806,739	30,969,177
	<u>519,639,630</u>	<u>559,219,880</u>
<b>Reinsurance premium ceded</b>		
Reinsurance premium ceded	(303,053,680)	(293,722,518)
Change in unearned premium (Note 10)	4,972,002	(9,986,259)
	<u>(298,081,678)</u>	<u>(303,708,777)</u>
<b>Net insurance premium</b>	<u>221,557,952</u>	<u>255,511,103</u>

**19. Net investment income/(loss)**

	2013 AED	2012 AED
Interest income on deposits	3,382,177	5,547,568
Dividend from investments	1,364,235	1,055,965
Gain/(loss) on sale of available-for-sale investments	1,609,962	(313,595)
Group's share of associate's loss (Note 8)	-	(3,055,665)
Loss from disposal of investment in an associate	(166,601)	-
Impairment loss on available-for-sale investments	(4,000,000)	(4,000,000)
Impairment of investment properties (Note 6)	(13,000,000)	(20,000,000)
Rental income (Note 6)	37,291,185	20,305,703
Other	424,703	13,278
	<u>26,905,661</u>	<u>(446,746)</u>

**20. Profit for the year**

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

	2013 AED	2012 AED
Staff costs	18,996,614	19,516,163
Depreciation of property and equipment	<u>1,891,980</u>	<u>1,397,964</u>

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

**21. Basic earnings per share**

	<b>2013</b>	2012
	<b>AED</b>	AED
Profit for the year (in AED)	<b>10,372,006</b>	17,112,697
Number of shares	<b>250,000,000</b>	250,000,000
Basic earnings per share (in AED)	<b>0.04</b>	0.07

Basic earnings per share are calculated by dividing the profit for the year attributable to the Shareholders by the number of shares outstanding at the end of the reporting period.

**22. Cash and cash equivalents**

	<b>2013</b>	2012
	<b>AED</b>	AED
Bank balances and cash (Note 12)	<b>143,732,350</b>	138,808,828
Less: Fixed deposits under lien	<b>(125,707,179)</b>	(125,074,801)
Fixed deposits with banks with maturity over 3 months	-	(7,239,192)
Margin deposits	<b>(573,000)</b>	(570,000)
	<b>17,452,171</b>	5,924,835

**23. 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.

**23.1 At the end reporting period, amounts due from/to related parties included under due from policyholders and gross outstanding claims were as follows:**

	<b>2013</b>	2012
	<b>AED</b>	AED
Due from policy holders	<b>26,786,949</b>	45,092,208
Gross outstanding claims	<b>825,991</b>	9,188,668

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

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

	<b>2013</b>	2012
	<b>AED</b>	AED
Gross premium	<b>9,199,286</b>	19,238,243
Claims paid	<b>16,882,446</b>	2,746,241

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

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

**23. Related party transactions (continued)**

**23.3 Compensation of key management personnel**

	<b>2013</b>	2012
	<b>AED</b>	AED
Short-term benefits	<b>2,981,505</b>	2,936,160
Long-term benefits	<b>200,844</b>	194,476
Board of directors' remuneration	<b>290,000</b>	-

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.

**24. Contingent liabilities**

	<b>2013</b>	2012
	<b>AED</b>	AED
Letters of guarantee	<b>13,622,712</b>	11,722,377

**25. 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. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

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

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

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

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

**25. Insurance risk (continued)**

*25.1 Frequency and severity of claims*

The Group has the right not to renew individual policies, to re-price the risk, to impose deductibles and 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). Furthermore, the Group's strategy limits the total exposure to any one territory and the exposure to any one industry.

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 to reduce its exposure to unpredictable developments.

*25.2 Sources of uncertainty in the estimation of future claim payments*

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

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

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

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

**25. Insurance risk** (continued)

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

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 and after reinsurance are analysed below by type of risk where the insured operates for current and prior year premiums earned.

<b>Type of risk</b>	<b>2013</b>	2012
Motor	<b>103%</b>	93%
Non-Motor	<b>86%</b>	88%

*25.3 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 uses assumptions based on a mixture of internal and market data to measure its claims liabilities. 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 2013 (continued)**

**25. Insurance risk** (continued)

*25.4 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 2013			Year ended 31 December 2012		
	Type of risk			Type of risk		
	Motor AED'000	Non-Motor AED'000	Total AED'000	Motor AED'000	Non-motor AED'000	Total AED'000
<b>Gross</b>	<b>8,780,138</b>	<b>439,001,362</b>	<b>447,781,500</b>	10,765,189	542,125,450	552,890,639
<b>Net</b>	<b>4,901,320</b>	<b>190,055,243</b>	<b>194,956,563</b>	5,210,145	87,142,125	92,352,270

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.

*25.5 Sensitivity of underwriting profit and losses*

The contribution by the insurance operations in the profit of the Group amounts to AED 22 million for the year ended 31 December 2013 (2012: AED 49 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 in the region of 41% (2012: 45%) and the same is mainly contributed by motor and medical class of business. However, for other lines of business, the Group is adequately covered by excess of loss reinsurance programs to guard against major financial impact.
- The Group has gross commission earnings in 2013 of 135% (2012: 110%) of the net insurance profit. These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

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

**26. Capital risk management**

The Group's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007 on the Establishment of Insurance Authority and Organization of its Operations. 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 the 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.

	<b>2013</b>	2012
	<b>AED</b>	AED
Total paid up capital	<b>250,000,000</b>	250,000,000
Minimum regulatory capital	<b>100,000,000</b>	100,000,000

The UAE Insurance Authority has issued resolution no. 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing insurance firms and AED 250 million for re-insurance firms. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies. The Company is in compliance with the minimum capital requirements.

*26.1 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:

	<b>2013</b>	2012
	<b>AED</b>	AED
Debt (i)	<b>516,970,689</b>	532,134,229
Bank balances and cash (see Note 12)	<b>(143,732,350)</b>	(138,808,828)
	<b>373,238,339</b>	393,325,401
Equity (ii)	<b>608,355,414</b>	608,864,649
Net debt to equity ratio	<b>0.61</b>	0.65

(i) Debt is defined as bank borrowings (see Note 16).

(ii) Equity comprises of capital, reserves and retained earnings.

**Notes to the consolidated financial statements  
For the year ended 31 December 2013 (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 risks that the Group primarily faces due to the nature of its investments and underwriting business are market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk.

**27.1 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.

**27.2 Categories of financial instruments**

**31 December 2013**

	<b>Loans and receivables AED</b>	<b>Available- for-sale AED</b>	<b>Total AED</b>
<b>Financial assets</b>			
Available-for-sale investments	-	53,342,395	53,342,395
Insurance and other receivables	535,507,029	-	535,507,029
Statutory deposit	6,000,000	-	6,000,000
Bank balances and cash	143,732,350	-	143,732,350
<b>Total financial assets</b>	<b>685,239,379</b>	<b>53,342,395</b>	<b>738,581,774</b>
			<b>At amortised cost AED</b>
<b>Financial liabilities</b>			
Bank borrowings			516,970,689
Insurance and other payables			350,060,950
<b>Total financial liabilities</b>			<b>867,031,639</b>

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

**27. Financial instruments** (continued)

**27.2 Categories of financial instruments** (continued)

31 December 2012

	Loans and receivables AED	Available- for-sale AED	Total AED
Financial assets			
Available-for-sale investments	-	73,262,228	73,262,228
Insurance and other receivables	437,021,110	-	437,021,110
Statutory deposit	6,000,000	-	6,000,000
Bank balances and cash	138,808,828	-	138,808,828
	<hr/>	<hr/>	<hr/>
Total financial assets	581,829,938	73,262,228	655,092,166
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
			At amortised cost AED
Financial liabilities			
Bank borrowings			532,134,229
Insurance and other payables			286,007,809
			<hr/>
Total financial liabilities			818,142,038
			<hr/> <hr/>

**27.3 Fair value measurement**

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 bid prices at the close of the business on the reporting date.
- 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.

**27.3.1 Fair value of financial instruments carried at amortised cost**

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

**27.3.2 Fair value of financial assets carried at fair value**

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

The fair values of assets and liabilities are determined using similar techniques and assumptions as used in the audited annual financial statements for the year ended 31 December 2012.

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

**27. Financial instruments (continued)**

**27.3 Fair value measurement (continued)**

**27.3.2 Fair value of financial assets carried at fair value (continued)**

*27.3.2.2 Fair value measurements recognised in the statement of financial position*

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); 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).

**31 December 2013**

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
<b>Available-for-sale financial assets</b>				
Quoted equities	35,762,279	-	-	<b>35,762,279</b>
Unquoted equities	-	9,142,616	8,437,500	<b>17,580,116</b>
	<u>35,762,279</u>	<u>9,142,616</u>	<u>8,437,500</u>	<u>53,342,395</u>

**31 December 2012**

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
<b>Available-for-sale financial assets</b>				
Quoted equities	44,363,149	-	-	44,363,149
Unquoted equities	-	20,461,579	8,437,500	28,899,079
	<u>44,363,149</u>	<u>20,461,579</u>	<u>8,437,500</u>	<u>73,262,228</u>

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.

*27.3.3 Reconciliation of level 3 fair value measurements*

There were no movements during the year in the level 3 financial assets measured at fair values.

**27.4 Market risk management**

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

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

**27. Financial instruments** (continued)

**27.4 Market risk management** (continued)

*27.4.1 Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Group. The Group is exposed to interest rate risk on its deposits and bank borrowings that carry both fixed and floating interest rates.

The Group generally manages to minimise the interest rate risk by closely monitoring the market interest rates and investing in those financial assets in which such risk is expected to be minimal.

*27.4.1.1 Interest rate sensitivity analysis*

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 3.5% per annum (31 December 2012: 3% to 3.75% per annum) and bank loan carried an average interest rate of 3.25% plus three months EIBOR per annum (2012: 3.25% plus three months EIBOR per annum).

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 2013 and equity as at 31 December 2013 would increase by approximately AED 2,584,853 (2012: increase by AED 2,660,671).

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

*27.4.2 Foreign currency risk management*

There are no significant exchange rate risks as substantially all monetary assets and monetary liabilities of the Group are denominated in the local currencies of the countries where the Group operates or US Dollars to which local currencies are fixed.

Management believes that there is a minimal risk of significant losses due to exchange rate fluctuations and consequently the Group has not hedged their foreign currency exposure.

*27.4.3 Market price risk*

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Group is exposed to market price risk with respect to their quoted investments. The Group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Group actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

At the end of the reporting period, 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 other comprehensive income would have increased/decreased by AED 3.6 million (2012: AED 4.4 million) in the case of the available-for-sale financial investments.

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

**27. Financial instruments** (continued)

**27.4 Market risk management** (continued)

*27.4.3 Market price risk (continued)*

*Method and assumptions for sensitivity analysis;*

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

**27.5 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;
- amounts due from insurance intermediaries; and
- amounts due from banks for bank balances and fixed deposits.

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 their counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

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

The Group maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition.

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. The credit risk on liquid funds is limited because the counterparties are registered banks with sound financial positions.

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

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

**27. Financial instruments (continued)**

**27.6 Liquidity risk**

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities at maturity date. The Group manages the liquidity risk through a risk management framework for the Group's short, medium and long-term funding and liquidity management requirements by maintaining adequate reserves, sufficient cash and cash equivalent and bank facilities, to ensure that funds are available to meet their commitments for liabilities as they fall due.

The maturity profile is monitored by management to ensure adequate liquidity is maintained. The table below summarises the maturity profile of the Group's financial assets and liabilities based on remaining undiscounted contractual obligations including interest receivable and payable.

<b>31 December 2013</b>	<b>Less than 30 days AED</b>	<b>30-90 days AED</b>	<b>91-180 days AED</b>	<b>After 180 days AED</b>	<b>Total AED</b>
<b>Financial assets</b>					
Available-for-sale investments	-	-	-	53,342,395	53,342,395
Insurance and other receivables	291,247,842	142,414,606	44,297,103	57,547,478	535,507,029
Statutory deposit	-	-	-	6,000,000	6,000,000
Bank balances and cash	27,609,803	5,679,108	39,136,222	71,307,217	143,732,350
	<b>318,857,645</b>	<b>148,093,714</b>	<b>83,433,325</b>	<b>188,197,090</b>	<b>738,581,774</b>
<b>Financial liabilities</b>					
Bank borrowing	1,666,666	3,333,332	22,300,713	489,669,978	516,970,689
Insurance and other payables	-	27,648,268	85,507,816	236,904,866	350,060,950
	<b>1,666,666</b>	<b>30,981,600</b>	<b>107,808,529</b>	<b>726,574,844</b>	<b>867,031,639</b>
<b>31 December 2012</b>					
	<b>Less than 30 days AED</b>	<b>30-90 days AED</b>	<b>91-180 days AED</b>	<b>After 180 days AED</b>	<b>Total AED</b>
<b>Financial assets</b>					
Available-for-sale investments	-	-	-	73,262,228	73,262,228
Insurance and other receivables	207,957,281	107,245,575	35,543,761	86,274,493	437,021,110
Statutory deposit	-	-	-	6,000,000	6,000,000
Bank balances and cash	45,455,399	5,452,826	40,585,954	47,314,649	138,808,828
	<b>253,412,680</b>	<b>112,698,401</b>	<b>76,129,715</b>	<b>212,851,370</b>	<b>655,092,166</b>
<b>Financial liabilities</b>					
Bank borrowing	-	-	19,801,000	512,333,229	532,134,229
Insurance and other payables	-	28,263,066	42,822,151	214,922,592	286,007,809
	-	<b>28,263,066</b>	<b>62,623,151</b>	<b>727,255,821</b>	<b>818,142,038</b>

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

**28. Segment information**

For management purposes, the Group is organised into two business segments; general insurance and investments. The general insurance segment comprises property, motor, general accident, fire, marine and miscellaneous. Investments comprise investments, deposits with banks and cash management for the Group's own accounts.

Segmental information is presented below:

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

**28. Segment information (continued)**

	2013			2012		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
<b>Segment revenue</b>	<b>512,832,891</b>	<b>-</b>	<b>512,832,891</b>	528,250,703	-	528,250,703
Segment result	<b>21,875,315</b>	<b>9,227,795</b>	<b>31,103,110</b>	49,025,035	(22,704,003)	26,321,032
Unallocated costs (net)			<b>(8,731,104)</b>			(9,208,335)
Net profit for the year			<b>22,372,006</b>			17,112,697
<b>Segment assets</b>	<b>791,872,679</b>	<b>1,000,107,449</b>	<b>1,791,980,128</b>	629,266,089	1,048,548,432	1,677,814,521
Unallocated assets	-	-	<b>160,931,291</b>	-	-	156,968,432
<b>Total assets</b>	<b>791,872,679</b>	<b>1,000,107,449</b>	<b>1,952,911,419</b>	629,266,089	1,048,548,432	1,834,782,953
<b>Segment liabilities</b>	<b>778,572,887</b>	<b>525,155,041</b>	<b>1,303,727,928</b>	568,881,387	619,229,707	1,188,111,094
Unallocated liabilities	-	-	<b>40,828,077</b>	-	-	37,807,210
<b>Total liabilities</b>	<b>778,572,887</b>	<b>525,155,041</b>	<b>1,344,556,005</b>	568,881,387	619,229,707	1,225,918,304

There are no transactions between the business segments.

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

**29. Dividends**

The Board of Directors proposed no dividends distribution for the year ended 31 December 2013.

At the Annual General Meeting held on 22 April 2013, the shareholders approved cash dividends distribution of 5% amounting to AED 12,500,000 (AED 5 fils per share) for year ended 31 December 2012. It has also been proposed that the Board of Directors' remuneration for the year then ended AED 290,000.

**30. Approval of financial statements**

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 19 March 2014.