

UNITED INSURANCE COMPANY P.S.C.

**Independent auditor's report and financial
statements for the year ended 31 December 2011**

UNITED INSURANCE COMPANY P.S.C.

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
United Insurance Company P.S.C.
Ras Al Khaimah
United Arab Emirates

Report on the Financial Statements

We have audited the accompanying financial statements of **United Insurance Company P.S.C. ("the Company")**, **Ras Al Khaimah, United Arab Emirates** which comprise the statement of financial position as at 31 December 2011, and the statement of income, statement of comprehensive income, statement of changes in equity and 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 financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Cont'd....



INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **United Insurance Company P.S.C., Ras Al Khaimah, United Arab Emirates** as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, the Company has maintained proper books of account. The information contained in the directors' report relating to the financial statements is in agreement with the books. We have obtained all the information which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, and of the U.A.E. Federal Law No. 6 of 2007, concerning formation of Insurance Authority of U.A.E. and the Company's Articles of Association which might have a material effect on the financial position of the Company or its financial performance.

Deloitte & Touche (M.E.)

A handwritten signature in blue ink, appearing to read "Samir Madbak", with a large, sweeping flourish extending to the right.

Samir Madbak
Registration No. 386
6 March 2012

**Statement of financial position
at 31 December 2011**

	Notes	2011 AED	2010 AED
ASSETS			
Non-current assets			
Property and equipment	5	1,977,490	956,649
Investment properties	6	92,900,000	92,900,000
Available-for-sale investments	7.1	26,773,609	26,866,803
Statutory deposit	8	6,000,000	6,000,000
		<hr/>	<hr/>
Total non-current assets		127,651,099	126,723,452
Current assets			
Re-insurance contract assets	9	47,016,615	45,940,974
Insurance and other receivables	10	60,051,245	73,702,392
Investments held for trading	7.2	23,154,628	26,240,355
Bank balances and cash	11	28,277,473	37,045,683
		<hr/>	<hr/>
Total current assets		158,499,961	182,929,404
		<hr/>	<hr/>
Total assets		286,151,060	309,652,856
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	50,000,000	50,000,000
Statutory reserve	13	27,968,564	27,968,564
General reserve	14	15,965,568	15,965,568
Available-for-sale investments revaluation reserve		7,529,889	5,377,358
Retained earnings		37,003,476	63,810,932
		<hr/>	<hr/>
Total equity		138,467,497	163,122,422
Non-current liabilities			
Bank loan	15	4,050,000	9,450,000
Provision for employee's end of service benefits	16	1,500,951	2,313,990
		<hr/>	<hr/>
Total non-current liabilities		5,550,951	11,763,990
Current liabilities			
Insurance contract liabilities	9	84,421,340	77,216,858
Bank loan	15	5,400,000	5,400,000
Insurance and other payables	17	52,311,272	52,149,586
		<hr/>	<hr/>
Total current liabilities		142,132,612	134,766,444
		<hr/>	<hr/>
Total liabilities		147,683,563	146,530,434
		<hr/>	<hr/>
Total equity and liabilities		286,151,060	309,652,856
		<hr/>	<hr/>



Chairman



General Manager

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

**Statement of income
for the year ended 31 December 2011**

	Notes	2011 AED	2010 AED
Insurance premium revenue	18	107,942,708	126,303,591
Insurance premium ceded to re-insurers	18	(52,424,507)	(67,692,416)
Net insurance premium revenue	18	55,518,201	58,611,175
Gross claims incurred	9	(91,442,173)	(98,976,528)
Insurance claims recovered from re-insurers	9	48,266,129	53,610,521
Net claims incurred	9	(43,176,044)	(45,366,007)
Gross commission earned		12,344,766	23,843,968
Less: commission incurred		(5,943,215)	(11,231,299)
Net commission earned		6,401,551	12,612,669
Underwriting profit		18,743,708	25,857,837
Allowance for doubtful debts		(15,572,439)	-
General and administrative expenses relating to underwriting activities		(15,443,955)	(13,518,658)
Net underwriting (loss)/profit		(12,272,686)	12,339,179
Impairment on investments available-for-sale		(2,391,535)	(3,772,056)
Investment income and other income	19	1,817,296	4,679,743
Finance costs		(735,126)	(1,311,778)
Unallocated general and administrative expenses		(2,725,405)	(2,385,644)
(Loss)/profit for the year	20	(16,307,456)	9,549,444
Basic (loss)/earnings per share	21	(0.33)	0.19

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

**Statement of comprehensive income
for the year ended 31 December 2011**

	Notes	2011 AED	2010 AED
(Loss)/profit for the year		<u>(16,307,456)</u>	<u>9,549,444</u>
Other comprehensive income			
Net (loss)/gain on revaluation of available-for-sale investments	7.1	(819,385)	2,293,337
Reclassification adjustments relating to available-for-sale investments impaired during the year		2,391,535	3,772,056
Transfer to statement of income on sale of available-for-sale investments		580,381	(712,142)
Board of Directors' remuneration paid	23	<u>(500,000)</u>	<u>(750,000)</u>
Total other comprehensive income for the year		<u>1,652,531</u>	<u>4,603,251</u>
Total comprehensive (loss)/income for the year		<u><u>(14,654,925)</u></u>	<u><u>14,152,695</u></u>

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

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

	Share capital AED	Statutory reserve AED	General reserve AED	Available- for-sale investments revaluation reserve AED	Retained earnings AED	Total AED
Balance at 31 December 2009	50,000,000	27,968,564	15,965,568	24,107	67,511,488	161,469,727
Profit for the year	-	-	-	-	9,549,444	9,549,444
Other comprehensive income for the year	-	-	-	5,353,251	(750,000)	4,603,251
Total comprehensive income for the year	-	-	-	5,353,251	8,799,444	14,152,695
Dividend paid (Note 22)	-	-	-	-	(12,500,000)	(12,500,000)
Balance at 31 December 2010	50,000,000	27,968,564	15,965,568	5,377,358	63,810,932	163,122,422
Loss for the year	-	-	-	-	(16,307,456)	(16,307,456)
Other comprehensive income for the year	-	-	-	2,152,531	(500,000)	1,652,531
Total comprehensive loss for the year	-	-	-	2,152,531	(16,807,456)	(14,654,925)
Dividend paid (Note 22)	-	-	-	-	(10,000,000)	(10,000,000)
Balance at 31 December 2011	50,000,000	27,968,564	15,965,568	7,529,889	37,003,476	138,467,497

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

**Statement of cash flows
for the year ended 31 December 2011**

	2011 AED	2010 AED
Cash flows from operating activities		
(Loss)/profit for the year	(16,307,456)	9,549,444
Adjustments for:		
Decrease/(increase) in fair value of investment held for trading	3,025,528	(1,123,415)
Fair value loss on investment properties	-	2,200,000
Impairment loss on available-for-sale investments	2,391,535	3,772,056
Investment income	(5,343,810)	(6,621,330)
Allowance for doubtful debts	15,572,439	-
Finance costs	735,126	1,311,778
Depreciation of property and equipment	370,005	374,070
Gain on disposal of property and equipment	-	(2,625)
Provision for employees' end of service benefits	169,284	600,714
Operating cash flows before changes in operating assets and liabilities	612,651	10,060,692
Increase in re-insurance contract assets	(1,075,641)	(4,280,646)
Increase/(decrease) in insurance contract liabilities	7,204,482	(3,401,527)
(Increase)/decrease in insurance and other receivables	(1,921,292)	3,399,476
Increase in insurance and other payables	161,686	9,991,442
Cash generated from operations	4,981,886	15,769,437
Employees' end of service benefits paid	(982,323)	(1,514,919)
Interest paid	(735,126)	(1,311,778)
Net cash from operating activities	3,264,437	12,942,740
Cash flows from investing activities		
Decrease in fixed deposit under lien	-	15,301,667
Purchase of property and equipment	(1,390,846)	(306,314)
Proceeds from disposal of property and equipment	-	10,000
Purchase of investments held for trading	-	(45,919)
Proceeds from disposal of investments held for trading	60,199	-
Proceeds from disposal of available-for-sale investments	5,527,095	10,890,567
Purchase of available-for-sale investments	(6,636,898)	(11,524,865)
Interest received	999,139	1,247,578
Income from investment properties received	4,082,677	5,692,835
Dividend received	1,225,987	1,047,510
Net cash generated from investing activities	3,867,353	22,313,059
Cash flows used in financing activities		
Repayment of bank loan	(5,400,000)	(5,400,000)
Board of Directors' remuneration paid	(500,000)	(750,000)
Dividend paid	(10,000,000)	(12,500,000)
Net cash used in financing activities	(15,900,000)	(18,650,000)
Net (decrease)/increase in cash and cash equivalents	(8,768,210)	16,605,799
Cash and cash equivalents at the beginning of the year	20,045,683	3,439,884
Cash and cash equivalents at the end of the year (Note 11)	11,277,473	20,045,683

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

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

United Insurance Company P.S.C. - Ras Al Khaimah (the "Company") is a public shareholding company, registered in the Emirate of Ras Al Khaimah by Emiri decree No. 13/76 issued by H.H. Sheikh Saqr Bin Mohammed Al Qasimi on 15 June, 1976, which was amended by the Emiri decree No. 10/77 issued on 15 December, 1977. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, concerning formation of Insurance Authority of U.A.E., and is registered in the Insurance Companies Register of Insurance Authority of U.A.E. under registration number 8.

The Company is domiciled in the United Arab Emirates and the address of the Company's registered office is P. O. Box 1010, Ras Al Khaimah, United Arab Emirates.

The Company's ordinary shares are listed on Abu Dhabi Securities Exchange, United Arab Emirates.

The principal activity of the Company is the writing of all classes of general insurance other than life assurance. The Company operates through its head office in Ras Al Khaimah and branch offices in Dubai, Abu Dhabi and Sharjah.

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

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

- Amendments to IAS 24 *Related Party Disclosures* modify the definition of a related party and simplify disclosures for government-related entities.
- Amendments to IAS 32 *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability.
- Amendments to IFRS 1 relating to *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*.
- Improvements to IFRSs issued in 2010 – Amendments to: IFRS 1; IFRS 3 (2008); IFRS 7; IAS 1; IAS 27 (2008); IAS34; IFRIC 13.
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*. The amendments correct an unintended consequence of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements are measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued are recognised in profit or loss.

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

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

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

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

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

New and revised IFRSs

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

- Amendments to IFRS 7 *Financial Instruments*: Disclosures relating to disclosures about the initial application of IFRS. 1 January 2015 (or otherwise when IFRS 9 is first applied)
- Amendments to IFRS 7 *Disclosures Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. 1 July 2011
- IFRS 9 *Financial Instruments* issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition. 1 January 2015

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • IFRS 10 <i>Consolidated Financial Statements</i>* 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 <i>Separate Financial Statements</i>* and IAS 28 <i>Investments in Associates and Joint Ventures</i>* have been amended for the issuance of IFRS 10. 	1 January 2013
<ul style="list-style-type: none"> • IFRS 11 <i>Joint Arrangements</i>* 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 <i>Investments in Associates and Joint Ventures</i> has been amended for the issuance of IFRS 11. 	1 January 2013
<ul style="list-style-type: none"> • IFRS 12 <i>Disclosure of Interests in Other Entities</i>* combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure Standard. 	1 January 2013
<ul style="list-style-type: none"> • IFRS 13 <i>Fair Value Measurement</i> issued in May 2011 establishes a single framework for measuring fair value and is applicable for both financial and non-financial items. 	1 January 2013
<ul style="list-style-type: none"> • Amendments to IAS 1 – <i>Presentation of Other Comprehensive Income</i>. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis. 	1 July 2012
<ul style="list-style-type: none"> • Amendments to IAS 12 <i>Income Taxes</i> provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 <i>Investment Property</i> by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. 	1 January 2012

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • Amendments to IAS 19 <i>Employee Benefits</i> eliminate the “corridor approach” and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur. 	1 January 2013
<ul style="list-style-type: none"> • IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i> 	1 January 2013
<ul style="list-style-type: none"> • Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> enhancing disclosures about offsetting of financial assets and liabilities 	1 January 2013
<ul style="list-style-type: none"> • Amendments to IFRS 1 <i>Removal of Fixed Dates for First-Time Adopter</i> 	1 July 2011
<ul style="list-style-type: none"> • Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities 	1 January 2013

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

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

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

3. Summary of significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of U.A.E. Federal Law No. 6 of 2007, concerning formation of Insurance Authority of U.A.E. and U.A.E Federal Law No.8 of 1984 (as amended).

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

3. Summary of significant accounting policies (continued)

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and investment properties that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies adopted are set out below.

3.3 Insurance contracts

3.3.1 Insurance contracts

Insurance contracts are those contracts when the Company (the insurer) has accepted the significant insurance risk from another party (policyholder) by agreeing to compensate policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contract can also transfer the financial risk.

3.3.2 Recognition and measurement

Insurance contracts are classified depending on the nature of risk, duration of risk and whether or not the terms and conditions are fixed.

3.3.3 Short term insurance contracts

These contracts are casualty and property insurance contracts.

Casualty insurance contracts protect the Company'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 Company'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 Company'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 end of the reporting period is reported as the unearned premium liability. Premiums are shown in the statement of income before deduction of commission.

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 end of the reporting period even if they have not yet been reported to the Company. The Company 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 Company 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).

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

3. Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.4 Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company 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 Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company 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.

The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Company reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. The Company 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.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

3.3.5 Insurance contract liabilities

3.3.5.1 Outstanding claims

Insurance contract liabilities towards outstanding claims are recognised for all claims intimated and unpaid at the end of the reporting period. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the contract expires, is discharged or is cancelled.

3.3.5.2 Unearned premium

The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the reporting date and is estimated using the 1/8th method for all lines of business. The unearned premium calculated by the above method (after reducing the reinsurance shares) complies with the minimum unearned premium amounts to be maintained using 25% and 40% method for marine and non-marine respectively, as required by U.A.E. Federal Law No. 6 of 2007, concerning formation of Insurance Authority. The unearned premium calculated by the 1/8th method accounts for the estimated acquisition costs incurred by the Company 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 financial statements.

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

3. Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.6 Policy acquisition costs

Commissions and other acquisition costs that are related to securing new contracts and renewing existing contracts are charged to profit or loss when incurred.

3.3.7 Salvage and subrogation reimbursements

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

3.3.8 Liability adequacy test

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

3.3.9 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 Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

3.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business.

3.4.1 Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements (see above 3.3.3).

3.4.2 Commission income

Commission income is recognised when the policies are written based on the on the terms and percentages agreed with the reinsurers.

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

3. Summary of significant accounting policies (continued)

3.4 Revenue recognition (continued)

3.4.3 Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. 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 that asset's net carrying amount on initial recognition.

3.4.4 Dividend income

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

3.4.5 Rental income

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

3.4.6 Realised gains and losses on investments in securities

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

3.5 General and administrative expenses

85% of general and administrative expenses for the year are allocated to insurance departments in proportion to each department's share of written premiums.

3.6 Foreign currencies

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

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded 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 the end of the reporting 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 profit or loss in the year in which they arise.

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

3. Summary of significant accounting policies (continued)

3.7 Property and equipment

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

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

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 all the assets are 5 years.

3.8 Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at their fair value at the reporting date. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss.

3.9 Impairment of tangible assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use.

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

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

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

3. Summary of significant accounting policies (continued)

3.10 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 end of the reporting period, 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 (where the effect of time value of money is material).

3.11 Employee benefits

3.11.1 Defined contribution plan

UAE national employees of the Company 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 Company 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 Company 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.

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-UAE national employees in accordance with the UAE 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 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Company has no finance leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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

3. Summary of significant accounting policies (continued)

3.13 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.

The Company has the following financial assets: insurance receivables, other receivables (except prepaid expenses) and statutory deposits which collectively are classified as 'loans and receivables' and bank balances and cash. Financial assets also include investments which are classified either as 'at fair value through profit or loss' (FVTPL) - held for trading investments or as available-for-sale (AFS). The classification depends on the nature and purpose of the financial asset 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 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.

3.13.1 Bank balance and cash

Bank balance and cash comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3.13.2 Loans and receivables

Loans and receivables are measured at amortised costs 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.

3.13.3 Investments

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

3.13.3.1 Financial assets at FVTPL – Investment held for trading

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short- term profit taking.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss.

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

3. Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

3.13.3.2. AFS financial assets

AFS financial assets comprise listed shares held by the Company traded in an active market and are stated at fair value. Gains and losses arising from the changes in the fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve with the exception of impairment losses. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is reclassified to profit or loss.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in income statement are determined based on the amortised cost of the monetary asset.

Dividend on available-for-sale investments are recognised in profit or loss when the Company's right to receive the dividend is established.

3.14 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When an AFS investment is considered to be impaired, cumulative gains or losses previous recognised in other comprehensive income are reclassified to profit or loss.

In respect of AFS investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of insurance and other receivables where the carrying amount is reduced through the use of an allowance account. When an insurance receivable is 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 profit or loss.

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

3. Summary of significant accounting policies (continued)

3.14 Impairment of financial assets (continued)

For certain categories of financial assets, such as insurance and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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 profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3.15 Derecognition of financial assets

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

3.16 Financial liabilities and equity instruments issued by the Company

3.16.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

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 Company are recorded at the proceeds received, net of direct issue costs.

3.16.3 Financial liabilities

Insurance and other payables and bank loan are classified as 'other financial liabilities' and are measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short term payables when the recognition of interest would be immaterial.

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

3. Summary of significant accounting policies (continued)

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

3.16.4 Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

3.17 Dividend distribution

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company'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. Revisions to accounting estimates are recognised in the period 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.

In the process of applying Company's accounting policies, management is of the opinion that there is no instance of application of judgments which is expected to have a significant effect on the amounts recognised in the financial statements, apart from those involving estimations described below.

4.1 Critical judgements in applying accounting policies

4.1.1 Classification of investments

Management decides on acquisition of an investment whether it should be classified as FVTPL - held for trading or available-for-sale.

The Company classifies investments as FVTPL - held for trading if they are acquired primarily for the purpose of making a short term profit by the dealers. Other investments are classified as available-for-sale.

4.1.2 Valuation of unquoted equity investments

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

**Notes to the financial statements
for the year ended 31 December 2011 (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 available-for-sale investments

The Company determines whether available for sale investments are impaired when there has been a significant or prolonged decline in their fair value below cost. This determination of what is significant or prolonged requires judgement. In making this judgement and to record whether impairment occurred, the Company 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.

Management has considered an amount of AED 2,391,535 (2010: AED 3,772,056) as impairment loss on available-for-sale investments for the year, based on the analysis of impairment test performed on available-for-sale investments.

4.1.4 Classification of properties

In the process of classifying properties, management has made various judgments. Judgements 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 judgement consistently in accordance with the definitions of investment property, property and equipment, property under development and property held for sale. In making its judgement, 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 Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company 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 Company 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.

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

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

4.2 Key sources of estimation uncertainty (continued)

4.2.2 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 Company evaluating, the credit and liquidity position of the policy holders and the insurance companies, historical recovery rates including detailed investigations carried out during 2011 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the profit or loss at the time of collection.

4.2.3 Liability adequacy test

At end of each reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Company 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 profit or loss.

5. Property and equipment

	Furniture, fixture and office equipment and improvements AED	Motor vehicles AED	Total AED
Cost			
31 December 2009	3,269,529	142,100	3,411,629
Additions	306,314	-	306,314
Disposals	(139,881)	(88,500)	(228,381)
	<hr/>	<hr/>	<hr/>
31 December 2010	3,435,962	53,600	3,489,562
Additions	1,390,846	-	1,390,846
	<hr/>	<hr/>	<hr/>
31 December 2011	4,826,808	53,600	4,880,408
Accumulated depreciation			
31 December 2009	2,271,884	107,965	2,379,849
Charge for the year	348,950	25,120	374,070
Disposals	(139,881)	(81,125)	(221,006)
	<hr/>	<hr/>	<hr/>
31 December 2010	2,480,953	51,960	2,532,913
Charge for the year	369,254	751	370,005
	<hr/>	<hr/>	<hr/>
31 December 2011	2,850,207	52,711	2,902,918
Carrying value			
31 December 2011	1,976,601	889	1,977,490
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
31 December 2010	955,009	1,640	956,649
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

5. Property and equipment (continued)

At 31 December 2011, the cost of fully depreciated property and equipment that was still in use amounted to AED 1,957,765 (2010: AED 1,948,299).

All of the Company's property and equipment are located in the U.A.E.

6. Investment properties

Movements during the year were as follows:

	2011 AED	2010 AED
Fair value at the beginning of the year	92,900,000	95,100,000
Decrease in fair value during the year (Note 19)	-	(2,200,000)
	<hr/>	<hr/>
Fair value at the end of the year	92,900,000	92,900,000
	<hr/> <hr/>	<hr/> <hr/>

Investment properties are stated at fair value, which has been principally determined based on valuations performed by management at the end of the year. Fair value represents the amounts at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of the valuation. Valuations are performed on a periodic basis, at least annually, and the fair value gains and losses are recorded in the profit or loss. Management has not anticipated any change in fair value during the year.

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

	2011 AED	2010 AED
Rental income	4,082,677	5,692,835
Direct operating expenses	(521,024)	(946,773)
	<hr/>	<hr/>
Income from investment properties (Note 19) - net	3,561,653	4,746,062
	<hr/> <hr/>	<hr/> <hr/>

Investment properties represent the fair value of the properties located in U.A.E.

At 31 December 2011, investment property amounting to AED 50 million (2010: AED 50 million) are mortgaged and insurance policy covering investment property is assigned to a bank against bank loan (Note 15).

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

7. Investments

7.1 Available-for-sale investments

Movements during the year were as follows:

	2011 AED	2010 AED
Fair value at the beginning of the year	26,866,803	26,017,903
Purchased during the year	6,636,898	11,524,865
Disposed during the year	(5,910,707)	(12,969,302)
(Decrease)/increase in fair value during the year	(819,385)	2,293,337
	<hr/>	<hr/>
Fair value at the end of the year	26,773,609	26,866,803
	<hr/> <hr/>	<hr/> <hr/>

The available-for-sale investments are held in listed entities in U.A.E.

7.2 Investments held for trading

Movements during the year were as follows:

	2011 AED	2010 AED
Fair value at the beginning of the year	26,240,355	25,071,021
Purchased during the year	-	45,919
Disposed during the year	(60,199)	-
(Decrease)/increase in fair value during the year	(3,025,528)	1,123,415
	<hr/>	<hr/>
Fair value at the end of the year	23,154,628	26,240,355
	<hr/> <hr/>	<hr/> <hr/>

Investment held for trading comprises the following:

	2011 AED	2010 AED
Within U.A.E.	18,997,919	21,904,042
Outside U.A.E.	4,156,709	4,336,313
	<hr/>	<hr/>
	23,154,628	26,240,355
	<hr/> <hr/>	<hr/> <hr/>

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

8. Statutory deposit

Statutory deposit is maintained in accordance with the requirements of U.A.E. Federal Law No. 6 of 2007 concerning the formation of Insurance Authority of U.A.E. and is not available to finance the day to day operations of the Company.

9. Insurance contract liabilities and re-insurance contract assets

	2011	2010
	AED	AED
Gross		
Insurance contract liabilities:		
Claims reported unsettled	34,772,127	23,626,397
Claims incurred but not reported	1,172,000	2,285,455
Unearned premiums	48,477,213	51,305,006
	<hr/>	<hr/>
Total insurance contract liabilities, gross	84,421,340	77,216,858
	<hr/>	<hr/>
Recoverable from re-insurers		
Claims reported unsettled	26,930,370	14,170,206
Unearned premiums	20,086,245	31,770,768
	<hr/>	<hr/>
Total re-insurers' share of insurance liabilities	47,016,615	45,940,974
	<hr/>	<hr/>
Net		
Claims reported unsettled	7,841,757	9,456,191
Claims incurred but not reported	1,172,000	2,285,455
Unearned premiums	28,390,968	19,534,238
	<hr/>	<hr/>
	37,404,725	31,275,884
	<hr/>	<hr/>

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

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

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

	Year ended 31 December 2011			Year ended 31 December 2010		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
Claims						
Notified claims	23,626,397	(14,170,206)	9,456,191	21,935,780	(12,782,195)	9,153,585
Incurred but not reported	2,285,455	-	2,285,455	2,000,000	-	2,000,000
Total at the beginning of the year	25,911,852	(14,170,206)	11,741,646	23,935,780	(12,782,195)	11,153,585
Claims settled during the year	(81,409,898)	35,505,965	(45,903,933)	(97,000,456)	52,222,510	(44,777,946)
Increase in liabilities	91,442,173	(48,266,129)	43,176,044	98,976,528	(53,610,521)	45,366,007
Total at the end of the year	35,944,127	(26,930,370)	9,013,757	25,911,852	(14,170,206)	11,741,646
Notified claims	34,772,127	(26,930,370)	7,841,757	23,626,397	(14,170,206)	9,456,191
Incurred but not reported	1,172,000	-	1,172,000	2,285,455	-	2,285,455
Total at the end of the year	35,944,127	(26,930,370)	9,013,757	25,911,852	(14,170,206)	11,741,646
Unearned premium						
Total at the beginning of the year	51,305,006	(31,770,768)	19,534,238	56,682,605	(28,878,133)	27,804,472
Increase during the year	48,477,213	(20,086,245)	28,390,968	51,305,006	(31,770,768)	19,534,238
Release during the year	(51,305,006)	31,770,768	(19,534,238)	(56,682,605)	28,878,133	(27,804,472)
Net increase/(decrease) during the year (Note 18)	(2,827,793)	11,684,523	8,856,730	(5,377,599)	(2,892,635)	(8,270,234)
Total at the end of the year	48,477,213	(20,086,245)	28,390,968	51,305,006	(31,770,768)	19,534,238

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

10. Insurance and other receivables

	2011	2010
	AED	AED
Receivables arising from insurance and re-insurance		
Contracts		
Due from policyholders	66,915,628	53,471,035
Allowance for doubtful debts	(18,072,439)	(2,500,000)
	<hr/>	<hr/>
	48,843,189	50,971,035
Notes receivable – post-dated cheques	1,416,316	11,500,786
Due from insurance companies	6,597,233	5,846,283
Due from re-insurance companies	716,039	3,233,310
Other receivables		
Advance to suppliers	702,020	1,042,532
Prepayments and others	1,776,448	1,108,446
	<hr/>	<hr/>
	60,051,245	73,702,392
	<hr/> <hr/>	<hr/> <hr/>

10.1 Insurance receivables

The average credit period is 60 days. Due from policyholders outstanding between 180 days and 365 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience in addition to specific provision made on identified customers.

Due from policyholders over 365 days amounted to AED 15,627,197 as of 31 December 2011 (2010: AED 7,168,150).

Before accepting any new customer, the Company assesses the potential customers credit quality and defines credit limits by customer. Of the due from policyholders balance at the end of year AED 2,589,743 (2010: AED 2,812,967) is due from the Company's largest customer. There are no (2010: Nil) other customers who represents more than 5% of the total balance of due from policyholders.

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

10. Insurance and other receivables (continued)

10.1 Insurance receivables (continued)

Aging of due from policy holders:

	2011 AED	2010 AED
Not past due	19,670,200	14,346,665
Past due but not impaired		
60 to 365 days	23,008,598	31,956,220
More than 365 days	6,164,391	4,668,150
	29,172,989	36,624,370
Past due and impaired		
60 to 365 days	8,609,633	-
More than 365 days	9,462,806	2,500,000
	18,072,439	2,500,000
Total due from policyholders	66,915,628	53,471,035

Movement in the allowance of doubtful debts:

	2011 AED	2010 AED
Balance at the beginning of the year	2,500,000	2,500,000
Allowance made during the year	15,572,439	-
Balance at the end of the year	18,072,439	2,500,000

In determining the recoverability of an insurance receivable, the Company considers any change in the credit quality of the insurance receivable from the date credit was initially granted upto the reporting date. The concentration of credit risks is limited due to the customer base being large and unrelated. Accordingly, the management believes that there is no further credit provision required in excess of amount already provided.

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

11. Bank balances and cash

	2011	2010
	AED	AED
Cash on hand	17,500	1,000
Bank balances		
Current accounts	1,713,763	1,718,399
Call accounts	9,546,210	18,326,284
Fixed deposits under lien	17,000,000	17,000,000
	<hr/>	<hr/>
	28,277,473	37,045,683
Less: Fixed deposits under lien	(17,000,000)	(17,000,000)
	<hr/>	<hr/>
Cash and cash equivalents	11,277,473	20,045,683
	<hr/> <hr/>	<hr/> <hr/>

Bank balances are maintained with banks in U.A.E. The interest rate on fixed deposits ranges between 3.8% to 4.9% (2010: 4.8% to 5.0%).

Fixed deposits are under lien against loan given by a bank (Note 15).

12. Share capital

At 31 December 2011, the issued and fully paid share capital comprised 50,000,000 shares of AED 1 each (31 December 2010: 50,000,000 shares of AED 1 each).

13. Statutory reserve

In accordance with the Company's Articles of Association and the UAE Federal Law No. 8 of 1984, as amended, 10% of the net profit of the Company is transferred to a statutory reserve that is non-distributable. Transfers to this reserve are required to be made until such time as it equals at least 50% of the paid up share capital of the Company. This reserve is not available for distribution.

14. General reserve

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

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

15. Bank loan

The bank loan is repayable as follows:

	2011 AED	2010 AED
<i>Current</i>		
Within one year	5,400,000	5,400,000
<i>Non-current</i>		
In the second and third year	4,050,000	9,450,000
	9,450,000	14,850,000

The Company has obtained a bank loan of AED 45 million in 2008 to finance the purchase of investment property and is repayable in 60 equal monthly installments. During 2009, the bank has rescheduled the loan and the revised monthly installment amount payable is AED 450,000, starting from January 2010.

At 31 December 2011, bank loan is secured by a first degree mortgage over property situated on plot no. 241-546 at Al Nahda Area in Dubai for AED 50,000,000 (2010: AED 50,000,000) in favour of bank along with endorsement of comprehensive insurance policy for AED 45,000,000 in bank's favour (Note 6) and lien on fixed deposit amounting to AED 20,000,000 (2010: AED 20,000,000).

16. Provision for employee's end of service benefits

Movements in the net liability were as follows:

	2011 AED	2010 AED
Balance at the beginning of the year	2,313,990	3,228,195
Charge for the year	169,284	600,714
Paid during the year	(982,323)	(1,514,919)
Balance at the end of the year	1,500,951	2,313,990

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

17. Insurance and other payables

	2011	2010
	AED	AED
Payables arising from insurance and re-insurance contracts		
Trade payables	16,361,795	17,568,434
Due to insurance companies	10,238,310	8,904,127
Due to re-insurance companies	13,735,450	7,658,039
Premium reserve withheld	5,151,617	14,751,056
Other payables		
Accrued expenses and others	6,824,100	3,267,930
	<hr/>	<hr/>
	52,311,272	52,149,586
	<hr/> <hr/>	<hr/> <hr/>

18. Net insurance premium revenue

	2011	2010
	AED	AED
Gross premium written		
Gross premium written	105,114,915	120,925,992
Change in unearned premium (Note 9)	2,827,793	5,377,599
	<hr/>	<hr/>
	107,942,708	126,303,591
	<hr/>	<hr/>
Re-insurance premium ceded		
Re-insurance premium ceded	(40,739,984)	(70,585,051)
Change in unearned premium (Note 9)	(11,684,523)	2,892,635
	<hr/>	<hr/>
	(52,424,507)	(67,692,416)
	<hr/>	<hr/>
Net insurance premium revenue	55,518,201	58,611,175
	<hr/> <hr/>	<hr/> <hr/>

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

19. Investment income and other income

	2011 AED	2010 AED
Investment income		
Interest on bank fixed deposits	999,139	1,247,578
Fair value loss on investment properties (Note 6)	-	(2,200,000)
Income from investment property (Note 6) - net	3,561,653	4,746,062
Loss on disposal of available-for-sale investments	(963,993)	(1,366,593)
Dividend from available-for-sale investments	932,744	847,807
Dividend from investments held for trading	293,243	199,703
Unrealised (loss)/gain on investments held for trading (Note 7.2)	(3,025,528)	1,123,415
	<hr/>	<hr/>
	1,797,258	4,597,972
Other income		
Sundry income	20,038	81,771
	<hr/>	<hr/>
	1,817,296	4,679,743
	<hr/> <hr/>	<hr/> <hr/>

20. (Loss)/profit for the year

(Loss)/profit for the year has been arrived at after charging the following expenses:

	2011 AED	2010 AED
Staff costs	11,903,159	10,824,997
Depreciation of property and equipment	370,005	374,070

21. Basic (loss)/earnings per share

	2011	2010
(Loss)/profit for the year (in AED)	(16,307,456)	9,549,444
	<hr/>	<hr/>
Number of shares	50,000,000	50,000,000
	<hr/>	<hr/>
Basic (loss)/earnings per share (in AED)	(0.33)	0.19
	<hr/> <hr/>	<hr/> <hr/>

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

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

22. Dividend

During the year 2011, dividend of AED 20 fils (2010: AED 25 fils) per share was paid to the Shareholders pertaining to the year 2010. During the year 2011, Board of Directors remuneration paid amounting to AED 500,000 pertaining to the year 2010.

Board of Directors resolved in their meeting held on 6 Mach 2012 not to distribute any dividend for the year ended 31 December 2011. This resolution is subject to the approval of the shareholders at the Annual General Meeting.

23. Related party transactions

Related parties include the Company's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

At the end of the reporting period, amounts due from/to related parties included under due from policyholders/trade payables were as follows:

	2011 AED	2010 AED
Due from policyholders	1,093,206	873,229
Due to policyholders	3,400	272,754

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

Transactions:

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

	2011 AED	2010 AED
Gross premium	5,782,376	4,421,364
Claims incurred	4,654,821	1,481,769

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

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

23. Related party transactions (continued)

Compensation of Board of Directors'/key management personnel

	2011	2010
	AED	AED
Short-term benefits	1,539,932	758,196
Long-term benefits	20,000	20,000
Board of Directors' remuneration	500,000	750,000

24. Contingent liabilities

	2011	2010
	AED	AED
Letters of guarantee	9,731,780	5,677,250

The above bank guarantees were issued in the normal course of business.

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 Company faces under its insurance contracts is that the actual claims and benefit payments exceed the estimated 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 Company 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 Company 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 financial statements
for the year ended 31 December 2011 (continued)**

25. Insurance risk (continued)

25.1 Frequency and severity of claims

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

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set limit of AED 250,000 in any one policy. The Company 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 Company 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 Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and an element of the claims provision includes incurred but not reported claims (IBNR). The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, 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 Company 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 Company 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.

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

25. Insurance risk (continued)

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

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 the reporting period.

Where possible, the Company 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 Company's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes. The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The initial estimate of the loss ratios used for the current year (before reinsurance) are analysed below by type of risk where the insured operates for current and prior year premiums earned.

Type of risk	2011	2010
Motor	70 – 75%	75 – 80%
Non-Motor	90 – 95%	70 – 75%

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 Company's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Company 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 group's of accident years within the same class of business.

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

25. Insurance risk (continued)

25.4 Concentration of Insurance risk

Substantially all of the Company'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:

	2011			2010		
	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
Gross	1,222,364	32,842,606	34,064,970	692,860	26,854,681	27,547,541
Net	1,222,364	4,809,615	6,031,979	277,144	3,786,510	4,063,654

25.5 Reinsurance risk

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Company, 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 Company 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 Company from its obligations to policyholders. The Company 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.

25.6 Sensitivity of underwriting profit and losses

The contribution by the insurance operations to the (loss)/profit of the Company amounts to AED 12.3 million (loss) for the year ended 31 December 2011 (2010: AED 12.3 million (profit)). The Company does not foresee any major impact from insurance operations due to the following reasons:

- The Company has an overall risk retention level of 51% (2010: 46%) and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 80% (2010: 61%). However, in this class the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.
- The Company has net commission earnings in 2011 of AED 6.4 million (2010: AED 12.6 million) of the net insurance profit. These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

Because of low risk retention in 51% (2010: 43%) of the business volume and limited exposure in high retention areas like motor, the Company is comfortable to maintain a net loss ratio in the region of 75%-78% (2010: 75%-78%) and does not foresee any serious financial impact in the insurance net (loss)/profit.

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

26. Capital risk management

26.1 Objectives

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007, concerning formation of Insurance Authority of U.A.E. Management considers the quantitative threshold of 15% - 20% sufficient to maximise the shareholders' return and to support the capital required;
- to safeguard the Company'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 the shareholders by pricing insurance contracts commensurately with the level of risk.
- to comply with new capital adequacy requirements announced by Insurance Authority of U.A.E. of AED 100 million within three years from January 2010. (Note 26.2)

26.2 Minimum regulatory capital

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

The table below summarises the minimum regularity capital and the total capital held

	2011 AED	2010 AED
Total capital held	50,000,000	50,000,000
Minimum regulatory capital (a)	100,000,000	100,000,000

- (a) 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 firm and AED 250 million for re-insurance firm. 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 resolution allows for compliance with the minimum capital requirements up to a period of 3 years until 2012.

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

27. Financial instruments

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

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

27.2 Categories of financial instruments

31 December 2011

	Loans and receivables AED	Held for trading AED	Available- for-sale AED	Total AED
Financial assets				
Available-for-sale investments	-	-	26,773,609	26,773,609
Statutory deposit	6,000,000	-	-	6,000,000
Insurance and other receivables	58,909,339	-	-	58,909,339
Investments held-for-trading	-	23,154,628	-	23,154,628
Bank balances and cash	28,277,473	-	-	28,277,473
Total financial assets	93,186,812	23,154,628	26,773,609	143,115,049

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

27. Financial instruments (continued)

27.2 Categories of financial instruments (continued)

31 December 2010

	Loans and receivables AED	Held for trading AED	Available- for-sale AED	Total AED
Financial assets				
Available-for-sale investments	-	-	26,866,803	26,866,803
Statutory deposit	6,000,000	-	-	6,000,000
Insurance and other receivables	73,310,444	-	-	73,310,444
Investments held-for-trading	-	26,240,355	-	26,240,355
Bank balances and cash	37,045,683	-	-	37,045,683
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets	116,356,127	26,240,355	26,866,803	169,463,285
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
			2011 AED	2010 AED
Financial liabilities				
Insurance and other payables		52,311,272		52,149,586
Bank loan		9,450,000		14,850,000
		<hr/>	<hr/>	<hr/>
Total financial liabilities		61,761,272		66,999,586
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

27.3 Fair values

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices 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.

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

27. Financial instruments (continued)

27.3 Fair values (continued)

27.3.1 Analysis of financial instruments

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

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

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
31 December 2011				
AFS investments				
Quoted investments	26,773,609	-	-	26,773,609
Investment held for trading				
Unquoted investments	-	23,154,628	-	23,154,628
	<u>26,773,609</u>	<u>23,154,628</u>	<u>-</u>	<u>49,928,237</u>
 31 December 2010				
AFS investments				
Quoted investments	26,866,803	-	-	26,866,803
Investment held for trading				
Unquoted investments	-	26,240,355	-	26,240,355
	<u>26,866,803</u>	<u>26,240,355</u>	<u>-</u>	<u>53,107,158</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. There are no financial assets that are measured at fair value using Level 3.

27.4 Market risk

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 equity price risk.

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

27. Financial instruments (continued)

27.4 Market risk (continued)

27.4.1 Interest rate risk management

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

The Company 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.

27.4.2 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the Company's exposure to interest rate risk relating to its bank deposits and bank loan, assuming that the amount of assets and liabilities at the end of the reporting period were outstanding for the whole year. At 31 December 2011, bank deposits carried an interest rate in the range of 3.8% - 4.9% per annum (2010: 4.8% - 5.0% per annum) and bank loan carried an interest rate of 1% per annum (2010: 2% per annum) over the fixed deposit rate Company is getting.

If interest rates had been 50 basis points higher/lower throughout the year and all other variables were held constant, the Company's net (loss)/profit for the year ended 31 December 2011 and equity as at 31 December 2011 would increase/decrease by approximately AED 53,125 (2010: increase/decrease by AED 210,248).

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

27.4.3 Equity price risk and sensitivity analysis

Equity 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 Company is exposed to market price risk with respect to its quoted investments. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Company actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

At the reporting date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Company's:

- (loss)/profit would have increased/decreased by AED 2.3 million (2010: AED 2.6 million) in the case of investments held for trading.
- other comprehensive income would have increased/decreased by AED 2.7 million (2010: AED 2.7 million) in the case of available-for-sale investments.

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

27. Financial instruments (continued)

27.4 Market risk (continued)

27.4.3 Equity price risk and sensitivity analysis (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 equities while all other variables are held constant, the impact on profit or loss and 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.

27.4.4 Foreign currency risk

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

27.4.5 Credit risk

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

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

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

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

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company 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 Company 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 Company. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company.

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

27. Financial instruments (continued)

27.4 Market risk (continued)

27.4.5 Credit risk (continued)

Insurance receivables consist of a large number of customers, spread across diverse industries. Ongoing credit evaluation is performed on the financial condition of insurance receivable. The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks registered in United Arab Emirates.

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

27.5 Liquidity risk

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

31 December 2011

	Less than 90 days AED	90 – 180 days AED	Above 180 days AED	Total AED
Financial assets				
Available-for-sale investments	-	-	26,773,609	26,773,609
Statutory deposit	-	-	6,000,000	6,000,000
Insurance and other receivables	11,663,911	9,412,503	37,832,925	58,909,339
Investments held-for-trading	23,154,628	-	-	23,154,628
Bank balances and cash - non interest bearing	1,731,263	-	-	1,731,263
Bank balances and cash - interest bearing	9,546,210	-	17,000,000	26,546,210
	<u>46,096,012</u>	<u>9,412,503</u>	<u>87,606,534</u>	<u>143,115,049</u>
Financial liabilities				
Bank loan	1,800,000	1,350,000	6,300,000	9,450,000
Insurance and other payables	51,788,172	523,100	-	52,311,272
	<u>53,588,172</u>	<u>1,873,100</u>	<u>6,300,000</u>	<u>61,761,272</u>

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

27. Financial instruments (continued)

27.5 Liquidity risk (continued)

31 December 2010

Financial assets	Less than 90 days AED	90 – 180 days AED	Above 180 days AED	Total AED
Available-for-sale investments	-	-	26,866,803	26,866,803
Statutory deposit	-	-	6,000,000	6,000,000
Insurance and other receivables	42,222,439	11,658,217	19,429,788	73,310,444
Investments held-for-trading	26,240,355	-	-	26,240,355
Bank balances and cash - non interest bearing	1,719,399	-	-	1,719,399
Bank balances and cash - interest bearing	18,326,284	-	17,000,000	35,326,284
	<u>88,508,477</u>	<u>11,658,217</u>	<u>69,296,591</u>	<u>169,463,285</u>
Financial liabilities				
Bank loan	1,800,000	1,350,000	11,700,000	14,850,000
Insurance and other payables	51,609,586	540,000	-	52,149,586
	<u>53,409,586</u>	<u>1,890,000</u>	<u>11,700,000</u>	<u>66,999,586</u>

28. Segment information

28.1 Business Segments

For management purposes, the Company is organised into two business segments, general insurance and investments.

The general insurance segment comprises property, fire, marine, motor, medical, general accident and miscellaneous risks.

Investment comprises investments held for trading, AFS investments, investment properties and fixed deposits. Finance costs for the loan obtained for purchasing the investment property is reduced from investment income.

These segments are the basis on which the Company reports its primary segment information to the Chief Operating Decision Maker.

The Company's underwriting business and the investments are mainly based within United Arab Emirates except for certain held for trading investments included in Note 7.

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

28. Segment information (continued)

28.1 Business segments (continued)

	2011			2010		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment revenue (Note 28.2)	105,114,915	-	105,114,915	120,925,992	-	120,925,992
Segment result	(12,272,686)	(1,329,403)	(13,602,089)	12,339,179	(485,862)	11,853,317
Unallocated costs (net)			(2,705,367)			(2,303,873)
(Loss)/profit for the year			(16,307,456)			9,549,444
Segment assets	113,067,860	159,828,237	272,896,097	125,643,366	163,007,158	288,650,524
Unallocated assets			13,254,963			21,002,332
Total assets			286,151,060			309,652,856
Segment liabilities	136,732,612	9,450,000	146,182,612	129,366,444	14,850,000	144,216,444
Unallocated liabilities			1,500,951			2,313,990
Total liabilities			147,683,563			146,530,434

There are no transactions between the business segments.

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

28. Segment information (continued)

28.2 Revenue from underwriting departments

The following is an analysis of the Company's revenues classified by major underwriting departments:

	2011	2010
	AED	AED
Motor	50,464,609	50,533,065
Marine	6,734,697	6,665,091
Medical	20,849,861	35,560,915
Fire	11,017,422	11,711,024
Engineering, property, general accidents and others	16,048,326	16,455,897
	<hr/> 105,114,915 <hr/>	<hr/> 120,925,992 <hr/>

29. Approval of financial statements

The financial statements were approved by the Board of Directors' and authorised for issue on 6 March 2012.