Al Khazna Insurance Company
(Public Shareholding Company)

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

Al Khazna Insurance Company P.S.C

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

Al Khazna Insurance Company P.S.C

Board of Directors' report for the Group's performance and financial position for the year ended 31 December 2011

The board of directors of Al Khazna Insurance Company has the pleasure to present the annual Board of Directors report and the audited financial statements for the year ended 31 December 2011.

The board has given their best effort to rectify all the technical and administration matters despite the fact that the year 2011 did not differ much from the year 2010 concerning the investment activity and the on-going negative impact of the financial and economic crisis, besides the tough competition, the price undercutting, and the lack of cooperation between the companies in the market.

I will briefly present the technical and financial results of the company as follows:

1. Insurance activities :

The year 2011 has recorded a net profit of AED 11,804,428 compared to a net loss of AED 106,844,651 in 2010 despite the decrease in the total premiums earned from AED 280,129,767 in 2010 to AED 142,588,142 in 2011.

The net claims have substantially decreased from AED 192,942,530 in the year 2010 to AED 43,575,267 in 2011. This 77% decrease is mainly due to management emphasis on the quality of the business written instead of the quantity.

The net underwriting results registered a decent growth, rising from loss of AED 26,289,544 in 2010 to profit of AED 30,179,724 in 2011.

2. Investment activity:

The investment portfolio of the company comprises of long term investments in properties and some investments in the securities market listed shares as well as unlisted ones. The company also has invested in a gulf based insurance company.

The investment portfolio had a significant growth this year, rising from loss of AED 29,322,326 in 2010 to profit of AED 38,442,880 in 2011.

3. Marketing and Administrative expenses:

The Marketing and administrative expenses increased from AED 43,465,469 in 2010 to AED 52,473,922 in 2011.

4. Net profit/Loss:

The company has achieved a net profit amounting to AED 11,804,428 In 2011 compared to a net loss of AED 106,844,656 in 2010, which is considered a good result and sets the company back on the track of profitability and competitiveness.

Al Khazna Insurance Company P.S.C

Board of Director's report of the company's performance and financial results for the year ended 31/12/2011 (Continued)

5. Company's achievements:

The company had focused in the previous period on restructuring and organizing its internal issues to render the insurance services in a distinguished manner, strengthen the management work force, achieve the targeted results and return to profitability.

The company has also entered into several business relationships with highly rated, experienced and reputed reinsurance companies, as well as reviving its agreements with numerous medical providers. It has also focused on providing the services that can generate profit for the shareholders without getting into rough competitions.

6. Board of Directors suggestions:

The Board suggests that the shareholders undertake the following:

- Approve the financial statements and the profit and loss accounts for the year ended 31.12.2011 and endorse it.
- Look into the Board of Directors recommendation to distribute 2.5% bonus shares for the year 2011.
- Absolve the board of directors and the external auditors of their liabilities for the year 2011.
- Hire or rehire the external auditors for the year 2012 and agreeing on their fees.

Finally the Board of Directors would like to extend its sincere thanks and gratitude to H.H. Sheikh Khalifa Bin Zayed Al Nahyan, the President of the United Arab Emirates and Ruler of the Emirate of Abu Dhabi, H.H. Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai, H.H. Sheikh Mohammed Bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi, and the Rulers of all the other Emirates for their wise leadership and support. We would like to also thank the Abu Dhabi Securities Market and the Insurance authority for their continuous support.

The Board would like also to express its high appreciation to the shareholders, the customers, all the companies, reinsurers, brokers and the company's external auditors for their constant trust and continuous support, as well as the company's management team and staff for their sincere efforts.

Khalifa Mohammed Rubaya Al Muhairi

Chairman

26 March 2012

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Independent auditor's report
to the shareholders of Al Khazna Insurance Company P.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Al Khazna Insurance Company P.S.C. (the Company) and its subsidiaries (together, the Group) which comprise the consolidated statement of financial position as of 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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W Hunt, AH Nasser, P Suddaby and JE Fakhoury are registered as practising auditors with the UAE Ministry of Economy

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Independent auditors' report
to the shareholders of Al Khazna Insurance Company P.S.C. (continued)

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 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

Further, as required by the UAE Federal Law No. (8) of 1984, as amended, in respect of the Company, we report that:

(i) we have obtained all the information we considered necessary for the purposes of our audit;

(ii) the consolidated financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended and the Articles of Association of the Company;

(iii) the Company has maintained proper books of accounts in accordance with properly established procedures;

(iv) the financial information included in the Report of the Board of Directors is consistent with the books of account of the Company; and

(v) nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, the UAE Federal Law No. (9) of 1984 (as amended) and UAE Federal Law No. (6) of 2007 concerning Insurance Companies and Agents or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2011.

PricewaterhouseCoopers
25 March 2012

Jacques E. Fakhoury
Registered Auditor Number 379
Abu Dhabi, United Arab Emirates

Al Khazna Insurance Company P.S.C.

Consolidated statement of financial position

	Notes	At 31 December 2011 AED	2010 AED
ASSETS			
Property and equipment	6	9,145,609	9,750,093
Investment properties	7	472,644,824	461,442,935
Financial assets			
- Available-for-sale	8	63,087,384	135,194,967
- At fair value through profit or loss	8	248,927,782	199,878,932
- Held-to-maturity	8	-	18,332,500
Advances	9	-	23,601,026
Insurance and other receivables	10	126,636,633	150,610,798
Reinsurance contracts	15	111,710,903	143,661,406
Deferred acquisition costs	27	1,604,106	2,258,143
Bank deposits with an original maturity of more than 3 months	11	11,634,455	11,591,555
Cash and cash equivalents	12	14,771,192	43,281,463
Total assets		1,060,162,888	1,199,603,818
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	400,000,000	400,000,000
Share premium		1,783,412	1,783,412
Legal reserve	14	60,106,478	58,122,000
Regulatory reserve	14	58,064,354	56,267,338
Fair value reserve	16	16,444,208	37,759,508
Revaluation reserve	14	11,736,841	11,736,841
Retained earnings		66,036,686	58,013,752
Total capital and reserves attributable to the Company's equity holders		614,171,979	623,682,851
LIABILITIES			
Insurance liabilities	15	169,912,589	278,626,107
Unearned reinsurance commission	24	3,226,177	4,794,270
Retirement benefit obligations	17	3,025,318	2,610,373
Bank borrowings	18	161,991,345	156,422,305
Trade and other payables	19	107,835,480	133,467,912
Total liabilities		445,990,909	575,920,967
Total equity and liabilities		1,060,162,888	1,199,603,818

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 21 March 2012 by:

.... Chairman

.... CEO

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

Al Khazna Insurance Company P.S.C.

Consolidated income statement

	Notes	Year ended 31 December 2011 AED	2010 AED
Insurance premium revenue	20	142,588,142	280,129,767
Insurance premium ceded to reinsurers	20	(74,295,031)	(116,282,118)
Net insurance premium revenue	20	68,293,111	163,847,649
Reinsurance commissions	24	9,729,282	15,687,237
Investment income	21	4,043,812	5,629,457
Net fair value gain/(loss) on investment properties	7	11,201,889	(9,423,065)
Net realized gain/(loss) on financial assets	22	1,410,465	(14,729,453)
Net fair value gain/(loss) on financial assets at fair value through profit or loss	23	3,690,355	(4,514,164)
Net rental income from investment property	25	18,096,359	19,111,957
Other operating income	26	473,897	-
Net income		116,939,170	175,609,618
Insurance claims and loss adjustment expenses	27	(65,913,464)	(244,968,519)
Insurance claims and loss adjustment expenses recovered from reinsurers	27	22,338,197	52,025,989
Net insurance claims	27	(43,575,267)	(192,942,530)
Expenses for acquisition of insurance contracts	28	(4,267,402)	(12,881,900)
Expenses for marketing and administration	29	(52,473,922)	(43,465,469)
Provision for impairment of advances	9	-	(25,397,058)
Reversal of provision for reconciling differences in receivable balances		-	5,890,221
Expenses		(100,316,591)	(268,796,736)
Results of operating activities		16,622,579	(93,187,118)
Finance costs	30	(4,818,151)	(13,657,533)
Profit/(loss) for the year		11,804,428	(106,844,651)
Attributable to:			
- Equity holders of the Company		11,804,428	(106,844,651)
Earnings per share for profit attributable to the equity holders of the Company during the year			
Basic earnings per share	32	0.03	-

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

Al Khazna Insurance Company P.S.C.

Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2011 AED	2010 AED
Profit/(loss) for the year		11,804,428	(106,844,651)
Net fair value (loss)/gain on available-for-sale financial assets	16	(23,382,837)	15,842,322
Fair value loss transferred to income statement on impairment	16	2,067,537	14,729,453
		(21,315,300)	30,571,775
Total comprehensive loss for the year		(9,510,872)	(76,272,876)
Attributable to:			
- Owners of the Company		(9,510,872)	(76,272,876)

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

Al Khazna Insurance Company P.S.C.

Consolidated statement of changes in equity

	Attributable to equity holders of the Company						
	Share capital AED	Share premium AED	Legal reserve AED	Regulatory reserve AED	Fair value and other reserves AED	Retained earnings AED	Total AED
Year ended 31 December 2011							
At beginning of year	400,000,000	1,783,412	58,122,000	56,267,338	49,496,349	58,013,752	623,682,851
Profit for the year	-	-	-	-	-	11,804,428	11,804,428
Other comprehensive loss	-	-	-	-	(21,315,300)	-	(21,315,300)
Total comprehensive income/(loss) for the year	-	-	-	-	(21,315,300)	11,804,428	(9,510,872)
Transactions with owners:							
Transfer to legal reserve	-	-	1,984,478	-	-	(1,984,478)	-
Transfer to regulatory reserve	-	-	-	1,797,016	-	(1,797,016)	-
At end of year	400,000,000	1,783,412	60,106,478	58,064,354	28,181,049	66,036,686	614,171,979

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

Al Khazna Insurance Company P.S.C.

Consolidated statement of changes in equity (continued)

	Attributable to equity holders of the Company						
	Share capital AED	**Share premium** AED	**Legal reserve** AED	**Regulatory reserve** AED	**Fair value and other reserves** AED	**Retained earnings** AED	**Total** AED
Year ended 31 December 2010							
At beginning of year	400,000,000	1,783,412	57,278,668	56,267,338	18,924,574	175,701,735	709,955,727
Loss for the year	-	-	-	-	-	(106,844,651)	(106,844,651)
Other comprehensive income	-	-	-	-	30,571,775	-	30,571,775
Total comprehensive income/(loss) for the year	-	-	-	-	30,571,775	(106,844,651)	(76,272,876)
Transactions with owners:							
Transfer to legal reserve	-	-	843,332	-	-	(843,332)	-
Dividends 2009 (Note 14)	-	-	-	-	-	(10,000,000)	(10,000,000)
At end of year	400,000,000	1,783,412	58,122,000	56,267,338	49,496,349	58,013,752	623,682,851

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

Al Khazna Insurance Company P.S.C.

Consolidated cash flow statement

	Notes	Year ended 31 December 2011 AED	2010 AED
Cash (used in)/generated from operations	34	(47,302,944)	12,192,403
Dividends received		10,782,661	10,349,885
Interest received		148,329	1,628,459
Net cash (used in)/generated from operating activities		(36,371,954)	24,170,747
Cash flows from investing activities			
Increase in bank deposits with original maturity of more than three months		(42,900)	(5,605,652)
Purchase of property and equipment		(1,700,214)	(1,480,168)
Proceeds from sale of property and equipment		297,807	50,706
Proceeds on redemption of debt securities	8	18,332,500	
Net cash used in investing activities		16,887,193	(7,035,114)
Cash flows from financing activities			
Repayment of bank loan		-	(17,922,183)
Dividend paid		(9,031,170)	(40,445)
Interest paid		(359,447)	(13,657,533)
Net cash used in financing activities		(9,390,617)	(31,620,161)
Net decrease in cash and cash equivalents		(28,875,378)	(14,484,528)
Cash and cash equivalents, beginning of the year		43,281,463	57,765,991
Cash and cash equivalents, end of the year	12	14,406,085	43,281,463

Non-cash transactions

The principal non-cash transactions relate to the following:

(i) An amount of AED 26.3 million was transferred from advances to prepayments under insurance and other receivables (Note 9);

(ii) An amount of AED 21,315,300 was debited (2010: AED 30,571,775 credited) to fair value reserve reflecting the decrease in the fair value of available for sale financial assets at the balance sheet date (Note 16); and

(iii) The purchase and sales of available for sale financial assets and financial assets at fair value through profit and loss of AED 52.2 million and AED 58.4 million did not involve cash payment

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

1 General information

Al Khazna Insurance Company ("the Company") is a public shareholding company incorporated in the Emirate of Abu Dhabi. The Company was incorporated by Emiri Decree No. (4) dated 11 September 1996. The registered address of the Company is PO Box 73343, Abu Dhabi, United Arab Emirates.

The Company is primarily engaged in general insurance of all classes of business.

The Company is listed on the Abu Dhabi Stock Exchange.

The list of subsidiaries and their activities are disclosed in Note 2.2.

As of 31 December 2011, the Group's subsidiaries, Pearl Capital Investments LLC and National Publishers LLC have generated profit of AED 1.9 million (2010: AED 7 million loss) and incurred a loss of AED 2.6 million (2010: AED 1.6 million) respectively and reported net liabilities of AED 32.7 million (2010: AED 15.7 million) and AED 5.4 million (2010: AED 2.8 million) respectively. The Company has confirmed the shareholders' intention to continue to arrange funding for the subsidiaries to enable each to meet their liabilities as they fall due and to carry on their businesses without a significant curtailment of operations. Furthermore, as the accumulated losses amounting to AED 39.9 million (2010: AED 41.8 million) and AED 8.2 million (2010: AED 5.6 million) respectively, exceeded half of the share capital of each of the subsidiaries as of 31 December 2011, to comply with the provisions of Article 289 of UAE Federal Law No. (8) of 1984, as amended, the shareholders of each subsidiary are required to vote on a resolution for the continuation of each of the subsidiaries at their own forthcoming Annual General Assemblies in 2012.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'). They have been prepared under the historical cost convention as modified by the revaluation of investment properties, available-for-sale investments and financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

All amounts in the notes are shown in UAE Dirham's (AED), unless otherwise stated.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that have had a material impact on the Group.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted

- Amendments to IFRS 7, 'Financial instruments: Disclosures' on transfers of financial assets, promote transparency in the reporting of transfer transactions and improves users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The Group is yet to assess the full impact of the amendments and intends to adopt the amendments to IFRS 7 no later than the accounting period beginning on or after1 January 2012.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of IFRS 9 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2015.

- IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess the full impact of IFRS 10 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2013.

2 Summary of significant accounting policies(continued)

2.1 Basis of preparation (continued)

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted (continued)

- IFRS 11, 'Joint arrangements,' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess the full impact of IFRS 11 and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess the full impact of IFRS 12 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2013.

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess the full impact of IFRS 13 and intends to adopt this standard no later than the accounting period beginning on or after 1 January 2013.

2 Summary of significant accounting policies (continued)

2.2 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

Inter-group transactions, balances and unrealised gains and losses on intra-group transactions are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Details of subsidiaries, registered in United Arab Emirates which have been consolidated are as follows:

Name of subsidiary	Domiciled	Proportion of ownership	Principal activity
The Best Tenants LLC	UAE	99.95%	To market, promote and deliver property management and advisory services.
Pearl Capital Investments LLC	UAE	100%	To invest in securities and real estate.
National Publishers	UAE	100%	Publishing of periodicals.
Real Estate Academy Est. (Al Akarya Academy) **	UAE	100%	To market, promote and deliver management and advisory services in respect of real estate.
Al Khazna Real Estate Est. ***	UAE	100%	To market, promote and deliver management and advisory services in respect of real estate.
Modern Academy Administrative Training LLC *	UAE	100%	To provide business management training.
IT Academy LLC *	UAE	100%	To provide business management training.
Real Estate Academy for Training LLC *	UAE	100%	To provide business management training.
Academy for Tourism and Holidays LLC ***	UAE	100%	To provide training in the field of travel, tourism and hotel management.
First Deal Real Estate LLC	UAE	100%	To manage investments in real estate.
Academy for Investment Est. ***	UAE	100%	To manage investments in real estate.
Under Writing Electronics Solutions Est. ***	UAE	100%	Data formatting, computer system & instruments filling services.
Tadawel Electronics Solutions Est. ***	UAE	100%	Software consultant, storing and retrieving data.

(*) These subsidiaries have not yet commenced operations and their trade licences have expired and not been renewed.

(**) These subsidiaries have not yet commenced operations and do not have trade licences.

(***)These subsidiaries have not yet commenced operations but have trade licenses.

The ownership is held by the Company and its subsidiaries.

2 Summary of significant accounting policies (continued)

2.3 Operating segments

Operating segments are reported in a manner consistent with the internal reporting made to the Board of Directors of Al Khazna Insurance Company P.S.C. that makes strategic decisions across the Group.

2.4 Foreign currencies translation

(a) Functional and presentation currency
Items included in the consolidated financial statements of the Group are measured and presented in UAE Dirhams being the currency of the primary economic environment in which it operates.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on financial assets and liabilities held at fair value through income are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in other comprehensive income.

2.5 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the consolidated income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated using the straight-line method to write off the cost of assets to their estimated residual values over their expected useful lives, as follows:

	Years
Furniture, fixtures and office equipment	5
Motor vehicles	4
Computer equipment and accessories	5

2 Summary of significant accounting policies (continued)

2.5 Property and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

2.6 Investment property

Property held to earn long-term rental yields and/or for capital appreciation that is not occupied by the Group is classified as investment property.

Investment property comprises freehold land and buildings and is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices on less active markets. These valuations are reviewed annually by an independent valuer. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

Changes in fair values are recorded in the consolidated income statement.

2.7 Financial assets

The Group classifies its investments into the following categories: financial assets at fair value through profit or loss, held-to-maturity and available-for-sale financial assets and loans and receivables. The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

2.7.1 Classification

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading and those designated at fair value through profit or loss at inception.

A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities.

2 Summary of significant accounting policies (continued)

2.7 Financial assets (continued)

2.7.1 Classification (continued)

(ii) Held-to-maturity financial assets
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are corporate bonds.

Interest on held-to-maturity investments is included in the consolidated income statement and reported as 'Investment income'. An impairment is reported as a deduction from the carrying value of the investment and recognised in the consolidated income statement as 'Net gains/(losses) on investment securities'.

(iii) Available-for-sale financial assets
Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

(iv) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

2.7.2 Recognition and measurement

Regular-way purchases and sales of financial assets are recognised on the trade-date, being the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method.

2 Summary of significant accounting policies (continued)

2.7 Financial assets (continued)

2.7.2 Recognition and measurement (continued)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the consolidated income statement as net realised gains on financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established. Both are included in the investment income line.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

For financial instruments traded in active markets, the determination of fair values is based on quoted market prices. The fair values of quoted investments are based on current bid prices.
A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2 Summary of significant accounting policies (continued)

2.8 Impairment of assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(i) Financial assets classified as available-for-sale
In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss which is measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not subsequently reversed through the consolidated income statement.

If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

(ii) Financial assets carried at amortised cost
A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

(a) significant financial difficulty of the issuer or debtor;
(b) a breach of contract, such as a default or delinquency in payments;
(c) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
(d) the disappearance of an active market for that financial asset because of financial difficulties; or
(e) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
   - adverse changes in the payment status of issuers or debtors in the Group; or
   - national or local economic conditions that correlate with defaults on the assets in the Group.

2 Summary of significant accounting policies (continued)

2.8 Impairment of assets (continued)

(ii) Financial assets carried at amortised cost (continued)
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated income statement.

(iii) Other non-financial assets
Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 Summary of significant accounting policies (continued)

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.11 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

2.12 Dividend distribution

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

2.13 Insurance contracts

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

(i) Recognition and measurement
General insurance contracts protect the Group's customers for damage suffered to their assets as well as against the risk of causing harm to third parties as a result of their legitimate activities. General insurance contracts also protect the Group's customers from the consequences of events such as illness and disability.

For all these contracts, premiums are recognised as revenue proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before deduction of commission.

Claims and loss adjustment expenses are charged to income 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 balance sheet date even if they have not yet been reported to the Group.

The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

2 Summary of significant accounting policies (continued)

2.13 Insurance contracts (continued)

(ii) Liability adequacy tests
Liability adequacy tests are performed at the balance sheet date to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

(iii) Deferred policy acquisition costs
Commissions that are related to securing new contracts and renewing existing contracts are capitalised as Deferred Acquisition Costs ("DAC"). All other costs are recognised as expenses when incurred. Deferred acquisition costs are subsequently amortised over the life of the contracts. The resulting change to the carrying value of the DAC is charged to the consolidated income statement.

(iv) Reinsurance contracts held
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

Insurance contracts entered into by the Group under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

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

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the consolidated income statement. The objective evidence of impairment is described in Note 2.8.

Reinsurance commissions received from the reinsurers are carried over the same period as the related ceded premiums.

2 Summary of significant accounting policies (continued)

2.13 Insurance contracts (continued)

(v) Receivables and payables related to insurance contracts
Receivables and payables are recognized when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated income statement.

The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

(vi) Salvage and subrogation reimbursements
Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

2.15 Employees benefits

Provision 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 balance sheet date.

Provision is also made for the full amount of end of service benefits due to non-UAE national employees in accordance with UAE Labour Law, for their period of service up to the balance sheet date. Provision is also made up to the balance sheet date for pension contributions related to UAE national employees, in accordance with applicable regulation.

2 Summary of significant accounting policies (continued)

2.15 Employees benefits (continued)

The provision relating to annual leave and leave passage is considered as a current liability, while that relating to end of service benefits is disclosed as a non-current liability.

2.16 Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Investment income

Investment income mainly comprises interest and dividend income, building income, realised capital gains and losses and foreign exchange gains and losses on debt securities. Investment income is stated net of investment expenses and charges.

Interest income is recognized in the consolidated income statement on an accrual basis. Interest includes interest earned on bank deposits and debt securities. Dividend receivables are included separately in dividend income when a dividend is declared. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the carrying value of investments. Fair value gains and losses on investments disposed of which were previously deferred in other comprehensive income are transferred to the consolidated income statement.

2.18 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Ultimate liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. In particular, the claims arising from the motor insurance policies are exposed to claims for bodily injury claims.

Estimation of the ultimate cost of bodily injury claims is a complex process and cannot be done using conventional actuarial techniques. Significant factors that affect the trends that influence the bodily injury estimation process are the inconsistent court resolutions and jurisprudence that has broadened the intent and scope coverage of the protections offered in the insurance contracts issued by the Group. Due to this uncertainty, it is not possible to determine the future development of bodily injury claims with the same degree of reliability as with other types of claim.

For the remaining class of business, the source of uncertainty is lower as most of the claims are supported by professional survey reports which are used as the basis to estimate the liabilities.

The critical accounting estimate in regards to insurance liabilities is further described in note 4.1.

(b) Provision for impairment of receivables

The impairment charge reflects estimates of losses arising from the failure or inability of the customers concerned to make the required payments. The charge is based on the aging of the party accounts, the customer's credit worthiness and historic write-off experience. Changes to the estimated impairment provision may be required if the financial condition of the customers was to improve or deteriorate.

(c) Impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 'Financial Instruments: Recognition and Measurement' to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee.

4 Management of capital, insurance and financial risk

The Group issues contracts that transfer insurance risk. This section summarizes these risks and the way the Group manages them.

4.1 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 very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level 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 by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. 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.

During 2011, with the aim to increase profitability, management took certain measures including enhanced claims procedures and close monitoring of the underwriting results and maintaining a profitable business.

(a) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors, such as nature and age of the insured, inflation, legal rulings, and weather events. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (i.e., subrogation).

The Group has the right to re-price the risk on renewal and claims payment limits are always included to cap the amount payable on occurrence of the insured event.

4 Management of capital, insurance and financial risk (continued)

4.1 Insurance risk (continued)

(a) Frequency and severity of claims (continued)
The reinsurance arrangements include quota share, surplus as well as excess of loss treaties.

The insurance risk arising from these contracts is concentrated mainly in the U.A.E. The Group sells insurance products to corporate institutions and the general public.

The concentration of insurance risk before and after reinsurance in relation to the type of general insurance risk accepted is summarised below, with reference to the carrying amount of the related insurance liabilities (gross and net of reinsurance) arising from general insurance contracts:

As at 31 December 2011
In AED'000

	Type of risk					
	Fire	Motor	Medical	Marine and aviation	Accident and Others	Total
Gross	25,739	38,191	13,219	36,296	56,468	169,913
Net	2,515	28,413	12,795	4,694	9,784	58,201

As at 31 December 2010
In AED'000

	Type of risk					
	Fire	Motor	Medical	Marine and aviation	Accident and Others	Total
Gross	27,594	73,930	62,392	37,553	77,157	278,626
Net	3,199	51,529	61,529	5,622	13,086	134,965

4 Management of capital, insurance and financial risk (continued)

4.1 Insurance risk (continued)

(a) Frequency and severity of claims (continued)
The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarised below:

		31 December 2011 Type of risk		
Territory		**Marine** AED'000	**Non-marine** AED'000	**Total** AED'000
UAE	Gross	867,794	34,457,795	35,325,589
	Net	130,169	10,745,907	10,876,076
GCC Countries	Gross	3,505	427,847	431,352
	Net	807	31,022	31,829
Non-GCC	Gross	-	125,425	125,425
	Net	-	-	-
Total	Gross	871,299	35,011,067	35,882,366
	Net	130,976	10,776,929	10,907,905

The relative geographical concentration of the risk is stable in comparison to last year.

		31 December 2010 Type of risk		
Territory		**Marine** AED'000	**Non-marine** AED'000	**Total** AED'000
UAE	Gross	1,629,576	94,348,065	95,977,641
	Net	325,100	13,561,133	13,886,233
GCC Countries	Gross	17,599	981,803	999,402
	Net	2,700	75,833	78,533
Non-GCC	Gross	148,238	340,438	488,676
	Net	9,913	16,976	26,889
Total	Gross	1,795,413	95,670,306	97,465,719
	Net	337,713	13,653,942	13,991,655

To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

4 Management of capital, insurance and financial risk (continued)

4.1 Insurance risk (continued)

(b) Sources of uncertainty in the estimation of future claim payments
Claims on general insurance contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occur 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 thus a proportion of the claims provision relates to incurred but not reported claims ("IBNR"). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the balance sheet date.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until several months after the event that gave rise to the claims has happened.

In estimating the liability for the cost of reported claims not yet paid the Group considers any 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.

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

4 Management of capital, insurance and financial risk (continued)

4.1 Insurance risk (continued)

(c) Assumptions made when providing for insurance liabilities
The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

4.2 Financial risk

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk. The Group manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts.

4.2.1 Market risk

Market risk is comprised of interest rate risk, equity price risk and currency risk.

(i) Interest rate risk
The Group's result will be affected by changes in prevailing interest rates since a large portion of its income is affected by the interest on borrowings. A minor portion of its income derives from interest on investments and bank deposits.

The Group generally tries 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.

The Group is exposed to cash flow interest rate risk as the bank borrowing carries interest at a floating rate. The Group adjusted the interest expense by AED9m to decrease the interest charged by the bank on the loan to what was stipulated on the loan agreement for the period from January 2009 to December 2011. Management is still in negotiations with the bank in respect of hte change in the interest rate, refer to Note 18.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the balance sheet date.

4 Management of capital, insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.1 Market risk (continued)

(i) Interest rate risk (continued)
If on the outstanding borrowings at 31 December 2011 the interest rates had been 1% point higher/lower during the year with all other variables held constant, profit for the year would have been AED 1.6 million lower/higher (loss for 2010: AED 1.6 million higher/lower), mainly as a result of higher/lower interest expense on floating rate borrowings.

(ii) Equity price risk
The Group is exposed to equity securities price risk because of investments held by the Group classified on the consolidated statement of financial position either as available-for-sale or at fair value through profit or loss. The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market. The analysis is based on the assumption that the equity prices had increased/decreased by 5% with all other variables held constant.

An increase/decrease of 5% in fair market values of available-for-sale financial assets would result in an increase/decrease in fair value reserve in equity by AED 3.2 million (2010: an increase/decrease of 5% in fair market values would result in an increase/decrease of AED 6.8 million).

In addition, such a decrease would result in a recycling of fair value losses of AED 0.43 million (2010: AED 0.5 million) from fair value reserve to the consolidated income statement should this be considered as an impairment in value.

An increase /decrease of 5% in fair market values of financial assets at fair value through profit or loss would result in an increase/decrease in profit for the year by AED 12.4 million (2010: an increase/decrease of 5% would result in an decrease/increase in loss for the year by AED 10 million).

(iii) Currency risk
The Group's main operations are currently in the United Arab Emirates and therefore have limited exposure to foreign exchange risk. The transactions and balances are denominated in either AED or in currencies which the AED is currently pegged to.

4 Management of capital, insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.2 Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- Reinsurance assets including receivables from reinsurers;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries;
- Debt securities; and
- Bank deposits.

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to a regular review. Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract.

The Group's cash and bank deposits are placed with reputable local and foreign banks with good financial standards. The concentration of customers' receivable balances is disclosed in Note 10. A diversified portfolio of investment securities is maintained limiting the Group's credit risk exposure to individual enterprises. Accordingly, there is no significant credit risk exposure.

Maximum exposure to credit risk is equal to net carrying amounts of the financial assets as reported in the consolidated statement of financial position.

The table below summarises assets bearing credit risk:

	2011 AED	2010 AED
Held to maturity listed debt securities	-	18,332,500
Reinsurance contracts	111,710,903	143,661,406
Advances	-	23,601,026
Insurance and other receivables (excluding prepayments)	100,711,518	148,410,973
Bank deposits	11,634,455	11,591,555
Cash and cash equivalents (excluding cash on hand)	14,590,770	43,051,659
Total assets bearing credit risk	238,647,646	388,649,119

4 Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.2 Credit risk (continued)

Insurance receivables

Analysis of insurance receivables (net due from contract holders and due from agents, brokers and intermediaries) by economic sector is as follows:

	2011 AED	2010 AED
Corporate	38,480,551	65,653,380
Brokers	22,171,175	23,850,545
Insurance companies	18,130,300	15,201,748
Government	537,475	1,644,009
Individuals	-	110,315
Others	563,647	4,139,644
	79,883,148	110,599,641

4.2.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of policyholder claims payments, cash requirements from contractual commitments or other cash outflows. Liquidity requirements are monitored regularly and Group management ensures that sufficient funds are available to meet commitments as they arise.

The following table indicates the contractual timing of cash flows arising from assets and liabilities for management of the general insurance contracts at 31 December 2011 and 31 December 2010.

4 Management of capital, insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.3 Liquidity risk (continued)

At 31 December 2011

	No stated maturity AED	Within 1 year AED	1 to 5 years AED	Over 5 years AED	Carrying value AED
Assets					
Available-for-sale financial assets	63,087,384	-	-	-	63,087,384
At fair value through profit or loss financial assets	248,927,782	-	-	-	248,927,782
Insurance and other receivables	-	103,035,607	-	-	103,035,607
Reinsurance contracts	-	111,710,903	-	-	111,710,903
Bank deposits with an original maturity of more than 3 months	-	11,634,455	-	-	11,634,455
Cash and cash equivalents	-	14,771,192	-	-	14,771,192
Total financial assets	312,015,166	241,152,157	-	-	553,167,323
Liabilities					
Insurance contracts	-	169,912,589	-	-	169,912,589
Trade and other payables	-	107,835,480	-	-	107,835,480
Bank borrowings	-	64,783,748	125,600,000	15,700,000	161,991,345
Total financial liabilities	-	342,531,817	125,600,000	15,700,000	439,739,414
Difference in expected cash flows	312,015,166	(101,379,660)	(125,600,000)	(15,700,000)	113,427,909

At 31 December 2010

	No stated maturity AED	Within 1 year AED	1 to 5 years AED	Over 5 years AED	Carrying value AED
Assets					
Held to maturity financial assets	-	-	18,332,500	-	18,332,500
Available-for-sale financial assets	135,194,967	-	-	-	135,194,967
At fair value through profit or loss financial assets	199,878,932	-	-	-	199,878,932
Insurance and other receivables	-	150,610,798	-	-	150,610,798
Reinsurance contracts	-	143,661,406	-	-	143,661,406
Bank deposits with an original maturity of more than 3 months	-	11,591,555	-	-	11,591,555
Cash and cash equivalents	-	43,281,463	-	-	43,281,463
Total financial assets	335,073,899	349,145,222	18,332,500	-	702,551,621
Liabilities					
Insurance contracts	-	278,626,107	-	-	278,626,107
Trade and other payables	-	133,467,912	-	-	133,467,912
Bank borrowings	-	31,400,000	125,600,000	47,100,000	156,422,305
Total financial liabilities	-	443,494,019	125,600,000	47,100,000	568,516,324
Difference in expected cash flows	335,073,899	(94,348,797)	(107,267,500)	(47,100,000)	134,035,297

4 Management of capital, insurance and financial risk (continued)

4.3 Capital management

The Group maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the Group's risk profile and the regulatory and market requirements of its business.

The Group's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth; and
- to manage exposures to movement in exchange rates.

The Group has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders.

4.4 Fair value estimation

The fair values of the Group's financial assets and liabilities approximate to their carrying amounts as disclosed in these consolidated financial statements.

IFRS 7 required the disclosure by level of the fair value measurement hierarchy in respect of financial instruments that are measured in the consolidated statement of financial position at fair value. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

4 Management of capital, insurance and financial risk (continued)

4.4 Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value:

At 31 December 2011

	In AED			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss (listed equity securities)	248,927,782	-	-	248,927,782
Available-for-sale financial assets (listed equity securities)	5,617,121	-	-	5,617,121
Available-for-sale financial assets (unlisted equity securities)	-	5,553,699	51,916,578	57,470,277
Total	**254,544,903**	**5,553,699**	**51,916,578**	**312,015,180**

At 31 December 2010

	In AED			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss (listed equity securities)	199,878,932	-	-	199,878,932
Available-for-sale financial assets (listed equity securities)	69,295,778	-	-	69,295,778
Available-for-sale financial assets (unlisted equity securities)	-	13,836,173	52,063,016	65,899,189
Total	**269,174,710**	**13,836,173**	**52,063,016**	**335,073,899**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The specific valuation techniques used to value the above financial instruments include dealer quotes for similar instruments and option pricing models.

5 Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. All operating segments used by management meet the definition of a reportable segment under IFRS 8.

The Group is organised into six operating segments. These comprise five segments under the Group's insurance business and a Corporate segment. The five insurance segments distribute their products through various forms of brokers, agencies and direct marketing programmes. Management identifies its reportable operating segments by product line consistent with the reports used by the Board. These insurance segments and their respective operations are as follows:

- Motor: Covers damage to motor cars and related property and injuries or death of persons

- Fire: Covers insurance against damages caused by fire, explosions, natural phenomena and all kind of commotions

- Medical: Covers groups of individuals for medical treatment

- Marine and Aviation: Covers the insurance of cargo and other movables, freight charges, ship and aircraft hulls, machinery and the insurance against risks incidental to its construction, operations, repairs and docking including damages which afflict others.

- Accident and Others: Covers damages resulting from personal accidents, work accidents, burglary, civil responsibilities, engineering insurance, breach of trust and all risks excluding those mentioned in the above categories.

The Corporate operations consist primarily of returns from investments in securities and real estate as well as the result of the Group's operating subsidiaries.

Details of the five insurance operating segments are set out on pages 40 to 44 and are summarized with the information on the corporate segment below:

5 Segment information (continued)

	Insurance AED'000	Corporate AED'000	Total AED'000
Year ended 31 December 2011			
Net underwriting results	30,179	-	30,179
Expenses for marketing and administration	(45,632)	(6,842)	(52,474)
Net investment income	-	20,764	20,764
Net rental income from investment property	-	18,096	18,096
Other operating income	-	474	474
Results of operating activities	(15,453)	32,492	17,039
At 31 December 2011			
Total assets	228,230	831,933	1,060,163
Year ended 31 December 2010			
Net underwriting results	(26,289)	-	(26,289)
Expenses for marketing and administration	(35,157)	(8,309)	(43,466)
Investment income	-	(23,037)	(23,037)
Other operating income	-	19,112	19,112
Provision for impairment of advances	-	(25,397)	(25,397)
Release of provision for reconciling differences in receivable balances	5,890	-	5,890
Results of operating activities	(55,556)	(37,631)	(93,187)
At 31 December 2010			
Total assets	315,624	883,980	1,199,604

The Group's underwriting business is based entirely within the United Arab Emirates and other GCC countries except for treaty reinsurance arrangements which are conducted with companies based primarily in Europe. The investments of the Group are held in the UAE and other GCC countries.

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

5 Segment information (continued)

Underwriting results by segment

	31 December 2011					
	Fire AED'000	Motor AED'000	Medical AED'000	Marine and aviation AED'000	Accident and others AED'000	Total AED'000
Gross premium written	8,717	30,165	21,156	12,655	41,484	114,177
Less: Ceded premiums	(7,373)	(9,465)	(2,004)	(12,014)	(34,176)	(65,032)
Net premium income	1,344	20,700	19,152	641	7,308	49,145
Add: Net unearned premium reserve at start of the year	725	16,793	19,263	591	4,379	41,751
Less: Net unearned premium reserve at close of the year	(498)	(11,407)	(7,245)	(218)	(3,238)	(22,606)
Net premium earned	1,571	26,086	31,170	1,014	8,449	68,290
Reinsurance commission	1,946	1,352	-	1,014	3,851	8,163
Add: Unearned reinsurance commission at start of year	888	1,335	-	381	2,192	4,796
Less: Unearned reinsurance commission at close of year	(633)	(696)	-	(302)	(1,596)	(3,227)
Reinsurance commission earned	2,201	1,991	-	1,093	4,447	9,732
Total net underwriting revenue	3,772	28,077	31,170	2,107	12,896	78,022
Claims paid	(8,116)	(37,408)	(64,558)	(6,226)	(24,643)	(140,951)
Less: Recovered claims	6,845	9,669	2,300	5,562	20,650	45,026
Net claims paid	(1,271)	(27,739)	(62,258)	(664)	(3,993)	(95,925)
Less: Net outstanding claims at start of the year	2,474	18,168	42,265	5,031	8,706	76,644
Add: Net outstanding claims at close of the year	(2,018)	(5,704)	(5,550)	(4,475)	(6,547)	(24,294)
Net claims incurred	(815)	(15,275)	(25,543)	(108)	(1,834)	(43,575)
Commission paid and net other acquisition income/(costs)	(1,137)	613	(600)	(146)	(2,343)	(3,613)
Add: Deferred acquisition costs at start of year	(404)	(186)	(391)	(209)	(1,069)	(2,259)
Less: Deferred acquisition cost at close of year	343	75	333	32	821	1,604
Expenses for acquisition of insurance contracts	(1,198)	502	(658)	(323)	(2,591)	(4,268)
Total net underwriting expenses	(2,013)	(14,773)	(26,201)	(431)	(4,425)	(47,843)

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

5 Segment information (continued)

Underwriting results by segment (continued)

	31 December 2011					
	Fire AED'000	**Motor** AED'000	**Medical** AED'000	**Marine and aviation** AED'000	**Accident and others** AED'000	**Total** AED'000
Total net underwriting revenue b/f	3,772	28,077	31,170	2,107	12,896	78,022
Total net underwriting expenses b/f	(2,013)	(14,773)	(26,201)	(431)	(4,425)	(47,843)
Underwriting surplus/(deficit)	1,759	13,304	4,969	1,676	8,471	30,179
Expenses for marketing and administration	(3,484)	(12,055)	(8,455)	(5,058)	(16,580)	(45,632)
Net underwriting surplus/(deficit)	(1,725)	1,249	(3,486)	(3,382)	(8,109)	(15,453)

5 Segment information (continued)

Underwriting results by segment (continued)

	31 December 2010					
	Fire AED'000	Motor AED'000	Medical AED'000	Marine and aviation AED'000	Accident and others AED'000	Total AED'000
Gross premium written	15,089	71,626	84,877	18,371	54,059	244,022
Less: Ceded premiums	(12,919)	(25,349)	(3,876)	(16,026)	(44,382)	(102,552)
Net premium income	2,170	46,277	81,001	2,345	9,677	141,470
Add: Net unearned premium reserve at start of the year	1,038	18,770	38,868	356	5,097	64,129
Less: Net unearned premium reserve at close of the year	(725)	(16,793)	(19,263)	(591)	(4,379)	(41,751)
Net premium earned	2,483	48,254	100,606	2,110	10,395	163,848
Reinsurance commission	2,907	3,816	-	1,519	5,702	13,944
Add: Unearned reinsurance commission at start of year	1,335	1,657	-	443	3,102	6,537
Less: Unearned reinsurance commission at close of year	(888)	(1,335)	-	(381)	(2,192)	(4,796)
Reinsurance commission earned	3,354	4,138	-	1,581	6,612	15,685
Total net underwriting revenue	5,837	52,392	100,606	3,691	17,007	179,533
Claims paid	(5,143)	(57,132)	(116,245)	(24,873)	(21,624)	(225,017)
Less: Recovered claims	4,515	17,271	697	22,782	19,243	64,508
Net claims paid	(628)	(39,861)	(115,548)	(2,091)	(2,381)	(160,509)
Less: Net outstanding claims at start of the year	2,919	7,914	15,894	8,377	9,107	44,211
Add: Net outstanding claims at close of the year	(2,474)	(18,168)	(42,265)	(5,031)	(8,706)	(76,644)
Net claims incurred	(183)	(50,115)	(141,919)	1,255	(1,980)	(192,942)
Commission paid and net other acquisition income/(costs)	(1,401)	355	(3,442)	(914)	(3,176)	(8,578)
Add: Deferred acquisition costs at start of year	(425)	(727)	(3,083)	(322)	(2,003)	(6,560)
Less: Deferred acquisition cost at close of year	404	186	391	209	1,068	2,258
Expenses for acquisition of insurance contracts	(1,422)	(186)	(6,134)	(1,027)	(4,111)	(12,880)
Total net underwriting expenses	(1,605)	(50,301)	(148,053)	228	(6,091)	(205,822)

5 Segment information (continued)

Underwriting results by segment (continued)

	31 December 2010					
	Fire AED'000	**Motor** AED'000	**Medical** AED'000	**Marine and aviation** AED'000	**Accident and others** AED'000	**Total** AED'000
Total net underwriting revenue b/f	5,837	52,392	100,606	3,691	17,007	179,533
Total net underwriting expenses b/f	(1,605)	(50,301)	(148,053)	228	(6,091)	(205,822)
Underwriting surplus/(deficit)	4,232	2,091	(47,447)	3,919	10,916	(26,289)
Expenses for marketing and administration	(2,175)	(10,319)	(12,228)	(2,647)	(7,788)	(35,157)
Net underwriting surplus/(deficit)	2,057	(8,228)	(59,675)	1,272	3,128	(61,446)

6 Property and equipment

	Furniture fixtures and office equipment AED	Motor vehicles AED	Computer equipment and accessories AED	Capital work in progress AED	Total AED
At 1 January 2010					
Cost	8,617,143	1,958,804	4,831,343	-	15,407,290
Accumulated depreciation	(4,537,598)	(1,025,824)	(3,543,319)	-	(9,106,741)
Net book amount	4,079,545	932,980	1,288,024	-	6,300,549
Year ended 31 December 2010					
Opening net book amount	4,079,545	932,980	1,288,024	-	6,300,549
Additions	630,671	200,745	648,752	-	1,480,168
Transfer from advances	-	-	-	8,217,384	8,217,384
Impairment of property under development (Note 29)	-	-	-	(3,988,650)	(3,988,650)
Disposals	(31,461)	(19,245)	-	-	(50,706)
Depreciation charge	(1,404,642)	(392,240)	(411,770)	-	(2,208,652)
Closing net book amount	3,274,113	722,240	1,525,006	4,228,734	9,750,093
At 31 December 2010					
Cost	9,216,353	2,121,059	5,480,095	4,228,734	21,046,241
Accumulated depreciation	(5,942,240)	(1,398,819)	(3,955,089)	-	(11,296,148)
Net book amount	3,274,113	722,240	1,525,006	4,228,734	9,750,093
Year ended 31 December 2011					
Opening net book amount	3,274,113	722,240	1,525,006	4,228,734	9,750,093
Additions	97,900	328,050	357,082	917,182	1,700,214
Disposals	(664)	(63,458)	(2,405)	-	(66,527)
Depreciation charge	(1,403,236)	(395,463)	(439,472)	-	(2,238,171)
Closing net book amount	1,968,113	591,369	1,440,211	5,145,916	9,145,609
At 31 December 2011					
Cost	9,313,589	2,385,651	5,834,772	5,145,916	22,679,928
Accumulated depreciation	(7,345,476)	(1,794,282)	(4,394,561)	-	(13,534,319)
Net book amount	1,968,113	591,369	1,440,211	5,145,916	9,145,609

6 Property and equipment (continued)

Capital work in progress of AED 5.1 million at 31 December 2011 is largely comprised of a flat in a property under development in Dubai which management have the intention of holding for their Company's use.

The contracted value of the flat is AED 18.3 million of which AED 9.1 million has been advanced and the remaining commitment in respect of this flat amounted to AED 9.2 million at 31 December 2011.

The fair value of the flat as valued by an independent valuer was AED 14.4 million as at 31 December 2011. As at 31 December 2011 the net book value of the flat is AED 5.1 million.

The net book value of property and equipment as at 31 December 2011 includes AED 1.4 million of furniture, fixtures, computers and office equipment related to London office.

7 Investment properties

	2011 AED	2010 AED
At 1 January	461,442,935	469,981,000
Transfers from advances (Note 9)	-	885,000
Net fair value gain/(loss)	11,201,889	(9,423,065)
At 31 December	472,644,824	461,442,935

The investment properties were revalued as at 31 December 2011 by an independent valuer at fair value determined on the basis of open-market value.

Investment property with a carrying value of AED 225 million is mortgaged in favour of First Gulf Bank against the bank loan (Note 18).

Investment properties comprise lands with a total value of AED 228.8 million (2010: AED 217.7 million) and buildings with a value of AED 243.9 million (2010:AED 243.8 million).

The buildings are held for long-term rental yields. The net building rental income amounts to AED 18.1 million for the year ended 31 December 2011 (2010: AED 19.1 million) (Note 25).

Included within investment properties are two pieces of land of AED 134.0 million (2010: AED 129.3 million) whose title was not transferred to the name of the Group pending the settlement of the last instalment.

8 Financial assets

The Group's financial assets are summarised by measurement category in the table below.

	2011 AED	2010 AED
Held-to-maturity	-	18,332,500
Available-for-sale	63,087,384	135,194,967
At fair value through profit or loss	248,927,782	199,878,932
Insurance and other receivables (Note 10)	126,636,633	150,610,798
Total financial assets	438,651,799	504,017,197

The current portion of financial assets is AED 352.0 million (2010: AED 350.5 million) the remaining being non-current. The assets comprised in each of the categories above are detailed in the tables below.

Held-to-maturity financial asset, at amortised cost

	2011 AED	2010 AED
Debt security	-	18,332,500

Held-to-maturity financial asset is a capital-guaranteed call range accrual note issued by an international bank denominated in US Dollars. The debt security had an original maturity date of 27 June 2013 and was called by AKIC before maturity on 6th of February 2011 to fund its working capital requirements.

Available-for-sale financial assets

	2011 AED	2010 AED
Equity securities		
Listed equity securities	5,617,121	69,295,778
Unlisted equity securities carried at fair value	57,470,263	65,899,189
	63,087,384	135,194,967

Available-for-sale financial assets were fair valued at the close of business on 31 December 2011.

8 Financial assets (continued)

Financial assets at fair value through profit or loss

	2011 AED	2010 AED
Listed UAE equity securities	184,115,647	146,211,127
Listed foreign equity securities	64,812,135	53,667,805
	248,927,782	199,878,932

Equity securities classified at fair value through profit or loss are designated in this category upon initial recognition.

The movements in the Group's financial assets (excluding loans, insurance and other receivables – see Note 10) are summarised in the table below by measurement category:

	Held to maturity AED	**Available for sale** AED	**Fair value through profit or loss** AED	**Total** AED
At 1 January 2010	18,332,500	120,393,163	210,963,250	349,688,913
Additions	-	-	500,000	500,000
Disposals (sale and redemption)	-	(1,030,000)	(429,581)	(1,459,581)
Net fair value gain/(loss)	-	30,978,257	(11,154,737)	19,823,520
Exchange loss charged to other comprehensive income	-	(406,482)	-	(406,482)
Exchange loss charged to income statement		(10,518)	-	(10,518)
Impairment losses				
- Unlisted UAE equity securities	-	(14,729,453)	-	(14,729,453)
At 1 January 2011	18,332,500	135,194,967	199,878,932	353,406,399
Additions	-	-	110,959,846	110,959,846
Disposals (sale and redemption)	(18,332,500)	(58,586,662)	(58,419,953)	(135,339,115)
Net fair value loss	-	(10,081,282)	(3,491,043)	(13,572,325)
Impairment losses				
- Unlisted UAE equity securities	-	(3,439,639)	-	(3,439,639)
At 31 December 2011	-	63,087,384	248,927,782	312,015,166

9 Advances

	2011 AED	2010 AED
Advance for purchase of real estate	-	23,601,026

The movement in advances during the year as follows:

	2011 AED	2010 AED
Opening balance	23,601,026	59,731,753
Additions	-	1,107,167
Transfer to property and equipment (Note 6)	-	(8,217,384)
Transfers to investment property (Note 7)	-	(885,000)
Transfers to receivables	(23,601,026)	(2,738,452)
Provision for impairment of advances	-	(25,397,058)
Ending balance	-	23,601,026

The balance at 31 December 2010 of AED 23.6 million represented an advance of AED 48.9 million being a 50% advance towards the purchase of plots of land in Dubai. These plots were initially purchased by a related party and subsequently transferred to a subsidiary of the Group. The amount expected to be recovered was estimated at not less than half the original investment and accordingly an impairment of AED 25.4 million on the advanced position has been recognised in the 2010 consolidated income statement.

Management negotiated with the owner a plan to recover the advance. They were able to convert the advance into a 5 year lease agreement with the owner to lease a five storey building in Dubai World Centre of 15,019m² which commenced on 19 November 2011.

10 Insurance and other receivables

	2011 AED	2010 AED
Receivables arising from insurance and reinsurance contracts		
Due from contract holders	55,458,798	70,554,893
Less provision for impairment of receivables from contract holders	(20,272,781)	(7,169,207)
Due from agents, brokers and intermediaries	44,697,131	47,213,955
	79,883,148	110,599,641
Other receivables		
Prepayments	2,324,089	2,199,825
Accrued rent	987,914	5,113,221
Accrued interest	29,671	637,867
Recoveries of claims from other insurance companies	11,302,425	16,567,282
Deposits and other receivables	11,208,360	15,492,962
Provision for impairment of other receivables (Note 29)	(2,700,000)	-
Prepaid Rent (Note 9)	23,601,026	-
	46,753,485	40,011,157
Total insurance and other receivables	126,636,633	150,610,798

All the insurance and other receivables are current receivables except for the prepaid rent of AED 23.6 million which relates to a prepaid lease for 5 years effective from 19 November 2011 to 19 November 2016. The estimated fair value of the insurance and other receivables approximates to their carrying amount as at 31 December 2011 and 2010.

At 31 December 2011, the Group had a concentration of credit risk, with two customers accounting for 31.72% of insurance receivables outstanding at that date (2010: 28.8%). Management is confident that this concentration of credit risk will not result in any loss to the Group considering the credit history of these customers.

As at 31 December 2011, insurance receivables with a carrying value of AED 20.27 million (2010: AED 7.2 million) were impaired and fully provided for. AED14.3 of impaired loans and receivables were overdue more than 1 year.

10 Insurance and other receivables (continued)

The movement in allowance for impairment loss in respect of receivables is as follows:

	2011 AED	2010 AED
At 1 January	7,169,207	5,181,437
Provision for the year	13,799,437	2,002,524
Release of provision	(695,863)	(14,754)
At 31 December	20,272,781	7,169,207

Insurance receivables that are outstanding for more than three months are considered past due. At 31 December 2011, due from contract holders, agents, brokers and intermediaries of AED 78.0 million (2010: AED 75.5 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these receivables is as follows:

Past due but not impaired:

	2011 AED	2010 AED
Up to 3 months	27,176,166	18,751,948
Over 3 months	50,875,867	56,781,014
	78,052,033	75,532,962

Impairment of other receivables

The group has recognised a loss of AED 2.7 million (2010: AED 0.2 million) for the impairment of its other receivables during the year ended 31 December 2011 (Note 29).

The creation of provision for impaired insurance receivables and the provision for impaired other receivables has been included in the consolidated income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

11 Bank deposits with an original maturity of more than 3 months

	2011 AED	2010 AED
Restricted investment deposits	10,000,000	10,000,000
Bank deposits with an original maturity of more than 3 months	1,634,455	1,591,555
	11,634,455	11,591,555

At 31 December 2011, bank deposits with an original maturity of more than 3 months include accounts totaling AED 10,000,000 (2010 - AED 10,000,000) which cannot be utilised without the consent of the UAE Ministry of Economy and Commerce in accordance with the requirements of the UAE Federal Law Number (9) of 1984 (as amended) and the UAE Federal Law number (6) of 2007 concerning Insurance companies and agents.

12 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2011 AED	2010 AED
Cash in hand	180,422	229,804
Bank current accounts	14,590,770	43,051,659
	14,771,192	43,281,463

13 Share capital

The issued and paid up share capital as at 31 December 2011 comprised of 400 million ordinary shares of AED 1 each (31 December 2010: 400 million ordinary shares of AED 1 each).

14 Reserves

Legal reserve
In accordance with the UAE Federal Law No. (8) of 1984, as amended, 10% of the annual profit of the Group companies is transferred to a non-distributable legal reserve. Transfers to this reserve are required to be made until such time as it equals 50% of the paid up share capital of the Group companies. The transfer is based on the profits of the Company and one subsidiary as the remaining subsidiaries have incurred losses during the year.

14 Reserves (continued)

Regulatory reserve
In accordance with Article 57 of the Company's Articles of Association, 10% of the Company's net profit for the year is transferred to the regulatory reserve. The transfer is based on the Company's profit as subsidiaries are not required to transfer profits to regulatory reserve.

AED 1.8 million was transferred to the regulatory reserve for the year ended 31 December 2011 (2010: no transfer to the regulatory reserve had been made as the Company incurred losses).

Revaluation reserve
An amount of AED 11.7 million was recognized in revaluation reserve during the year ended 31 December 2009 to account for the revaluation gain on a piece of land that was transferred from property and equipment to investment property. The piece of land is still held by the Group and is included within investment property balance.

15 Insurance liabilities and reinsurance assets

	2011 AED	2010 AED
Gross insurance liabilities		
Claims reported and loss adjustment expenses	115,073,157	190,799,239
Claims incurred but not reported	5,562,000	10,139,202
Unearned premiums provision	49,277,432	77,687,666
Total insurance liabilities, gross	169,912,589	278,626,107
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	81,917,501	102,864,868
Claims incurred but not reported	3,122,426	4,862,086
Unearned premiums provision	26,670,976	35,934,452
Total reinsurance assets	111,710,903	143,661,406
Net		
Claims reported and loss adjustment expenses	33,155,656	87,934,371
Claims incurred but not reported	2,439,574	5,277,116
Unearned premiums provision	22,606,456	41,753,214
Total insurance liabilities, net	58,201,686	134,964,701

15 Insurance liabilities and reinsurance assets (continued)

15.1 Movements in insurance liabilities and reinsurance assets

	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	AED	AED	AED	AED	AED	AED
CLAIMS						
Reported claims	190,799,239	102,864,868	87,934,371	158,307,612	107,590,609	50,717,003
Claims incurred but not reported	10,139,202	4,862,086	5,277,116	17,893,734	12,617,416	5,276,318
At 1 January	200,938,441	107,726,954	93,211,487	176,201,346	120,208,025	55,993,321
Claims settled in the year	(140,951,891)	(45,025,224)	(95,926,667)	(225,017,065)	(64,507,062)	(160,510,003)
Increase in liabilities	60,648,607	22,338,197	38,310,410	249,754,160	52,025,991	197,728,169
At 31 December	120,635,157	85,039,927	35,595,230	200,938,441	107,726,954	93,211,487
Reported claims	115,073,157	81,917,501	33,155,656	190,799,239	102,864,868	87,934,371
Claims incurred but not reported	5,562,000	3,122,426	2,439,574	10,139,202	4,862,086	5,277,116
	120,635,157	85,039,927	35,595,230	200,938,441	107,726,954	93,211,487
UNEARNED PREMIUM						
At 1 January	77,687,666	35,934,452	41,753,214	113,794,174	49,665,847	64,128,327
Premiums written during the year	114,177,908	65,031,555	49,146,353	244,023,259	102,550,723	141,472,536
Increase in liabilities	(142,588,142)	(74,295,031)	(68,293,111)	(280,129,767)	(116,282,118)	(163,847,649)
Net (decrease)/increase during the year	(28,410,234)	(9,263,476)	(19,146,758)	(36,106,508)	(13,731,395)	(22,375,113)
At 31 December	49,277,432	26,670,976	22,606,456	77,687,666	35,934,452	41,753,214

16 Fair value reserve

The movement in fair value reserve is as follows:

	2011 AED	2010 AED
At 1 January	37,759,508	7,187,733
Net fair value (loss)/gain	(10,081,282)	15,842,322
Fair value losses transferred to the income statement on impairment	2,067,537	14,729,453
Fair value gain transferred to the income statement on disposal	(13,301,555)	-
At 31 December	16,444,208	37,759,508

17 Retirement benefit obligations

The movement in retirement benefit obligations is as follows:

	2011 AED	2010 AED
At 1 January	2,610,373	2,382,625
Charged to consolidated income statement	936,043	744,538
Utilised during the year	(521,098)	(516,790)
At 31 December	3,025,318	2,610,373

18 Bank borrowings

Bank loan	128,607,597	156,422,305
Bank overdraft	33,383,748	-
At 31 December	161,991,345	156,422,305

The maturity of the bank loan as at 31 December 2011 is as follows:

	2011 AED	2010 AED
Within one year	22,000,000	22,000,000
Between one and 5 years	88,000,000	88,000,000
More than 5 years	18,607,597	46,422,305
	128,607,597	156,422,305

18 Bank borrowings (continued)

The loan is from First Gulf Bank and is repayable in semi-annual installments of AED 15.7 million each up to 2017. The loan carries an interest rate of 6 Month EIBOR + 1.50%. The Group has provided First Gulf Bank with a first degree mortgage over AKIC Tower classified under investment property for AED 225 million.

The Bank has granted the Group a bank overdraft facility in return for the repayment of the two due installments on which the Group defaulted in 2011.

Included within bank overdrafts is a facility amounting to AED 30.9 million granted for the repayment of the bank loan installment and interest of AED 0.8 million accrued on this balance. This overdraft carries an interest rate of EIBOR + 4.5%. Since the amount relates to the financing of the bank loan, it is not part of cash and cash equivalents.

Finances charges associated with the above facilities for the period amounted to AED 4.5 million (2010: AED 13.3 million) (Note 30).

Beginning 2009 the bank changed the interest rates on the bank loan and charging the Group interest at a rate above that 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 Group is currently in negotiation with the bank to adjust the interest being charged on the bank loan back to the originally mandated interest as per the agreement. Thus an adjustment of AED 9 million has been reflected in the books to decrease the interest expense charged on the bank loan for the period from January 2009 to 31 December 2011. The final consent has not yet been obtained from the bank but management is confident that the bank will adjust the interest according to the original terms of the contract.

19 Trade and other payables

	2011 AED	2010 AED
Insurers', reinsurers' and brokers' accounts	70,594,510	81,240,209
Dividends payable	18,277,538	27,308,708
Accruals and other payables	13,519,331	16,967,581
Rent received in advance	5,444,101	7,951,414
	107,835,480	133,467,912

20 Net insurance premium revenue

	2011 AED	2010 AED
Premium revenue	114,177,908	244,023,259
Change in unearned premium provision	28,410,234	36,106,508
Premium revenue	142,588,142	280,129,767
Premium ceded	(65,031,555)	(102,550,723)
Change in reinsurer's share of unearned premium provision	(9,263,476)	(13,731,395)
Premium revenue ceded to reinsurers on contracts issued	(74,295,031)	(116,282,118)
Net insurance premium revenue	68,293,111	163,847,649

21 Investment income

Interest income	148,329	1,547,017
Dividend income	3,601,263	3,709,312
Commission income	294,220	373,128
	4,043,812	5,629,457

22 Net realised gain/(loss) on financial assets

	2011 AED	2010 AED
Gain on disposal of available for sale investments	6,917,641	-
Impairment of available for sale financial assets		
- Recycled from fair value reserve	(2,067,537)	(14,729,453)
- Recognised directly in income statement	(3,439,639)	-
	1,410,465	(14,729,453)

23 Net fair value gain/(loss) on financial assets at fair value through profit or loss

	2011 AED	2010 AED
Net fair value loss	(3,491,043)	(11,154,737)
Dividend income	7,181,398	6,640,573
	3,690,355	(4,514,164)

24 Reinsurance commissions

	2011 AED	2010 AED
Commission receivable from reinsurers	8,161,189	13,944,912
Unearned reinsurance commissions at beginning of the year	4,794,270	6,536,595
Unearned reinsurance commissions at end of year	(3,226,177)	(4,794,270)
	9,729,282	15,687,237

25 Net rental income from investment property

	2011 AED	2010 AED
Rental income	19,381,198	20,722,921
Related rent expenses	(1,284,839)	(1,610,964)
	18,096,359	19,111,957

26 Other operating income

	2011 AED	2010 AED
Gain on disposal of property and equipment	231,280	-
Other income	242,617	-
	473,897	-

27 Insurance claims

	2011 AED	2010 AED
Paid claims, net of recoveries	(140,951,891)	(225,017,065)
Change in the provision for outstanding claims	75,726,082	(32,491,630)
Change in outstanding claims recoveries	(5,264,857)	4,785,644
Change in claims incurred but not reported	4,577,202	7,754,532
Gross claims incurred	(65,913,464)	(244,968,519)
Reinsurer's share of claims paid	45,025,224	64,507,062
Change in the reinsurer's share of provision for outstanding claims	(20,947,367)	(4,725,743)
Change in reinsurer's share of claims incurred but not reported	(1,739,660)	(7,755,330)
Reinsurer's share of claims incurred	22,338,197	52,025,989
Claims and loss adjustment expenses, net of reinsurance	(43,575,267)	(192,942,530)

The amounts for salvage and subrogation recognized as net of paid claims during the year are AED 30.9 million (2010: AED 26.1 million).

28 Expenses for acquisition of insurance contracts

	2011 AED	2010 AED
Commissions paid during the year	4,141,489	9,449,688
Other acquisition costs net of other underwriting income	(528,124)	(869,847)
Deferred acquisition costs at beginning of year	2,258,143	6,560,202
Deferred acquisition costs at end of year	(1,604,106)	(2,258,143)
	4,267,402	12,881,900

29 Expenses for marketing and administration

	2011 AED	2010 AED
Staff costs (Note 29.1)	21,693,994	19,111,394
Marketing and advertising expenses	159,344	675,333
Depreciation charge (Note 6)	2,238,172	2,208,652
Rental expenses	3,838,560	4,435,440
Professional expenses	1,278,552	1,892,790
Utilities	318,124	258,537
Communications	489,801	629,944
Postage and stationery	768,410	954,540
Licence fees	587,779	1,179,849
Repairs and maintenance	409,723	388,597
Bank charges	196,222	203,779
Provision for impaired insurance receivables (Note 10)	13,103,574	1,987,770
Provision for impaired other receivables (Note 10)	2,700,000	232,362
Travel expenses	116,945	173,447
Impairment of property under development (Note 6)	-	3,988,650
Loss on investment in a subsidiary	-	429,978
Exchange loss	115,119	62,616
Other expenses	4,459,603	4,651,791
	52,473,922	43,465,469

29.1 Staff costs

	2011 AED	2010 AED
Staff costs		
Salaries and wages	11,590,397	11,246,477
Other benefits	3,688,400	2,780,531
	15,278,797	14,027,008
Key management compensation		
Salaries and wages	5,795,904	4,464,601
Other benefits	619,293	619,785
	6,415,197	5,084,386
	21,693,994	19,111,394

30 Finance costs

	2011 AED	2010 AED
Interest on bank loan (Note 18)	4,458,704	13,341,343
Interest on premium deposits retained	359,447	316,190
	4,818,151	13,657,533

31 Related party balances and transactions

Related parties comprise the directors, key management personnel and businesses controlled by the directors or over which they exercise significant management influence.

Related party transactions

During the reporting period, the Group entered into the following significant transactions with related parties in the ordinary course of business at terms and conditions agreed upon between the parties.

	2011 AED	2010 AED
Transactions with related parties		
Net premium written	10,686,242	43,610,264
Claims paid	1,247,340	1,580,847
Key management compensation	5,415,201	4,319,603
CEO remuneration	999,996	764,783
Sale of available-for sale- financial assets	-	1,030,000

Related party balances

Due from related parties

Insurance receivables (Note 10)	16,095,101	21,669,890

32 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. The number of ordinary shares outstanding during the period was 400,000,000 shares. During the period the Group made profit of AED 11,804,428.

	2011 AED	2010 AED
Net profit/(loss) attributable to equity shareholders	11,804,428	(106,844,651)
Weighted average number of ordinary shares issued	400,000,000	400,000,000
Earnings per share	0.03	-

33 Guarantees

	2011 AED	2010 AED
Guarantees	11,361,415	13,699,285

The above guarantees were issued in the ordinary course of business.

34 Cash flows from operating activities

	Notes	2011 AED	2010 AED
Profit/(loss) for the year		11,804,428	(106,844,651)
Adjustments for:			
Depreciation	6	2,238,171	2,208,652
Impairment of property under development	6	-	3,988,650
(Increase)/decrease in fair value of investment properties	7	(11,201,889)	9,423,065
Impairment of advances	9	-	25,397,058
Impairment on available for sale financial assets	22	5,507,176	14,729,453
Gain on disposal of property and equipment		(231,280)	-
Loss on revaluation of investments at fair value through profit or loss	23	3,491,043	11,154,737
Gain on disposal of available-for-sale financial assets		(6,917,641)	-
Dividend income		(10,782,661)	(10,349,885)
Provision for employees end of service benefits	17	936,043	744,538
Reversal of provision for reconciling differences on receivable balances		-	(5,890,221)
Interest income	21	(148,329)	(1,547,017)
Interest expense	30	4,818,151	13,657,533
Net foreign exchange loss		-	10,518
Provision for impairment of insurance receivables	29	13,103,574	1,987,770
Provision for impairment of other receivables	29	2,700,000	232,362
Operating cash flows before change in operating assets and liabilities and payment of employees service benefits		15,316,786	(41,097,438)
Payment of employees service benefit	17	(521,098)	(516,790)
Decrease in deferred acquisition costs		654,037	4,302,059
Decrease in reinsurance contracts assets		31,950,503	26,212,466
Decrease in insurance contract liabilities		(108,713,518)	(11,369,413)
Decrease in unearned reinsurance commission		(1,568,093)	(1,742,325)
Decrease in insurance and other receivables		31,771,617	14,252,641
Increase in advances	9	-	(1,107,167)
(Decrease)/increase in trade and other payables		(15,856,033)	22,298,789
Purchase of financial assets at fair value through profit or loss		(337,145)	(500,000)
Proceeds from disposal of available-for-sale investments		-	1,030,000
Proceeds from disposal of financial assets at fair value through profit or loss		-	429,581
Cash (used in)/generated from operations		(47,302,944)	12,192,403