AL KHAZNA INSURANCE COMPANY P.S.C.

Review report and interim financial information for the period ended 31 March 2014

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Report of the Board of Directors
for the period ended 31 March 2014

The Board of Directors of Al Khazna Insurance Company P.S.C. is pleased to submit its first quarterly report of 2014 together with the interim financial information for the three months ended 31 March 2014.

The main highlights of the Group's financial results are summarized as follows:

	31 March 2014 (unaudited) AED	31 March 2013 (unaudited) AED
Gross premium written	**21,179,238**	16,134,830
Net underwriting income before operating expenses	**4,565,834**	5,689,515
Operating expenses	**(6,078,689)**	(7,482,339)
Net underwriting loss	**(1,512,855)**	(1,792,824)
Net investment income	**2,782,208**	7,666,304
Finance costs	**(4,294,886)**	(3,433,154)
(Loss)/profit for the period	**(4,018,999)**	887,870

	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED
Total assets	**890,658,799**	882,360,042
Total shareholders' Equity	**474,879,568**	478,636,085

Director
14 May 2014

Deloitte.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of
Al Khazna Insurance Company P.S.C.
Abu Dhabi, UAE

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Al Khazna Insurance Company P.S.C. (the "Company") and its subsidiaries (the "Group") as of 31 March 2014 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the three months period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard (IAS) 34, "*Interim Financial Reporting.*" Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion

1. As stated in note 4, during the year ended 31 December 2013, all of the Group's investment properties were revalued by a valuation expert, and their fair value was determined to be AED 330.8 million as at 31 December 2013. The impact of this change in fair value estimate as at 31 December 2013 resulted in a decrease in investment properties by AED 129.5 million compared to their carrying amount as of 31 December 2012 with the corresponding loss recognised in the consolidated statement of profit or loss for the year ended 31 December 2013. Management did not complete its assessment on whether the full fair value loss related to the comparatives' period presented in this interim financial information or to earlier periods. As there is no sufficient evidence available at the date of this report, we were unable to determine whether the profit for the period ended 31 March 2013 and opening retained earnings as at 1 January 2013 are fairly stated.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION (continued)

Basis for qualified conclusion (continued)

2. As disclosed in note 8, Insurance and other receivables include a balance of prepaid rent of AED 12.9 million (31 December 2013: AED 14.2 million) relating to a leased building which management intends to use for a university project. The future economic benefits from the leased property will flow to the Group only if the university project materializes. At the date of this report, the project status and documentation in place do not provide sufficient evidence that future economic benefits will probably flow to the Group. Accordingly, we were unable to satisfy ourselves that the prepaid rent reflected in the accompanying condensed consolidated statement of financial position is fairly stated.

Qualified conclusion

Based on our review, except for possible effects of the matters described in the basis for qualified conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects in accordance with IAS 34 *Interim Financial Reporting.*

Emphasis of matter

Without qualifying our conclusion, we draw attention to the fact, as explained in Note 14, that the Group has been granted a bank facility which currently has a carrying amount of AED 191.6 million, for which the Group is disputing the interest charged by the Bank since 2009. The dispute arose when the Bank changed the interest charged on the facility to a rate higher than that stated in the loan agreement. The excess interest charged up to 31 March 2014 is approximately AED 19.3 million. This has not been recorded by the Group as a finance cost. The Group is currently in negotiations with the Bank to adjust the interest being charged on the Bank loan; however no formal consent has been obtained from the Bank. Thus, the final outcome of the matter cannot presently be determined.

Deloitte & Touche (M.E.)

Georges F. Najem
Registration No. 809
14 May 2014

Condensed consolidated statement of financial position as at 31 March 2014

	Notes	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED
ASSETS			
Property and equipment		**6,696,890**	6,832,319
Investment properties	4	**330,764,000**	330,764,000
Investments in securities			
- Available-for-sale (AFS) investments	5	**77,167,691**	76,905,209
- Investments designated at fair value through profit or loss (FVTPL)	5	**266,176,218**	265,604,878
Statutory deposit	6	**10,000,000**	10,000,000
Re-insurance contract assets	7	**84,102,671**	80,562,263
Insurance and other receivables	8	**86,896,540**	77,642,321
Prepayments		**1,255,377**	992,427
Deferred acquisition costs		**1,101,484**	1,140,225
Term deposits		**1,738,020**	1,738,020
Bank and cash	9	**24,759,908**	30,178,380
Total assets		**890,658,799**	882,360,042
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	**420,000,000**	420,000,000
Share premium		**1,788,422**	1,788,422
Legal reserve	11	**62,145,349**	62,145,349
Regulatory reserve	12	**60,103,225**	60,103,225
Fair value reserve		**32,121,900**	31,859,418
Revaluation reserve		**11,736,841**	11,736,841
Accumulated losses		**(113,016,169)**	(108,997,170)
Total capital and reserves		**474,879,568**	478,636,085
LIABILITIES			
Provision for end of service benefit		**4,007,562**	4,024,237
Insurance contract liabilities	7	**123,989,779**	116,676,651
Insurance and other payables	13	**87,153,573**	84,709,351
Bank borrowings	14	**191,620,022**	188,811,730
Re-insurance deposit retained		**3,888,930**	4,250,820
Unearned reinsurance commission		**2,059,875**	2,584,337
Accruals and deferred income		**3,059,490**	2,666,831
Total liabilities		**415,779,231**	403,723,957
Total equity and liabilities		**890,658,799**	882,360,042

(14/5/2014)

Director **Managing Director** **Chief Financial Officer**

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

Condensed consolidated statement of profit or loss (unaudited)
for the period ended 31 March 2014

	Notes	3 months ended 31 March 2014 AED	2013 AED
Gross premiums written		**21,179,238**	16,134,830
Change in unearned premium provision		**3,546,164**	12,127,632
Premium income earned		**24,725,402**	28,262,462
Reinsurance premiums ceded		**(8,530,594)**	(8,258,820)
Change in unearned premium provision		**(6,719,137)**	(6,032,201)
Re-insurance ceded		**(15,249,731)**	(14,291,021)
Net earned premiums		**9,475,671**	13,971,441
Gross claims incurred		**(16,114,903)**	(17,003,914)
Reinsurance share of claims incurred		**10,030,225**	7,968,727
Net claims incurred		**(6,084,678)**	(9,035,187)
Commission expenses - net		**(419,256)**	(985,205)
Commission income		**1,594,097**	1,738,466
Operating expenses		**(6,078,689)**	(7,482,339)
Net underwriting loss		**(1,512,855)**	(1,792,824)
Net investment income	15	**2,782,208**	7,666,304
Operating expenses		**(1,195,055)**	(1,343,327)
Finance costs		**(4,294,886)**	(3,433,154)
Other income/(expenses)		**201,589**	(209,129)
(Loss)/profit for the period attributable to equity holders of the parent company	17	**(4,018,999)**	887,870
Basic and diluted (loss)/earnings per share	18	**(0.009)**	0.002

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

Condensed consolidated statement of comprehensive income (unaudited)
for the period ended 31 March 2014

		3 months ended 31 March	
		2014	2013
	Note	**AED**	AED
(Loss)/profit for the period		**(4,018,999)**	887,870
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Net fair value gain on AFS investments	**5**	**262,482**	469,771
Other comprehensive income for the period		**262,482**	469,771
Total comprehensive (loss)/income for the period attributable to equity holders of the parent company		**(3,756,517)**	1,357,641

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

Condensed consolidated statement of changes in equity for the period ended 31 March 2014

	Share capital AED	Share premium AED	Legal reserve AED	Regulatory reserve AED	Revaluation reserves AED	Retained earnings/ (accumulated losses) AED	Attributable to the equity holders of the company AED
Balance at 1 January 2013 (audited)	410,000,000	1,785,315	62,145,349	60,103,225	29,898,527	63,869,119	627,801,535
Profit for the period	-	-	-	-	-	887,870	887,870
Other comprehensive income	-	-	-	-	469,771	-	469,771
Total comprehensive income for the period	-	-	-	-	469,771	887,870	1,357,641
Balance at 31 March 2013 (unaudited)	410,000,000	1,785,315	62,145,349	60,103,225	30,368,298	64,756,989	629,159,176
Balance at 1 January 2014 (audited)	420,000,000	1,788,422	62,145,349	60,103,225	43,596,259	(108,997,170)	478,636,085
Loss for the period	-	-	-	-	-	(4,018,999)	(4,018,999)
Other comprehensive income	-	-	-	-	262,482	-	262,482
Total comprehensive income/(loss) for the period	-	-	-	-	262,482	(4,018,999)	(3,756,517)
Balance at 31 March 2014 (unaudited)	**420,000,000**	**1,788,422**	**62,145,349**	**60,103,225**	**43,858,741**	**(113,016,169)**	**474,879,568**

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

Condensed consolidated statement of cash flows (unaudited)
for the period ended 31 March 2014

	3 months ended 31 March	
	2014	2013
	AED	AED
Cash flows from operating activities		
(Loss)/profit for the period	**(4,018,999)**	887,870
Adjustments for:		
Depreciation of property and equipment	**195,255**	369,243
Net fair value gain on investment properties	**-**	(6,441,650)
Net fair value (gain)/loss on investments at FVTPL	**(571,340)**	3,528,183
Dividends from investments in securities	**(853,600)**	(1,320,842)
Interest income	**(9,565)**	(11,968)
Interest expense	**4,294,886**	3,433,154
Gain on disposal of property and equipment	**(28,091)**	-
Provision for employees' end of service benefit	**152,228**	267,698
Cash flow (used in)/from operating activities before movement in working capital	**(839,226)**	711,688
Net movement in deferred acquisition costs	**38,741**	337,454
Net movement in reinsurance contract assets	**(3,540,408)**	3,306,111
Net movement in insurance contract liabilities	**7,313,128**	(16,594,626)
Net movement in unearned reinsurance commissions	**(524,462)**	(357,731)
(Increase)/decrease in insurance and other receivables	**(9,245,096)**	7,060,532
Increase in prepayments	**(262,950)**	(734,585)
Increase/(decrease) in insurance and other payables	**957,628**	(5,523,195)
Decrease in reinsurance deposit retained	**(361,890)**	(437,132)
Increase in accruals and deferred income	**392,659**	595,568
Cash flows used in operating activities	**(6,071,876)**	(11,635,916)
Employees' end of service benefits paid	**(168,903)**	(97,311)
Net cash used in operating activities	**(6,240,779)**	(11,733,227)
Cash flows from investing activities		
Payments to acquire property and equipment	**(72,935)**	(99,389)
Proceeds from sale of property and equipment	**41,200**	-
Dividends received	**853,600**	1,320,842
Interest income received	**442**	11,968
Net cash generated from investing activities	**822,307**	1,233,421
Net decrease in cash and cash equivalents	**(5,418,472)**	(10,499,806)
Cash and cash equivalents at beginning of the period	**30,178,380**	38,397,531
Cash and cash equivalents at end of the period (note 19)	**24,759,908**	27,897,725

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

Notes to the condensed consolidated financial statements for the period ended 31 March 2014

1 General

Al Khazna Insurance Company P.S.C. (the "Company") is a public shareholding company. The Company and its subsidiaries (together the "Group") are incorporated in the Emirate of Abu Dhabi by virtue of the Emiri Decree No. (4) dated 11 September 1996.

The Company's principal activity is the writing of general insurance and re-insurance business of all classes.

The Company operates through its head office in Abu Dhabi and branch offices in Dubai and Al Ain. The Company is domiciled in the United Arab Emirates and its registered office address is P.O. Box 73343, Abu Dhabi, United Arab Emirates.

The Company's ordinary shares are listed on Abu Dhabi Securities Exchange.

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

At the date of authorisation of these condensed consolidated financial statements, the following new and revised IFRSs were in issue but not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual improvements 2010-2012 covering amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38	1 July 2014
Annual improvements 2011-2013 covering amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40	1 July 2014
Amendment to IAS 19 *Employee Benefits* relating to defined benefit plans and employee contributions	1 July 2014
IFRS 9 *Financial Instruments* (as revised in 2010)	Not earlier than 1 January 2018
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
Amendment to IFRS 7 *Financial Instruments: Disclosures* relating to transition to IFRS 9	When IFRS 9 is first applied
Amendments to IAS 39 *Financial Instruments*	When IFRS 9 is first applied

Management anticipates that these amendments will be adopted in the consolidated financial statements for the initial period when they become effective. Management has not yet had the opportunity to consider the potential impact of the adoption of these amendments.

3 Summary of significant accounting policies

3.1 Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, "*Interim Financial Reporting*" and also comply with the applicable requirements of the laws in the UAE.

3.2 Basis of preparation

The condensed consolidated financial statements are presented in UAE Dirhams (AED) since that is the currency in which the majority of the Group's transactions are denominated.

These condensed consolidated financial statements have been prepared on the historical cost basis, except for the measurement at fair value of investment properties and certain financial instruments.

As required by the Securities and Commodities Authority ("SCA") notification dated 12 October 2008, accounting policies relating to investment securities and investment properties have been disclosed in Notes 3.4 to 3.5 below.

The accounting policies and estimates used in the preparation of these condensed consolidated financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations effective 1 January 2014.

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

New and revised IFRSs	**Summary of requirements**
Amendments to IAS 32 *Financial Instruments: Presentation*	The amendments provide guidance on the offsetting of financial assets and financial liabilities.
Amendments to IAS 36 *Impairment of Assets* relating to recoverable amount disclosures for non-financial assets	The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to period in which an impairment loss has been recognized or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.
Amendments to IAS 39 *Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting*	The amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.

3 Summary of significant accounting policies (continued)

3.2 Basis of preparation (continued)

New and revised IFRSs	Summary of requirements
Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* - Guidance on Investment Entities	On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs. The objective of this project is to develop an exemption from the requirement to consolidate subsidiaries for eligible investment entities (such as mutual funds, unit trusts, and similar entities), instead requiring the use of the fair value to measure those investments.
IFRIC 21 *Levies*	This Interpretation was developed to address the concerns about how to account for levies that are based on financial data of a period that is different from that in which the activity that give rise to the payment of the levy occurs.

Estimates

The preparation of these condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies, and the key sources of estimates uncertainty were the same as those were applied to the consolidated financial statements as at and for the year ended 31 December 2013.

Notes to the condensed consolidated financial statements for the period ended 31 March 2014 (continued)

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation

The condensed consolidated financial statements incorporate the financial statements of the Company and the following entities:

Name of subsidiary	Proportion of ownership		Country of incorporation	Principal activities
	2014	2013		
The Best Tenants LLC ***	**99%**	99%	UAE	To market, promote and deliver property management and advisory services.
Real Estate Academy Est. (Al Akarya Academy) **	**100%**	100%	UAE	To market, promote and delivery management and advisory services in respect of real estate.
Al Khazna Real Estate Est. *	**100%**	100%	UAE	To market, promote and deliver management and advisory services in respect of real estate.
Modern Academy Administrative Training LLC *	**100%**	100%	UAE	To provide business management training.
IT Academy LLC *	**100%**	100%	UAE	To provide business management training.
Real Estate Academy for Training LLC *	**100%**	100%	UAE	To provide business management training.
Academy of Tourism and Holidays LLC *	**100%**	100%	UAE	To provide training in the field of travel, tourism and hotel management.
First Deal Real Estate LLC ***	**100%**	100%	UAE	To manage investments in real estate.
Academy for Investment Est. *	**100%**	100%	UAE	To manage investments in real estate.
Under Writing Electronics Solutions Est. *	**100%**	100%	UAE	Data formatting, computer system and instruments filling services.
Tadawel Electronics Solutions Est. *	**100%**	100%	UAE	Software consultancy, storing and retrieving data.
Tel Fast Recruitment Agencies LLC *	**99%**	99%	UAE	Employment services – recruitment
Tel Fast Manpower Supply LLC *	**99%**	99%	UAE	Labourers supply services.

* These subsidiaries have not yet commenced operations and their trade licenses have expired and not been renewed.

** These subsidiaries have not yet commenced operations and do not have trade licenses.

***These subsidiaries have commenced operations but their trade licenses have expired and not been renewed.

The ownership is held by the Company and its subsidiaries.

3 Summary of significant accounting policies (continued)

3.4 Investments in securities

3.4.1 Investments at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair values of financial assets at fair value through profit or loss are determined by reference to quoted market prices.

Dividend income on investments in equity instruments at FVTPL is recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue* and is included in the 'net investment income' line item in the profit and loss.

3.4.2 Available for sale (AFS) investments

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held to maturity, or financial assets at FVTPL. Available-for-sale investments are measured at subsequent reporting dates at fair value unless the latter cannot be reliably measured. Gain and losses arising from changes in fair value are recognized directly in equity, until the security disposed of or is determined to be impaired, at which time the cumulative gains or losses previously recognized in equity are included in the net profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

3 Summary of significant accounting policies (continued)

3.4 Investment in securities (continued)

3.4.2 Available for sale (AFS) investments (continued)

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in profit or loss and are included in 'net investment income' in the profit or loss.

3.5 Investment properties

Investment properties comprise completed properties which are held to earn rentals and/or for capital appreciation and properties under development which are properties being constructed or developed for future use as an investment property.

Investment property is measured initially at cost including transaction costs and for properties under development all direct costs attributable to the design and construction including related staff costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in the profit or loss in the period in which they arise.

Upon completion of construction or development, a property is transferred from properties under development to completed properties.

Notes to the condensed consolidated financial statements for the period ended 31 March 2014 (continued)

4 Investment properties

Investment properties represent the fair value of lands with a total value of AED 161.1 million (31 December 2013: AED 161.1 million), and buildings with a value of AED 169.7 million (31 December 2013: AED 169.7 million) owned by the Group in Abu Dhabi, Al Ain and Mussaffah.

The fair value of the investment properties as of 31 December 2013 has been arrived at on the basis of valuations carried out by M/s Colliers International P.O. Box 71591, Dubai, United Arab Emirates, independent valuers not related to the Group. The valuations were arrived at by reference to market evidence of transactions of similar properties and income approach. In estimating the fair value of the properties, the highest and best use of the property is considered as their current use. The inputs used in the valuation are not based on observable market data and thus the valuation techniques were considered to be Level 3 valuation. Management believes that there has been no significant change to the key assumptions used and accordingly there is no change in the fair value of the investment properties as at 31 March 2014.

The impact of the change in fair value estimate as at 31 December 2013 resulted in a decrease in investment properties by AED 129.5 million compared to their carrying value as of 31 December 2012. Management did not complete its assessment on whether this decrease in fair value came as a result of changes in circumstances or failure to use reliable information that was available when consolidated financial statements for periods prior to the year ended 31 December 2013 were authorised for issue. As the assessment was not completed, the decrease in fair value amounting to AED 129.5 million has been charged to the consolidated profit or loss for the year ended 31 December 2013.

A building with a carrying value of AED 146 million (2013: AED 146 million) is mortgaged in favour of First Gulf Bank against the bank loan (note 14).

Included within investment property are two plots of land with a carrying value of AED 89.3 million (2013: AED 89.3 million) whose title was not transferred to the name of the Group, pending the settlement of the last installment. Also included within investment property is a plot of land valued at AED 11.6 million (2013: AED 11.6 million) whose transfer of title is currently being processed.

All investment properties are located in the United Arab Emirates.

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

	3 months ended 31 March	
	2014	2013
	(unaudited)	(unaudited)
	AED	AED
Rental income	**1,650,356**	2,940,789
Direct operating expenses	**(183,133)**	(169,690)
Net income from investment properties (note 15)	**1,467,223**	2,771,099

Notes to the condensed consolidated financial statements for the period ended 31 March 2014 (continued)

5 Investments in securities

	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED
AFS investments		
Quoted UAE equity securities	**6,387,069**	6,124,587
Unquoted UAE equity securities	**70,780,622**	70,780,622
	77,167,691	76,905,209
Investments at FVTPL		
Quoted UAE securities	**207,541,260**	198,303,813
Quoted foreign equity securities	**58,634,958**	67,301,065
	266,176,218	265,604,878

The movement in the investments in securities is as follows:

	AED	AED
AFS investments		
Fair value at 1 January	**76,905,209**	63,701,643
Increase in fair value taken to other comprehensive income	**262,482**	13,697,732
Impairment losses on unlisted UAE equity securities	**-**	(494,166)
Fair value at the end of the reporting period/year	**77,167,691**	76,905,209
Investments at FVTPL		
Fair value at 1 January	**265,604,878**	282,359,551
Increase/(decrease) in fair value taken to profit or loss	**571,340**	(16,754,673)
Fair value at the end of the reporting period/year	**266,176,218**	265,604,878

The geographical distribution of investments is as follows:

	AED	AED
Within UAE	**284,708,951**	275,209,022
Outside UAE	**58,634,958**	67,301,065
	343,343,909	342,510,087

Notes to the condensed consolidated financial statements for the period ended 31 March 2014 (continued)

6 Statutory deposit

In accordance with the requirements of UAE Federal Law No.6/2007 covering insurance companies and agencies, the Company maintains a bank deposit of AED 10,000,000 (31 December 2013: AED 10,000,000) which cannot be utilised without the consent of the UAE Insurance Authority.

7 Insurance contract liabilities and re-insurance contract assets

	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED
Insurance liabilities		
- Claims reported unsettled	**78,604,944**	67,600,221
- Claims incurred but not reported	**2,395,999**	2,541,430
- Unearned premiums	**42,988,836**	46,535,000
	123,989,779	116,676,651
Recoverable from re-insurers		
- Claims reported unsettled	**63,581,980**	53,246,286
- Claims incurred but not reported	**954,664**	1,030,813
- Unearned premiums	**19,566,027**	26,285,164
	84,102,671	80,562,263
Insurance liabilities - net		
- Claims reported unsettled	**15,022,964**	14,353,935
- Claims incurred but not reported	**1,441,335**	1,510,617
- Unearned premiums	**23,422,809**	20,249,836
	39,887,108	36,114,388

Notes to the condensed consolidated financial statements for the period ended 31 March 2014 (continued)

8 Insurance and other receivables

	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED
Due from policy holders	**53,419,166**	50,902,966
Due from agents, brokers and intermediaries	**24,003,353**	21,777,928
Due from insurance companies	**16,506,946**	11,663,276
Less: provision for impairment of receivables	**(27,931,108)**	(28,820,306)
	65,998,357	55,523,864
Deposits and other receivables	**11,971,874**	12,070,536
Less: provision for impairment of other receivables	**(5,400,000)**	(5,400,000)
	6,571,874	6,670,536
Prepaid rent	**12,980,564**	14,160,616
Rent receivables	**1,345,745**	1,287,305
	86,896,540	77,642,321

Prepaid rent represents a 5 year lease agreement that commenced on 19 November 2011 for a five storey building in Dubai World Center which management intends to use for a university project.

The Group signed a Memorandum of Understanding (MoU) with Abu Dhabi Holding, a related party, on 27 March 2013. As per the MoU, both parties agreed to enter into a partnership to establish and operate the university, whereby the Group contribution would be providing the leased premises to the partnership for which the prepaid rent of AED 12.9 million is outstanding as at 31 March 2014 (31 December 2013: AED 14.2 million). The partnership has not been established as at 31 March 2014, and is subject to obtaining regulatory approvals and finalisation of legal documentation.

9 Bank and cash

	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED
Balances held at UAE banks	**23,082,262**	28,500,998
Balances held at foreign banks abroad	**1,536,811**	1,542,372
Cash on hand	**140,835**	135,010
	24,759,908	30,178,380

Notes to the condensed consolidated financial statements for the period ended 31 March 2014 (continued)

10 Share capital

	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED
Authorised:		
420,000,000 shares of AED 1 each	**420,000,000**	420,000,000
Allotted, issued and fully paid:		
420,000,000 shares of AED 1 each	**420,000,000**	420,000,000

11 Legal reserve

In accordance with the UAE Federal Law number (8) of 1984 (as amended) concerning Commercial Companies and the Company's Articles of Association, 10% of profit is to be transferred to a non-distributable legal reserve until the balance of the legal reserve equals 50% of the Company's paid up share capital. This reserve is not available for dividend distribution.

12 Regulatory reserve

In accordance with Article 57 of the Company's Articles of Association, 10% of the Company's annual net profit is transferred to the regulatory reserve. This reserve may be used for such purposes as the Directors deem fit.

13 Insurance and other payables

	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED
Due to insurance companies	**28,257,945**	21,749,042
Other insurance payables	**29,592,413**	33,711,585
Dividends payable	**18,051,985**	18,053,961
Accruals and other payables	**11,251,230**	11,194,763
	87,153,573	84,709,351

14 Bank borrowings

	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED
Bank loan	**64,278,428**	79,978,428
Bank overdrafts	**127,341,594**	108,833,302
	191,620,022	188,811,730

The loan is from First Gulf Bank and is repayable in semi-annual installments of AED 15.8 million each up to 2017. The loan carries interests at a rate of 6 month EIBOR + 1.50%. The Group has provided First Gulf Bank with a primary mortgage over AKIC Tower, classified under the investment properties, fair valued at AED 146 million (31 December 2013: AED 146 million).

Beginning 2009, the bank changed the interest rates on the bank loan and charged the Group interest rate greater than what was stipulated in the loan agreement. As per the agreement, changes in interest rate need to be mutually agreed by both parties through a written confirmation. The Group did not acknowledge any change in interest rate and requested the justification from the bank for the change in interest rate.

The bank has opened a bank overdraft facility in the name of the Group for the repayment of the six due installments on which the group defaulted from 2011 to 31 March 2014. The outstanding overdraft balance as at 31 March 2014 amounted to AED 127.3 million (31 December 2013: AED 108.8 million). The Bank charged an interest at a rate of 10% on this overdraft facility.

Management believes that the 10% interest charged on the overdraft facility is excessive and the bank would not be eligible for more than 3% interest over the overdraft facility as a penalty for the due payments as per the original agreement.

The excess interest charged to date on the loan and the overdraft facility is approximately AED 19.3 million (31 December 2013: AED 15.9 million). This has not been recorded by the Group as a finance cost.

The Group is currently in the process of finalizing negotiation with the bank to adjust the interest being charged on the bank loan to the originally mandated interest as per the agreement.

The final consent has not yet obtained from the bank but management is confident that the bank will adjust the interest according to the original terms of the contract.

Notes to the condensed consolidated financial statements for the period ended 31 March 2014 (continued)

15 Net investment income

	3 months ended 31 March	
	2014 (unaudited) AED	2013 (unaudited) AED
Interest on term deposits	**9,565**	11,968
Net income from investment properties (note 4)	**1,467,223**	2,771,099
Net fair value gain on investment properties	**-**	6,441,650
Net fair value gain/(loss) on investments at FVTPL	**571,340**	(3,528,182)
Dividend from investments in securities	**853,600**	1,320,842
Other investment (loss)/ income - net	**(119,520)**	648,927
	2,782,208	7,666,304

16 Related parties

Related parties comprise the major Shareholders, the Directors and key management personnel of the Group and those entities in which they have the ability to control or exercise significant influence in financial and operation decisions. The Group maintains significant balances with these related parties which arise from commercial transactions as follows:

	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED
Due from policyholders	**2,273,968**	914,146
Other receivables	**3,351,341**	3,342,182
Due to policyholders	**4,341,836**	4,477,743

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

	3 months ended 31 March	
	2014 (unaudited)	2013 (unaudited)
Net premiums written	**3,246,873**	541,852
Claims paid	**1,060,899**	222,683

Notes to the condensed consolidated financial statements for the period ended 31 March 2014 (continued)

16 Related parties (continued)

	3 months ended 31 March	
	2014 (unaudited)	2013 (unaudited)
Remuneration of key management personnel	**1,646,289**	2,068,082

The remuneration of key management personnel is based on the remuneration agreed in their employment contract as approved by the Board of Directors.

17 (Loss)/profit for the period

(Loss)/profit for the period is arrived after charging the following:

	3 months ended 31 March	
	2014 (unaudited) AED	2013 (unaudited) AED
Staff costs	**5,115,556**	5,516,929
Depreciation on property and equipment	**195,255**	369,243

18 Basic and diluted (loss)/earnings per share

(Loss)/earnings per share are calculated by dividing the (loss)/profit for the period the weighted average number of ordinary shares outstanding during the period as follows:

	3 months ended 31 March	
	2014 (unaudited)	2013 (unaudited)
(Loss)/profit for the period (AED)	**(4,018,999)**	887,870
Weighted number of ordinary shares in issue throughout the period	**420,000,000**	420,000,000
Basic (loss)/earnings per share (AED)	**(0.009)**	0.002

As of 31 March 2014 and 2013, the Group has not issued any instruments that have an impact on earnings per share when exercised and accordingly diluted earnings per share are the same as basic earnings per share.

Notes to the condensed consolidated financial statements for the period ended 31 March 2014 (continued)

19 Cash and cash equivalents

	3 months ended 31 March	
	2014	2013
	(unaudited)	(unaudited)
	AED	AED
Term deposits	**1,738,020**	1,692,500
Bank balances and cash	**24,759,908**	32,718,720
Less: Term deposits with original maturity of greater than three months	**(1,738,020)**	(1,692,500)
Bank overdraft facilities	**-**	(4,820,995)
	24,759,908	27,897,725

For the purpose of the statement of cash flows, bank overdraft amounting to AED 127.3 million (31 March 2013: AED 86.5 million) was excluded from cash and cash equivalents since it relates to the financing of the bank loan (note 14) and is included within the financing activities.

20 Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated statement of profit or loss for the three-month period ended 31 March 2014 and 2013.

21 Contingent liabilities

At 31 March 2014, the Group had contingent liabilities in respect of outstanding letters of guarantee issued in the normal course of business, amounting to AED 2.9 million (31 December 2013: AED 7.1 million).

22 Segment information

For operating purposes, the Group is organised into two main business segments:

Underwriting of general insurance business – incorporating all classes of general insurance such as; fire, marine, motor, general accident and miscellaneous.

Investments – Incorporating investments in marketable equity securities, term deposits with banks and investment properties and other securities.

Notes to the condensed consolidated financial statements for the period ended 31 March 2014 (continued)

22 Segment information (continued)

Primary segment information- business segment

The following is an analysis of the Group's revenue and results by operating segment:

	31 March (unaudited)					
	Underwriting		Investments		Total	
	2014 AED	2013 AED	2014 AED	2013 AED	2014 AED	2013 AED
Segment revenue	**22,773,335**	17,873,296	**2,965,341**	7,835,994	**25,738,676**	25,709,290
Segment result	**(1,512,855)**	(1,792,824)	**1,587,153**	6,322,977	**74,298**	4,530,153
Unallocated expenses					**(4,093,297)**	(3,642,283)
(Loss)/profit for the period					**(4,018,999)**	887,870

The following is an analysis of the Group's assets and liabilities by operating segment:

	Underwriting		Investments		Total	
	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED	31 March 2014 (unaudited) AED	31 December 2013 (audited) AED
Segment assets	**180,052,962**	167,169,555	**685,845,929**	685,012,107	**865,898,891**	852,181,662
Unallocated assets					**24,759,908**	30,178,380
Total assets					**890,658,799**	882,360,042
Segment liabilities	**203,047,735**	194,191,435	**194,679,511**	191,478,561	**397,727,246**	385,669,996
Unallocated liabilities					**18,051,985**	18,053,961
Total liabilities					**415,779,231**	403,723,957

There were no transactions between the business segments during the period.

Notes to the condensed consolidated financial statements
for the period ended 31 March 2014 (continued)

22 Segment information (continued)

Secondary segment information-revenue from underwriting departments

The following is an analysis of the Group's revenues (gross written premiums and commission income) classified by major underwriting departments.

	3 months ended 31 March	
	2014 (unaudited) AED	2013 (unaudited) AED
Motor	**7,544,599**	7,327,224
Engineering	**1,986,560**	2,070,513
Fire and General Accidents	**6,402,519**	6,984,035
Marine and Aviation	**756,135**	527,478
Employee Benefits, Medical and Personal Assurance	**6,083,522**	964,046
	22,773,335	17,873,296

23 Fair value measurement

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value 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 (that is, as prices) or indirectly (that is, derived from prices).
- **Level 3** – fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 March 2014 (unaudited)	**Level 1 AED**	**Level 2 AED**	**Level 3 AED**	**Total AED**
ASSETS MEASURED AT FAIR VALUE				
Investment properties	-	-	**330,764,000**	**330,764,000**
At fair value through profit or loss				
Quoted equity securities	**266,176,218**	-	-	**266,176,218**
AFS financial assets				
Quoted equity securities	**6,387,069**	-	-	**6,387,069**
Unquoted equity securities	-	**10,500,758**	**60,279,864**	**70,780,622**
	6,387,069	**10,500,758**	**60,279,864**	**77,167,691**

Notes to the condensed consolidated financial statements for the period ended 31 March 2014 (continued)

23 Fair value measurement (continued)

31 December 2013 (audited)	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
ASSETS MEASURED AT FAIR VALUE				
Investment properties	-	-	330,764,000	330,764,000
At fair value through profit or loss				
Quoted equity securities	265,604,878	-	-	265,604,878
AFS financial assets				
Quoted equity securities	6,124,587	-	-	6,124,587
Unquoted equity securities	-	10,500,758	60,279,864	70,780,622
	6,124,587	10,500,758	60,279,864	76,905,209

During the period, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements (2013: None).

24 Approval of condensed consolidated financial statements

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 14 May 2014.