40 YEARS OF RELIABILITY

ANNUAL REPORT 2012

ADNIC

ABU DHABI NATIONAL INSURANCE COMPANY

YOUR RELIABLE INSURER

WELCOME

For over four decades, we have delivered complete peace of mind to customers who have believed in us. We have endeavored to offer products and services of exceptional quality at prices that are as versatile as the needs of our patrons. For four decades we have championed your faith in us as "Your Reliable Insurer".

THE LATE

His Highness
Sheikh Zayed Bin Sultan Al Nahyan

First President of the United Arab Emirates

His Highness
Sheikh Khalifa Bin Zayed Al Nahyan

President of the United Arab Emirates

His Highness
General Sheikh Mohamed Bin Zayed Al Nahyan

Crown Prince of Abu Dhabi and Deputy
Supreme Commander of the UAE Armed Forces

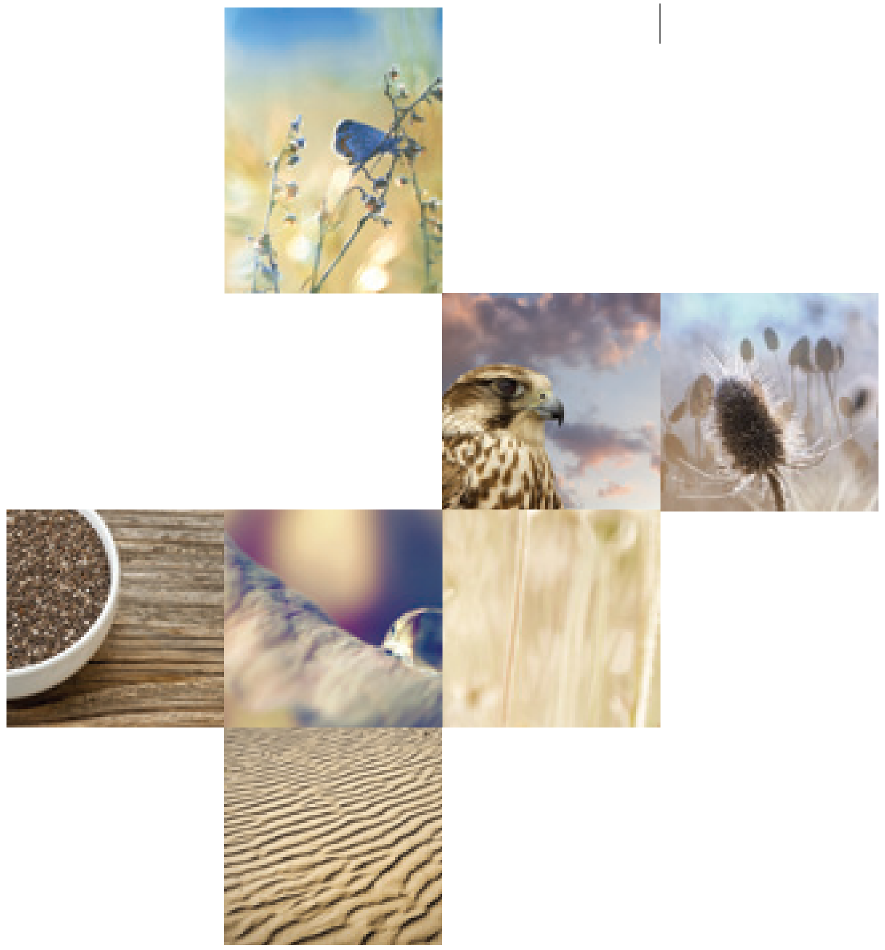
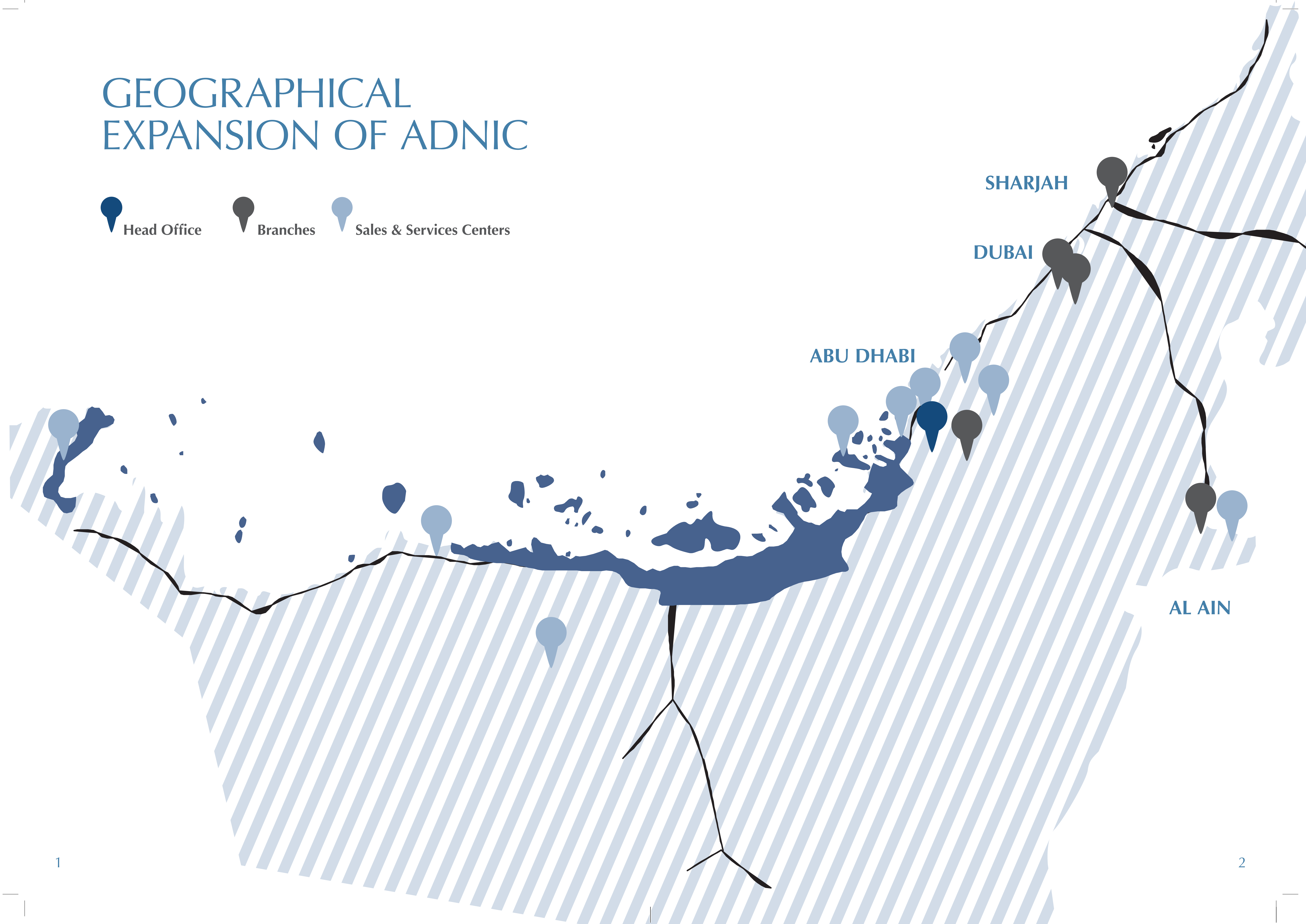


TABLE OF CONTENTS

GEOGRAPHICAL EXPANSION OF ADNIC



ADNIC BOARD OF DIRECTORS

KHALIFA MOHAMED AL-KINDI
Chairman

SHEIKH MOHAMMED BIN SAIF AL-NEHAYAN
Vice Chairman

SHEIKH THEYAB BIN TAHNOON AL-NEHAYAN
Member

H.E. AHMED ALI AL-SAYEGH
Member

H.E. SULTAN RASHID AL-DHAHERI
Member

MR. GHANEM ALI HAMOODA AL-DHAHERI
Member

MR. MOHAMMED ABDULAZEEZ AL-MEHAIRI
Member

MR. KHALIFA SULTAN AL-SUWAIDI
Member

MR. ABDULLA KHALAF AL-OTAIBA
Member

A MESSAGE FROM THE CHAIRMAN OF THE BOARD

On behalf of the Board of Directors of Abu Dhabi National Insurance Company (ADNIC), we are pleased to present our Fortieth audited Directors' Report and Consolidated Financial Statements for the year ended 31 December 2012.

In an impressive period of 41 years, the United Arab Emirates has evolved from strength to strength in all areas and sectors since its founding under the leadership of the late His Highness Sheikh Zayed Bin Sultan Al Nahyan, with prudent policies and decisive actions continuing from the country's founding fathers to the nation's current leadership.

Running parallel to the UAE's successful history, ADNIC's 40 years have embodied many of the socio-economic traits of the UAE – stability, modernization, diversity, sustainability, and reliability. ADNIC will remain a leader in ensuring that these values remain at the core of our business operating principles.

In these 40 years, ADNIC has grown its asset base to AED 4.1 billion while maintaining solid levels of profitability, liquidity and capitalization. In its endeavor to enhance its operations and results, the company has successfully managed change in challenging market conditions, while continuing to pursue perpetual excellence – another confirmation as ADNIC achieved ISO 9001:2008 Certification in 2012.

ADNIC maintained its financial ratings with Standard and Poor's A- Strong as well as A.M. Best A Excellent, signaling an endorsement of the company's strategic plans and business practices. These reaffirmations by leading global financial rating agencies place ADNIC among an elite group of the financial services institutions to have their financial rating maintained in the A category across the Middle East and North Africa.

The Board of Directors are pleased with the continued balanced transformation taking place in one of the oldest financial services companies in the nation, and the region. ADNIC remains fully committed to the UAE Government's initiatives to improve corporate governance, social responsibility and Emiratization.

ADNIC is giving its full support to the Absher initiative, which is supervised by the Ministry of Presidential Affairs and under the direct supervision of the President, His Highness Sheikh Khalifa Bin Zayed Al Nahyan. Absher is based on four main pillars: job creation, training the Emirati workforce, encouraging nationals to join the private sector and launching strategic partnerships with the private sector and government agencies. Absher also includes a privilege program supervised by the Ministry of Labour – which ADNIC is already participating in – for Emiratis working in the private sector.

The Board of Directors continues to remain supportive of ADNIC's perpetual excellence approach to ensure the company's continued sustainable success in order to serve the nation and maximize shareholders' wealth.

On behalf of the shareholders and management of ADNIC, the Board of Directors expresses its sincere appreciation and utmost gratitude to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the President of the United Arab Emirates and Ruler of Abu Dhabi, and to His Highness the Crown Prince Sheikh Mohamed Bin Zayed Al Nahyan for their continued support extended to ADNIC and the business community at large.

The Board of Directors would also like to extend a note of appreciation to the UAE regulatory bodies, shareholders, clients, and business partners for their continued trust and support, and to ADNIC's management and staff in their march towards perpetual excellence in ensuring that ADNIC remains "Your Reliable Insurer".

Khalifa Mohamed Al-Kindi
Chairman of the Board of Directors
Abu Dhabi National Insurance Company PSC

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

2012 was a landmark year for ADNIC as we celebrated our 40th anniversary.

Established out of a sense of responsibility, service and reliability, we have worked tirelessly to bring that vision into reality. Today, it is no mere coincidence that we are "Your Reliable Insurer" in the UAE and indeed the region. Over the last 40 years, we have outperformed many of our competitors with international rating agencies like A.M. Best and Standard & Poor's, continuing to endorse our successful business strategy by maintaining their positive outlook.

As we celebrate four decades of reliability and sustainability, I am pleased to share with you a summary of our operations and financial results for the year ended 31 December 2012.

Operating Environment

The region's insurance industry currently faces the double challenge of having to boost the profitability of its core business of risk underwriting whilst navigating through a dynamically evolving regulatory landscape.

This has not been made easy by the fierce competition that continues to prevail in the entire UAE market. In addition, there has been a growing focus on consumer lines – particularly medical and motor – which has translated in low rates.

Having said that, the progressing diversification of our economies offers significant risk management opportunities for insurers, particularly as we invest more in Alternative Energy, Technology, Aviation & Aerospace, and focus on increasing our Manufacturing Output Capacity. These developments will introduce more complex variations of risk such as Products Liability and Cyber risks.

In terms of distribution, we foresee brokers to remain a driving force in business acquisition, while alternative channels and strategic partnerships provide areas for growth.

Insurance Operations

ADNIC continued its strong performance in 2012, with financial highlights as follows:

- **Gross Written Premium:** Impressive 11% growth to AED 2.30 billion versus AED 2.07 billion in 2011. We are pleased with this strong sustainable growth as we enhance our pricing, product suite and distribution arrangements in order to better serve our customers
- **Risk Appetite:** The overall premium retention ratio increased to 57% from 55% in 2011. Our balanced and successful reinsurance program reflects the company's enhanced prudent risk appetite in line with our Perpetual Excellence Plan
- **Net Underwriting Income:** Grew by AED 4 million to AED 279 million in spite of the additional AED 20 million proactively taken to implement the UAE insurance authority draft regulations on technical reserves

Proactive Measures

- **Enhanced Technical Reserves:** In proactive implementation of UAE insurance authority draft regulations on technical reserves, ADNIC absorbed additional AED 20 million which affected our Net Premium Earned and Net Underwriting Income in 2012 by the same amount
- **Doubtful Debts:** While ADNIC maintained strong levels of liquidity, we incurred a total cost of AED 35 million in impaired receivables versus AED 15 million in 2011. Strengthening of Doubtful Debt reserving was initiated in 2010 and onwards to ensure adequate reserves for any possible receivables impairment in future

Investment Performance

- **Net Investment Income:** ADNIC is pleased to present 41% increase in Net Investment Income to AED 81 million from AED 58 million in 2011, driven predominantly by net interest in bank deposits, bonds as well as dividend income, in spite of low-interest market conditions
- **Investment Properties:** The construction work on ADNIC's Al Raha Beach is ongoing, with an additional AED 168 million invested in 2012 towards the development of the property which is expected to be completed in April 2013 for the first plot and 2014 for the second plot

Net Profit and Total Comprehensive Income for the Year 2012

The dual effects of the above proactive measures have resulted in Net Profit reaching to AED 145 million compared to AED 158 million in 2011. We are confident that in taking these proactive steps, ADNIC is enhancing its compliance with upcoming regulations, as well as minimizing credit risk to ensure sustainable profitability levels and stronger balance sheet in coming years.

In spite of the proactive measures taken, Total Comprehensive Income for 2012 still grew by 81% to AED 202 million compared to AED 112 million last year.

Corporate Social Responsibility

On 24 November 2012, and for the second year running, ADNIC has been the proud sponsor of ADNIC Yas Run. More than 2,600 runners of all ages, boosted by an impressive 25 per cent increase in numbers from last year, took part in the second ADNIC Yas Run held at Yas Marina Circuit in Abu Dhabi.

Through ADNIC Yas Run, our participants and sponsors made charitable donations to Operations Smile, an international children's charity organization that offers free corrective surgeries to children. In addition, ADNIC annually expresses its commitment to encourage our customers and the broader community to lead healthier lives.

Strategic Priorities

The Company has been working towards **"Perpetual Excellence Plan"** and wish to highlight some of the key achievements in Year 2012.

- **Modernization:** We modernized and relocated our Deira Branch to Al Maktoum Street, Dubai in January
- **Expansion:** ADNIC opened its new Salam Street Branch in Abu Dhabi in June. In order to better manage the organic growth and provide enhanced customer access to our full suite of insurance services, regional set-up was initiated in 2012, which geographically segments Dubai and Northern Emirates Region as well as Abu Dhabi and Western Region
- **Corporate Realignment:** Key corporate realignments also took place in 2012, with distinct divisions being set up for Consumer and Commercial insurance services, enabling ADNIC to create processes and guidelines to differentiate between complex commercial transactions and fast-track consumer products. This has been done to address the differing needs of our customer base in terms of streamlined product offerings and efficient service. Enhancements to the organization structure also include key hires in Investment Management, as well as in Special Investigations Unit (SIU) in order to solidify our fraud management initiatives with the identification, notification and prevention of fraudulent activities related to all external and internal stakeholders
- **Technology:** Towards the end of 2012, ADNIC has started to benefit from its investment in technology, both for internal systems, as well as with customer centric initiatives designed to enhance the processes and procedures for our brokers and direct clients

Appreciation

I would sincerely like to thank ADNIC Board Members for their hard work and support in guiding the Executive Management team towards clear prioritization of strategic initiatives.

To all ADNIC management and team members, your combined efforts and perseverance in 2012 are reflected in our sustainable financial and operational results. I thank you for all your efforts and I am confident that you will continue your dedication in 2013 and beyond to ensure that we remain "Your Reliable Insurer".

Walid A. Sidani
Chief Executive Officer
Abu Dhabi National Insurance Company PSC

Our Corporate Team

From left to right

Ahmad Idris
Deputy Chief Executive Officer
Insurance & Reinsurance

Samir Ahad
Strategic Advisor

From left to right - Back Row

Alaa Fares	Chief Financial Officer
Jalal Alkhaled	Chief Human Resources Officer
Raed Haddadin	Chief Legal & Compliance Officer
Abdulla Al Nuaimi	Chief Corporate Marketing & Communications Officer
Benjamin Graham	Chief Risk Officer

From left to right - Front Row

Saurabh Saran	Chief Operating Officer - Shared Services
Shaikh Ahmed	Chief Distribution Officer

From left to right - Back Row

Eli Antoine Daccache
Branch Manager - Sharjah

Arjun Chandrasekhar
Deputy Regional Manager - Abu Dhabi & Western Region

Alya Ali
Deputy Branch Manager - Deira, Dubai

Suresh Gunathilaka
Branch Manager - Sheikh Zayed Road, Dubai

Mohamad Mustapha
Branch Manager - Al Ain

Front Row - From left to right

Bassam Jbeili
Regional Manager - Abu Dhabi & Western Region

Farouk Abdel Kader
Executive Manager - Dubai & Northern Emirates

From left to right - Back Row

Sai Subramanian	Senior Manager - Project Management Office
Hammad Khan	Deputy Chief Financial Officer - Finance, Accounting and Market Intelligence
Attada Venkata Murthy	Deputy Chief Claims Officer - Consumer Lines Claims
Yasser Khalifa	Deputy Chief Underwriting Officer - Medical Underwriting
Haitham Abo El Fadl	Deputy Chief Services Officer - Operations
Hema Padmanabhan	Deputy Chief Underwriting Officer - Engineering & Construction Underwriting
Manish Misra	Deputy Chief Human Resources Officer
Adrian Alexander	Deputy Chief Claims Officer - Energy & Non-Marine Commercial Claims
K. E. Thomas	Deputy Chief Claims Officer - Cargo & Marine-Hull and Aviation & Aerospace Claims
Srinivasan Vaidyanathan	Deputy Chief Underwriting Officer - Liabilities & Financial Expenses

From left to right - Front Row

Sami Khalil	Deputy Chief Services Officer - Risk Engineering Services
Mohanan Painatt	Chief Underwriting Officer- Cargo & Marine-Hull and Aviation & Aerospace
Vijay Singh	Chief Claims Officer - Commercial Lines Claims
Lazhar Charfeddine	Chief Reinsurance Officer
Hussein Samara	Chief Information Officer
Jugal Madaan	Chief Underwriting Officer - Property & Energy Underwriting
Mazen Allabadi	Chief Claims Officer - Consumer Lines Claims
Tariq Zietoun	Chief Commercial Officer - Strategic Accounts

OUR VISION

To be the leading insurer of choice across the Middle East and North Africa region.

OUR MISSION

To serve our customers by offering them regional, alternative, and international insurance solutions to protect their quality of life and help them excel in their business endeavors.

About Us

Abu Dhabi National Insurance Company (ADNIC) PJSC is a trusted insurance partner with long standing expertise in providing reassurance and support to individuals and corporates to manage unpredictable health, life and general risks. Founded in the United Arab Emirates (UAE), in 1972, ADNIC is a leading multi-line insurance provider with a wide network of branches as well as sales and service centers across the country. ADNIC is publicly owned and listed on the Abu Dhabi Securities Exchange (ADX).

ADNIC has consistently been providing peace of mind to its customers for the past 40 years through its customizable and scalable insurance products and solutions offering, which is designed to meet their insurance needs. The Company transacts both Life and Non-Life Insurance and it offers a wide range of General, Health and Life Insurance Products and solutions for individuals, small, mid-sized and large companies and multinational corporations in the United Arab Emirates. ADNIC is also one of the leading providers of risk underwriting solutions across the Middle East and North Africa (MENA) region.

ADNIC is proud to work with the Government to encourage UAE Nationals to work in the private sector. During 2012 ADNIC joined the UAE Government's "Absher" Initiative to promote Emiratization. The Company's current level of Emiratization is amongst the highest in the UAE insurance sector and as of 2013 stands at about 12% of the total work force, which increased from 8.7% in 2011.

During the past 40 years, ADNIC has grown its asset base to AED 4.1 billion while maintaining solid levels of profitability, liquidity and capitalization. In its endeavor to enhance its performance, the Company has successfully managed changes in challenging market conditions; while continuing to pursue perpetual excellence – the Company achieved ISO 9001:2008 Certification in 2012 and maintained its financial ratings with Standard and Poor's A- Strong with Positive Outlook, as well as A.M. Best A Excellent with a Stable Outlook.

ADNIC has received recognition from the sector and was nominated "Middle East Insurance Company of the Year" in 2009, 2010 and 2011 by World Finance Magazine, as well as the Insurance Company of the Year at the Middle East Insurance Forum 2011 (MEIF 2011).

Our Core Values

We pride ourselves in continuously operating in line with our corporate core values when we interact with our shareholders, partners, clients, and employees. These values are integral to the way we do business and communicate with our stakeholders:

- **Reliability**
- **Innovation**
- **Transparency**
- **Customer Centricity**
- **Teamwork**
- **Integrity**
- **Fairness**
- **Loyalty**

Our Strategic Pillars

At the foundation of our business strategy lies seven strategic pillars, which help us to maintain our commitment to be Your Reliable Insurer.

Modernization
of our processes, facilities, and infrastructure

Expansion
of our suite of products and services

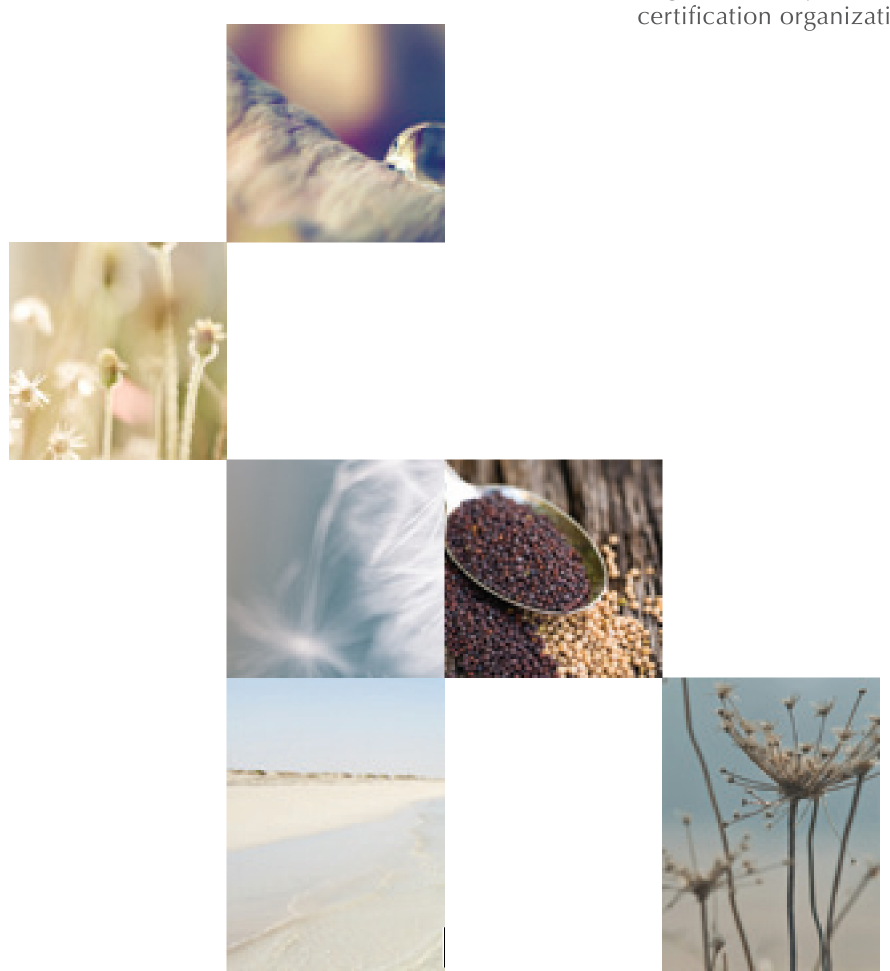
Employer of Choice
within the insurance industry

Product Development
to ensure solutions are created to address your evolving business needs

Distribution
of our products and services wherever you are

Customer Service
to ensure that each interaction with you is effective

Innovation & Technology
to ensure solutions are offered efficiently



Our Global Recognition

Receiving global awards and recognitions is yet another acknowledgement of ADNIC's stability, evolution, and high standards. Each year ADNIC proves its financial strength and stability receiving global recognitions from prestigious entities such as Standard & Poor's (S&P), A.M. Best and the World Finance Magazine, in addition to other prestigious entities.

Our Financial Strength Rating

Standard & Poor's
Reaffirmed as "A-" rating of strong with a Positive outlook

A.M. Best
Reaffirmed as A (Excellent) with a Stable outlook

International Awards

The World Finance Insurance Awards
- Middle East Insurance Company of the Year 2009
- Middle East Insurance Company of the Year 2010
- Middle East Insurance Company of the Year 2011

Middle East Insurance Forum (MEIF)
2011 MEIF – Insurance Company of the Year awarded by Central Bank of Bahrain

INSUREX – Achievement of the Year
Achievement of the Year 2011 – Team ADNIC awarded by Policy Magazine

ISO 9001:2008 Certification
Achieved the ISO 9001:2008 international quality clarification following an assessment by Lloyd's Register Quality Assurance (LRQA), a leading global certification organization.

Our Corporate Governance

ADNIC acknowledges its responsibilities to its shareholders, employees, partners and customers in the UAE. ADNIC also believes that good corporate governance helps to achieve management commitment to delivering value to shareholders through the setting of and achieving, appropriate strategic business objectives. As being agreed across the UAE and GCC, good governance provides an appropriate framework for the Board, its committees and the leadership of ADNIC to proactively and efficiently represent the interests of the Company.

ADNIC maintains high levels of transparency and accountability throughout its management practices. We believe we have this sacred responsibility to our shareholders and the community collectively. To this end, ADNIC implements and monitors its business objectives and strategies and procedures that comply with its legal and ethical responsibilities. This is how we embed good corporate governance principles and practices into the way we work.

The Board has established three permanent Board-Level Committees to assist in executing its functions, bestowed them with powers, and entrusted them with responsibilities to implement resolutions of the Board:

Audit Committee

The Audit Committee is an essential component of ADNIC's governance structure and critical aspect of a strong and credible internal controls and internal audit functions. The Audit Committee assists the Board in fulfilling its responsibilities to provide oversight with respect to the following:

- The integrity of ADNIC's financial statements and other financial information provided to ADNIC's stakeholders and others
- ADNIC's internal control over financial reporting, the independence, engagement, remuneration and performance of ADNIC's independent auditors
- The performance and effectiveness of ADNIC's internal audit process
- Compliance with regulatory requirements including internal policies and procedures and other corporate governance activities including executive officers with ADNIC's Code of Conduct
- Effectiveness and efficiency of the internal control systems and risk management

The Audit Committee provides a focal point for free and open communications among ADNIC's independent directors, management, internal control, and independent auditors. The Audit Committee has the specific powers, authority, duties and responsibilities set forth in its written charter and as may otherwise be delegated and/or assigned to it from time to time by the Board.

The Audit Committee comprises the following members:

Sheikh Theyab Bin Tahnoon Al-Nehayan
Chairman

Khalifa Sultan Ahmed Al-Suwaidi
Member

Omar Liaqat
Member

Saifeldin Bayoumi
Committee Secretary

Nomination & Remuneration Committee

ADNIC Board of Directors has established the Nomination & Remuneration Committee to assist the Board in fulfilling its duties with regards to strategic human resources issues and in ensuring that human resources strategies, programs and policies effectively integrate and align with the Company's mission & business objectives, verify of ongoing independence of independent Board Members continued dialogue with the Board to recommend strategies to ensure independence requirements. Moreover, the Committee develops and implements the plans and initiatives for employing UAE Nationals and for providing best service to the Company's Clients through Strategic Planning.

The Nomination & Remuneration Committee comprises the following members:

Sheikh Mohammed Bin Saif Al-Nehayan
Chairman

H.E. Ahmed Ali Al-Sayegh
Member

Mr. Mohammed Abdulazeez Al-Mehairi
Member

Mr. Abdulla Khalaf Al-Otaiba
Member

Investment Committee

The Investment Committee assists the Board of Directors in supervising, monitoring, and evaluating the Company's investments. The Investment Committee performs its duties efficiently and in the best interest of the Company's Shareholders.

The Investment Committee comprises the following members:

H.E. Khalifa Mohammed Al-Kindi
Chairman

H.E. Sultan Bin Rashid Al-Dhaheri
Member

Abdulla Khalaf Al-Otaiba
Member

David Beau
Member

Walid Sidani
Member

Hammad Khan
Member

Esmat Taha
Committee Secretary

ADNIC has also established three permanent Executive-Level Committees to assist in the execution of its functions; thus, we bestowed them with powers and entrusted them with responsibilities to assist ADNIC in making informed decisions and achieve its strategic objectives.

Risk Management Committee

The Risk Management Committee (RMC) has been established to assist the Executive Management of ADNIC in taking knowledgeable and prudent decisions when it comes to "Risk" and in fulfilling the duties of the Chief Executive Officer in respect of the Company's Corporate Governance. The Risk Management Committee is responsible for addressing certain issues related to Risk Management, Fraud Detection, and Business Continuity.

The Risk Management Committee has been authorized to perform the following:

- Develop a regulatory culture, which is aware of risks and its management effectively
- Engender an enterprise wide approach to risk management that provides a comprehensive and appropriately tailored response to all identified risks across the comprehensive and appropriately tailored response to all identified risks across the insurance cycle and related activities
- Provide assurance that Risk Management is an integral part of a successful operation of ADNIC in the achievement of its Strategic Objectives

The Risk Management Committee consists of Key Employees from the Executive Management and from various departments within the Company, who have knowledge and experience in Insurance and Risk Management. The Risk Management Committee is Chaired by the Chief Executive Officer and administrated by the Risk Management Department.

ADNIC*City* Life Committee

ADNIC's workplace is characterized by continuous change and growing diversity. Employees' satisfaction and success depends on the capacity to manage this change and to participate within this diversity, thus work-life balance arrangements are an important element in meeting this challenge.

ADNIC*City* Life Committee is an approach to employee relations that recognizes business as well as the social and personal benefits of balancing work with other dimensions of life, plus having initiatives to launch various social and health awareness programs to ensure that ADNIC is the best choice for the employee.

ADNIC has (14) volunteers of its employees from different backgrounds, skill, and capabilities derived from various departments. They are always ready and have the ability to listen to ADNIC employees anytime, anywhere.

ADNIC Product Innovation Committee

ADNIC Product Innovation Committee (APIC) provides a formal forum comprising a cross section of ADNIC professionals who are tasked with accomplishing the following key functions:

- Exploring and proposing new insurance products to be developed
- Gathering market intelligence on competitive products and trends
- Analyzing and proposing new enhancements, tools and special offering for existing products of the Company

The Committee consists of cross functional members from all the relevant departments within the Company. The Committee is Chaired by the Chief Distribution Officer.

Our belief in transparency and our drive for continuous improvement in corporate governance has empowered the Company to produce a Corporate Governance report that was published for the year 2012.

Our Corporate Commitment to the Community

Corporate Social Responsibility Activities

Our corporate philosophy embraces a commitment to improving the quality of life in the community. At ADNIC, we always seek to play a vital role as a major employer and significant contributor to local charities.

During 2012, we contributed and participated in several community events across the UAE through lending our support, facilities and staff.

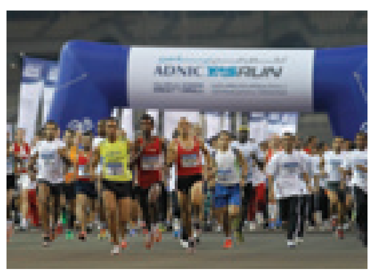
- **ADNIC YAS RUN 2012**
- **ABSHER Initiative - Ministry of Presidential Affairs (MOPA) initiative for the support of Emiratis**
- **Bee'ah Walkathon for the support of Earth Day**
- **Emirates Association of the Blind**
- **Annual Terry Fox Run Against Cancer**
- **Rashid Center for Pediatrics**
- **UAE initiative for the safe usage of injections in the world**
- **World Blood Donor Day 2012**
- **Palestinian Embassy**

INJECTION SAFETY TROPHY

WORLD BLOOD DONOR DAY 2012 TROPHY

EMIRATES ASSOCIATION OF THE BLIND

ABSHER TROPHY



ADNIC YAS RUN 2012

RASHID CENTER FOR PEDIATRICS

Balancing Work and Social Life

ADNIC recognizes the importance of balancing work with social life activities. Therefore, we have established a committee, ADNICity Life Committee, *which seeks to balance our employees' work and social life by engaging them and their families in social activities.*

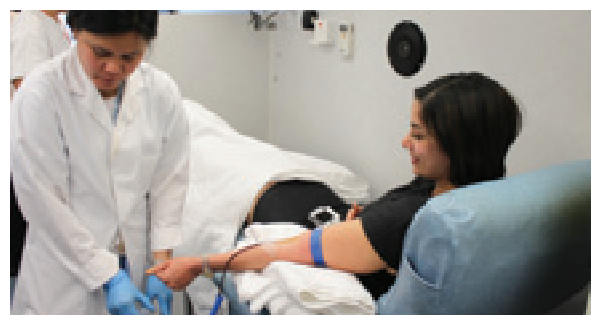
ADNICity Life Committee *is an approach to employee relations that helps us in our continuous effort to be the Employer of Choice in the insurance industry.*

- **Annual Family Day**
- **Annual Ramadan Iftar**
- **ADNIC Health Day**
- **ADNIC Football Team – Weekly Football Matches**
- **ADNIC Cricket Team**

Annual Family Day

Annual Ramadan Iftar

ADNIC Football Team



ADNIC Health Day

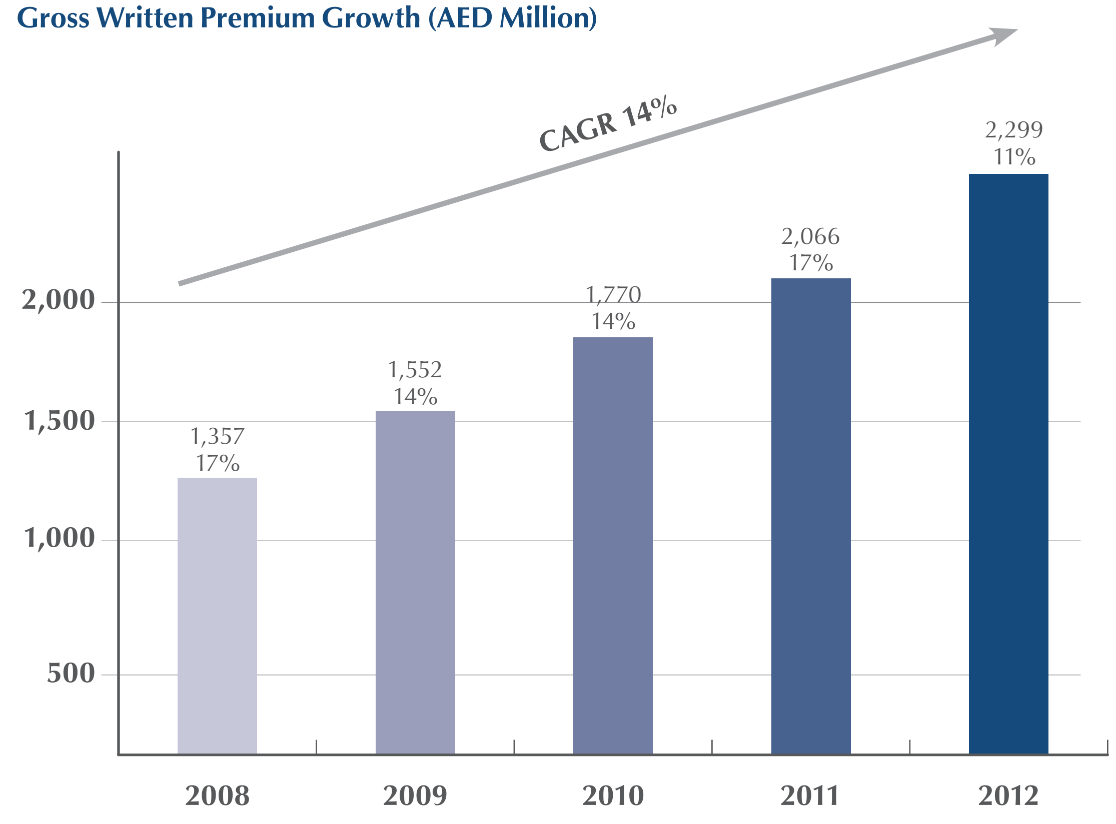
ADNIC Cricket Team

OUR FINANCIAL STRENGTH

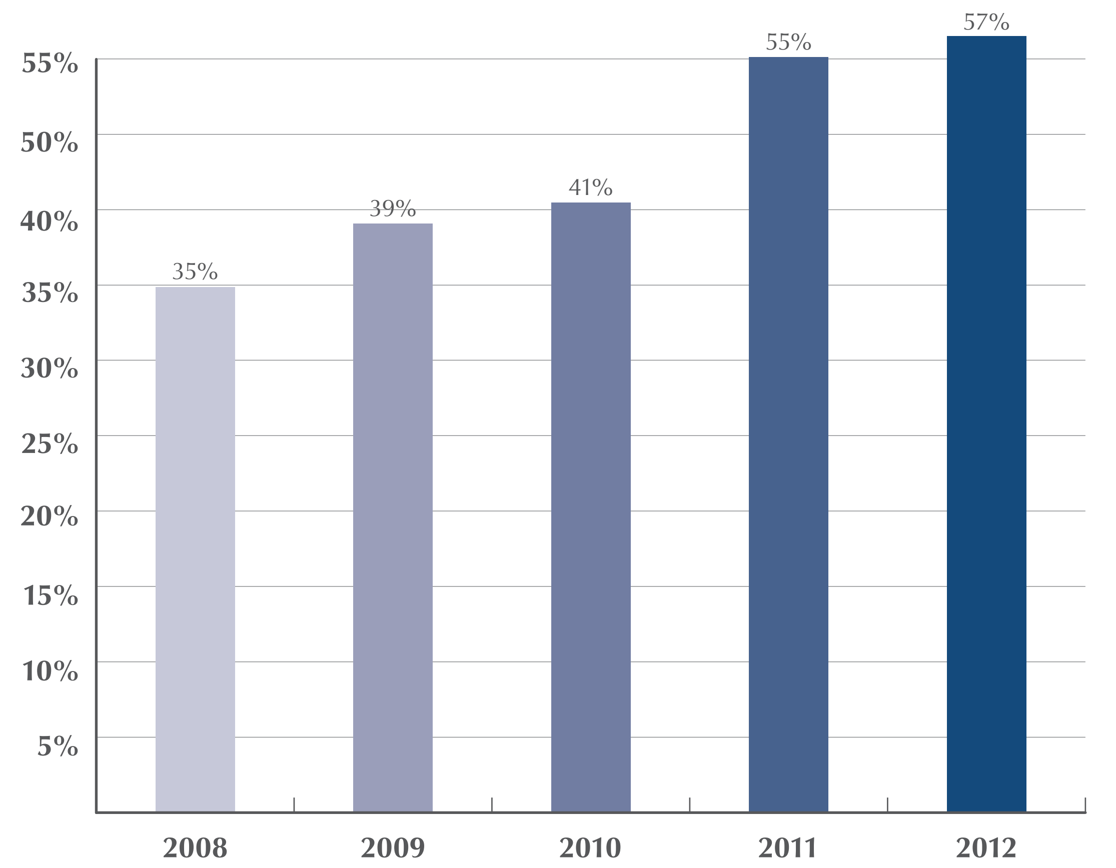
OPERATING FROM UAE SINCE 1972, WE HOLD A STRONG COMPETITIVE POSITION AMONG LISTED COMPANIES WITH A MARKET SHARE OF 18%. WE ALSO HAVE THE BENEFIT OF A STRONG CAPITALIZATION OF AED 375,000,000.

Our financial strength and commitment to long-term relationships with our clients offered us the opportunity to lead most of the UAE's mega development projects, while still being able to offer viable solutions to the Small-to-Medium sized Enterprises (SMEs) and individual clients.

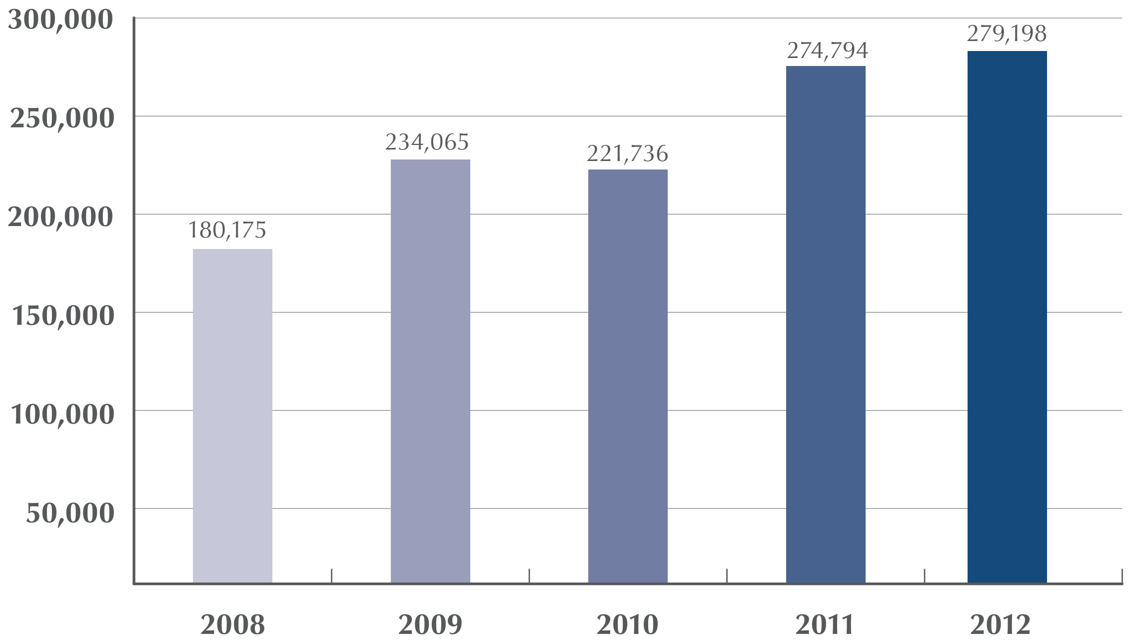
Gross Written Premium Growth (AED Million)



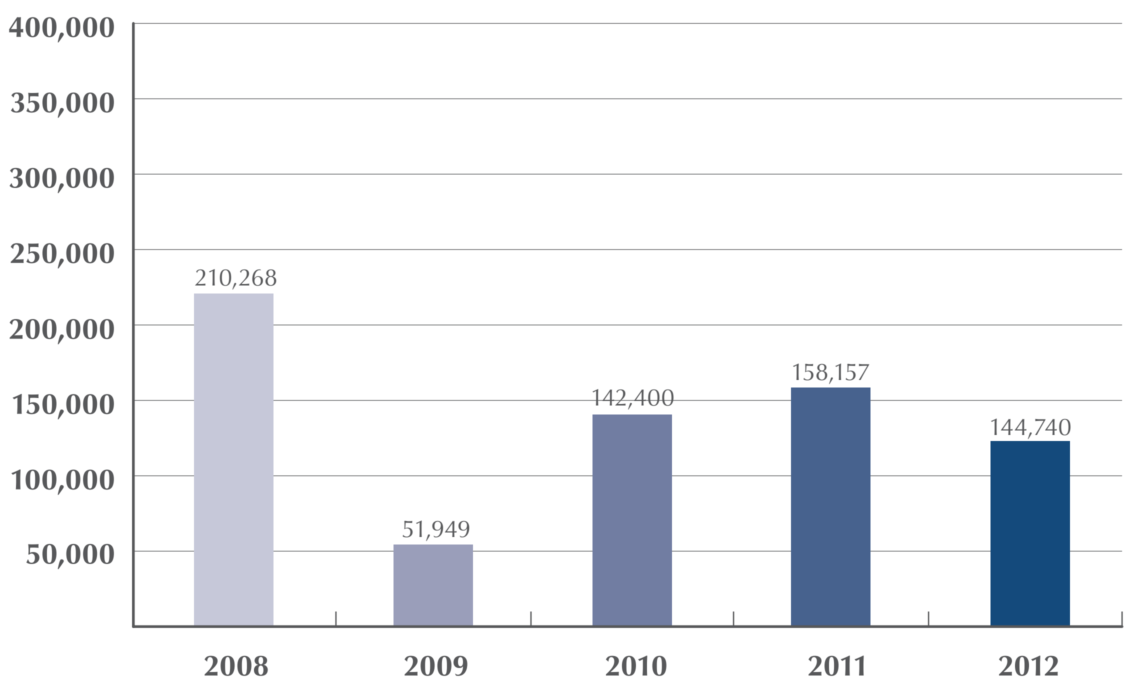
Premium Retention Ratio



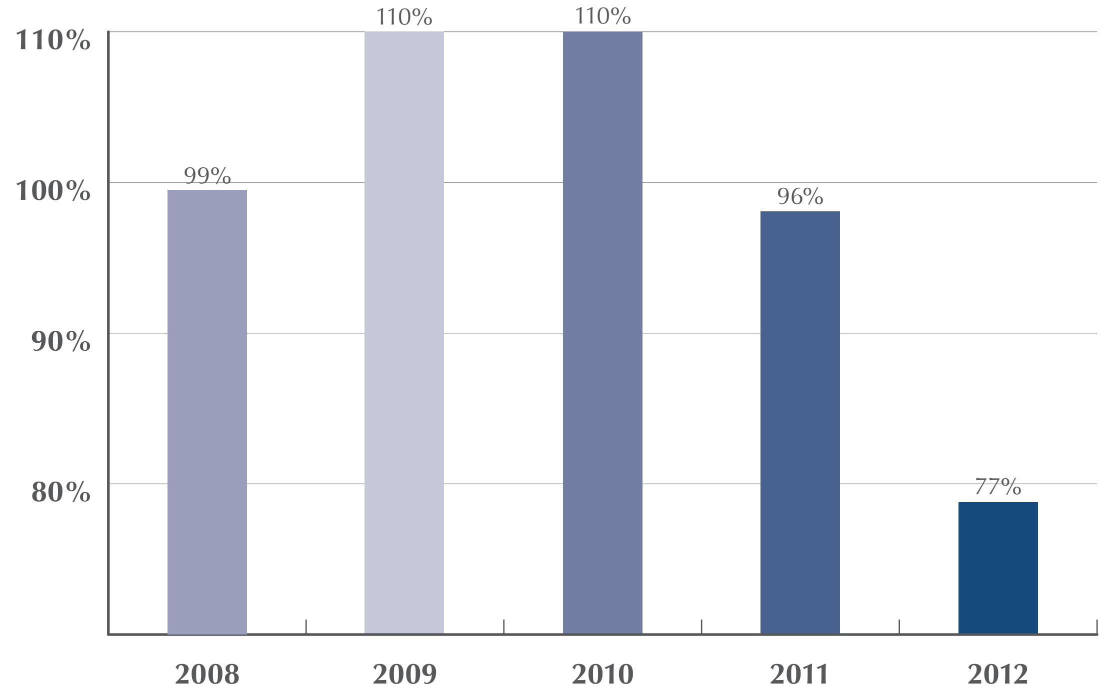
Net Underwriting Income (AED '000s)



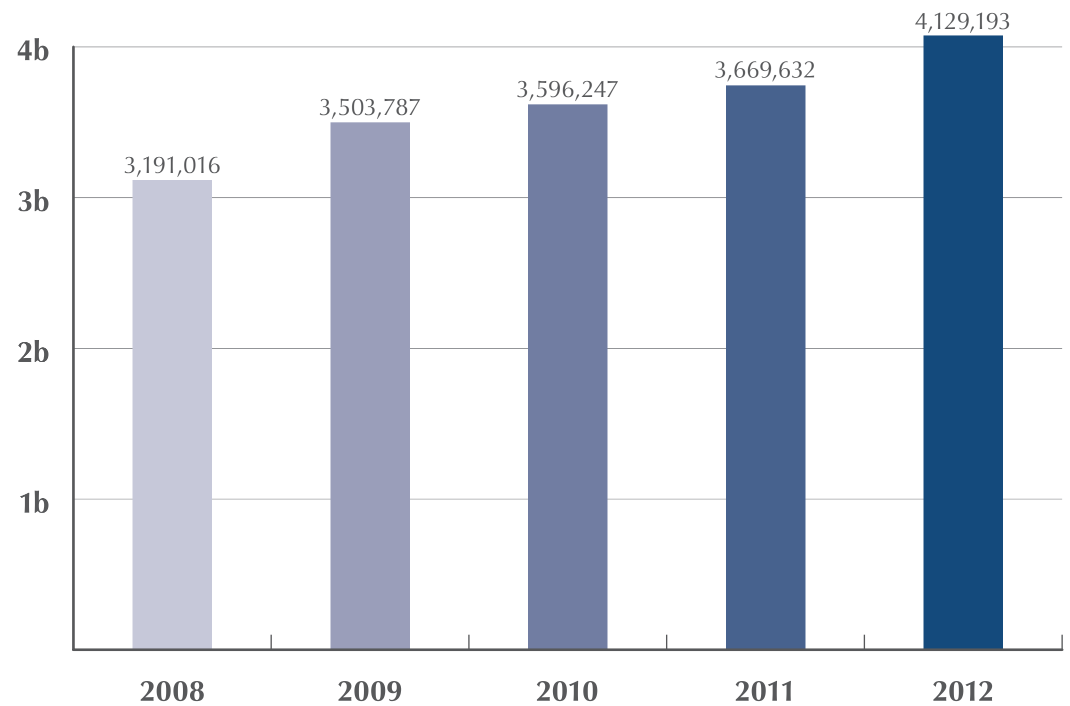
Net Profit (AED '000s)



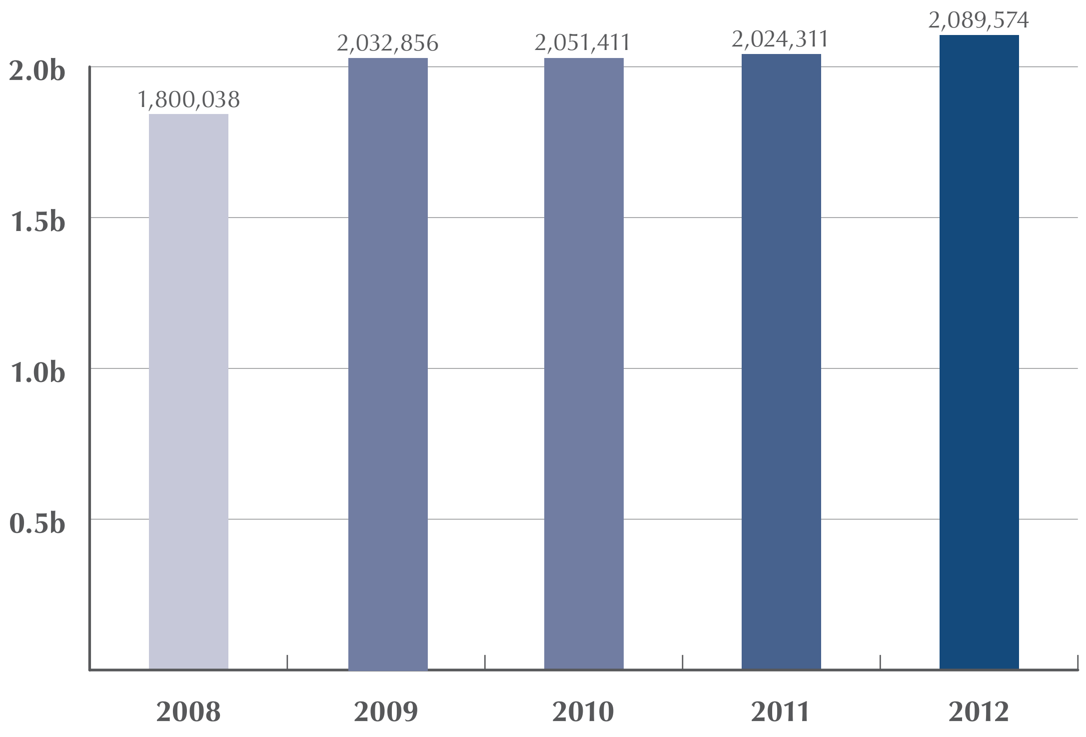
Liquidity Position (Gross Basis)



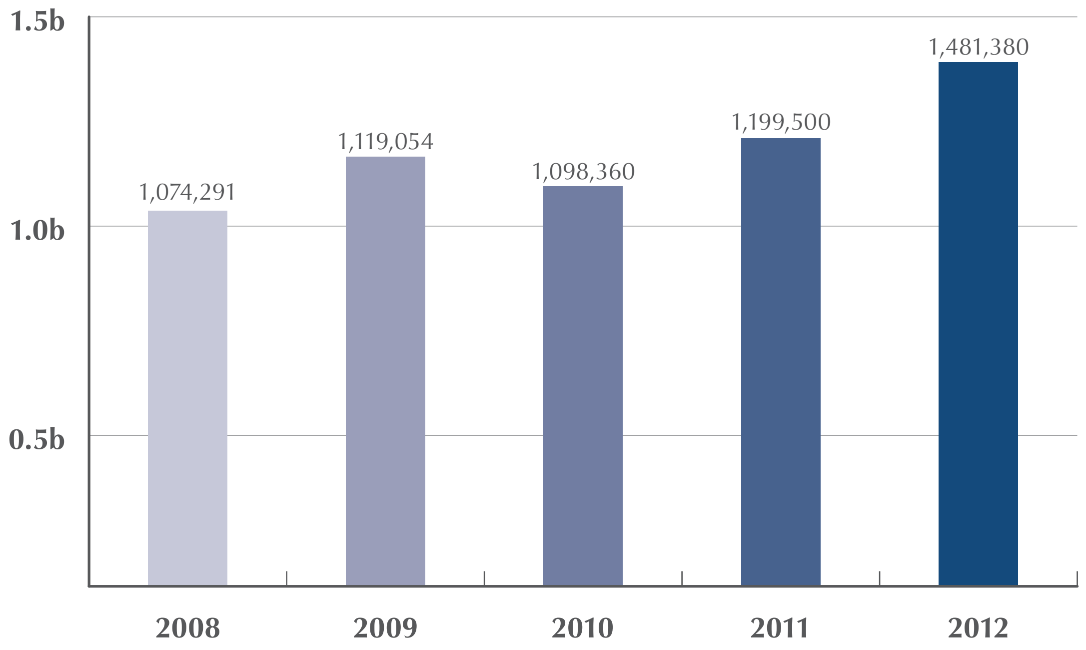
Total Assets (AED '000s)



Total Equity (AED '000s)



Gross Technical Reserves (AED '000s)



Business Report
For the year ended 31 December 2012

Overall view

- The gross premium for all branches of insurance increased to AED 2,299,187 thousand for this year against AED 2,065,841 thousand for 2011
- The total paid claims for all branches of insurance amounted to AED 1,086,726 thousand for this year from AED 914,845 thousand for 2011
- The provision for unexpired risks on retained premiums amounted to AED 581,111 thousand for this year from AED 482,007 thousand for 2011
- The total general and administrative expenses amounted to AED 215,513 thousand for this year from AED 174,205 thousand for 2011
- The net investment and other income amounted to AED 81,055 thousand for this year from AED 57,568 thousand for 2011
- The net profit achieved by the Company amounted to AED 144,740 thousand for this year against AED 158,157 thousand for 2011
- The total assets of the Company increased to AED 4,073,475 thousand for this year against AED 3,669,632 thousand for 2011

After this brief presentation, we give hereafter a more detailed review of the operations in various insurance branches.

Non-marine insurance

- The gross premium increased to AED 1,796,720 thousand for this year against AED 1,610,760 thousand for 2011
- The net claims incurred amounted to AED 899,671 thousand for this year from AED 685,046 thousand for 2011
- The provision for unexpired risks on retained premiums amounted to AED 539,045 thousand for this year from AED 453,018 thousand for 2011
- The department achieved a net underwriting income of AED 204,335 thousand for this year against AED 207,034 thousand for 2011

Marine insurance

- The gross premium increased to AED 502,467 thousand for this year from AED 455,081 thousand for 2011
- The net claims incurred amounted to AED 36,313 thousand for this year from AED 7,646 thousand for 2011
- The provision for unexpired risks on retained premiums amounted to AED 42,065 thousand for this year from AED 28,989 thousand for 2011
- The department achieved a net underwriting income of AED 74,863 thousand for this year against AED 67,760 thousand for 2011

Proposals to shareholders
for the year ended 31 December 2012

The Board of Directors, after the review of the Group's operations during the year 2012, proposes the following to the shareholders for their approval:

Ordinary general assembly

(1) To approve the Board of Directors' and Business reports about the Group's operation and its financial position and to approve auditor's report for the year ended 31 December 2012.

(2) To approve the Directors' report and consolidated financial statements for the year ended 31 December 2012.

(3) To approve the Board of Directors' proposal to appropriate retained profit which amounted to AED 295,784 thousand including the opening retained earnings as follows:

	AED'000
• The proposed cash dividends to the shareholders being 35% of the nominal value per share	131,250
• Proposed Board of Directors' remuneration	5,800
• Retained earnings carried forward	158,734
Total	295,784

(4) To relieve the Directors and the External auditor from responsibilities for action in performing their duties during the financial year ended 31 December 2012.

(5) To appoint the External Auditor for 2013 and to define the audit fees.

Note:

Proposals no. 1 & 2 to shareholders were approved during the ordinary general assembly meeting held on 9 April 2013.

Proposal no. 3 to shareholders was discussed during the ordinary general assembly meeting held on 9 April 2013 and approved a cash dividend of 40% of the nominal value per share to shareholders.

Independent auditors' report

The Shareholders
Abu Dhabi National Insurance Company PSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi National Insurance Company PSC (the "Company") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income (comprising statement of comprehensive income and a separate income statement), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

The 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.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 our 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, we consider internal control relevant to the Group'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 Group'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 these consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been maintained by the Group and that the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2012 which may have had a material adverse effect on the business of the Group or its financial position.

Munther Dajani
Registration No. 268
26 March 2013

Consolidated statement of financial position
As at 31 December 2012

	Note	2012 AED'000	2011 AED'000
Assets			
Cash and bank	25	**1,144,856**	1,166,757
Trade and other receivables	7	**883,335**	877,054
Reinsurance contract assets	8	**664,323**	556,777
Investment in joint venture	10	-	2,204
Investments	11	**769,009**	577,477
Investment properties	12	**589,298**	421,593
Property and equipment	13	**78,372**	67,770
Total assets		**4,129,193**	3,669,632
Equity and liabilities			
Equity			
Share capital	14	**375,000**	375,000
Legal reserve	15	**187,500**	187,500
General reserve	16	**1,200,000**	1,200,000
Investments revaluation reserve		**31,290**	(36,896)
Retained earnings	17	**295,784**	298,707
Total equity		**2,089,574**	2,024,311
Liabilities			
Provision for staff end of service benefits	18	**27,545**	29,481
Trade and other payables	19	**509,917**	416,340
Insurance contract liabilities	8	**1,481,380**	1,199,500
Loans from a financial institution	20	**20,777**	-
Total liabilities		**2,039,619**	1,645,321
Total equity and liabilities		**4,129,193**	3,669,632

The consolidated financial statements were approved by the Board of Directors and signed on their behalf by the Chairman of the Board of Directors and Chief Executive Officer on 26 March 2013.

Chairman of the Board of Directors

Chief Executive Officer

The notes 1 to 28 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 30.

Consolidated income statement
For the year ended 31 December 2012

	Note	2012 AED'000	2011 AED'000
Underwriting revenue			
Gross written premium	26	**2,299,187**	2,065,841
Change in unearned premium provision		**(113,434)**	(219,674)
Premium income earned		**2,185,753**	1,846,167
Reinsurance premium ceded	26	**(986,047)**	(933,099)
Change in reinsurance share of unearned premium		**14,330**	30,636
Reinsurance premium ceded		**(971,717)**	(902,463)
Net premium earned	26	**1,214,036**	943,704
Underwriting expenses			
Gross claims paid	26	**(1,086,726)**	(914,845)
Change in outstanding claims provision		**(168,446)**	118,534
Gross claims incurred		**(1,255,172)**	(796,311)
Reinsurance share of claims paid	26	**225,972**	246,960
Change in reinsurance share of outstanding claims		**93,216**	(143,341)
Reinsurance share of claims incurred		**319,188**	103,619
Net claims incurred	26	**(935,984)**	(692,692)
Commissions			
Commission income	26	**103,057**	97,866
Less: commission expenses	26	**(92,627)**	(66,035)
Net commission income		**10,430**	31,831
Other income related to underwriting activities	26	**15,799**	11,624
Other expenses related to underwriting activities	26	**(25,083)**	(19,673)
Net other underwriting income/(expenses)		**(9,284)**	(8,049)
Net underwriting income		**279,198**	274,794
Net investment and other income	21	**81,055**	57,568
General and administrative expenses	22	**(215,513)**	(174,205)
Net profit for the year		**144,740**	158,157
Basic and diluted earnings per ordinary share (AED)	23	**0.39**	0.42

The notes 1 to 28 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 30.

Consolidated statement of comprehensive income
For the year ended 31 December 2012

	2012 AED'000	2011 AED'000
Comprehensive income for the year		
Net profit for the year	**144,740**	158,157
Other comprehensive income (OCI):		
Effect of unrealised change in fair value of investments through OCI	**57,573**	(46,401)
Total other comprehensive income	**57,573**	(46,401)
Total comprehensive income for the year	**202,313**	111,756
Net profit for the year attributable to:		
Equity holders of the Company	**144,740**	158,157
Non-controlling interest	**-**	-
	144,740	158,157
Total comprehensive income attributable to:		
Equity holders of the Company	**202,313**	111,756
Non-controlling interest	**-**	-
	202,313	111,756

The notes 1 to 28 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 30.

Consolidated statement of changes in equity
For the year ended 31 December 2012

	Share capital AED'000	Legal reserve AED'000	General reserve AED'000	Investments revaluation reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2011	375,000	187,500	1,200,000	9,505	279,406	2,051,411
Comprehensive income for the year						
Net profit for the year	-	-	-	-	158,157	158,157
Other comprehensive income for the year:						
Change in fair value for investments	-	-	-	(47,607)	-	(47,607)
Total other comprehensive income for the year	-	-	-	(47,607)	-	(47,607)
Total comprehensive income for the year	-	-	-	(47,607)	158,157	110,550
Transfer of investment revaluation reserve on disposal of investments through OCI	-	-	-	1,206	(1,206)	-
Transactions with owners, recorded directly in equity						
Transfer to legal reserve						
Dividend paid	-	-	-	-	(131,250)	(131,250)
Total transactions with the owners of the Company	-	-	-	-	(131,250)	(131,250)
Directors' remuneration	-	-	-	-	(6,400)	(6,400)
Balance at 31 December 2011	**375,000**	**187,500**	**1,200,000**	**(36,896)**	**298,707**	**2,024,311**
Balance at 1 January 2012	**375,000**	**187,500**	**1,200,000**	**(36,896)**	**298,707**	**2,024,311**
Comprehensive income for the year						
Net profit for the year	-	-	-	-	144,740	144,740
Other comprehensive income for the year:						
Change in fair value for investments	-	-	-	57,573	-	57,573
Total other comprehensive income for the year	-	-	-	57,573	-	57,573
Total comprehensive income for the year	-	-	-	57,573	144,740	202,313
Transfer of investment revaluation reserve on disposal of investments through OCI	-	-	-	10,613	(10,613)	-
Transactions with owners, recorded directly in equity						
Transfer to legal reserve						
Dividend paid	-	-	-	-	(131,250)	(131,250)
Total transactions with the owners of the Company	-	-	-	-	(131,250)	(131,250)
Directors' remuneration	-	-	-	-	(5,800)	(5,800)
Balance at 31 December 2012	**375,000**	**187,500**	**1,200,000**	**31,290**	**295,784**	**2,089,574**

The notes 1 to 28 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 30.

Consolidated statement of cash flows

For the year ended 31 December 2012

	Note	2012 AED'000	2011 AED'000
Operating activities			
Net profit for the year		**144,740**	158,157
Adjustments for:			
Depreciation expense	13	**10,263**	7,757
Net movement in unearned premium reserve	8	**99,104**	189,038
Directors' remuneration	24	**(5,800)**	(6,400)
Impairment loss on trade receivable	7	**35,000**	14,665
Net decrease on revaluation of investment property	12	**-**	12,500
Unrealised loss on investment through profit and loss	11	**(1,037)**	3,840
Unwinding of discount	11	**2,533**	(626)
End of service benefits charge	18	**3,628**	3,726
Gain on disposal of property and equipment		**(43)**	-
Cash flows from operating activities before movements in working capital		**288,388**	382,657
Change in reinsurance contract assets	8	**(93,216)**	143,341
Change in trade and other receivables	7	**(41,281)**	(210,880)
Change in insurance contract liabilities	8	**168,446**	(118,534)
Change in trade and other payables	19	**93,577**	33,372
Cash generated from operations		**415,914**	229,956
End of service benefits paid	18	**(5,564)**	(1,023)
Net cash generated from operating activities		**410,350**	228,933
Investing activities			
Proceeds from sale of investments		**282,418**	179,586
Change in bank deposits	25	**106,831**	30,412
Proceeds from disposal of property and equipment		**123**	68
Acquisition of investments	11	**(417,873)**	(216,368)
Disposal of joint venture	10	**2,204**	-
Purchase of property and equipment	13	**(20,945)**	(17,265)
Payment for investment property under development	12	**(167,705)**	(62,193)
Change in loans from a financial institution	20	**20,777**	(36,730)
Net cash used in investing activities		**(194,170)**	(122,490)
Financing activities			
Dividend paid		**(131,250)**	(131,250)
Net cash used in financing activities		**(131,250)**	(131,250)
Net decrease in cash and cash equivalents		**84,930**	(24,807)
Cash and cash equivalents at the beginning of the year		**179,936**	204,743
Cash and cash equivalents at the end of year	25	**264,866**	179,936

The notes 1 to 28 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 30.

Notes to the consolidated financial statements

1. Legal status and principal activities

Abu Dhabi National Insurance Company PSC (the "Company") is a public shareholding company incorporated in Abu Dhabi, United Arab Emirates, by Law No. (4) of 1972 as amended by Law No. (4) of 1974, and is governed by the provisions of the United Arab Emirates (UAE) Federal Law No. (6) of 2007 concerning Insurance Companies and agents and Federal Law No. 8 of 1984 (as amended). These consolidated financial statements include the financial performance and position of the Company and its fully owned subsidiary Abu Dhabi National Insurance Company (Services) Ltd (collectively referred to as "the Group").

The Group's principal activity is the transaction of insurance and reinsurance business of all classes.

The registered office of the Group is Khalifa Street, ADNIC Building, P O Box 839, Abu Dhabi, UAE.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and applicable requirements of UAE Law.

The Company had adopted IFRS 9, Financial instrument in 2010 in advance of its effective date. The Company had chosen 30 December 2010 as its date of initial application.

(b) Basis of measurement

The consolidated financial statements are prepared under the historical cost basis except for the following:

- Financial instruments at fair value through profit and loss are measured at fair value;
- Financial instruments at fair value through other comprehensive income are measured at fair value; and
- Investment properties are measured at fair value.

The method used to fair value is discussed in note 3(b) and 6.

(c) Functional and presentation currency

These consolidated financial statements are presented in UAE Dirhams (AED), which is the Group's functional currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 5.

Notes to the consolidated financial statements

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The consolidated financial statements of the Group comprise the Company and its fully owned subsidiary Abu Dhabi National Insurance Company (Services) Ltd. which is registered in the United Kingdom.

(ii) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Financial assets and liabilities

(i) Recognition

The Group initially recognizes deposits and debt securities issued on the date that they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets designated at fair value through profit and loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognized in:

(i) Income statement, for securities held at amortized cost or FVTPL, or
(ii) Other comprehensive income, for investments at FVTOCI. At the time of derecognition of FVTOCI investment any revaluation reserve is transferred to retained earnings.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(ii) Derecognition (continued)

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group also derecognizes certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(iii) Designation at amortized cost

Debt instruments are classified as investments at amortized cost only if:

(i) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These instruments are initially recognized at cost and subsequently measured at amortized cost, calculated using the effective interest rate.

(iv) Designation as fair value through OCI ("FVTOCI")

The Group has classified equity shares at fair value through other comprehensive income ("FVTOCI") where these investments are not held for selling for short term profit taking.

These equity investments are initially recognized and subsequently measured at fair value in the consolidated statement of financial position. All changes in fair value are recognized in equity through other comprehensive income.

(v) Fair value through profit and loss

Fair value through profit and loss (FVTPL) include trading assets that the Group acquires for the purpose of selling in the near term, or holds as part of a portfolio that is managed together for short-term profit taking.

FVTPL assets are initially recognized and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to the consolidated income statement. All changes in fair value are recognized as part of net investment income in the consolidated income statement. FVTPL assets are not reclassified subsequent to their initial recognition.

(vi) Other financial assets

Other non-derivative financial assets, such as cash and cash equivalents, statutory deposits, insurance and other receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(vii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards. Gains and losses arising from a Group of similar transactions are reported on a net basis.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(viii) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(ix) Fair value measurement

The determination of fair values of financial assets and liabilities is based on quoted market prices or dealer quotations for financial instruments traded in active markets. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

For financial instruments not traded on an active market, fair value is determined based on recent transactions, brokers' quotes or a valuation technique.

Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

(x) Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets carried at amortized cost are impaired. A financial asset or a group of financial assets is/(are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Impairment losses on financial assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the original effective interest rate. Impairment losses are recognized in the consolidated income statement and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated income statement.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(xi) Other financial instruments

Other financial liabilities include amounts payable in the future to agents and intermediaries in respect of insurance contracts issued by the Group. Payments are made on an annual basis on the anniversary of the inception of a contract if a contract has not been surrendered at that date.

These financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of the expected future payments at the discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortized cost using the effective interest method.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less.

(d) Investments at fair value through profit and loss

These are financial assets classified as held for trading or designated as such upon initial recognition. These are initially recognized and subsequently measured at fair value with transaction costs taken directly to the consolidated income statement. All related realised and unrealised gains or losses are included in net investment and other income.

(e) Investments at fair value through other comprehensive income ("FVTOCI")

Equity shares that are kept at fair value through other comprehensive income are remeasured at fair value. Unrealised gains or losses are recognized in other comprehensive income. Upon derecognition the cumulative gain or loss previously recognized in other comprehensive income is directly transferred to retained earnings. Any difference between the sales proceeds and carrying value is taken to equity through other comprehensive income.

For such a financial asset, exchange differences are recognized in the consolidated comprehensive income statement.

(f) Insurance contracts

(i) Classification

The Group issues contracts that transfer either insurance risk or both insurance and financial risks. The Group does not issue contracts that transfer only financial risks.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Group to pay significant additional benefits due to occurrence of the insured event as compared to the non-occurrence.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(f) Insurance contracts *(continued)*

(i) Classification (continued)

Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

(ii) Recognition and measurement

Premiums

Gross premiums written reflect amount recognized during the year to policyholders or other insurers for insurance contracts, and exclude any fees and other amounts calculated based on premiums. These are recognized when the underwriting process is complete.

Premiums include any adjustments in respect of business written in prior accounting periods. The earned portion of premiums is recognized as income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below:

Unearned premium provision

Unearned premiums are computed using mathematical models to spread premium written over the period of coverage and are equal or higher than the minimum stipulated in United Arab Emirates (UAE) Insurance Companies law.

(iii) Claims

Claims incurred comprise the settlement and the internal and external handling costs for paid claims and changes in the provisions for outstanding claims arising from events occurring during the financial period. Where applicable, deductions are made for salvage and their recoveries.

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the consolidated financial statements of the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

(iv) Provision for premium deficiency/liability adequacy test

Provision is made for premium deficiency arising from insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the consolidated statement of financial position date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

(v) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(f) Insurance contracts *(continued)*

(v) Reinsurance (continued)

Amounts due to and from reinsurers are accounted for in a manner consistent with the related insurance policies and in accordance with the relevant reinsurance contracts. Reinsurance premiums are deferred and expensed using the same basis as used to calculate unearned premium reserves for related insurance policies. The deferred portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each consolidated statement of financial position date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on reinsurance assets are recognized in statement of income in the period in which they are incurred.

Profit commission in respect of reinsurance contracts is recognized on an upfront basis and reinsurance commission is recognized when right to receive is created.

(vi) Deferred acquisition cost

For general insurance contracts, the deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the consolidated statement of financial position date.

(vii) Insurance receivables and payables

Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract liabilities or reinsurance contract assets.

(viii) Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the consolidated statement of financial position date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the consolidated statement of financial position date. This provision is computed using mathematical models to spread the premium written.

The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the consolidated financial statements.

(g) Property and equipment

(i) Recognition and measurement

All items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(g) Property and equipment *(continued)*

(i) Recognition and measurement (continued)

Subsequent cost

The cost of replacing a part of property and equipment is recognized in the carrying amount of the item if it is probable that future economic benefits within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of day-to-day servicing of property and equipment is recognized in the consolidated income statement.

Gains and losses on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognized net within other operating income in the consolidated income statement.

(ii) Depreciation

Depreciation is recognized in the consolidated income statement on a straight-line basis over the remaining economic useful lives of all property and equipment. Freehold land and capital work in progress are not depreciated.

The economic useful lives of assets, from the date of use, for the current and comparative period are estimated to be as follows:

	Useful life
Building	15-20 years
Furniture, fixtures and leasehold improvements	4-10 years
Office equipment	2-5 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(iii) Impairment

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in the consolidated income statement to the extent that carrying values do not exceed the recoverable amounts.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(h) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at fair value with any change therein recognized in operating income in the consolidated income statement.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

The Group hold investment properties which is discussed in note 12.

(i) Revenue non insurance

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

Rental income

Rental income from investment properties is recognized on a straight-line basis over the term of the lease and is stated net of related expenses.

Interest income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable.

Dividend income

Dividend income is recognized when the right to receive dividend is established. Usually this is the ex-dividend date for equity securities.

Fee and commission income

Fee and commissions received or receivable which do not require the Group to render further services are recognized as revenue by the Group on the effective commencement or renewal dates of the related policies.

Realised and unrealised gain

Net gains/losses on financial assets classified at fair value through profit and loss and fair value through other comprehensive income are described in notes 3(d) and 3(e) respectively.

(j) Foreign currency

Transactions denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the consolidated statement of financial position date. Non monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AED at the foreign exchange rate ruling at the date of the transaction. Realised and unrealised exchange gains and losses have been dealt with in the consolidated income statement.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(k) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. All of the Company's operating lease contracts are renewable.

(l) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

The Group enters into operating leases for their investment properties. Rental income from such operating leases is recognized on a straight-line basis over the term of the relevant lease.

(m) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Staff end of service benefits

UAE Operations:

Defined benefit plan

Provision is made for employee end of service benefits in accordance with the Group's policy, which meets the requirements of the UAE Federal Labour Law applicable to an employee's accumulated period of service at the consolidated statement of financial position date. The provision is based on the liability that would arise if the employment of all the Company's staff were terminated at the reporting date.

An actuarial valuation is not performed on staff end of service benefits and other benefits as the net impact of the discount rate and future salary and benefits level on the present value of the benefits obligation are not expected by management to be significant.

Defined contribution plan

The Group pays its obligations for UAE citizens into a Social Security and UAE Pension Fund in accordance with the UAE Federal Law No. 7 of 1999 for Pension and Social Security.

(o) Directors' remuneration

In accordance with the Ministry of Economy and Commerce interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration has been treated as an appropriation from equity.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(p) Dividend

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

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's management committee to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available in note 26.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these consolidated financial statements:

IFRS-7 (*Amendments to IFRS 7) - Disclosures - Offsetting financial assets and financial liabilities:* Amendment introduces disclosure requirement for financial assets and liabilities that are offset in statement of financial position or are subject to master netting arrangement or similar arrangements. Effective 1 January 2013;

IAS-32 *(Amendments to IAS32 Offsetting financial assets and financial liabilities):* Clarifies the offsetting criteria by explaining when an entity has a legal and enforceable right to set off and when gross settlement is equivalent to net settlement. Effective on or after 1 January 2014;

IFRS-10 *Consolidated Financial Statements:* Replaces the part of IAS 27 Consolidated and separate financial statements and SIC 12 Consolidation - Special purpose entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. Effective 1 January 2013;

IFRS-11 *Joint Arrangements:* Standard on Joint Arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. Effective 1 January 2013

The application of these new standards, interpretations and amendments will not have a material impact on the Group's consolidated financial statements in the period of initial application.

Notes to the consolidated financial statements

4. Risk management

This section summarises the risks faced by the Group and the way the Group manages them.

(a) Introduction and overview

(i) Overall framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of the set financial performance objectives. Management recognises the critical importance of having efficient and effective risk management systems in place.

(ii) Capital management framework

The Group has an internal risk management framework for identifying risks to which each of its business units and the Group as a whole is exposed, quantifying their impact on economic capital. The internal framework estimates indicate how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business.

(iii) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and shareholders and monitor closely to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Group are also subject to regulatory requirements within the UAE. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimise (e.g. unearned premium reserve) the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

(b) Insurance risk

The Group accepts insurance risk through its written insurance contracts. The Group is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Group writes the following types of general insurance contracts:

- Marine hull insurance
- Marine cargo
- Aviation insurance
- Engineering insurance
- Liability insurance
- Property insurance
- Accident insurance
- Group life insurance
- Motor insurance
- Health insurance

Two key elements of the Group's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

Notes to the consolidated financial statements

4. Risk management *(continued)*

(b) Insurance risk *(continued)*

Underwriting strategy

The Group's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome.

The underwriting strategy is set out by the Group that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Group is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. All general insurance contracts except marine, are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Medical selection is part of the Group's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts, including specific risks and guarantees, are tested for profitability according to predefined procedures before approval.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

The Group operates a number of oversight committees that monitor aggregate risk data and take overall risk management decisions.

Reinsurance Strategy

The reinsurance arrangements include excess and catastrophe coverage. The Group reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Group has a Reinsurance department that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy.

The underwriters buy a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Group. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchases of facultative reinsurance are subject to business unit pre-approval and the total expenditure on facultative reinsurance is monitored regularly by reinsurance department.

The estimated loss ratios are analysed below by class of business for the current and previous year:

	Year ended 31 December 2012		Year ended 31 December 2011	
Type of risk	**Gross Loss Ratio**	**Net Loss Ratio**	Gross Loss Ratio	Net Loss Ratio
Marine	**22.97%**	**41.58%**	**3.76%**	**13.83%**
Non-Marine	**66.76%**	**79.85%**	**55.06%**	**77.11%**

Notes to the consolidated financial statements

4. Risk management *(continued)*

(b) Insurance risk *(continued)*

Claim development process

The following schedule reflects the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last five years on an accident year basis:

Marine claims (gross):

	2008 AED'000	2009 AED'000	2010 AED'000	2011 AED'000	2012 AED'000	Total AED'000
At the end of the reporting year	124,192	27,355	17,961	11,972	33,217	**214,697**
One year later	211,780	59,326	45,351	51,931	-	**368,388**
Two years later	207,702	55,914	75,386	-	-	**339,002**
Three years later	187,746	62,746	-	-	-	**250,492**
Four years later	187,716	-	-	-	-	**187,716**
Current estimate of cumulative claims	187,716	62,746	75,386	51,931	33,217	**410,996**
Cumulative payments to date	(201,766)	(59,034)	(36,083)	(28,908)	(1,181)	**(326,972)**
Liability recognized in the consolidated statement of financial position	**(14,050)**	**3,712**	**39,303**	**23,023**	**32,036**	**84,024**

Notes to the consolidated financial statements

4. Risk management *(continued)*

(b) Insurance risk *(continued)*

Claim development process (continued)

Non-Marine claims (gross):

	2008 AED'000	2009 AED'000	2010 AED'000	2011 AED'000	2012 AED'000	Total AED'000
At the end of the reporting year	816,309	233,833	282,089	254,967	291,361	**1,878,559**
One year later	1,030,730	586,469	794,179	926,275	-	**3,337,653**
Two years later	1,048,235	683,970	934,239	-	-	**2,666,444**
Three years later	1,020,735	676,297	-	-	-	**1,697,032**
Four years later	1,007,684	-	-	-	-	**1,007,684**
Current estimate of cumulative claims	1,007,684	676,297	934,239	926,275	291,361	**3,835,856**
Cumulative payments to date	(1,011,816)	(667,246)	(902,185)	(762,835)	(145,346)	**(3,489,428)**
Liability recognized in the consolidated statement of financial position	**(4,132)**	**9,051**	**32,054**	**163,440**	**146,015**	**346,428**

Notes to the consolidated financial statements

4. Risk management *(continued)*

(b) Insurance risk *(continued)*

Sensitivity of underwriting profit and losses

The contribution by the insurance operations to the net profit of the Group stood at 100% for the year ended 31 December 2012 *(2011 – 100%)*. The Group does not foresee any adverse change in the contribution of insurance profit due to the following reasons:

The Group has an overall risk retention level in the region of 57% *(2011 – 55%)* and this is mainly due to low retention levels in Engineering and Fire and Accident lines. However, for other lines of business the Group is adequately covered by excess of loss reinsurance programs to guard against any major financial impact.

The Group has net commission earnings of around 4% *(2011 – 12%)* of the net underwriting income predominantly from the reinsurance placement which remains as a comfortable source of income.

Concentration of insurance risk

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangements with other parties for reinsurance purposes.

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. Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders. The Group remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements.

The concentration of insurance risk as at 31 December 2012 was as follows:

	Marine and aviation		**Non-marine**		**Total Exposure**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
UAE	**185,715,394**	**4,065,169**	**331,858,165**	**60,215,149**	**517,573,559**	**64,280,318**
GCC countries	**12,954,268**	**213,733**	**28,119,407**	**6,599,400**	**41,073,675**	**6,813,133**
Others	**22,765,359**	**179,349**	**134,643,784**	**32,958,886**	**157,409,143**	**33,138,235**
	221,435,021	**4,458,251**	**494,621,356**	**99,773,435**	**716,056,377**	**104,231,686**

Notes to the consolidated financial statements

4. Risk management *(continued)*

(b) Insurance risk *(continued)*

Concentration of insurance risk (continued)

The concentration of insurance risk as at 31 December 2011 was as follows:

	Marine and aviation		Non-marine		Total exposure	
	Gross	Net	Gross	Net	Gross	Net
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
UAE	162,800,387	8,414,729	289,585,729	67,386,941	452,386,116	75,801,670
GCC countries	15,565,319	203,673	18,039,260	3,625,119	33,604,579	3,828,792
Others	23,322,321	106,379	12,303,736	1,829,167	35,626,057	1,935,546
	201,688,027	8,724,781	319,928,725	72,841,227	521,616,752	81,566,008

(c) Financial risk

The group has exposure to the following risk from financial instruments:

(i) Credit risk
(ii) Liquidity risk
(iii) Market risks
(iv) Operational risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Notes to the consolidated financial statements

4. Risk management *(continued)*

(c) Financial risk *(continued)*

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group has been established and policies and procedures are in place to mitigate the Group's exposure to credit risk:

Maximum exposure:

	2012 AED'000	2011 AED'000
Investments at amortized cost	**218,674**	152,499
Reinsurance contract assets	**175,221**	86,741
Trade and other receivables	**789,412**	812,466
Cash and bank	**1,144,765**	1,166,757
Total	**2,328,072**	2,218,463

Compliance with the policy is monitored and exposures and breaches are regularly reviewed for changes in the risk environment.

For all classes of financial assets held by the Group, the maximum credit risk exposure to the Group is the carrying value as disclosed in the consolidated financial statements at the consolidated statement of financial position date.

Reinsurance is placed with reinsurers approved by the management, which are generally international reputed companies.

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.

Management of credit risk

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

The credit risk on liquid funds maintained with banks is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies or reputable local banks closely monitored by the regulatory body.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk for such receivables and liquid funds.

At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment if required.

Notes to the consolidated financial statements

4. Risk management *(continued)*

(c) Financial risk *(continued)*

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities.

Liquidity requirements are monitored on a daily basis and management ensures that sufficient funds are available to meet commitments as they arise.

Management of liquidity risk

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

Details of the Group's financial liabilities are summarised in the table below by the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

		Contractual cash outflows		
	Carrying amount AED'000	**Notional amount AED'000**	**0 to 180 days AED'000**	**181 to 365 days AED'000**
Financial liabilities at 31 December 2012				
Insurance contract liabilities	**430,452**	**(430,452)**	**-**	**(430,452)**
Loan from a financial institution	**20,777**	**(20,777)**	**-**	**(20,777)**
Trade and other payables	**451,558**	**(451,558)**	**(451,558)**	**-**
Total	**902,787**	**(902,787)**	**(451,558)**	**(451,229)**
Financial liabilities at 31 December 2011				
Insurance contract liabilities	262,006	(262,006)	-	(262,006)
Trade and other payables	413,274	(413,274)	(413,274)	-
Total	675,280	(675,280)	(413,274)	(262,006)

Notes to the consolidated financial statements

4. Risk management *(continued)*

(c) Financial risk *(continued)*

(iii) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in local equity and debt markets. In addition, the Group actively monitors the key factors that affect market movements, including analysis of the operational and financial performance of investees.

Management of market risks

The Group is exposed to market price risk with respect to its quoted investments and investment properties.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Group actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

The substantial portion of the Group's assets and liabilities are re-priced within one year. Accordingly, interest rate risk is limited to that extent.

The effective interest rate of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating instrument or an instrument carried at fair value.

Sensitivity analysis

At the consolidated statement of financial position date if the interest rates are 1% (100 basis point) higher/lower and all the other variables were held constant the Group's net profit would have increased/decreased by AED 10,121 thousand *(2011 – AED 11,189 thousand)*.

The Group's interest rate risk is based on contractual arrangements with the carrying amount AED 1,012 thousand *(2011: 1,119 thousand)*.

Notes to the consolidated financial statements

4. Risk management *(continued)*

(c) Financial risk *(continued)*

(iii) Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham.

The Group has considerable exposures denominated in US Dollar, the AED Dirham which is pegged to the US Dollar since November 1980 and accordingly, the Group's exposure to currency risk is limited to that extent.

Equity price risk

Equity price risk arises from the change in fair value of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

Sensitivity analysis

At the consolidated statement of financial position date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant:

For investments held at fair value through profit or loss:

- Net profit would have increased/decreased by AED 2,200 thousand *(2011 – AED 841 thousand)*

For investments held at fair value through other comprehensive income:

- Changes in revaluation reserves of shares would increase/decrease by AED 52,833 thousand *(2011 – AED 41,657 thousand)* as a result of the changes in fair value of quoted shares

(iv) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, human error, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

4. Risk management *(continued)*

(c) Financial risk *(continued)*

(iv) Operational risk (continued)

The Board has oversight responsibilities for operational risk management in the Group. These responsibilities are exercised through Risk Management committee with an established framework of policies and procedures to identify, assess, monitor, control, manage and report risks. The Risk Management Committee employs clear internal policies and procedures to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance. The framework also provides the interrelation with other risk categories.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Audit and Compliance Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(d) Capital risk management

The Group's objectives when managing capital is to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007 concerning Insurance Companies and Agents.

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

The table below summarises the minimum regulatory capital of the Group and the total capital held.

	2012 AED'000	2011 AED'000
Total capital held	**375,000**	375,000
Minimum regulatory capital	**100,000**	100,000

Notes to the consolidated financial statements

5. Use of estimates and judgments

In the process of applying the Group's accounting policies, management has made the following estimates and judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Key sources of estimation uncertainty

The areas of the Group's business containing key sources of estimation uncertainty include the measurement of insurance contract provisions and the determination of the fair values of financial instruments.

Critical accounting judgments in applying the Group's accounting policies

Measurement of insurance contract provisions

The Group's accounting policy in respect of insurance contract accounting is discussed in more detail in note 3(f). The key assumptions made in respect of insurance contract liabilities are included in note 3(f) (viii).

Insurance contract classification

Contracts are classified as insurance contracts where they transfer significant insurance risk from the holder of the contract to the Group. The Group's accounting policy for the classification of insurance is discussed in more detail in note 3(f) (i).

There are a number of contracts sold where the Group exercises judgment about the level of insurance risk transferred. The level of insurance risk is assessed by considering whether there are any scenarios with commercial substance in which the Group is required to pay significant additional benefits. These benefits are those which exceed the amounts payable if no insured event were to occur. These additional amounts include claims liability and assessment costs, but exclude the loss of the ability to charge the holder of the contract for future services.

Provision for outstanding claims, whether reported or not

Considerable judgment by management is required in the estimation of amounts due to the contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the consolidated statement of financial position date and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the consolidated statement of financial position date. The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. The primary technique adopted by the management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims regularly.

Notes to the consolidated financial statements

5. Use of estimates and judgments *(continued)*

Classification of financial instruments

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

(i) In classifying financial assets as "amortized cost", the Group has determined that it meets the criteria for this designation set out in accounting policy 3(b) (iii)

(ii) In designating financial assets at fair value through other comprehensive income, the Group has determined that it has met the criteria for this designation set out in accounting policy 3(b) (iv)

Details of the Group's classification of financial assets and liabilities are given in note 3(b).

Determining fair values

The determination of fair value for financial assets and liabilities is based on quoted market price in an active market under level 1 of fair value hierarchy. The fair value of investment properties is based on accounting policy stated in note 3(h).

Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with any reasonable assurance.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models. In the absence of an active market for these investments or any recent transactions that could provide evidence of the current fair value, these investments are carried at cost less recognized impairment losses, if any. Management believes that the carrying values of these unquoted equity investments are not materially different from their fair values.

Impairment of investments at amortized cost

The Group evaluates impairment on investments at amortized cost on an ongoing basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognized in the consolidated income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgments about counterparty's financial situation and other means of settlement and the net realizable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

Notes to the consolidated financial statements

5. Use of estimates and judgments *(continued)*

Impairment of insurance receivables

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Group evaluating the credit and liquidity position of the policyholders and the insurance and reinsurance companies, historical recovery rates including detailed investigations carried out during 2011 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognized as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognized in the profit or loss at the time of collection. Provision made for the doubtful debts on insurance receivables at 31 December 2012 was AED 89,502 thousand *(2011: AED 54,502 thousand).*

Liability adequacy test

At each consolidated statement of financial position date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Group makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of the liability. Any deficiency is immediately charged to the profit or loss.

Fair value of land held as investment property

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determined the amount within a range of reasonable fair value estimates. In making its judgment, the Group considered recent prices of similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

6. Financial assets and liabilities

Fair value of financial instruments

All financial assets and liabilities are measured at amortized cost except for trading and non-trading investments which are measured at fair value by reference to published price quotations in an active market or from prices quoted by counterparties or through use of valuation techniques such as discounted cash flow method.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- 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 the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Notes to the consolidated financial statements

6. Financial assets and liabilities *(continued)*

Fair value of financial instruments *(continued)*

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The fair values of cash and cash equivalent and statutory deposit which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their book value.

Reconciliation of level 3

Net investments of AED 77.1 million *(2011: AED (5.03) million)* were added/(disposed), respectively, during the year. During the year, a revaluation gain was recorded through other comprehensive income for AED 3.7 million *(2011: loss of AED 8.19 million).*

Fair value hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2012				
Investments at fair value through profit or loss	**11,424**	**-**	**10,581**	**22,005**
Investment at fair value through OCI	**385,356**	**-**	**142,974**	**528,330**
	396,780	**-**	**153,555**	**550,335**
31 December 2011				
Investments at fair value through profit or loss	1,861	-	6,547	8,408
Investment at fair value through OCI	350,391	-	66,179	416,570
	352,252	-	72,726	424,978

Notes to the consolidated financial statements

7. Trade and other receivables

	2012 AED'000	2011 AED'000
Trade receivables	**862,238**	857,140
Less: impairment provision of receivables	**(89,502)**	(54,502)
Net trade receivables	**772,736**	802,638
Interest receivable	**6,105**	4,445
Other receivables	**104,494**	69,971
	883,335	877,054

The average credit period on sale of services is 120 days. No interest is charged on trade and other receivables. Trade receivables are provided for, after considering claims payable to policyholders (debtors are provided for based on the net exposure to the Group).

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Included in the Group's trade receivable balances are debtors amounting to AED 150 million *(2011: AED 227 million)* which are past due at the reporting date for which the Group has not made a provision as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Ageing of trade receivables and due from related parties are as follows:

	2012 AED'000	2011 AED'000
Not past due	**622,337**	575,560
Past due but not impaired		
121 to 365 days	**116,574**	198,372
More than 1 year but less than 2 years	**31,830**	23,948
More than 2 years but less than 3 years	**358**	1,156
More than 3 years	**1,637**	3,602
	150,399	227,078
Past due and impaired		
0 to 120 days	**-**	449
121 to 365 days	**371**	1,116
More than 1 year but less than 2 years	**11,581**	4,123
More than 2 years but less than 3 years	**29,708**	3,371
More than 3 years	**47,842**	45,443
	89,502	54,502
Total due	**862,238**	857,140

Notes to the consolidated financial statements

7. Trade and other receivables *(continued)*

The Group does not have any past history of significant defaults of balances due from related parties and other receivables since the majority of the counterparties are parties owned by the shareholders.

Movement in the allowance for doubtful debts:

	2012 AED'000	2011 AED'000
Balance at the beginning of the year	54,502	39,837
Impairment losses recognized	35,000	14,665
Balance at the end of the year	89,502	54,502

8. Insurance contract liabilities and reinsurance contract assets

	2012 AED'000	2011 AED'000
Insurance contract liabilities		
Outstanding claims	359,593	220,644
Claims incurred but not reported	70,859	41,362
Unearned premiums	1,050,928	937,494
	1,481,380	1,199,500
Reinsurance contract assets		
Outstanding claims	175,221	86,741
Claims incurred but not reported	19,285	14,549
Unearned premiums	469,817	455,487
	664,323	556,777
Insurance liabilities - net		
Outstanding claims	184,372	133,903
Claims incurred but not reported	51,574	26,813
Unearned premiums	581,111	482,007
	817,057	642,723

Notes to the consolidated financial statements

8. Insurance contract liabilities and reinsurance contract assets *(continued)*

Movement in the insurance contract liabilities and reinsurance contract assets during the year was as follows:

	31 December 2012			31 December 2011		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Outstanding claims	220,644	86,741	133,903	330,434	218,678	111,756
Incurred but not reported	41,362	14,549	26,813	50,106	25,953	24,153
Total at 1 January	262,006	101,290	160,716	380,540	244,631	135,909
Claims settled	(1,086,726)	(225,972)	(860,754)	(914,845)	(246,960)	(667,885)
Increase in liabilities	1,255,172	319,188	935,984	796,311	103,619	692,692
Total at 31 December	430,452	194,506	235,946	262,006	101,290	160,716
Outstanding claims	359,593	175,221	184,372	220,644	86,741	133,903
Incurred but not reported	70,859	19,285	51,574	41,362	14,549	26,813
Total at 31 December	430,452	194,506	235,946	262,006	101,290	160,716
Unearned premium						
Total at 1 January	937,494	455,487	482,007	717,820	424,851	292,969
Increase during the year	1,050,928	469,817	581,111	937,494	455,487	482,007
Release during the year	(937,494)	(455,487)	(482,007)	(717,820)	(424,851)	(292,969)
Net increase during the year	113,434	14,330	99,104	219,674	30,636	189,038
Total at 31 December	1,050,928	469,817	581,111	937,494	455,487	482,007

9. Statutory deposit

In accordance with the requirements of Federal Law No. 6 of 2007 (as amended), covering insurance companies and agencies, the Group maintains a bank deposit of AED 10,000,000 *(2011 - AED 10,000,000)* which cannot be utilized without the consent of the UAE Ministry of Economy and Commerce.

Notes to the consolidated financial statements

10. Investment in joint venture

	2012 AED'000	2011 AED'000
Cost of investment	**2,204**	2,204
Disposal of investment in joint venture	**(2,204)**	-
Balance as at 31 December	**-**	2,204

11. Investments

	2012 AED'000	2011 AED'000
Investments at fair value through other comprehensive income	**528,331**	416,570
Investments at amortized cost	**218,674**	152,499
Investment at fair value through profit or loss	**22,004**	8,408
Investments at 31 December	**769,009**	577,477

	2012 AED'000	2011 AED'000
Investments at fair value through other comprehensive income		
Fair value at 1 January	**416,570**	454,095
Additions during the year	**331,577**	85,108
Disposals during the year	**(288,002)**	(75,026)
Net decrease in fair value	**68,186**	(47,607)
Fair value at 31 December	**528,331**	416,570

Notes to the consolidated financial statements

11. Investments *(continued)*

	2012 AED'000	2011 AED'000
Investment at amortized cost		
Opening balance at 1 January	**152,499**	105,282
Additions during the year	**72,858**	123,976
Disposals during the year	**(4,150)**	(77,385)
Net amortization income	**(2,533)**	626
Closing balance as at 31 December	**218,674**	152,499

	2012 AED'000	2011 AED'000
Investments at fair value through profit and loss		
Fair value at 1 January	**8,408**	32,139
Additions during the year	**13,438**	7,284
Disposals during the year	**(879)**	(27,175)
Net increase/(decrease) in fair value	**1,037**	(3,840)
Fair value as at 31 December	**22,004**	8,408

Notes to the consolidated financial statements

12. Investment properties

	Abu Dhabi Head Office Land and Building(i) AED'000	Al Ain Land and Building(ii) AED'000	Sharjah Land and Building(iii) AED'000	Al Raha Beach Land and Building(iv) AED'000	Total AED'000
At 1 January 2011	175,000	11,000	32,000	175,500	393,500
Property under development	-	-	-	62,193	62,193
Increase/(decrease) in fair value during the year	5,000	-	(2,000)	(15,500)	(12,500)
Transfer to property and equipment	(21,600)	-	-	-	(21,600)
At 1 January 2012	**158,400**	**11,000**	**30,000**	**222,193**	**421,593**
Property under development	**-**	**-**	**-**	**167,705**	**167,705**
At 31 December 2012	**158,400**	**11,000**	**30,000**	**389,898**	**589,298**
Fair value at 31 December 2011	158,400	11,000	30,000	222,193	421,593

(i) Abu Dhabi Head Office Land and Building

The construction of this building which comprises 14 floors was completed in 1980. The fair value of the property is based on an open market valuation carried out by an independent valuer.

(ii) Al Ain Land and Building

The construction of this 6-story building was completed in 2003. The entire building is available for letting to third parties. The fair value of the property is based on the open market valuation carried out by an independent valuer.

(iii) Sharjah Land and Building

This 16-story building was purchased during 1993. The entire building is available for letting to third parties. The fair value of the property is based on the open market valuation carried out by an independent valuer.

(iv) Al Raha Beach Land and Building

In 2007, the Group purchased 2 plots of land at Al Raha Beach in Abu Dhabi City. The fair value of the property is based on the open market valuation carried out by an independent valuer. Additions during the year represent construction cost at Al Raha Beach Land.

All investment properties are located in the United Arab Emirates.

Notes to the consolidated financial statements

13. Property and equipment

Property and equipment consist of the Group's building, furniture and fixtures, office equipment, motor vehicles and capital work in progress. Cost and accumulated depreciation accounts are aggregated as follows:

	Building AED'000	Furniture, fixtures and leasehold improvements AED'000	Office equipment AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 1 January 2011	2,495	34,231	8,859	595	1,880	48,060
Additions	-	3,401	4,598	-	9,266	17,265
Disposals	-	(279)	(425)	(7)	-	(711)
Transfers from investment properties	21,600	-	-		-	21,600
At 31 December 2011	**24,095**	**37,353**	**13,032**	**588**	**11,146**	**86,214**
At 1 January 2012	24,095	37,353	13,032	588	11,146	86,214
Additions	-	5,319	3,189	7	12,430	20,945
Disposals	-	(1,262)	-	(379)	-	(1,641)
Transfers during the period	-	(2,130)	2,130	-	-	-
At 31 December 2012	**24,095**	**39,280**	**18,351**	**216**	**23,576**	**105,518**

Notes to the consolidated financial statements

13. Property and equipment *(continued)*

	Building AED'000	Furniture, fixtures and leasehold improvements AED'000	Office equipment AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Depreciation						
At 1 January 2011	333	6,420	4,048	529	-	11,330
Charge for the year	166	5,429	2,146	16	-	7,757
Disposal	-	(226)	(415)	(2)	-	(643)
At 31 December 2011	**499**	**11,623**	**5,779**	**543**	**-**	**18,444**
At 1 January 2012	499	11,623	5,779	543	-	18,444
Charge for the year	1,246	5,878	3,122	17	-	10,263
Disposal for the period	-	(1,183)	-	(378)	-	(1,561)
Transfers during the period	-	(764)	764	-		-
At 31 December 2012	**1,745**	**15,554**	**9,665**	**182**	**-**	**27,146**
Carrying amounts						
At 1 January 2011	2,162	27,811	4,811	66	1,880	36,730
At 31 December 2011	23,596	25,730	7,253	45	11,146	67,770
At 31 December 2012	**22,350**	**23,726**	**8,686**	**34**	**23,576**	**78,372**

Notes to the consolidated financial statements

14. Share capital

	2012 AED'000	2011 AED'000
Authorized:		
375,000,000 ordinary shares of AED 1 each		
(*2011* – 375,000,000 ordinary shares of AED 1 each)	**375,000**	375,000
Issued and fully paid:		
375,000,000 ordinary shares of AED 1 each		
(*2011* – 375,000,000 ordinary shares of AED 1 each)	**375,000**	375,000

15. Legal reserve

In accordance with the UAE Federal Law number (8) of 1984 (as amended) concerning Commercial Companies and the Group's Articles of Association, 10% of net profit is to be transferred to a non-distributable legal reserve until the balance of the legal reserve equals 50% of the Group's paid up share capital. This reserve is not available for dividend distribution. Since the Group reached the 50% limit, no transfer has been made during this year.

16. General reserve

Transfers to and from the general reserve are made at the discretion of the Board of Directors and the approval of the General Assembly. This reserve may be used for such purposes as the Directors deem fit.

17. Retained earnings

The Board of Directors propose, subject to the approval of the Annual Ordinary General Assembly, a cash dividend in respect of the year 2012 of AED 0.35 per share at 35% of par value *(2011 of AED 0.35 per share at 35% of par value).*

18. Provision for staff end of service benefits

	2012 AED'000	2011 AED'000
Balance at the beginning of the year	**29,481**	26,778
Charge for the year	**3,628**	3,726
Paid during the year	**(5,564)**	(1,023)
Balance at the end of the year	**27,545**	29,481

Notes to the consolidated financial statements

19. Trade and other payables

	2012 AED'000	2011 AED'000
Trade accounts payable	**413,366**	374,521
Accrued expenses	**72,647**	14,257
Deferred income	**2,641**	3,066
Other accounts payable	**21,263**	24,496
	509,917	416,340

20. Loans from a financial institution

	2012 AED'000	2011 AED'000
Loan from a financial institution	**20,777**	-

The loan carries an interest rate of 1.47 % to 1.60% per annum.

21. Net investment and other income

	2012 AED'000	2011 AED'000
Decrease in fair value of investment properties	**-**	(12,500)
Dividend income	**19,845**	12,598
Net rental income	**10,309**	10,169
Net interest income on bank deposits and bonds	**46,170**	50,007
Unrealised gain/(loss) on revaluation of investment at fair value through profit and loss account	**1,037**	(3,840)
Realised loss on disposal of investment at fair value through profit and loss account	**-**	(112)
Other income	**3,694**	1,246
	81,055	57,568

Notes to the consolidated financial statements

22. General and administrative expenses

	2012 AED'000	2011 AED'000
Salaries and other benefits	**140,888**	120,739
Impairment of receivables	**35,000**	14,665
Depreciation charge	**10,263**	7,757
Advertisement	**7,159**	6,776
Rent	**4,920**	7,629
Communication and office supplies	**5,412**	4,291
Others	**11,871**	12,348
	215,513	174,205

23. Basic and diluted earnings per ordinary share

Earnings per ordinary share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2012 AED'000	2011 AED'000
Net profit for the year	**144,740**	158,157
Ordinary shares in issue throughout the year	**375,000**	375,000
Basic and diluted earnings per share (AED)	**0.39**	0.42

The Group has not issued any instrument which would have an impact on earnings per share when exercised.

Notes to the consolidated financial statements

24. Related parties

Identity of related parties

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

Balances

Balances with related parties at the reporting date are shown below:

	Directors and key management 31 December 2012 AED'000	Major shareholder 31 December 2012 AED'000	Others 31 December 2012 AED'000	Total 31 December 2012 AED'000	Total 31 December 2011 AED'000
Trade and other receivables	720	36	44,794	45,550	45,919
Trade and other payables	50	173	890	1,113	3,077
Cash and bank balances	-	-	452,613	452,613	586,733
Investments	-	-	45,714	45,714	51,514
Investment in joint venture	-	-	-	-	2,204
Statutory deposits	-	-	10,000	10,000	10,000
Insurance contract liabilities	290	1,604	40,423	42,317	55,273

Others comprise companies controlled by the directors and other key management personnel.

Notes to the consolidated financial statements

24. Related parties *(continued)*

Transactions

Transactions carried out during the reporting period with related parties are shown below:

	Directors and key management 2012 AED'000	Major shareholder 2012 AED'000	Others 2012 AED'000	Total 2012 AED'000	Total 2011 AED'000
Premium written	645	3,339	109,740	113,724	139,481
Claims incurred	303	2,776	64,979	68,058	40,770
Dividend income	-	-	2,233	2,233	1,223
Interest income	-	-	21,524	21,524	26,876

No allowances for impairment have been recognized against trade and other receivables extended to related parties or contingent liabilities issued in favor of related parties during the year 2012 *(year ended 31 December 2011: AED nil).*

Transactions with key management personnel

Key management compensation is as shown below:

	31 December 2012 AED'000	31 December 2011 AED'000
Salaries and short term benefits	20,669	18,227
Staff end of service benefits	2,840	539
Directors remuneration	5,800	6,400
	29,309	25,166

Notes to the consolidated financial statements

25. Cash and cash equivalents

Cash and cash equivalents at the end of the year as shown in the consolidated cash flow statement can be reconciled to the related items in the consolidated statement of financial position as follows:

	2012 AED'000	2011 AED'000
Cash in hand	**91**	72
Statutory Deposit	**10,000**	10,000
Cash/call/current accounts at local UAE banks	**1,134,765**	1,156,685
	1,144,856	1,166,757
Less: Deposits with original maturities of greater than three months	**(879,990)**	(986,821)
Cash and cash equivalents	**264,866**	179,936

Fixed deposits and call accounts with banks carry interest rates of 0.1% - 3.25% *(2011: 1.6% - 4%)* per annum.

26. Segment information

The Group is organized into two main business segments:

Underwriting of marine insurance business – incorporating all classes of general insurance including marine cargo hull and aviation.

Underwriting of non-marine insurance business – incorporating all classes of insurance including fire, engineering, general accident, motor and medical.

Notes to the consolidated financial statements

26. Segment information *(continued)*

Assets and liabilities of the Group are commonly used across the segments. There were no transactions between the segments.

	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000
	Marine		Non-Marine		Total	
Gross written premium	**502,467**	455,081	**1,796,720**	1,610,760	**2,299,187**	2,065,841
Less: Reinsurance premium ceded	**(402,062)**	(382,478)	**(583,985)**	(550,621)	**(986,047)**	(933,099)
Net written premium	**100,405**	72,603	**1,212,735**	1,060,139	**1,313,140**	1,132,742
Net change in unearned premium reserves	**(13,077)**	(17,318)	**(86,027)**	(171,720)	**(99,104)**	(189,038)
Net premium earned	**87,328**	55,285	**1,126,708**	888,419	**1,214,036**	943,704
Gross claims paid	**(57,813)**	(43,183)	**(1,028,913)**	(871,662)	**(1,086,726)**	(914,845)
Less: Reinsurance share of claims paid	**41,139**	29,137	**184,833**	217,823	**225,972**	246,960
Net claims paid	**(16,674)**	(14,046)	**(844,080)**	(653,839)	**(860,754)**	(667,885)
Net change in Outstanding claims and IBNR	**(19,639)**	6,400	**(55,591)**	(31,207)	**(75,230)**	(24,807)
Net claims incurred	**(36,313)**	(7,646)	**(899,671)**	(685,046)	**(935,984)**	(692,692)
Gross commission income	**38,739**	28,341	**64,318**	69,525	**103,057**	97,866
Less: Commission expenses incurred	**(13,584)**	(7,614)	**(79,043)**	(58,421)	**(92,627)**	(66,035)
Net commissions income	**25,155**	20,727	**(14,725)**	11,104	**10,430**	31,831
Other underwriting income	**3,728**	2,896	**12,071**	8,728	**15,799**	11,624
Less: Other underwriting expenses	**(5,035)**	(3,502)	**(20,048)**	(16,171)	**(25,083)**	(19,673)
Net Other underwriting income	**(1,307)**	(606)	**(7,977)**	(7,443)	**(9,284)**	(8,049)
Net underwriting income	**74,863**	67,760	**204,335**	207,034	**279,198**	274,794
Net investment and other income					**81,055**	57,568
General and administrative expenses					**(215,513)**	(174,205)
Net profit for the year					**144,740**	158,157

Notes to the consolidated financial statements

27. Contingent liabilities and commitments

	2012 AED'000	2011 AED'000
Bank guarantees	**72,160**	64,641
Letters of credit	**41**	41

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

28. Comparative figures

Certain comparative figures have been reclassified to confirm the presentation for the current year consolidated financial statements. Such reclassification neither has any impact on the income and expenses nor on the assets and liabilities for the previous year.

Abu Dhabi National Insurance Company (ADNIC)

Locations

Head Office
ADNIC Corporate Headquarters
P.O. Box: 839 – Abu Dhabi
Tel: 02 4080100
Fax: 02 4080604
Toll Free: 8008040
Email: adnic@adnic.ae
Website: www.adnic.ae

Regional Branch - Abu Dhabi & Western Region
Al Zubara Tower, Ground Floor, Al Salam Street
P.O.Box: 3275 – Abu Dhabi
Tel: 02 4080400
Fax: 02 4080699

Al Ain Branch
H.E. Khalaf Bin Ahmad Al-Otaibah Building
Sheikh Zayed Street (Main Street)
P.O. Box: 1407 – Al Ain
Tel: 03 7641834
Fax: 03 7663147

Dubai Branches
Deira Branch
Al Muraikhi Tower, Al Maktoum Street
P.O. Box: 11236 – Deira
Tel: 04 2222223
Fax: 04 2235672

Sheikh Zayed Road Branch
P.O. Box: 118658
Tel: 04 5154800
Fax: 04 3306751

Sharjah Branches
Sarah Shopping Centre, Al Borj Street
P.O. Box: 3674 – Sharjah
Tel: 06 5683743
Fax: 06 5682713

Satellite Offices

Abu Dhabi Office
Abu Dhabi Traffic Police – Vehicle Test Section
Tel: 02 4448611
Fax: 02 4447872

Mussafah Office
No. M42, Mussafah Industrial Area
Heavy Vehicle Registration Office, Abu Dhabi Traffic Department
Tel: 02 5511382
Fax: 02 5511382

Samha Traffic Office
Samha ADNOC Station
Tel: 02 5620162
Fax: 02 5620162

Madinat Zayed Office
Abu Dhabi Traffic Police – Heavy Vehicle Registration Office
Tel: 02 8841577
Fax: 02 8841577

Ruwais Office
Ruwais City – Main ADNOC Station
Tel: 02 8772123
Fax: 02 8772123

Al Ain Office
Al Ain Traffic Police Department – Zakher
Tel: 03 7828666
Fax: 03 7663147

Mizyad Office
Abu Dhabi Traffic Police Department – Vehicle Test Section
Tel: 03 7824250
Fax: 03 7663147

Ghuwaifat Border Office
Tel: 02 8723080
Fax: 02 8723080

Khalifa City Office
C9, Ground Floor, Etihad Plaza Complex
Tel: 02 4080547/02 5568048
Fax: 02 5567697