

Al Khazna Insurance Company
(Public Shareholding Company)

**Report of the Directors and
consolidated financial statements
for the year ended 31 December 2012**

Al Khazna Insurance Company P.S.C

Report of the Directors and consolidated financial statements for the year ended 31 December 2012

Pages

Report of the Directors	1 - 2
Independent auditor's report	3 - 5
Consolidated statement of financial position	6
Consolidated income statement	7
Consolidated statement of comprehensive income	8
Consolidated statement of changes in equity	9 - 10
Consolidated cash flow statement	11
Notes to the consolidated financial statements	12- 62

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 2012

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 2012.

The year 2012 is considered as the start of the Group activities after a rough 2010 / 2011 where many enhancements were made on technical and managerial level to bring the result to profitability and the Group has worked on many projects to develop its performance such as creating and updating underwriting manuals for all Group's divisions, and working towards obtaining international credit rating from a very reputed house which will help the organization to offer competitive rates and will enable it to participate in large tenders released by major companies operating in the country which demand such rating while tendering for their annual insurance covers.

Presented below are the technical and financial results of the Group:

1. Insurance activities:

The net profit increased slightly from AED 11.8 million in 2011 to AED 11.9 million in 2012, an increase of 0.9 %.

Gross written premium increased from AED 114.2 million in 2011 to AED 139.7 million in 2012 despite the severe competition and lack of cooperation in the local market.

The claims paid have registered a significant decline from AED 141.0 million in 2011 to AED 80.9 million in 2012. The claims incurred decreased from AED 65.9 million in 2011 to AED 60.3 million in 2012.

Net underwriting results registered a minor decrease from AED 30.2 million in 2011 to AED 28.9 million in 2012.

2. Investment activity:

There was no change in the investment portfolio in 2012. The portfolio is comprised of long term investments in properties and investments in the securities market of listed shares as well as unlisted shares.

The investment portfolio is broadly consistent with the prior year. The investment income amounted to AED 37.6 million in 2012 compared to AED 38.4 million in 2011.

3. Marketing and Administrative expenses:

Marketing and administrative expenses decreased from AED 52.5 million in 2011 to AED 43.4 million in 2012.

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 2012(continued)

4. Net profit for the year:

The Group has achieved a net profit amounting to AED 11.9 million in 2012 compared to a net profit of AED 11.8 million in 2011, which is considered a good result and reflects the positive performance of the Group.

5. Group's achievements:

The Group has completed restructuring and organizing its internal issues in 2012. The Group has mobilized its internal resources to prepare and update technical manuals for all the divisions. The Group has also supported its Dubai branch with more qualified staff to render the insurance services in Dubai and the northern emirates.

Management have recently completed the processes necessary to obtain an international financial rating from a reputed agency and are expecting the results of this exercise soon. This will enhance the Group's confidence in dealing with major companies operating in the oil & gas, energy, aviation and other sectors, and will pave the way towards increased opportunities for the Group which will help to align it amongst the major players in the market.

6. Board of Directors suggestions:

The Board of Directors suggests that the shareholders undertake the following:

- approve and endorse the financial statements and the accounts of profit and loss for the year ended in 31.12.2012
- withhold distribution of profit for the year 2012 hence carry it forward to the year 2013.
- to hire or rehire the external auditors for the year 2013 and agree 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 Securities and Commodities Authority, the Abu Dhabi Stock Market and the Insurance Authority for their continuous support.

The Board would like also to express its high appreciation to the Group's shareholders, corporate and individual customers, reinsurers, brokers and the Group's external auditors for their constant trust and continuous support in addition to the Group's management team and staff for their sincere efforts and dedication.


Khalifa Mohammed Rubaya Al Muhairi
Chairman

31 March 2013



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 2012 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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**Independent auditor's report
to the shareholders of Al Khazna Insurance Company P.S.C. (continued)**

Basis for qualified opinion

Insurance and other receivables include a balance of prepaid rent of AED 18.9 million that should have been expensed in the year as no economic benefit is being gained from the use of the rented property. This results in an overstatement in insurance and other receivables and profit for the year for by an amount of AED 18.9 million.

Qualified Opinion

In our opinion, except for the effect of the matter described in the basis for qualified opinion paragraph above, the financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without further qualifying our opinion, we draw attention to the fact, as explained in Note 17, that the Group has been granted a bank facility which currently has a carrying amount of AED 104.8 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 31 December 2012 is approximately AED 12.9 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.



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

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 2012.

PricewaterhouseCoopers
31 March 2013

A handwritten signature in blue ink, appearing to read 'Jacques E. Fakhoury', written over a light blue horizontal line.

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	
		2012 AED	2011 AED
ASSETS			
Property and equipment	6	8,317,477	9,145,609
Investment properties	7	460,240,400	472,644,824
Financial assets			
- Available-for-sale	8	63,701,643	63,087,384
- At fair value through profit or loss	8	282,359,551	248,927,782
Insurance and other receivables	9	100,084,100	126,636,633
Reinsurance contracts	14	80,011,828	111,710,903
Deferred acquisition costs	27	1,445,767	1,604,106
Bank deposits with an original maturity of more than 3 months	10	11,692,500	11,634,455
Cash and cash equivalents	11	41,065,532	14,771,192
Total assets		1,048,918,798	1,060,162,888
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	410,000,000	400,000,000
Share premium		1,785,315	1,783,412
Legal reserve	13	62,145,349	60,106,478
Regulatory reserve	13	60,103,225	58,064,354
Fair value reserve	15	18,161,686	16,444,208
Revaluation reserve	13	11,736,841	11,736,841
Retained earnings		63,869,119	66,036,686
Total capital and reserves attributable to the Company's equity holders		627,801,535	614,171,979
LIABILITIES			
Insurance liabilities	14	143,798,901	169,912,589
Unearned reinsurance commission	23	2,783,948	3,226,177
Retirement benefit obligations	16	3,765,749	3,025,318
Bank borrowings	17	176,498,096	161,991,345
Trade and other payables	18	94,270,569	107,835,480
Total liabilities		421,117,263	445,990,909
Total equity and liabilities		1,048,918,798	1,060,162,888

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 27 March 2013 by:

.....
Chairman

.....
CEO

Al Khazna Insurance Company P.S.C.

Consolidated income statement

	Notes	Year ended 31 December	
		2012 AED	2011 AED
Insurance premium revenue	19	139,722,993	142,588,142
Insurance premium ceded to reinsurers	19	(62,651,495)	(74,295,031)
Net insurance premium revenue	19	<u>77,071,498</u>	<u>68,293,111</u>
Reinsurance commissions	23	7,414,303	9,729,282
Investment income	20	12,245,005	11,225,210
Net fair value (loss)/gain on investment properties	7	(12,404,424)	11,201,889
Net realized (loss)/gain on financial assets	21	(1,103,219)	1,410,465
Net fair value gain/(loss) on financial assets at fair value through profit or loss	22	33,489,055	(3,491,043)
Net rental income from investment property	24	10,114,168	18,096,359
Other operating income	25	1,409,761	473,897
Net income		<u>128,236,147</u>	<u>116,939,170</u>
Insurance claims and loss adjustment expenses	26	(60,326,694)	(65,913,464)
Insurance claims and loss adjustment expenses recovered from reinsurers	26	9,586,059	22,338,197
Net insurance claims	26	<u>(50,740,635)</u>	<u>(43,575,267)</u>
Expenses for acquisition of insurance contracts	27	(4,826,753)	(4,267,402)
Expenses for marketing and administration	28	(43,365,131)	(52,473,922)
Amortisation of prepaid rent		(4,720,205)	-
Expenses		<u>(103,652,724)</u>	<u>(100,316,591)</u>
Results of operating activities		<u>24,583,423</u>	<u>16,622,579</u>
Finance costs	29	(12,673,248)	(4,818,151)
Profit for the year		<u>11,910,175</u>	<u>11,804,428</u>
Attributable to:			
- Equity holders of the Company		<u>11,910,175</u>	<u>11,804,428</u>
Earnings per share for profit attributable to the equity holders of the Company during the year			
Basic earnings per share	31	<u>0.029</u>	<u>0.029</u>

The notes on pages 12 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	
		2012 AED	2011 AED
Profit for the year		11,910,175	11,804,428
Net fair value gain/(loss) on available- for-sale financial assets	15	1,717,478	(23,382,837)
Fair value loss transferred to income statement on impairment	15	-	2,067,537
		<u>1,717,478</u>	<u>(21,315,300)</u>
Total comprehensive profit/(loss) for the year		<u>13,627,653</u>	<u>(9,510,872)</u>
Attributable to:			
- Owners of the Company		<u>13,627,653</u>	<u>(9,510,872)</u>

Al Khazna Insurance Company P.S.C.

Consolidated statement of changes in equity

	Attributable to equity holders of the Company							Total AED
	Share capital AED	Share premium AED	Legal reserve AED	Regulatory reserve AED	Fair value and other reserves AED	Retained earnings AED		
Year ended 31 December 2012								
At beginning of year	400,000,000	1,783,412	60,106,478	58,064,354	28,181,049	66,036,686	614,171,979	
Profit for the year	-	-	-	-	-	11,910,175	11,910,175	
Other comprehensive income	-	-	-	-	1,717,478	-	1,717,478	
Total comprehensive income for the year	-	-	-	-	1,717,478	11,910,175	13,627,653	
Transactions with owners:								
Dividend distribution through issuance of bonus shares (Note 13)	10,000,000	1,903	-	-	-	(10,000,000)	1,903	
Transfer to legal reserve	-	-	2,038,871	-	-	(2,038,871)	-	
Transfer to regulatory reserve	-	-	-	2,038,871	-	(2,038,871)	-	
At end of year	410,000,000	1,785,315	62,145,349	60,103,225	29,898,527	63,869,119	627,801,535	

The notes on pages 12 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						Total AED
	Share capital AED	Share premium AED	Legal reserve AED	Regulatory reserve AED	Fair value and other reserves AED	Retained earnings 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 12 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	
		2012 AED	2011 AED
Cash generated from/(used in) operations	34	13,862,109	(47,302,944)
Dividends received		11,908,480	10,782,661
Interest received		134,277	148,329
Net cash generated from/(used in) operating activities		25,904,866	(36,371,954)
Cash flows from investing activities			
Increase in bank deposits with original maturity of more than three months		(58,045)	(42,900)
Purchase of property and equipment	6	(961,378)	(1,700,214)
Proceeds from sale of property and equipment		1,289	297,807
Proceeds on redemption of debt securities	8	-	18,332,500
Net cash (used in)/generated from investing activities		(1,018,134)	16,887,193
Cash flows from financing activities			
Dividend paid		(204,681)	(9,031,170)
Proceeds from issuance of ordinary shares		1,903	-
Interest paid		(181,024)	(870,931)
Net cash generated from/(used in) financing activities		(383,802)	(9,902,101)
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents, beginning of the year		24,502,930	(29,386,862)
		13,894,601	43,281,463
Cash and cash equivalents, end of the year	11	38,397,531	13,894,601

Non-cash transactions

The principal non-cash transactions relate to the following:

- (i) An amount of AED 1.7 million was credited to fair value reserve reflecting the increase in the fair value of available for sale financial assets at the balance sheet date (Note 15);
- (ii) Accrued interest on bank loan amounted to AED 1.05 million;
- (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 12 and 13); and
- (iv) An amount of AED 31.4 million was transferred from bank loan to bank overdraft (Note 17).

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012

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 2012, the Group's subsidiaries, Pearl Capital Investments LLC and National Publishers LLC have incurred a loss of AED 4.1 million (2011: AED 1.9 million profit) and AED 0.9 million (2011: AED 2.6 million) respectively and reported net liabilities of AED 36.5 million (2011: AED 32.7 million) and AED 6.4 million (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 44.2 million (2011: AED 39.9 million) and AED 9.2 million (2011: AED 8.2 million) respectively, exceeded half of the share capital of each of the subsidiaries as of 31 December 2012, 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 2013.

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 Dirhams (AED), unless otherwise stated.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 2012 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 2012 and not early adopted

- 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 2011. 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 IFRS 9's full impact, particularly as the hedging and impairment aspects are still outstanding. Management anticipates that IFRS9 and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective.
- 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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 2012 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.
- 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.
- 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.

Management anticipates that these IFRSs and amendments will be adopted in the financial statements in the initial period when they become mandatorily effective. An initial assessment of the potential impact indicates that application of most of these standards is not expected to have significant impact on amounts reported in the financial statements, but it is expected that additional disclosures will be required.

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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc. 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 applies the acquisition method 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 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 carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in 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.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.2 Basis of consolidation (continued)

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 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.
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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 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 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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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.

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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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).

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 bodily injury claims.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

(a) Ultimate liability arising from insurance contracts (continued)

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 medical claims are supported by providers invoices and most of the other 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.

(d) Interest on the bank loan

The Group accounted for the interest expense on the bank loan using the interest rate stipulated in the loan agreement. A dispute with the Bank 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 31 December 2012 is approximately AED 12.9 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.

(e) Carrying value of the long term prepaid rent

Included in the insurance and other receivables is prepaid rent with a carrying value of AED 18.9 million. This relates to a 5 year prepaid rent contract with an original value of AED 49 million. The Group intends to enter into an educational project on this leased property. Management estimate that as of 31 December 2012 an amount of AED 18.9 million will be recoverable and will be contributed to the project (Note 9). A change in the estimates or the delay in the project would have a significant effect on the financial results of the Group.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 2012, 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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 2012

In AED'000

	Type of risk					Total
	Fire	Motor	Medical	Marine and aviation	Accident and Others	
Gross	17,805	27,525	32,121	29,569	36,779	143,799
Net	2,197	21,381	30,896	2,222	7,091	63,787

As at 31 December 2011

In AED'000

	Type of risk					Total
	Fire	Motor	Medical	Marine and aviation	Accident and Others	
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

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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:

Territory		31 December 2012		
		Type of risk		
		Marine AED'000	Non-marine AED'000	Total AED'000
UAE	Gross	1,022,718	59,423,274	60,445,992
	Net	136,063	9,861,049	9,997,112
GCC Countries	Gross	2,346	908,047	910,393
	Net	469	150,613	151,082
Non-GCC	Gross	-	267,602	267,602
	Net	-	14,992	14,992
Total	Gross	1,025,064	60,598,923	61,623,987
	Net	136,532	10,026,654	10,163,186

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

Territory		31 December 2011		
		Type of risk		
		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

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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 occurred.

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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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. During 2011, the Group adjusted the interest expense by AED 9.4 million to decrease the interest charged by the bank on the loan to the amount calculated at the interest rate stipulated in the loan agreement for the period from January 2009 to December 2011. In addition, in 2012, the Group recorded an interest expense of AED 7.4 million on its bank loan, which is AED 3.5 million lower than the bank's interest expense charged to the account for the year ended 31 December 2012. Management is still in negotiations with the bank in respect of the change in the interest rate, refer to Note 17.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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)

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.

If on the outstanding borrowings at 31 December 2012 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 1.76 million lower/higher (2011: AED 1.6 million lower/higher), 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 (2011: an increase/decrease of 5% in fair market values would result in an increase/decrease of AED 3.2 million).

In addition, such a decrease would result in a recycling of fair value losses of AED 0.21 million (2011: AED 0.43 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 14.1 million (2011: an increase/decrease of 5% would result in an increase/decrease in profit for the year by AED 12.4 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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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; 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 9. 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:

	2012 AED	2011 AED
Reinsurance contracts	80,011,828	111,710,903
Insurance and other receivables (excluding prepayments)	80,075,137	100,711,518
Bank deposits	11,692,500	11,634,455
Cash and cash equivalents (excluding cash on hand)	40,813,665	14,590,770
Total assets bearing credit risk	<u>212,593,130</u>	<u>238,647,646</u>

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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:

	2012 AED	2011 AED
Corporate	32,709,299	38,480,551
Insurance companies	16,442,040	18,130,300
Brokers	15,662,544	22,171,175
Government	424,775	537,475
Others	11,856	563,647
	<u>65,250,514</u>	<u>79,883,148</u>

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 2012 and 31 December 2011.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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

4.2 Financial risk (continued)

4.2.3 Liquidity risk (continued)

At 31 December 2012

	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	63,701,643	-	-	-	63,701,643
At fair value through profit or loss financial assets	282,359,551	-	-	-	282,359,551
Insurance and other receivables	-	80,075,137	-	-	80,075,137
Reinsurance contracts	-	80,011,828	-	-	80,011,828
Bank deposits with an original maturity of more than 3 months	-	11,692,500	-	-	11,692,500
Cash and cash equivalents	-	41,065,532	-	-	41,065,532
Total financial assets	346,061,194	212,844,997	-	-	558,906,191
Liabilities					
Insurance contracts	-	143,798,901	-	-	143,798,902
Trade and other payables	-	94,270,569	-	-	94,270,569
Bank borrowings	-	103,098,104	109,900,000	-	176,498,096
Total financial liabilities	-	341,167,574	109,900,000	-	414,567,567
Difference in expected cash flows	346,061,194	(128,322,619)	(109,900,000)	-	144,338,624

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	-	100,711,518	-	-	100,711,518
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	238,828,068	-	-	550,843,234
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	(103,703,749)	(125,600,000)	(15,700,000)	111,103,820

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 requires 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).

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 2012

	In AED			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss (listed equity securities)	282,359,551	-	-	282,359,551
Available-for-sale financial assets (listed equity securities)	5,039,660	-	-	5,039,660
Available-for-sale financial assets (unlisted equity securities)	-	6,566,727	52,095,256	58,661,983
Total	287,399,211	6,566,727	52,095,256	346,061,194

At 31 December 2011

	In AED			Total
	Level 1	Level 2	Level 3	
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

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.

Reconciliation showing the movement in fair values of Level 3 available for sale investments is as follows:

	2012 AED	2011 AED
As at 1 January	51,916,578	52,063,016
Fair value gain through other comprehensive income	446,960	83,912
Impairment loss	(268,282)	(230,350)
At 31 December	52,095,256	51,916,578

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 six 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:

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

5 Segment information (continued)

	Insurance AED'000	Corporate AED'000	Total AED'000
Year ended 31 December 2012			
Net underwriting results	28,918	-	28,918
Expenses for marketing and administration	(39,362)	(4,003)	(43,365)
Amortisation of prepaid rent	-	(4,720)	(4,720)
Net investment income	-	32,226	32,226
Net rental income from investment property	-	10,114	10,114
Other operating income	-	1,410	1,410
	<hr/>	<hr/>	<hr/>
Results of operating activities	(10,444)	35,027	24,583
Interest on premium deposits retained	(181)	-	(181)
	<hr/>	<hr/>	<hr/>
Net results	(10,625)	35,027	24,402
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2012			
Total assets	200,355	848,564	1,048,919
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
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	-	20,347	20,347
Net rental income from investment property	-	18,096	18,096
Other operating income	-	474	474
	<hr/>	<hr/>	<hr/>
Results of operating activities	(15,453)	32,075	16,622
Interest on premium deposits retained	(359)	-	(359)
	<hr/>	<hr/>	<hr/>
Net results	(15,812)	32,075	16,263
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2011			
Total assets	228,230	831,933	1,060,163
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 consolidated financial statements for the year ended 31 December 2012 (continued)

5 Segment information (continued)

Underwriting results by segment

	31 December 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	9,217	25,216	55,965	15,799	33,459	139,656
Less: Ceded premiums	(7,670)	(6,250)	(4,180)	(14,349)	(27,477)	(59,926)
Net premium income	1,547	18,966	51,785	1,450	5,982	79,730
Add: Net unearned premium reserve at start of the year	498	11,407	7,245	219	3,237	22,606
Less: Net unearned premium reserve at close of the year	(559)	(10,979)	(10,434)	(496)	(2,797)	(25,265)
Net premium earned	1,486	19,394	48,596	1,173	6,422	77,071
Reinsurance commission	1,898	905	79	1,018	3,072	6,972
Add: Unearned reinsurance commission at start of year	633	696	-	302	1,595	3,226
Less: Unearned reinsurance commission at close of year	(621)	(493)	(16)	(324)	(1,330)	(2,784)
Reinsurance commission earned	1,910	1,108	63	996	3,337	7,414
Total net underwriting revenue	3,396	20,502	48,659	2,169	9,759	84,485
Claims paid	(7,152)	(9,988)	(34,831)	(12,886)	(16,071)	(80,928)
Less: Recovered claims	6,269	2,300	3,358	12,030	14,602	38,559
Net claims paid	(883)	(7,688)	(31,473)	(856)	(1,469)	(42,369)
Less: Net outstanding claims at start of the year	2,017	5,703	5,550	4,475	6,547	24,292
Add: Net outstanding claims at close of the year	(1,638)	(4,544)	(20,461)	(1,727)	(4,294)	(32,664)
Net claims incurred	(504)	(6,529)	(46,384)	1,892	784	(50,741)
Commission paid and net other acquisition income/(costs)	(1,013)	621	(2,573)	(139)	(1,564)	(4,668)
Add: Deferred acquisition costs at start of year	(343)	(75)	(333)	(32)	(821)	(1,604)
Less: Deferred acquisition cost at close of year	327	66	527	39	487	1,446
Expenses for acquisition of insurance contracts	(1,029)	612	(2,379)	(132)	(1,898)	(4,826)
Total net underwriting expenses	(1,533)	(5,917)	(48,763)	1,760	(1,114)	(55,567)

(41)

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

5 Segment information (continued)

Underwriting results by segment (continued)

	31 December 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	3,396	20,502	48,659	2,169	9,759	84,485
Total net underwriting expenses b/f	(1,533)	(5,917)	(48,763)	1,760	(1,114)	(55,567)
Underwriting surplus/(deficit)	1,863	14,585	(104)	3,929	8,645	28,918
Expenses for marketing and administration	(2,598)	(7,107)	(15,774)	(4,453)	(9,430)	(39,362)
Net underwriting surplus/(deficit)	(735)	7,478	(15,878)	(524)	(785)	(10,444)
Interest on premium deposits retained	(50)	(51)	-	(12)	(68)	(181)
Net surplus/(deficit)	(785)	7,247	(15,878)	(536)	(853)	(10,625)

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (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
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)

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

5 Segment information (continued)

Underwriting results by segment (continued)

	31 December 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	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)	<u>1,759</u>	<u>13,304</u>	<u>4,969</u>	<u>1,676</u>	<u>8,471</u>	<u>30,179</u>
Expenses for marketing and administration	(3,484)	(12,055)	(8,455)	(5,058)	(16,580)	(45,632)
Net underwriting surplus/(deficit)	<u>(1,725)</u>	<u>1,249</u>	<u>(3,486)</u>	<u>(3,382)</u>	<u>(8,109)</u>	<u>(15,453)</u>
Interest on premium deposits retained	(72)	(139)	-	(28)	(120)	(359)
Net surplus/(deficit)	<u>(1,797)</u>	<u>1,110</u>	<u>(3,486)</u>	<u>(3,410)</u>	<u>(8,229)</u>	<u>(15,812)</u>

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 2011					
Cost	9,586,198	1,891,929	5,084,065	4,228,734	20,790,926
Accumulated depreciation	(5,955,363)	(1,169,688)	(3,915,782)	-	(11,040,833)
Net book amount	3,630,835	722,241	1,168,283	4,228,734	9,750,093
Year ended 31 December 2011					
Opening net book amount	3,630,835	722,241	1,168,283	4,228,734	9,750,093
Additions	97,900	328,050	357,082	917,182	1,700,214
Disposals	(36,224)	(689,250)	(3,190)	-	(728,664)
Depreciation charge	(1,403,236)	(395,463)	(439,472)	-	(2,238,171)
Depreciation on disposal	35,560	625,792	٧٨٥	-	662,137
Closing net book amount	2,324,835	591,370	1,083,488	5,145,916	9,145,609
At 31 December 2011					
Cost	9,647,874	1,530,729	5,437,957	5,145,916	21,762,476
Accumulated depreciation	(7,323,039)	(939,359)	(4,354,469)	-	(12,616,867)
Net book amount	2,324,835	591,370	1,083,488	5,145,916	9,145,609
Year ended 31 December 2012					
Opening net book amount	2,324,835	591,370	1,083,488	5,145,916	9,145,609
Additions	493,826	83,500	384,052	-	961,378
Disposals	(68,398)	-	-	-	(68,398)
Depreciation charge	(1,087,999)	(289,447)	(411,420)	-	(1,788,866)
Depreciation on disposal	67,754	-	-	-	67,754
Closing net book amount	1,730,018	385,423	1,056,120	5,145,916	8,317,477
At 31 December 2012					
Cost	10,073,302	1,614,229	5,822,009	5,145,916	22,655,456
Accumulated depreciation	(8,343,284)	(1,228,806)	(4,765,889)	-	(14,337,979)
Net book amount	1,730,018	385,423	1,056,120	5,145,916	8,317,477

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

6 Property and equipment (continued)

Capital work in progress of AED 5.1 million at 31 December 2012 is largely comprised of a flat in a property under development in Dubai which the management intend to hold 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 amounts to AED 9.2 million at 31 December 2012.

The fair value of the flat as valued by an independent valuer is AED 15.5 million as at 31 December 2012. As at 31 December 2012 the net book value of the flat is AED 5.1 million.

7 Investment properties

	2012 AED	2011 AED
At 1 January	472,644,824	461,442,935
Net fair value (loss)/gain	(12,404,424)	11,201,889
At 31 December	<u>460,240,400</u>	<u>472,644,824</u>

The investment properties were revalued as at 31 December 2012 by an independent valuer at fair value determined on the basis of open-market value.

Investment properties comprise of lands with a total value of AED 227.2 million (2011: AED 228.8 million) and buildings with a value of AED 233.0 million (2011: AED 243.9 million).

The buildings are held for long-term rental yields. The net building rental income amounts to AED 10.1 million for the year ended 31 December 2012 (2011: AED 18.1 million) (Note 24).

Investment property with a carrying value of AED 212.0 million is mortgaged in favour of First Gulf Bank against the bank loan (Note 17).

Included within investment properties are two pieces of land with a value of AED 133.5 million (2011: AED 134.0 million) whose title has not been transferred to the name of the Group, pending the settlement of the last instalment. Also included within investment properties is a piece of land valued at AED 11.3 million (2011: AED 11.3 million) whose transfer of title is currently being processed.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

8 Financial assets

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

	2012 AED	2011 AED
Available-for-sale	63,701,643	63,087,384
At fair value through profit or loss	282,359,551	248,927,782
Insurance and other receivables (Note 9) (excluding prepayments)	80,075,137	100,711,518
Total financial assets	<u>426,136,331</u>	<u>412,726,684</u>

The current portion of financial assets is AED 362.4 million (2011: AED 349.6 million) the remaining being non-current. The assets comprised in each of the categories above are detailed in the tables below.

Available-for-sale financial assets

	2012 AED	2011 AED
Equity securities		
Listed equity securities	5,039,660	5,617,121
Unlisted equity securities carried at fair value	58,661,983	57,470,263
	<u>63,701,643</u>	<u>63,087,384</u>

Available-for-sale financial assets were fair valued at the close of business on 31 December 2012.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

8 Financial assets (continued)

Financial assets at fair value through profit or loss

	2012 AED	2011 AED
Listed UAE equity securities	203,129,289	184,115,647
Listed foreign equity securities	79,230,262	64,812,135
	<u>282,359,551</u>	<u>248,927,782</u>

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 9) 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 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)
	<u>-</u>	<u>63,087,384</u>	<u>248,927,782</u>	<u>312,015,166</u>
At 1 January 2012	-	63,087,384	248,927,782	312,015,166
Disposals	-	-	(149,118)	(149,118)
Net fair value gain	-	1,717,478	33,580,887	35,298,365
Impairment losses	-	-	-	-
- Unlisted UAE equity securities	-	(1,103,219)	-	(1,103,219)
	<u>-</u>	<u>63,701,643</u>	<u>282,359,551</u>	<u>346,061,194</u>
At 31 December 2012	<u>-</u>	<u>63,701,643</u>	<u>282,359,551</u>	<u>346,061,194</u>

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

9 Insurance and other receivables

	2012 AED	2011 AED
Receivables arising from insurance and reinsurance contracts		
Due from contract holders	52,507,699	55,458,798
Due from agents, brokers, intermediaries and reinsurers	37,608,937	44,697,131
Less provision for impairment of receivables	(24,866,122)	(20,272,781)
	<u>65,250,514</u>	<u>79,883,148</u>
Other receivables		
Accrued rent	2,893,005	987,914
Accrued interest	32,853	29,671
Recoveries of claims from other insurance companies	5,857,358	11,302,425
Deposits and other receivables	11,441,407	11,208,360
Provision for impairment of other receivables (Note 28)	(5,400,000)	(2,700,000)
Prepaid rent	18,880,821	23,601,026
Other prepayments	1,128,142	2,324,089
	<u>34,833,586</u>	<u>46,753,485</u>
Total insurance and other receivables	<u><u>100,084,100</u></u>	<u><u>126,636,633</u></u>

All the insurance and other receivables are current receivables except for a proportion of the prepaid rent of AED 18.9 million. The estimated fair value of the insurance and other receivables approximates to their carrying amount as at 31 December 2012 and 2011.

Prepaid rent represents a 5 year lease agreement that commenced on 19 November 2011, for a five storey building in Dubai World Central 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 18.9 million is outstanding as at 31 December 2012. The agreement is yet to be concluded by both parties and is subject to obtaining regulatory approvals and finalizing of legal documentation.

At 31 December 2012, the Group had a concentration of credit risk, with two customers accounting for 31.34% of insurance receivables outstanding at that date (2011: 31.72%). 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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

9 Insurance and other receivables (continued)

As at 31 December 2012, insurance receivables with a carrying value of AED 24.87 million (2011: AED 20.27 million) were impaired and fully provided. An amount of AED 23.9 million (2011: AED 14.3 million) of impaired loans and receivables were overdue more than 1 year.

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

	2012 AED	2011 AED
At 1 January	20,272,781	7,169,207
Provision for the year	5,572,156	13,799,437
Release of provision	(978,815)	(695,863)
At 31 December	<u>24,866,122</u>	<u>20,272,781</u>

Insurance receivables that are outstanding for more than three months are considered past due. At 31 December 2012, due from contract holders, agents, brokers, intermediaries and reinsurers of AED 61.14 million (2011: AED 78.05 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:

	2012 AED	2011 AED
Up to 3 months	12,094,379	27,176,166
Over 3 months	49,048,189	50,875,867
	<u>61,142,568</u>	<u>78,052,033</u>

Impairment of other receivables

The group has recognised a loss of AED 2.7 million (2011: AED 2.7 million) for the impairment of its other receivables during the year ended 31 December 2012 (Note 28). The provision for impaired other receivables amounted to AED 5.4 million at 31 December 2012.

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.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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

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

At 31 December 2012, bank deposits with an original maturity of more than 3 months include accounts totaling AED 10,000,000 (2011 : 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.

The average rate on bank deposits was 0.74% per annum for the year ended 31 December 2012 (2011: 0.89%).

11 Cash and cash equivalents

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

	2012 AED	2011 AED
Cash in hand	251,867	180,422
Bank current accounts	40,813,665	14,590,770
Bank overdraft (Note 17)	(2,668,001)	(876,591)
	<u>38,397,531</u>	<u>13,894,601</u>

12 Share capital

The issued and paid up share capital as at 31 December 2012 comprised of 410 million ordinary shares of AED 1 each (31 December 2011: 400 million ordinary shares of AED 1 each). During the year, 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.

13 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

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

13 Reserves (continued)

Legal reserve (continued)

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 only one subsidiary as the remaining subsidiaries have incurred losses during the year.

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.

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.

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 12).

14 Insurance liabilities and reinsurance assets

	2012 AED	2011 AED
Gross insurance liabilities		
Claims reported and loss adjustment expenses	91,767,841	115,073,157
Claims incurred but not reported	2,821,000	5,562,000
Unearned premiums provision	49,210,060	49,277,432
Total insurance liabilities, gross	143,798,901	169,912,589
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	54,803,244	81,917,501
Claims incurred but not reported	1,263,472	3,122,426
Unearned premiums provision	23,945,112	26,670,976
Total reinsurance assets	80,011,828	111,710,903
Net		
Claims reported and loss adjustment expenses	36,964,597	33,155,656
Claims incurred but not reported	1,557,528	2,439,574
Unearned premiums provision	25,264,948	22,606,456
Total insurance liabilities, net	63,787,073	58,201,686

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

14 Insurance liabilities and reinsurance assets (continued)

14.1 Movements in insurance liabilities and reinsurance assets

	2012			2011		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
CLAIMS						
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
At 1 January	120,635,157	85,039,927	35,595,230	200,938,441	107,726,954	93,211,487
Claims settled in the year	(80,927,943)	(38,559,269)	(42,368,674)	(140,951,891)	(45,025,224)	(95,926,667)
Increase in liabilities	54,881,627	9,586,058	45,295,569	60,648,607	22,338,197	38,310,410
At 31 December	94,588,841	56,066,716	38,522,125	120,635,157	85,039,927	35,595,230
Reported claims	91,767,841	54,803,244	36,964,597	115,073,157	81,917,501	33,155,656
Claims incurred but not reported	2,821,000	1,263,472	1,557,528	5,562,000	3,122,426	2,439,574
	94,588,841	56,066,716	38,522,125	120,635,157	85,039,927	35,595,230
UNEARNED PREMIUM						
At 1 January	49,277,432	26,670,976	22,606,456	77,687,666	35,934,452	41,753,214
Premiums written during the year	139,655,621	59,925,631	79,729,990	114,177,908	65,031,555	49,146,353
Increase in liabilities	(139,722,993)	(62,651,495)	(77,071,498)	(142,588,142)	(74,295,031)	(68,293,111)
Net (decrease)/increase during the year	(67,372)	(2,725,864)	2,658,492	(28,410,234)	(9,263,476)	(19,146,758)
At 31 December	49,210,060	23,945,112	25,264,948	49,277,432	26,670,976	22,606,456

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

15 Fair value reserve

The movement in fair value reserve is as follows:

	2012 AED	2011 AED
At 1 January	16,444,208	37,759,508
Net fair value gain/(loss)	1,717,478	(10,081,282)
Fair value losses transferred to the income statement on impairment	-	2,067,537
Fair value gain transferred to the income statement on disposal	-	(13,301,555)
At 31 December	<u>18,161,686</u>	<u>16,444,208</u>

16 Retirement benefit obligations

The movement in retirement benefit obligations is as follows:

	2012 AED	2011 AED
At 1 January	3,025,318	2,610,373
Charged to consolidated income statement	1,013,452	936,043
Utilised during the year	(273,021)	(521,098)
At 31 December	<u>3,765,749</u>	<u>3,025,318</u>

17 Bank borrowings

Bank loan	104,799,992	128,607,597
Bank overdraft	71,698,104	33,383,748
At 31 December	<u>176,498,096</u>	<u>161,991,345</u>

The maturity of the bank loan as at 31 December 2012 is as follows:

	2012 AED	2011 AED
Within one year	22,000,000	22,000,000
Between one and 5 years	82,799,992	88,000,000
More than 5 years	-	18,607,597
	<u>104,799,992</u>	<u>128,607,597</u>

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

17 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 212 million.

The bank has granted the Group a bank overdraft facility which amounted to AED 69.03 million at 31 December 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 12.5 million (2011: AED 4.5 million) (Note 29).

Beginning 2009 the bank changed the interest rates on the bank loan and charged the Group interest at a rate above that stipulated in the loan agreement. The excess interest charged to date is approximately AED 12.95 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 to the originally mandated interest as per the agreement. During the year 2011, an adjustment of AED 9 million was reflected in the books to decrease the interest expense charged on the bank loan for the period of January 2009 to 31 December 2011. For the year ended 31 December 2012, management has continued to recognise only the interest charge per the original agreement which is AED 3.5 million lower than the interest charged by the bank. 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.

18 Trade and other payables

	2012 AED	2011 AED
Insurers', reinsurers' and brokers' accounts	57,011,328	70,594,510
Dividends payable	18,072,857	18,277,538
Accruals and other payables	13,451,843	13,519,331
Rent received in advance	5,734,541	5,444,101
	<u>94,270,569</u>	<u>107,835,480</u>

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

19 Net insurance premium revenue

	2012 AED	2011 AED
Premium revenue	139,655,621	114,177,908
Change in unearned premium provision	67,372	28,410,234
Premium revenue	<u>139,722,993</u>	<u>142,588,142</u>
Premium ceded	(59,925,631)	(65,031,555)
Change in reinsurers' share of unearned premium provision	(2,725,864)	(9,263,476)
Premium revenue ceded to reinsurers on contracts issued	<u>(62,651,495)</u>	<u>(74,295,031)</u>
Net insurance premium revenue	<u><u>77,071,498</u></u>	<u><u>68,293,111</u></u>

20 Investment income

Dividend income	11,908,480	10,782,661
Commission income	202,500	294,220
Interest income	134,025	148,329
	<u>12,245,005</u>	<u>11,225,210</u>

21 Net realised (loss)/gain on financial assets

	2012 AED	2011 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)
- Recognised directly in income statement	(1,103,219)	(3,439,639)
	<u>(1,103,219)</u>	<u>1,410,465</u>

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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

	2012 AED	2011 AED
Net fair value gain/(loss) on financial assets at fair value through profit or loss	33,580,887	(3,491,043)
Loss on disposal of financial assets at fair value through profit or loss	(91,832)	-
	<u>33,489,055</u>	<u>(3,491,043)</u>

23 Reinsurance commissions

	2012 AED	2011 AED
Commission receivable from reinsurers	6,972,074	8,161,189
Unearned reinsurance commissions at beginning of the year	3,226,177	4,794,270
Unearned reinsurance commissions at end of year	(2,783,948)	(3,226,177)
	<u>7,414,303</u>	<u>9,729,282</u>

24 Net rental income from investment property

	2012 AED	2011 AED
Rental income	11,199,376	19,381,198
Related rent expenses	(1,085,208)	(1,284,839)
	<u>10,114,168</u>	<u>18,096,359</u>

25 Other operating income

	2012 AED	2011 AED
(Loss)/gain on disposal of property and equipment	(645)	231,280
One-off discount granted by service provider	1,077,000	-
Other income	333,405	242,617
	<u>1,409,761</u>	<u>473,897</u>

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

26 Insurance claims

	2012 AED	2011 AED
Paid claims, net of recoveries	(80,927,943)	(140,951,891)
Change in the provision for outstanding claims	23,305,316	75,726,082
Change in outstanding claims recoveries	(5,445,067)	(5,264,857)
Change in claims incurred but not reported	2,741,000	4,577,202
	<hr/>	<hr/>
Gross claims incurred	(60,326,694)	(65,913,464)
	<hr/>	<hr/>
Reinsurers' share of claims paid	38,559,270	45,025,224
Change in the reinsurers' share of provision for outstanding claims	(27,114,257)	(20,947,367)
Change in reinsurers' share of claims incurred but not reported	(1,858,954)	(1,739,660)
	<hr/>	<hr/>
Reinsurers' share of claims incurred	9,586,059	22,338,197
	<hr/>	<hr/>
Claims and loss adjustment expenses, net of reinsurance	<u>(50,740,635)</u>	<u>(43,575,267)</u>

The amounts for salvage and subrogation recognized as net of paid claims during the year are AED 21.3 million (2011: AED 30.9 million).

27 Expenses for acquisition of insurance contracts

	2012 AED	2011 AED
Commissions paid during the year	4,220,437	4,141,489
Other acquisition costs net of other underwriting income	447,977	(528,124)
Deferred acquisition costs at beginning of year	1,604,106	2,258,143
Deferred acquisition costs at end of year	(1,445,767)	(1,604,106)
	<hr/>	<hr/>
	<u>4,826,753</u>	<u>4,267,402</u>

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

28 Expenses for marketing and administration

	2012 AED	2011 AED
Staff costs (Note 28.1)	23,730,117	21,693,994
Marketing and advertising expenses	174,860	159,344
Depreciation charge (Note 6)	1,788,866	2,238,172
Rental expenses	3,083,984	3,838,560
Professional expenses	1,109,533	1,278,552
Utilities	299,383	318,124
Communications	481,592	489,801
Postage and stationery	848,338	768,410
Licence fees	717,103	587,779
Repairs and maintenance	418,871	409,723
Bank charges	168,607	196,222
Provision for impaired insurance receivables (Note 9)	4,593,341	13,103,574
Provision for impaired other receivables (Note 9)	2,700,000	2,700,000
Write-off of other receivables	151,059	-
Travel expenses	158,768	116,945
Exchange loss	62,858	115,119
Other expenses	2,877,851	4,459,603
	<u>43,365,131</u>	<u>52,473,922</u>

28.1 Staff costs

	2012 AED	2011 AED
<u>Staff costs</u>		
Salaries and wages	10,845,724	11,590,397
Other benefits	5,026,127	3,688,400
	<u>15,871,851</u>	<u>15,278,797</u>
<u>Key management compensation</u>		
Salaries and wages	7,161,063	5,795,904
Other benefits	697,203	619,293
	<u>7,858,266</u>	<u>6,415,197</u>
	<u>23,730,117</u>	<u>21,693,994</u>

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

29 Finance costs

	2012 AED	2011 AED
Interest on bank loan (Note 17)	7,369,529	2,840,064
Interest on bank overdraft (Note 17)	5,122,695	1,618,640
Interest on premium deposits retained	181,024	359,447
	<u>12,673,248</u>	<u>4,818,151</u>

30 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.

	2012 AED	2011 AED
Transactions with related parties		
Net premium written	<u>25,424,876</u>	<u>23,276,579</u>
Claims paid	<u>20,736,610</u>	<u>8,921,359</u>
Key management compensation:		
- Salaries and other benefits	5,607,646	4,915,587
- Post-employment benefits	205,113	176,214
	<u>5,812,759</u>	<u>5,091,801</u>
CEO and Managing Director's remuneration		
- Salaries and other benefits	2,026,063	1,323,396
- Post-employment benefits	19,444	-
	<u>2,045,507</u>	<u>1,323,396</u>

Related party balances

Due from related parties

Insurance receivables (Note 9)	<u>876,991</u>	<u>16,599,137</u>
Insurance payables	<u>2,578,039</u>	<u>4,109,160</u>

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

31 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 year. The number of ordinary shares outstanding at the end of the year was 410,000,000 shares with a weighted average for the year of 407,068,493 shares.

	2012 AED	2011 AED
Net profit attributable to equity shareholders	11,910,175	11,804,428
Weighted average number of ordinary shares issued	407,068,493	400,000,000
Earnings per share	<u>0.029</u>	<u>0.029</u>

32 Guarantees

	2012 AED	2011 AED
Guarantees	<u>11,526,167</u>	<u>11,361,415</u>

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

33 Reclassifications

Certain reclassifications have been made to the comparative figures to conform to the current year presentation. Management believes that the current year presentation provides more meaningful information to the readers of the financial statements. The main reclassification relates to an amount of AED 7.18 million representing dividend income from financial assets at fair value through profit or loss that was reported under net fair value gains from financial assets at fair value through profit or loss and has been reclassified into investment income.

Al Khazna Insurance Company P.S.C.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

34 Cash flows from operating activities

	Notes	2012 AED	2011 AED
Profit for the year		11,910,175	11,804,428
Adjustments for:			
Depreciation	6	1,788,866	2,238,171
Decrease/(increase) in fair value of investment properties	7	12,404,424	(11,201,889)
Impairment on available for sale financial assets	21	1,103,219	5,507,176
Gain on disposal of property and equipment		(645)	(231,280)
(Gain)/loss on revaluation of investments at fair value through profit or loss	22	(33,580,887)	3,491,043
Loss on disposal of investments at fair value through profit or loss	22	91,832	-
Gain on disposal of available-for-sale financial assets		-	(6,917,641)
Dividend income	20	(11,908,480)	(10,782,661)
Provision for employees end of service benefits	16	1,013,452	936,043
Interest income	20	(134,025)	(148,329)
Interest expense	29	12,673,248	4,818,151
Provision for impairment of insurance receivables	28	4,593,341	13,103,574
Provision for impairment of other receivables	28	2,700,000	2,700,000
Operating cash flows before change in operating assets and liabilities and payment of employees service benefits		2,654,520	15,316,786
Payment of employees service benefits	16	(273,021)	(521,098)
Decrease in deferred acquisition costs		158,339	654,037
Decrease in reinsurance contracts assets		31,699,075	31,950,503
Decrease in insurance contract liabilities		(26,113,688)	(108,713,518)
Decrease in unearned reinsurance commission		(442,229)	(1,568,093)
Decrease in insurance and other receivables		19,259,192	31,771,617
Decrease in trade and other payables		(13,137,365)	(15,856,033)
Purchase of financial assets at fair value through profit or loss		-	(337,145)
Proceeds from disposal of financial assets at fair value through profit or loss		57,286	-
Cash generated from/(used in) operations		13,862,109	(47,302,944)