

**Al Khazna Insurance Company**  
(Public Shareholding Company)

**Condensed consolidated interim  
financial information for the  
nine months ended 30 September 2012  
(Unaudited)**

**Al Khazna Insurance Company**  
(Public Shareholding Company)

**Condensed consolidated interim financial information  
for the nine months ended 30 September 2012**

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# Al Khazna Insurance Company P.S.C.

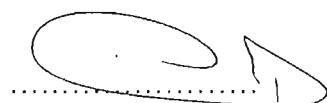
## Board of Directors' report for the nine months ended 30 September 2012

The Board of Directors of Al Khazna Insurance Company P.S.C. is pleased to submit its Financial Statement for the third quarter of 2012, which shows that the underwriting surplus has increased by 13% from AED 17.3 million for the nine months period ended 30 September 2011 to AED 19.5 million for the nine months period ended 30 September 2012. The net profit also increased from a **LOSS** of AED 15.9 million for the nine months period ended 30 September 2011 to a **PROFIT** of AED 15.5 million for the nine months period ended 30 September 2012.

	Nine months period ended 30		%
	2012	September 2011	
	AED	AED	
<b>Condensed consolidated interim income statement summary</b>			
Gross written premium	127,597,248	86,676,955	47%
Net underwriting results	19,563,647	17,260,642	13%
General and administrative expenses	(34,040,139)	(32,661,638)	4%
Net investment and other income	39,265,568	9,993,173	293%
Finance Cost	(9,229,412)	(10,476,720)	12%
Net profit for the period	15,559,664	(15,884,543)	
Basic earnings per share	0.04	(0.04)	
	30 September 2012	30 September 2011	
	AED	AED	
<b>Condensed consolidated interim statement of financial position</b>			
Shareholder's equity	630,151,913	599,179,079	
Total assets	1,109,800,397	1,094,461,751	

All the indicators show an improvement in the technical performance, claims control and investment results for the current year compared to 2011.

We hope that 2012 will be another good financial year with regards to the results of the insurance business.



Director  
11 November 2012



## Report on Review of Condensed Consolidated Interim Financial Information to the shareholders of Al Khazna Insurance Company P.S.C.

### *Introduction*

We have reviewed the accompanying condensed consolidated interim statement of financial position of Al Khazna Insurance Company P.S.C. (the Company) and its subsidiaries (together, the Group) as of 30 September 2012 and the related condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim cash flow statement for the nine months then ended. Management is responsible for the preparation and presentation of the condensed consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting." Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### *Scope of review*

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

### *Basis for qualified conclusion*

Insurance and other receivables include a balance of prepaid rent of AED 20.2 million which is intended to be used in the funding of an educational project undertaken by Company's management. As at 30 September 2012, there is insufficient evidence to support the recoverability of the prepaid rent and accordingly we were unable to satisfy ourselves that the prepaid rent reflected in the condensed interim consolidated financial information is fairly stated at that date.

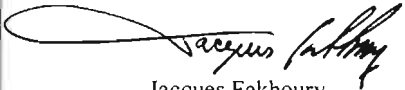
### *Qualified conclusion*

Based on our review, except for the matter referred to in the basis for qualified conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting."

### *Emphasis of matter*

Without further qualifying our conclusion we draw attention to the fact, as explained in Note 15, that the Group has been granted a bank facility which currently has a carrying amount of AED 101 million, for which the Group is disputing the interest charged by the Bank since 2009. The dispute has arisen as the Bank changed the interest charged on the facility to a rate higher than that stipulated in the loan agreement. The excess interest charged to 30 September 2012 is approximately AED 12.09 million. This has not been recorded by the Group as a finance cost. The Group is currently in negotiations with the Bank to adjust the interest being charged on the bank loan, however no formal consent has been obtained from the Bank. Thus, the final outcome of the matter cannot presently be determined.

PricewaterhouseCoopers  
11 November 2012

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

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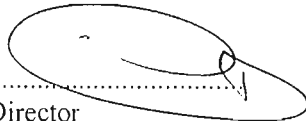
W Hunt, AH Nasser, P Suddaby and JE Fakhoury are registered as practising auditors with the UAE Ministry of Economy

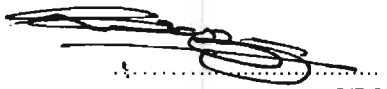
# Al Khazna Insurance Company P.S.C.

## Condensed consolidated interim statement of financial position

	Notes	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
<b>ASSETS</b>				
Property and equipment	4	8,051,489	9,145,609	9,579,168
Investment properties	5	458,190,400	472,644,824	461,442,935
Financial assets				
- Available-for-sale	6	62,512,730	63,087,384	122,982,400
- At fair value through profit or loss	6	284,502,460	248,927,782	187,559,554
Advances		-	-	23,601,026
Insurance and other receivables	7	120,616,752	126,636,633	127,578,723
Reinsurance contracts	8	114,081,156	111,710,903	132,450,051
Deferred acquisition costs	20	2,663,008	1,604,106	1,709,411
Bank deposits with an original maturity of more than 3 months	9	11,692,500	11,634,455	11,634,455
Cash and cash equivalents	10	47,489,902	14,771,192	15,924,028
<b>Total assets</b>		<b>1,109,800,397</b>	<b>1,060,162,888</b>	<b>1,094,461,751</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to the Company's equity holders</b>				
Share capital	11	410,000,000	400,000,000	400,000,000
Share premium		1,785,314	1,783,412	1,783,412
Legal reserve	12	60,106,478	60,106,478	58,122,000
Regulatory reserve	12	58,064,354	58,064,354	56,267,338
Fair value reserve	13	16,862,576	16,444,208	29,140,279
Revaluation reserve		11,736,841	11,736,841	11,736,841
Retained earnings		71,596,350	66,036,686	42,129,209
<b>Total capital and reserves attributable to the Company's equity holders</b>		<b>630,151,913</b>	<b>614,171,979</b>	<b>599,179,079</b>
<b>LIABILITIES</b>				
Insurance liabilities	8	196,082,448	169,912,589	196,537,457
Unearned reinsurance commission	18	3,732,533	3,226,177	4,272,607
Retirement benefit obligations	14	3,639,735	3,025,318	2,949,044
Bank borrowings	15	171,038,028	161,991,345	167,771,095
Trade and other payables	16	105,155,740	107,835,480	123,752,469
<b>Total liabilities</b>		<b>479,648,484</b>	<b>445,990,909</b>	<b>495,282,672</b>
<b>Total equity and liabilities</b>		<b>1,109,800,397</b>	<b>1,060,162,888</b>	<b>1,094,461,751</b>

The condensed consolidated interim financial information was authorised for issue on 11 November 2012 by:

  
Director

  
CEO

# Al Khazna Insurance Company P.S.C.

## Condensed consolidated interim income statement

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2012 AED Reviewed	2011 AED Reviewed	2012 AED Reviewed	2011 AED Reviewed
Insurance premium revenue	17	37,008,436	29,011,133	104,251,517	109,596,053
Insurance premium ceded to reinsurers	17	(16,349,730)	(17,683,843)	(48,215,912)	(57,155,649)
<b>Net insurance premium revenue</b>	17	20,658,706	11,327,290	56,035,605	52,440,404
Reinsurance commissions	18	1,876,448	2,115,304	5,813,520	7,603,362
Investment income		752,632	174,605	11,196,479	11,120,236
Net fair value loss on investment property	5	(13,725,001)	-	(14,454,424)	-
Net realised loss on financial assets	6	(243,824)	(2,643,708)	(993,022)	(3,593,338)
Net fair value gain/(loss) on financial assets at fair value through profit or loss	6	24,620,474	(19,345,035)	35,631,963	(12,816,293)
Net rental income from investment property		2,292,356	4,779,077	7,727,951	14,877,602
Other income/(expense)		(133,920)	404,966	156,621	404,966
<b>Net income</b>		36,097,871	(3,187,501)	101,114,693	70,036,939
Insurance claims and loss adjustment expenses	19	(25,067,054)	(16,205,845)	(63,208,273)	(65,385,467)
Insurance claims and loss adjustment expenses recovered from reinsurers	19	7,857,060	5,050,227	25,539,647	26,222,562
<b>Net insurance claims</b>	19	(17,209,994)	(11,155,618)	(37,668,626)	(39,162,905)
Expenses for acquisition of insurance contracts	20	(1,465,552)	(1,052,488)	(4,616,852)	(3,620,219)
Expenses for marketing and administration		(9,323,001)	(10,714,555)	(30,589,983)	(32,661,638)
Amortisation of prepaid rent		(1,150,052)	-	(3,450,156)	-
<b>Expenses</b>		(29,148,599)	(22,922,661)	(76,325,617)	(75,444,762)
<b>Results of operating activities</b>		6,949,272	(26,110,162)	24,789,076	(5,407,823)
Finance costs		(3,147,374)	(3,568,138)	(9,229,412)	(10,476,720)
<b>Profit/(loss) for the period</b>		3,801,898	(29,678,300)	15,559,664	(15,884,543)
<b>Attributable to:</b>					
- Equity holders of the Company		3,801,898	(29,678,300)	15,559,664	(15,884,543)
Basic earnings per share	21	0.01	(0.07)	0.04	(0.04)

The notes on pages 8 to 31 form an integral part of these condensed consolidated interim financial information.

## Al Khazna Insurance Company P.S.C.

### Condensed consolidated interim statement of comprehensive income

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2012 AED Reviewed	2011 AED Reviewed	2012 AED Reviewed	2011 AED Reviewed
Profit/(loss) for the period		3,801,898	(29,678,300)	15,559,664	(15,884,543)
<b>Other comprehensive income</b>					
Net fair value (loss)/gain on available-for-sale financial assets	6	(519,571)	(13,692,112)	418,368	(12,212,567)
Fair value loss transferred to income statement on impairment	6	-	2,643,708	-	3,593,338
<b>Total other comprehensive income/(loss)</b>		(519,571)	(11,048,404)	418,368	(8,619,229)
<b>Total comprehensive income/(loss) for the period</b>		<u>3,282,327</u>	<u>(40,726,704)</u>	<u>15,978,032</u>	<u>(24,503,772)</u>
<b>Attributable to:</b>					
- Owners of the Company		<u>3,282,327</u>	<u>(40,726,704)</u>	<u>15,978,032</u>	<u>(24,503,772)</u>

## Al Khazna Insurance Company P.S.C.

### Condensed consolidated interim statement of changes in equity (Reviewed)

	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 equity AED
Balance at 1 January 2011	400,000,000	1,783,412	58,122,000	56,267,338	49,496,349	58,013,752	623,682,851
Profit for the period	-	-	-	-	-	(15,884,543)	(15,884,543)
Other comprehensive income	-	-	-	-	(8,619,229)	-	(8,619,229)
Total comprehensive income for the period	-	-	-	-	(8,619,229)	(15,884,543)	(24,503,772)
<b>At 30 September 2011</b>	<b>400,000,000</b>	<b>1,783,412</b>	<b>58,122,000</b>	<b>56,267,338</b>	<b>40,877,120</b>	<b>42,129,209</b>	<b>599,179,079</b>
Balance at 1 January 2012	400,000,000	1,783,412	60,106,478	58,064,354	28,181,049	66,036,686	614,171,979
Profit for the period	-	-	-	-	-	15,559,664	15,559,664
Other comprehensive income	-	-	-	-	418,368	-	418,368
Total comprehensive income for the period	-	-	-	-	418,368	15,559,664	15,978,032
<b>Transactions with Owners:</b>							
Dividend distribution through issuance of bonus shares (Note 11)	10,000,000	1,902	-	-	-	(10,000,000)	1,902
	10,000,000	1,902	-	-	-	(10,000,000)	1,902
<b>At 30 September 2012</b>	<b>410,000,000</b>	<b>1,785,314</b>	<b>60,106,478</b>	<b>58,064,354</b>	<b>28,599,417</b>	<b>71,596,350</b>	<b>630,151,913</b>

The notes on pages 8 to 31 form an integral part of these condensed consolidated interim financial information.



# Al Khazna Insurance Company P.S.C.

## Condensed consolidated interim statement of cash flows

	Notes	Nine months ended 30	
		2012 AED Reviewed	September 2011 AED Reviewed
<b>Cash generated from/(used in) operations</b>	24	20,456,404	(51,226,273)
<b>Cash flows from investing activities</b>			
Interest received		63,899	738,566
Dividend received		10,930,580	10,783,136
Increase in bank deposits with original maturity of more than three months		(58,045)	(42,900)
Purchase of property and equipment	4	(295,605)	(1,586,287)
Proceeds from sale of property and equipment		-	297,807
Proceeds on maturity of debt securities		-	18,332,500
<b>Net cash generated from investing activities</b>		10,640,829	28,522,822
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares		1,902	-
Increase in bank loan		-	(503,295)
Dividends paid		-	(8,522,772)
Interest paid		-	(297,034)
<b>Net cash generated from/(used in) financing activities</b>		1,902	(9,323,101)
<b>Net increase/(decrease) in cash and cash equivalents</b>		31,099,135	(32,026,552)
Cash and cash equivalents, beginning of the period		13,894,602	43,281,463
<b>Cash and cash equivalents, end of the period</b>	10	44,993,737	11,254,911

### Non-cash transactions:

The principal non-cash transactions for the period were as follows:

- i) An amount of AED 15.7 million was transferred from bank loan to bank overdraft (Note 15)
- ii) An amount of AED 1.8 million interest payable on the bank loan was accrued for the period.
- iii) An amount of AED 10 million was transferred from retained earnings to share capital as dividend distribution in the form of bonus shares (Note 11 and 12)

## **Al Khazna Insurance Company P.S.C.**

### **Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2012**

#### **1 General information**

Al Khazna Insurance Company (the Company) is a public shareholding company. The Company and its subsidiaries (together the Group) are 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 insurance of all classes of business, with the exception of endowments and annuities.

The Company is listed on the Abu Dhabi Stock Exchange.

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

As of 30 September 2012, the Group's subsidiaries, Pearl Capital Investments LLC and National Publishers LLC have incurred losses of AED 2.9 million (31 December 2011: AED 1.9 million profit) and AED 0.9 million (31 December 2011: AED 2.6 million loss), respectively, and reported net liabilities of AED 35.6 million (31 December 2011: AED 32.7 million) and AED 6.4 million (31 December 2011: AED 5.4 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 43 million (31 December 2011: AED 40.2 million) and AED 9.2 million (31 December 2011: AED 8.2 million), respectively, exceeded half of the share capital of each of the subsidiaries as of 30 September 2012 and 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 were required to vote on a resolution for the continuation of each of the subsidiaries at their own Annual General Assemblies in the last 2 years. Thus the subsidiaries continue to be in breach of the provisions of Article 289 of the UAE Federal Law No. (8) of 1984, as amended.

#### **2 Accounting policies**

##### **2.1 Basis of preparation**

The condensed consolidated interim financial information is prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting." The condensed consolidated interim financial information is prepared under the historical cost convention as modified by the revaluation of investment properties, financial assets at fair value through profit or loss and available for sale financial assets.

The accounting policies applied in the preparation of the condensed consolidated interim financial information are consistent with those applied in the annual consolidated financial statements for the year ended 31 December 2011.

Costs that occur unevenly during the financial year are anticipated or deferred in the condensed consolidated interim financial information only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

## **Al Khazna Insurance Company P.S.C.**

### **Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012** (continued)

#### **2 Accounting policies** (continued)

##### **2.1 Basis of preparation** (continued)

The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2011.

The condensed consolidated interim financial information is presented in UAE Dirhams because that is the currency of the primary economic environment in which the Group operates.

At the date of the condensed consolidated interim financial information, the following Standards, Amendments and Interpretations which have not been applied in the condensed consolidated interim financial information were in issue but not yet effective:

- IAS 19 (amendment), 'Employee benefits' (effective from 1 January 2013);
- IFRS 10 (standard), 'Consolidated financial statements' (effective from 1 January 2013);
- IFRS 11 (standard), 'Joint arrangement' (effective from 1 January 2013);
- IFRS 12 (standard), 'Disclosures of interest in other entities' (effective from 1 January 2013);
- IFRS 13 (standard), 'Fair value measurement' (effective from 1 January 2013);
- IAS 27 (amendment), 'Separate financial statements' (effective from 1 January 2013);
- IAS 28 (amendment), 'Associates and joint ventures' (effective from 1 January 2013);  
and
- IFRS 9 (standard), 'Financial instruments' (effective from 1 January 2015).

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

##### **2.2 Basis of 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 of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred 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. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 2 Accounting policies (continued)

##### 2.2 Basis of consolidation (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the condensed consolidated interim statement of comprehensive income.

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 & 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 & advisory services in respect of real estate.
Modern Academy	UAE	100%	To provide business management training.
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.

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 2 Accounting policies (continued)

##### 2.2 Basis of consolidation (continued)

Name of subsidiary	Domiciled	Proportion of ownership	Principal activity
Tadawel Electronics Solutions Est. ***	UAE	100%	Software consultant, storing and retrieving data.
Tel Fast Recruitment Agencies LLC ***	UAE	99%	Employment services - recruitment
Tel Fast Manpower Supply LLC ***	UAE	99%	Labourers supply services

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

(\*\*): These subsidiaries have not yet commenced operations and do not have trade licenses.

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

The ownership is held by the Company and its subsidiaries.

As required by the Emirates Securities and Commodities Authority ("ESCA"), accounting policies related to investment property and financial assets have been disclosed in the notes below.

##### 2.3 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 at each reporting date 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 condensed consolidated interim income statement.

##### 2.4 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 depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the investments were acquired.

## **Al Khazna Insurance Company P.S.C.**

### **Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012** (continued)

#### **2 Accounting policies** (continued)

##### **2.4 Financial assets** (continued)

###### **2.4.1 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.

###### *(ii) Held-to-maturity*

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 condensed consolidated interim 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 condensed consolidated interim 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.

###### **2.4.2 Recognition and measurement**

Regular-way purchases and sales of financial assets are recognised on the trade-date – 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 condensed consolidated interim income statement.

## **Al Khazna Insurance Company P.S.C.**

### **Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012** (continued)

#### **2 Accounting policies** (continued)

##### **2.4 Financial assets** (continued)

###### **2.4.2 Recognition and measurement** (continued)

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.

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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim income statement. Dividends on available-for-sale equity instruments are recognised in the condensed consolidated interim 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 amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the condensed consolidated interim income statement; translation differences on non-monetary securities are recognised 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 the fair values is based on quoted market prices. 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.

## **Al Khazna Insurance Company P.S.C.**

### **Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)**

#### **3 Underwriting results of the insurance segment**

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.



## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 3 Underwriting results of the insurance segment (continued)

Details of the five insurance operating segments are set out on pages 16 to 19 and are summarized with the information on the corporate segment below:

	<b>Insurance</b> AED'000 Reviewed	<b>Corporate</b> AED'000 Reviewed	<b>Total</b> AED'000 Reviewed
<b>Nine months period ended 30 September 2012</b>			
Net underwriting results	19,564	-	19,564
Expenses for marketing and administration	(27,612)	(2,978)	(30,590)
Amortisation of prepaid rent	-	(3,450)	(3,450)
Net investment income	-	31,380	31,380
Net rental income from investment property	-	7,885	7,885
	<u>          </u>	<u>          </u>	<u>          </u>
Results of operating activities	(8,048)	32,837	24,789
	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 30 September 2012</b>			
Total assets	237,361	872,439	1,109,800
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Nine months period ended 30 September 2011</b>			
Net underwriting results	17,261	-	17,261
Expenses for marketing and administration	(27,377)	(5,285)	(32,662)
Net investment loss	-	(5,290)	(5,290)
Net rental income from investment property	-	14,878	14,878
Other income	-	405	405
	<u>          </u>	<u>          </u>	<u>          </u>
Results of operating activities	(10,116)	4,708	(5,408)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 30 September 2011</b>			
Total assets	251,850	842,611	1,094,461
	<u>          </u>	<u>          </u>	<u>          </u>

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.

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 3 Underwriting results of the insurance segment (Reviewed) (continued)

	Nine months ended 30 September 2012					
	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	7,989	19,025	54,829	15,231	30,523	127,597
Less: Ceded premiums	(6,480)	(4,868)	(4,905)	(13,889)	(25,443)	(55,585)
<b>Net premium income</b>	1,509	14,157	49,924	1,342	5,080	72,012
Add: Net unearned premium reserve at start of the period	498	11,407	7,245	219	3,238	22,607
Less: Net unearned premium reserve at close of the period	(837)	(11,056)	(22,584)	(775)	(3,331)	(38,583)
<b>Net premium earned</b>	1,170	14,508	34,585	786	4,987	56,036
Reinsurance commission	1,685	721	129	946	2,839	6,320
Add: Unearned reinsurance commission at start of period	633	696	-	302	1,595	3,226
Less: Unearned reinsurance commission at close of period	(866)	(544)	(56)	(516)	(1,750)	(3,732)
<b>Reinsurance commission earned</b>	1,452	873	73	732	2,684	5,814
<b>Total net underwriting revenue</b>	2,622	15,381	34,658	1,518	7,671	61,850
Claims paid	(5,726)	(6,139)	(19,727)	(10,890)	(13,328)	(55,810)
Less: Recovered claims	5,096	1,676	1,526	9,980	12,260	30,538
Net claims paid	(630)	(4,463)	(18,201)	(910)	(1,068)	(25,272)
Less: Net outstanding claims at start of the period	2,017	5,703	5,550	4,475	6,547	24,292
Add: Net outstanding claims at close of the period	(2,688)	(6,234)	(19,763)	(2,490)	(5,514)	(36,689)
<b>Net claims incurred</b>	(1,301)	(4,994)	(32,414)	1,075	(35)	(37,669)
Commission paid and net other acquisition (costs)/income	(886)	439	(3,790)	(118)	(1,321)	(5,676)
Add: Deferred acquisition costs at start of period	(343)	(75)	(333)	(32)	(821)	(1,604)
Less: Deferred acquisition cost at close of period	458	89	1,441	43	632	2,663
<b>Expenses for acquisition of insurance contracts</b>	(771)	453	(2,682)	(107)	(1,510)	(4,617)
<b>Total net underwriting expenses</b>	(2,072)	(4,541)	(35,096)	968	(1,545)	(42,286)

**Al Khazna Insurance Company P.S.C.**

**Notes to the condensed consolidated interim financial statements  
for the nine months ended 30 September 2012 (continued)**

**3 Underwriting results of the insurance segment (Reviewed) (continued)**

	Nine months ended 30 September 2012					Total AED'000
	Fire AED'000	Motor AED'000	Medical AED'000	Marine and aviation AED'000	Accident and others AED'000	
Total net underwriting revenue b/f	2,622	15,381	34,658	1,518	7,671	61,850
Total net underwriting expenses b/f	(2,072)	(4,541)	(35,096)	968	(1,545)	(42,286)
<b>Underwriting surplus</b>	<u>550</u>	<u>10,840</u>	<u>(438)</u>	<u>2,486</u>	<u>6,126</u>	<u>19,564</u>
Expenses for marketing and administration	(1,729)	(4,117)	(11,865)	(3,296)	(6,605)	(27,612)
<b>Net underwriting (deficit)/surplus</b>	<u>(1,179)</u>	<u>6,723</u>	<u>(12,303)</u>	<u>(810)</u>	<u>(479)</u>	<u>(8,048)</u>

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 3 Underwriting results of the insurance segment (Reviewed) (continued)

	Nine months ended 30 September 2011					Total AED'000
	Fire AED'000	Motor AED'000	Medical AED'000	Marine and aviation AED'000	Accident and others AED'000	
Gross premium written	7,527	22,617	9,916	11,726	34,891	86,677
Less: Ceded premiums	(6,369)	(6,898)	(966)	(11,138)	(28,892)	(54,263)
<b>Net premium income</b>	1,158	15,719	8,950	588	5,999	32,414
Add: Net unearned premium reserve at start of the period	725	16,793	19,264	591	4,380	41,753
Less: Net unearned premium reserve at close of the period	(643)	(11,572)	(5,398)	(377)	(3,737)	(21,727)
<b>Net premium earned</b>	1,240	20,940	22,816	802	6,642	52,440
Reinsurance commission	1,669	1,034	-	916	3,462	7,081
Add: Unearned reinsurance commission at start of period	888	1,335	-	380	2,192	4,795
Less: Unearned reinsurance commission at close of period	(826)	(734)	-	(496)	(2,217)	(4,273)
<b>Reinsurance commission earned</b>	1,731	1,635	-	800	3,437	7,603
<b>Total net underwriting revenue</b>	2,971	22,575	22,816	1,602	10,079	60,043
Claims paid	(4,558)	(33,747)	(61,203)	(3,909)	(19,157)	(122,574)
Less: Recovered claims	3,685	9,812	1,569	3,494	15,981	34,541
<b>Net claims paid</b>	(873)	(23,935)	(59,634)	(415)	(3,176)	(88,033)
Less: Net outstanding claims at start of the period	2,474	18,168	42,265	5,031	8,707	76,645
Add: Net outstanding claims at close of the period	(3,990)	(9,142)	(1,911)	(4,853)	(7,878)	(27,774)
<b>Net claims incurred</b>	(2,389)	(14,909)	(19,280)	(237)	(2,347)	(39,162)
Commission paid and net other acquisition (costs)/income	(958)	401	(226)	(133)	(2,155)	(3,071)
Add: Deferred acquisition costs at start of period	(404)	(186)	(391)	(209)	(1,068)	(2,258)
Less: Deferred acquisition cost at close of period	430	95	73	66	1,045	1,709
<b>Expenses for acquisition of insurance contracts</b>	(932)	310	(544)	(276)	(2,178)	(3,620)
<b>Total net underwriting expenses</b>	(3,321)	(14,599)	(19,824)	(513)	(4,525)	(42,782)

**Al Khazna Insurance Company P.S.C.**

**Notes to the condensed consolidated interim financial statements  
for the nine months ended 30 September 2012 (continued)**

**3 Underwriting results of the insurance segment (Reviewed) (continued)**

	Nine months ended 30 September 2011					Total AED'000
	Fire AED'000	Motor AED'000	Medical AED'000	Marine and aviation AED'000	Accident and others AED'000	
Total net underwriting revenue b/f	2,971	22,575	22,816	1,602	10,079	60,043
Total net underwriting expenses b/f	(3,321)	(14,599)	(19,824)	(513)	(4,525)	(42,782)
<b>Underwriting (deficit)/surplus</b>	(350)	7,976	2,992	1,089	5,554	17,261
Expenses for marketing and administration	(2,377)	(7,144)	(3,132)	(3,704)	(11,020)	(27,377)
<b>Net underwriting (deficit)/surplus</b>	(2,727)	832	(140)	(2,615)	(5,466)	(10,116)

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 4 Property and equipment

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
<b>Cost</b>			
At beginning of period	22,017,790	21,046,241	21,046,241
Additions	295,605	1,700,214	1,586,287
Disposals	-	(728,665)	(728,664)
At end of period	<u>22,313,395</u>	<u>22,017,790</u>	<u>21,903,864</u>
<b>Depreciation</b>			
At beginning of period	12,872,181	11,296,148	11,296,148
Charge for the period	1,389,725	2,238,171	1,690,686
Disposals	-	(662,138)	(662,138)
At end of period	<u>14,261,906</u>	<u>12,872,181</u>	<u>12,324,696</u>
<b>Net book amount</b>			
At end of period	<u>8,051,489</u>	<u>9,145,609</u>	<u>9,579,168</u>

#### 5 Investment properties

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
At beginning of period	472,644,824	461,442,935	461,442,935
Net fair value (loss)/gain	(14,454,424)	11,201,889	-
At end of period	<u>458,190,400</u>	<u>472,644,824</u>	<u>461,442,935</u>

Investment property with a carrying value of AED 210 million is mortgaged in favour of First Gulf Bank against the bank loan (Note 15).

Included within investment property are two pieces of land with a carrying value of AED 133.5 million whose title was not transferred to the name of the Group pending the settlement of the last instalment.

An independent valuer has conducted a desktop valuation of the investment properties as at 30 September 2012 and a fair value loss of AED 14,454,424 has been recognised.

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 6 Investments

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
<i>Available for sale financial assets</i>			
At beginning of period	63,087,384	135,194,967	135,194,967
Disposals	-	(58,586,662)	-
Impairment recorded in income statement	(993,022)	(3,439,639)	(3,593,338)
Net fair value gain/(loss)	418,368	(10,081,282)	(8,619,229)
At end of period	<u>62,512,730</u>	<u>63,087,384</u>	<u>122,982,400</u>

Details of available for sale financial assets:

Investment in quoted UAE securities carried at market value	5,214,648	5,617,121	64,448,754
Investment in unquoted UAE securities carried at fair value	57,298,082	57,470,263	58,533,646
	<u>62,512,730</u>	<u>63,087,384</u>	<u>122,982,400</u>

#### *Financial assets at fair value through profit or loss*

At beginning of period	248,927,782	199,878,932	199,878,932
Additions	-	110,959,846	1,121,085
Disposals	(57,285)	(58,419,953)	(624,170)
Net fair value gain/(loss)	35,631,963	(3,491,043)	(12,816,293)
At end of period	<u>284,502,460</u>	<u>248,927,782</u>	<u>187,559,554</u>

Details of fair value through profit or loss financial assets:

Investments in quoted UAE securities	209,091,069	184,115,647	135,035,697
Investment in quoted foreign securities	75,411,391	64,812,135	52,523,857
	<u>284,502,460</u>	<u>248,927,782</u>	<u>187,559,554</u>

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 7 Insurance and other receivables

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
Due from contract holders	63,509,528	55,458,798	54,654,331
Due from agents, brokers, intermediaries and reinsurers	41,064,855	44,697,131	50,385,727
Less: provision for impairment of receivables	(21,928,663)	(20,272,781)	(11,935,337)
	<u>82,645,720</u>	<u>79,883,148</u>	<u>93,104,721</u>
<b>Other receivables</b>			
Prepayments	2,418,681	2,324,089	2,254,251
Accrued rent receivable	2,517,469	987,914	4,963,464
Accrued interest	21,380	29,671	17,803
Recoveries of claims from other insurance companies	6,727,865	11,302,425	14,586,076
Deposits and other receivables	11,534,767	11,208,360	12,652,408
Provision for impairment of other receivables	(5,400,000)	(2,700,000)	-
Prepaid rent	20,150,870	23,601,026	-
	<u>37,971,032</u>	<u>46,753,485</u>	<u>34,474,002</u>
Total insurance and other receivables	<u>120,616,752</u>	<u>126,636,633</u>	<u>127,578,723</u>

Prepaid rent represents a 5 year lease agreement that commenced on 19 November 2011, for a five storey building in Dubai World Centre which management intends on using for a university project. The board of directors is currently in the process of negotiating the agreement with a third party to establish and operate the university. To date Al Khazna Insurance Company has agreed to contribute the premises to the project in respect of which the prepaid rent of AED 20.2m is outstanding as at 30 September 2012. The agreement is yet to be concluded by both parties and is subject to obtaining regulatory approvals and finalisation of legal documentation.



## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 8 Insurance liabilities and reinsurance contract assets

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
<b>Gross</b>			
Claims reported and loss adjustment expenses	120,084,885	115,073,157	135,723,889
Claims incurred but not reported	3,374,400	5,562,000	6,045,000
Unearned premiums provision	72,623,163	49,277,432	54,768,568
<b>Total insurance liabilities, gross</b>	<u>196,082,448</u>	<u>169,912,589</u>	<u>196,537,457</u>
<b>Recoverable from reinsurers</b>			
Claims reported and loss adjustment expenses	78,340,244	81,917,501	95,883,683
Claims incurred but not reported	1,700,869	3,122,426	3,524,692
Unearned premiums provision	34,040,043	26,670,976	33,041,676
<b>Total reinsurers' share of insurance liabilities</b>	<u>114,081,156</u>	<u>111,710,903</u>	<u>132,450,051</u>
<b>Net</b>			
Claims reported and loss adjustment expenses	41,744,641	33,155,656	39,840,206
Claims incurred but not reported	1,673,531	2,439,574	2,520,308
Unearned premiums provision	38,583,120	22,606,456	21,726,892
<b>Total insurance liabilities, net</b>	<u>82,001,292</u>	<u>58,201,686</u>	<u>64,087,406</u>

#### 9 Bank deposits with an original maturity of more than 3 months

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
Restricted investment deposits	10,000,000	10,000,000	10,000,000
Bank deposits with an original maturity of more than 3 months	1,692,500	1,634,455	1,634,455
	<u>11,692,500</u>	<u>11,634,455</u>	<u>11,634,455</u>

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 9 Bank deposits with an original maturity of more than 3 months (continued)

At 30 September 2012, bank deposits with an original maturity of more than 3 months include accounts totalling AED 10 million (2011: AED 10 million) 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.

#### 10 Cash and cash equivalents

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

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
Cash and bank balances	47,489,902	14,771,192	15,924,028
Bank overdraft (Note 15)	(2,496,165)	(876,590)	(4,669,117)
	<u>44,993,737</u>	<u>13,894,602</u>	<u>11,254,911</u>

For the purpose of the statement of cash flows, bank overdraft amounting to AED 69.79 million was excluded from cash & cash equivalents since it relates to the financing of the bank loan (Note 15) and is included within financing activities.

#### 11 Share capital

The issued and paid up share capital as at 30 September 2012 comprised of 410 million ordinary shares of AED 1 each (31 December 2011: 400 million ordinary shares). During the second quarter, the annual general meeting held on 17 April 2012 resolved to distribute dividends for an amount of AED 10 million through the issuance of bonus shares and increasing the number of issued shares from 400 million shares to 410 million shares.

#### 12 Reserves

##### *Legal reserve*

In accordance with the UAE Federal Law No. (8) of 1984, as amended, 10% of the annual profit of the Group 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 each entity.

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 12 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.

No transfers to the legal and regulatory reserves have been made for the nine month period ended 30 September 2012 as these will be effected at the end of 2012 based on the Company's results and Group's results for the year.

##### *Dividend*

At the Annual General Meeting on 17 April 2012, the shareholders of the Company approved a dividend payment of 2.5% of share capital for the year ended 31 December 2011. This amounts to AED 10 million and was distributed through the issuance of bonus shares (Note 11).

#### 13 Fair value reserve

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
At beginning of period	16,444,208	37,759,508	37,759,508
Fair value loss transferred to income statement on impairment	-	2,067,537	3,593,338
Net fair value gain/(loss)	418,368	(10,081,282)	(12,212,567)
Fair value gain transferred to the income statement on disposal	-	(13,301,555)	-
At end of period	<u>16,862,576</u>	<u>16,444,208</u>	<u>29,140,279</u>

#### 14 Retirement benefit obligations

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
At beginning of period	3,025,318	2,610,373	2,610,373
Charge for the period	801,463	936,043	782,334
Payments	(187,046)	(521,098)	(443,663)
At end of period	<u>3,639,735</u>	<u>3,025,318</u>	<u>2,949,044</u>

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 15 Bank borrowings

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
<b>Non-current</b>			
Bank loan	101,246,475	128,607,597	131,415,965
Bank overdrafts	69,791,553	33,383,748	36,355,130
	<u>171,038,028</u>	<u>161,991,345</u>	<u>167,771,095</u>

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 primary mortgage over AKIC Tower classified under investment property valued at AED 210 million.

The bank has granted the Group a bank overdraft facility which amounted to AED 67.29 million at 30 September 2012 for the repayment of the four due installments on which the Group defaulted in 2011 and 2012. 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.

Finance charges associated with the above facilities for the period amounted to AED 9.2 million (30 September 2011: AED 10.5 million).

Beginning 2009 the bank changed the interest rates on the bank loan and commenced charging the Group interest at a rate above that stipulated in the loan agreement. The excess interest charged to date is approximately AED 12.09 million. 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. For the nine months ended 30 September 2012, management has continued to recognise only the interest charge per the original agreement. 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.

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 16 Trade and other payables

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
Insurance payables	65,783,592	70,594,510	79,609,364
Dividends payable	18,077,106	18,277,538	18,785,936
Accruals and other payables	13,994,876	13,519,331	18,543,474
Rents received in advance	7,300,166	5,444,101	6,813,695
	<u>105,155,740</u>	<u>107,835,480</u>	<u>123,752,469</u>

#### 17 Net insurance premium revenue

	Three months ended		Nine months ended	
	30 September 2012 AED Reviewed	30 September 2011 AED Reviewed	30 September 2012 AED Reviewed	30 September 2011 AED Reviewed
Premiums written	33,562,277	31,031,430	127,597,248	86,676,955
Change in unearned premium provision	3,446,159	(2,020,297)	(23,345,731)	22,919,098
Premium revenue	<u>37,008,436</u>	<u>29,011,133</u>	<u>104,251,517</u>	<u>109,596,053</u>
Premium ceded	(20,615,863)	(23,410,603)	(55,584,979)	(54,262,873)
Change in reinsurers' share of unearned premium provision	4,266,133	5,726,760	7,369,067	(2,892,776)
Premium revenue ceded to reinsurers on contracts issued	<u>(16,349,730)</u>	<u>(17,683,843)</u>	<u>(48,215,912)</u>	<u>(57,155,649)</u>
<b>Net insurance premium revenue</b>	<u>20,658,706</u>	<u>11,327,290</u>	<u>56,035,605</u>	<u>52,440,404</u>

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 18 Reinsurance commissions

	Three months ended		Nine months ended	
	30 September 2012 AED Reviewed	30 September 2011 AED Reviewed	30 September 2012 AED Reviewed	30 September 2011 AED Reviewed
Commission receivable from reinsurers	2,092,515	2,338,365	6,319,876	7,081,699
Unearned reinsurance commissions at beginning of period	3,516,466	4,049,546	3,226,177	4,794,270
Unearned reinsurance commissions at end of period	(3,732,533)	(4,272,607)	(3,732,533)	(4,272,607)
	<u>1,876,448</u>	<u>2,115,304</u>	<u>5,813,520</u>	<u>7,603,362</u>

#### 19 Insurance claims

	Three months ended		Nine months ended	
	30 September 2012 AED Reviewed	30 September 2011 AED Reviewed	30 September 2012 AED Reviewed	30 September 2011 AED Reviewed
Paid claims, net of recoveries	(15,020,768)	(18,002,485)	(55,809,585)	(122,573,813)
Change in the provision for outstanding claims and IBNR	(9,599,547)	4,827,608	(2,824,128)	59,169,552
Change in outstanding claims recoveries	(446,739)	(3,030,968)	(4,574,560)	(1,981,206)
Gross claims incurred	<u>(25,067,054)</u>	<u>(16,205,845)</u>	<u>(63,208,273)</u>	<u>(65,385,467)</u>
Reinsurers' share of claims paid	5,593,280	9,883,624	30,538,461	34,541,141
Change in the reinsurers share of provision for outstanding claims and IBNR	<u>2,263,780</u>	<u>(4,833,397)</u>	<u>(4,998,814)</u>	<u>(8,318,579)</u>
Reinsurers' share of claims incurred	<u>7,857,060</u>	<u>5,050,227</u>	<u>25,539,647</u>	<u>26,222,562</u>
Claims and loss adjustments expenses, net of reinsurance	<u>(17,209,994)</u>	<u>(11,155,618)</u>	<u>(37,668,626)</u>	<u>(39,162,905)</u>

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 20 Expenses for acquisition of insurance contracts

	Three months ended		Nine months ended	
	30 September 2012 AED Reviewed	30 September 2011 AED Reviewed	30 September 2012 AED Reviewed	30 September 2011 AED Reviewed
Commissions paid during the period	1,157,541	841,445	5,290,391	3,249,363
Other acquisition costs net of other underwriting income	24,299	(11,399)	385,363	(177,876)
Deferred acquisition costs at beginning of period	2,946,720	1,931,853	1,604,106	2,258,143
Deferred acquisition costs at end of period	(2,663,008)	(1,709,411)	(2,663,008)	(1,709,411)
	<u>1,465,552</u>	<u>1,052,488</u>	<u>4,616,852</u>	<u>3,620,219</u>

#### 21 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 406,000,000 shares.

	Three months ended		Nine months ended	
	30 September 2012 AED Reviewed	30 September 2011 AED Reviewed	30 September 2012 AED Reviewed	30 September 2011 AED Reviewed
Net profit/(loss) attributable to equity shareholders	<u>3,801,898</u>	<u>(29,678,300)</u>	<u>15,559,664</u>	<u>(15,884,543)</u>
Weighted average number of ordinary shares issued	<u>410,000,000</u>	<u>400,000,000</u>	<u>406,000,000</u>	<u>400,000,000</u>
Earnings per share	<u>0.01</u>	<u>(0.07)</u>	<u>0.04</u>	<u>(0.04)</u>

## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 22 Guarantees

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
Guarantees	11,223,167	11,361,415	11,649,806

The above were issued in the ordinary course of business.

#### 23 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.

	30 September 2012 AED Reviewed	31 December 2011 AED Audited	30 September 2011 AED Reviewed
<b>Related party balances</b>			
Insurance receivables	2,376,780	16,095,101	12,585,437
Insurance payable	1,059,604	-	-

#### Related party transactions

During the 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.

	Nine months ended	
	30 September 2012 AED Reviewed	30 September 2011 AED Reviewed
Net premiums written	25,239,791	7,983,718
Claims paid	13,197,128	671,142
<b>Key management compensation</b>		
Key management compensation	4,745,580	3,493,547
CEO remuneration	769,441	749,997
	5,515,021	4,243,544



## Al Khazna Insurance Company P.S.C.

### Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2012 (continued)

#### 24 Cash flow from operating activities

	Notes	Nine months ended 30 September	
		2012 AED	2011 AED
Profit/(loss) for the period		15,559,664	(15,884,543)
Adjustments for:			
Depreciation	4	1,389,725	1,690,686
Profit on disposal of property and equipment		-	(231,281)
Impairment on available for sale financial assets	6	993,022	3,593,338
(Gain)/loss on revaluation of investments at fair value through profit or loss	6	(35,631,963)	12,816,293
Net fair value loss on investment property	5	14,454,424	-
Provision for employees' end of service benefit	14	801,463	782,334
Provision for impairment of receivables		4,355,882	4,766,130
Interest income		(63,899)	(117,782)
Interest expense		9,087,650	10,476,720
Dividend income		(10,930,580)	(10,783,136)
Operating cash flows before changes in operating assets and liabilities		15,388	7,108,759
Payment of employees' end of service benefit	14	(187,046)	(443,663)
(Increase)/decrease in deferred acquisition costs		(1,058,902)	548,732
(Increase)/decrease in reinsurance contracts assets		(2,370,253)	11,211,355
Increase/(decrease) in insurance contract liabilities		26,169,859	(82,088,650)
Increase/(decrease) in unearned reinsurance commission		506,356	(521,663)
Decrease in insurance and other receivables		1,663,999	17,645,161
Decrease in trade and other payables		(4,340,282)	(4,189,389)
Purchase of financial assets at fair value through profit or loss		-	(1,121,085)
Proceeds from the sale of financial assets at fair value through profit or loss		57,285	624,170
<b>Cash generated from/(used in) operations</b>		<u>20,456,404</u>	<u>(51,226,273)</u>