

**AL KHAZNA INSURANCE
COMPANY P.S.C.**

**Reports and interim financial information
for the three month period ended
31 March 2015**

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**Report of the Board of Directors
for the three month period ended 31 March 2015**


The Board of Directors of Al Khazna Insurance Company P.S.C. is pleased to submit its first quarterly report of 2015 together with the interim financial information for the three month period ended 31 March 2015.

During the period, the Group managed to increase its share in the medical business and underwrite new business, which contributed to increasing the gross written premiums for the three months ended 31 March 2015.

Moreover during the quarter, the Group recognized a gain on investments resulting from the increase in share prices of certain listed investments.

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

- Gross Premium written increased from AED 21.2 Million for the three months period ended 31 March 2014 to AED 27.5 Million for the three months period ended 31 March 2015.
- The underwriting surplus was AED 4.3 Million for the three months period ended 31 March 2015 as compared to AED 4.6 Million for the three months period ended 31 March 2014.
- The net investment results for the period registered a gain of AED 2.5 Million for the three months period ended 31 March 2015 against AED 1.8 million in the three months period ended 31 March 2014.
- The net loss for the three months period ended 31 March 2015 is AED 4.9 million against net loss of AED 4.0 Million for the three months period ended 31 March 2014.
- The total assets of the Group were AED 871.1 million as at 31 March 2015 against AED 878.8 million as at 31 December 2014 and AED 890.7 million as at 31 March 2014.
- The total capital and reserve attributable to the Company's equity holders is AED 412.5 million as at 31 March 2015 against AED 417.8 million as at 31 December 2014 and AED 474.9 million as at 31 March 2014.



Director
12 May 2015

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Al Khazna Insurance Company P.S.C. (the “Company”) and its subsidiaries (the “Group”) as at 31 March 2015 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows and explanatory information for the three month period then ended (together, the “interim financial information”). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard (IAS) 34, “*Interim Financial Reporting*.” Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Basis for qualified conclusion

As disclosed in note 8, Insurance and other receivables include a balance of prepaid rent of AED 8.3 million (31 December 2014: AED 9.4 million) relating to a leased building which management intends to use for a university project. The future economic benefits from the leased property will flow to the Group only if the university project materializes. At the date of this report, the project status and documentation in place do not provide sufficient evidence that future economic benefits will probably flow to the Group. Accordingly, we were unable to satisfy ourselves that the prepaid rent reflected in the accompanying condensed consolidated statement of financial position is fairly stated.

Qualified conclusion

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



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION (continued)

Emphasis of matter

Without qualifying our conclusion, we draw attention to the fact, as explained in Note 14, that the Group has been granted a bank facility which currently has a carrying amount of AED 211.7 million, for which the Group is disputing the interest charged by the bank since 2009. The dispute arose when the bank changed the interest charged on the facility to a rate higher than that stated in the loan agreement. The excess interest charged up to 31 March 2015 is approximately AED 18.9 million. This has not been recorded by the Group as a finance cost. The Group is currently in negotiations with the bank to adjust the interest being charged on the bank loan; however no formal consent has been obtained from the bank. Thus, the final outcome of the matter cannot presently be determined.

Deloitte & Touche (M.E.)

Georges F. Najem
Registration No. 809
12 May 2015



**Condensed consolidated statement of financial position
as at 31 March 2015**

	Notes	31 March 2015 (unaudited) AED	31 December 2014 (audited) AED
ASSETS			
Property and equipment		7,035,513	7,068,202
Investment properties	4	333,124,000	333,124,000
Investments in securities			
- Available-for-sale (AFS) investments	5	84,161,853	84,530,976
- Investments designated at fair value through profit or loss (FVTPL)	5	216,618,481	215,827,431
Statutory deposit	6	10,000,000	10,000,000
Re-insurance contract assets	7	87,873,315	99,488,168
Insurance and other receivables	8	98,477,191	93,711,043
Prepayments		1,233,200	1,259,743
Deferred acquisition costs		2,075,950	1,912,644
Term deposits		1,774,848	1,774,848
Bank and cash	9	28,726,544	30,123,360
Total assets		871,100,895	878,820,415
EQUITY AND LIABILITIES			
Equity			
Share capital	10	420,000,000	420,000,000
Share premium		1,788,422	1,788,422
Legal reserve	11	62,145,349	62,145,349
Regulatory reserve	12	60,103,225	60,103,225
Fair value reserve		39,116,062	39,485,185
Revaluation reserve		11,736,841	11,736,841
Accumulated losses		(182,400,354)	(177,439,767)
Total equity		412,489,545	417,819,255
LIABILITIES			
Provision for employees' end of service benefit		4,487,733	4,389,215
Insurance contract liabilities	7	149,877,055	158,802,151
Insurance and other payables	13	77,072,894	80,294,537
Bank borrowings	14	211,970,319	207,926,622
Re-insurance deposit retained		3,102,823	3,422,608
Unearned reinsurance commission		1,996,245	2,617,868
Deferred income		10,104,281	3,548,159
Total liabilities		458,611,350	461,001,160
Total equity and liabilities		871,100,895	878,820,415



Director



(12/5/2015)
Managing Director



Chief Financial Officer

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

**Condensed consolidated statement of profit or loss (unaudited)
for the three month period ended 31 March 2015**

	Notes	3 month period ended 31 March	
		2015 AED	2014 AED
Gross premiums written		27,524,686	21,179,238
Change in unearned premium provision		5,739,201	3,546,164
Premium income earned		33,263,887	24,725,402
Reinsurance premiums ceded		(6,263,740)	(8,530,594)
Change in unearned premium provision		(9,245,561)	(6,719,137)
Re-insurance ceded		(15,509,301)	(15,249,731)
Net earned premiums		17,754,586	9,475,671
Gross claims incurred		(18,153,515)	(16,114,903)
Reinsurance share of claims incurred		3,927,056	10,030,225
Net claims incurred		(14,226,459)	(6,084,678)
Commission expenses - net		(721,128)	(419,256)
Commission income		1,510,742	1,594,097
Operating expenses		(6,644,904)	(6,078,689)
Net underwriting loss		(2,327,163)	(1,512,855)
Net investment income	15	3,361,575	2,782,208
Other expenses		(1,180,214)	(1,195,055)
Finance costs		(5,118,501)	(4,294,886)
Other income		303,716	201,589
Loss for the period	17	(4,960,587)	(4,018,999)
Basic and diluted loss per share	18	(0.012)	(0.009)

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

**Condensed consolidated statement of comprehensive income (unaudited)
for the three month period ended 31 March 2015**

	Note	3 month period ended 31 March	
		2015 AED	2014 AED
Loss for the period		(4,960,587)	(4,018,999)
Other comprehensive income:			
<i>Items that will be reclassified subsequently to profit or loss</i>			
Net fair value (loss)/gain on AFS investments	5	(369,123)	262,482
Other comprehensive income for the period		(369,123)	262,482
Total comprehensive loss for the period		(5,329,710)	(3,756,517)

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

AL KHAZNA INSURANCE COMPANY P.S.C.

**Condensed consolidated statement of changes in equity
for the three month period ended 31 March 2015**

	Share capital AED	Share premium AED	Legal reserve AED	Regulatory reserve AED	Fair value and Revaluation reserves AED	Retained earnings/ (accumulated losses) AED	Total equity AED
Balance at 1 January 2014 (audited)	420,000,000	1,788,422	62,145,349	60,103,225	43,596,259	(108,997,170)	478,636,085
Loss for the period	-	-	-	-	-	(4,018,999)	(4,018,999)
Other comprehensive income	-	-	-	-	262,482	-	262,482
Total comprehensive income/(loss)	-	-	-	-	262,482	(4,018,999)	(3,756,517)
Balance at 31 March 2014 (unaudited)	420,000,000	1,788,422	62,145,349	60,103,225	43,858,741	(113,016,169)	474,879,568
Balance at 1 January 2015 (audited)	420,000,000	1,788,422	62,145,349	60,103,225	51,222,026	(177,439,767)	417,819,255
Loss for the period	-	-	-	-	-	(4,960,587)	(4,960,587)
Other comprehensive loss	-	-	-	-	(369,123)	-	(369,123)
Total comprehensive loss	-	-	-	-	(369,123)	(4,960,587)	(5,329,710)
Balance at 31 March 2015 (unaudited)	420,000,000	1,788,422	62,145,349	60,103,225	50,852,903	(182,400,354)	412,489,545

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

**Condensed consolidated statement of cash flows (unaudited)
for the three month period ended 31 March 2015**

	Notes	3 month period ended 31 March	
		2015 AED	2014 AED
Cash flows from operating activities			
Loss for the period		(4,960,587)	(4,018,999)
Adjustments for:			
Depreciation of property and equipment	17	192,834	195,255
Net fair value gain on investments at FVTPL	15	(791,050)	(571,340)
Dividends from investments in securities	15	(1,168,179)	(853,600)
Interest income	15	(6,782)	(9,565)
Interest expense		5,118,501	4,294,886
Gain on disposal of property and equipment		-	(28,091)
Write off of provision for impairment of receivables		(460,228)	-
Provision for employees' end of service benefit		184,631	152,228
Cash flow used in operating activities before movement in working capital			
		(1,890,860)	(839,226)
Net movement in deferred acquisition costs		(163,306)	38,741
Net movement in reinsurance contract assets		11,614,853	(3,540,408)
Net movement in insurance contract liabilities		(8,925,096)	7,313,128
Net movement in unearned reinsurance commissions		(621,623)	(524,462)
Increase in insurance and other receivables		(4,299,567)	(9,245,096)
Decrease/(increase) in prepayments		26,543	(262,950)
(Decrease)/increase in insurance and other payables		(4,296,447)	957,628
Decrease in reinsurance deposit retained		(319,785)	(361,890)
Increase in accruals and deferred income		6,556,122	392,659
Cash flows used in operating activities			
		(2,319,166)	(6,071,876)
Employees' end of service benefits paid		(86,113)	(168,903)
Net cash used in operating activities			
		(2,405,279)	(6,240,779)
Cash flows from investing activities			
Payments to acquire property and equipment		(175,649)	(72,935)
Proceeds from sale of property and equipment		15,504	41,200
Dividends received		1,168,179	853,600
Interest income received		429	442
Net cash generated from investing activities			
		1,008,463	822,307
Net decrease in cash and cash equivalents			
		(1,396,816)	(5,418,472)
Cash and cash equivalents at beginning of the period		30,123,360	30,178,380
Cash and cash equivalents at end of the period	19	28,726,544	24,759,908

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

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2015

1 General

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

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

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

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

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

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 7 <i>Financial Instruments</i> : Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 <i>Financial Instruments</i> : Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 9 <i>Financial Instruments</i> (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 <i>Financial Instruments</i> (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 <i>Financial Instruments: Recognition and Measurement</i> .	1 January 2018
IFRS 9 <i>Financial Instruments</i> (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9.	

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

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

New and revised IFRSs

**Effective for
annual periods
beginning on or after**

Finalised version of IFRS 9 (IFRS 9 *Financial Instruments* (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.

IFRS 9 (2009) and IFRS 9 (2010) were superseded by IFRS 9 (2013) and IFRS 9 (2010) also superseded IFRS 9 (2009). IFRS 9 (2014) supersedes all previous versions of the standard. The various standards also permit various transitional options. Accordingly, entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (1) the classification and measurement requirements for financial assets; (2) the classification and measurement requirements for both financial assets and financial liabilities; (3) the classification and measurement requirements and the hedge accounting requirements provided that the relevant date of the initial application is before 1 February 2015.

IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2017
Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.	1 January 2016
Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortization.	1 January 2016
Amendments to IFRS 11 to clarify accounting for acquisitions of <i>Interests in Joint Operations</i> .	1 January 2016
Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16.	1 January 2016
Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business.	1 January 2016
Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements.	1 January 2016

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities.	1 January 2016
Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.	1 January 2016

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2015 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the financial statements of the Group in the period of initial application.

Management anticipates that IFRS 9 will be adopted in the Group's financial statements for the annual period beginning 1 January 2018. The application of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's financial statements in respect of financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of this standard until the Group performs a detailed review.

3 Summary of significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

The condensed consolidated financial statements are presented in UAE Dirhams (AED) which is the Group's functional and presentation currency.

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

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

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)****3 Summary of significant accounting policies (continued)****3.2 Basis of preparation (continued)**

The accounting policies and estimates used in the preparation of these condensed consolidated financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective 1 January 2015.

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

- Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.
- Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.
- Amendments to IAS 19 *Employee Benefits* clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

These condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended 31 December 2014. In addition, results for the three months ended 31 March 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

Estimates

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

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies, and the key sources of estimates uncertainty were the same as those were applied to the consolidated financial statements as at and for the year ended 31 December 2014.

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation

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

Name of subsidiary	Proportion of ownership		Country of incorporation	Principal activities
	2015	2014		
The Best Tenants LLC ***	99%	99%	UAE	To market, promote and deliver property management and advisory services.
Real Estate Academy Est. (Al Akarya Academy) **	100%	100%	UAE	To market, promote and delivery management and advisory services in respect of real estate.
Al Khazna Real Estate Est. *	100%	100%	UAE	To market, promote and deliver management and advisory services in respect of real estate.
Modern Academy Administrative Training LLC *	100%	100%	UAE	To provide business management training.
IT Academy LLC *	100%	100%	UAE	To provide business management training.
Real Estate Academy for Training LLC *	100%	100%	UAE	To provide business management training.
Academy of Tourism and Holidays LLC *	100%	100%	UAE	To provide training in the field of travel, tourism and hotel management.
First Deal Real Estate LLC ***	100%	100%	UAE	To manage investments in real estate.
Academy for Investment Est. *	100%	100%	UAE	To manage investments in real estate.
Under Writing Electronics Solutions Est. *	100%	100%	UAE	Data formatting, computer system and instruments filling services.
Tadawel Electronics Solutions Est. *	100%	100%	UAE	Software consultancy, storing and retrieving data.
Tel Fast Recruitment Agencies LLC *	99%	99%	UAE	Employment services – recruitment
Tel Fast Manpower Supply LLC *	99%	99%	UAE	Labourers supply services.

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

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

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

The ownership is held by the Company and its subsidiaries.

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

3 Summary of significant accounting policies (continued)

3.4 Investments in securities

3.4.1 Investments carried at fair value through profit or loss (FVTPL)

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

A financial asset is classified as held for trading if:

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

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

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

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

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

3.4.2 Available for sale (AFS) investments

Investments not classified as "FVTPL", loans and receivables, and held-to-maturity investments are classified as AFS investments and are initially measured at trade date value, plus directly attributable transaction costs.

After initial recognition, AFS investments are remeasured at fair value, based on quoted market prices at the end of reporting period.

Unrealised gains and losses on remeasurement to fair value on AFS investments are recognised directly in equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gains or losses previously reported in equity are included in profit or loss.

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)****3 Summary of significant accounting policies (continued)****3.4 Investments in securities (continued)****3.4.2 Available for sale (AFS) investments (continued)**

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

3.5 Investment properties

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

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

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

4 Investment properties

Investment properties represent the fair value of plots of land with a total value of AED 160.3 million (31 December 2014: AED 160.3 million), and buildings with a fair value of AED 172.9 million (31 December 2014: AED 172.9 million) owned by the Group in Abu Dhabi, Al Ain and Mussaffah.

The fair value of the investment properties as of 31 December 2014 has been arrived at on the basis of valuations carried out by M/s Colliers International P.O. Box 71591, Dubai, United Arab Emirates, independent valuers not related to the Group.

The fair values of plots of land were arrived at by reference to market comparable approach, whereas for buildings the fair value was arrived at by combination of market comparable approach and income capitalisation approach. In estimating the fair value of the properties, the highest and best use of the property is considered as their current use. The inputs used in the valuation are not based on observable market data and thus the valuation techniques were considered to be Level 3 valuation.

Management believes that there is no major change in the key assumptions used in the valuations performed as at 31 December 2014 accordingly there is no change in the fair value of the investment properties as at 31 March 2015 compared to 31 December 2014.

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

4 Investment properties (continued)

A building with a carrying value of AED 149 million (31 December 2014: AED 149 million) is mortgaged in favour of First Gulf Bank against the bank loan (note 14).

Included within investment property are two plots of land with a carrying value of AED 89.3 million (2014: AED 89.3 million) whose title was not transferred to the name of the Group, pending the settlement of the last installment. Also included within investment property is a plot of land valued at AED 10.8 million (2014: AED 10.8 million) whose transfer of title is currently being processed.

All investment properties are located in the United Arab Emirates.

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

	3 month period ended 31 March	
	2015 (unaudited) AED	2014 (unaudited) AED
Rental income	1,953,801	1,650,356
Direct operating expenses	(297,155)	(183,133)
	<hr/>	<hr/>
Net income from investment properties (note 15)	1,656,646	1,467,223
	<hr/> <hr/>	<hr/> <hr/>

5 Investments in securities

	31 March	31 December
	2015 (unaudited) AED	2014 (audited) AED
AFS investments		
Quoted UAE equity securities	5,678,366	5,774,610
Unquoted UAE equity securities	78,483,487	78,756,366
	<hr/>	<hr/>
	84,161,853	84,530,976
	<hr/>	<hr/>
Investments designated at FVTPL		
Quoted UAE securities	172,330,495	170,683,999
Quoted foreign equity securities	43,949,986	44,805,432
Unquoted foreign equity securities	338,000	338,000
	<hr/>	<hr/>
	216,618,481	215,827,431
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

5 Investments in securities (continued)

The movement in the investments in securities is as follows:

	31 March 2015 (unaudited) AED	31 December 2014 (audited) AED
AFS investments		
Fair value at 1 January	84,530,976	76,905,209
Increase in fair value taken to other comprehensive income	(369,123)	7,625,767
	<hr/>	<hr/>
Fair value at the end of the reporting period/year	84,161,853	84,530,976
	<hr/>	<hr/>
Investments at FVTPL		
Fair value at 1 January	215,827,431	265,604,878
Decrease in fair value taken to profit or loss	791,050	(49,777,447)
	<hr/>	<hr/>
Fair value at the end of the reporting period/year	216,618,481	215,827,431
	<hr/>	<hr/>
The geographical distribution of investments is as follows:		
Within UAE	256,492,348	255,214,975
Outside UAE	44,287,986	45,143,432
	<hr/>	<hr/>
	300,780,334	300,358,407
	<hr/>	<hr/>

6 Statutory deposit

In accordance with the requirements of UAE Federal Law No.6/2007 covering insurance companies and agencies, the Company maintains a bank deposit of AED 10,000,000 (31 December 2014: AED 10,000,000) which cannot be utilised without the consent of the UAE Insurance Authority.

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

7 Insurance contract liabilities and re-insurance contract assets

	31 March 2015 (unaudited) AED	31 December 2014 (audited) AED
Insurance liabilities		
- Claims reported unsettled	81,960,227	85,279,122
- Claims incurred but not reported	3,049,000	2,916,000
- Unearned premiums	64,867,828	70,607,029
	<hr/>	<hr/>
	149,877,055	158,802,151
	<hr/>	<hr/>
Recoverable from re-insurers		
- Claims reported unsettled	66,238,952	69,300,199
- Claims incurred but not reported	1,711,228	1,019,273
- Unearned premiums	19,923,135	29,168,696
	<hr/>	<hr/>
	87,873,315	99,488,168
	<hr/>	<hr/>
Insurance liabilities - net		
- Claims reported unsettled	15,721,275	15,978,923
- Claims incurred but not reported	1,337,772	1,896,727
- Unearned premiums	44,944,693	41,438,333
	<hr/>	<hr/>
	62,003,740	59,313,983
	<hr/>	<hr/>

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

8 Insurance and other receivables

	31 March 2015 (unaudited) AED	31 December 2014 (audited) AED
Due from policy holders	65,438,374	65,261,205
Due from agents, brokers and intermediaries	21,232,865	19,787,959
Due from insurance companies	14,547,494	14,863,582
Less: provision for impairment of receivables	(24,774,089)	(25,234,317)
	<hr/> 76,444,644 <hr/>	<hr/> 74,678,429 <hr/>
Deposits and other receivables	13,021,633	12,891,247
Less: provision for impairment of other receivables	(5,400,000)	(5,400,000)
	<hr/> 7,621,633 <hr/>	<hr/> 7,491,247 <hr/>
Prepaid rent	8,260,359	9,440,411
Rent receivables	6,150,155	2,100,956
	<hr/> 98,477,191 <hr/>	<hr/> 93,711,043 <hr/>

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

The Group signed a Memorandum of Understanding (MoU) with Abu Dhabi Holding, a related party, on 27 March 2013. As per the MoU, both parties agreed to enter into a partnership to establish and operate the university, whereby the Group contribution would be providing the leased premises to the partnership for which the prepaid rent of AED 8.3 million is outstanding as at 31 March 2015 (31 December 2014: AED 9.4 million). The partnership has not been established as at 31 March 2015, and is subject to obtaining regulatory approvals and finalisation of legal documentation.

9 Bank and cash

	31 March 2015 (unaudited) AED	31 December 2014 (audited) AED
Balances held at UAE banks	27,017,483	28,437,928
Balances held at foreign banks abroad	1,512,864	1,519,892
Cash on hand	196,197	165,540
	<hr/> 28,726,544 <hr/>	<hr/> 30,123,360 <hr/>

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

10 Share capital

	31 March 2015 (unaudited) AED	31 December 2014 (audited) AED
Authorised: 420,000,000 shares of AED 1 each	420,000,000	420,000,000
Allotted, issued and fully paid: 420,000,000 shares of AED 1 each	420,000,000	420,000,000

11 Legal reserve

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

12 Regulatory reserve

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

13 Insurance and other payables

	31 March 2015 (unaudited) AED	31 December 2014 (audited) AED
Due to insurance companies	19,626,459	20,924,489
Other insurance payables	28,669,347	31,521,617
Dividends payable	18,047,359	18,048,972
Accruals and other payables	10,729,729	9,799,459
	77,072,894	80,294,537

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

14 Bank borrowings

	31 March 2015 (unaudited) AED	31 December 2014 (audited) AED
Term loan 1	38,041,662	53,741,662
Term loan 2	297,302	317,573
Bank overdrafts	173,631,355	153,867,387
	<hr/> 211,970,319 <hr/>	<hr/> 207,926,622 <hr/>

Term loan 1 is from First Gulf Bank and is repayable in semi-annual installments of AED 15.7 million each up to 2017. The loan carries interests at a rate of 6 month EIBOR + 1.50%. The Group has provided First Gulf Bank with a primary mortgage over AKIC Tower, classified under the investment properties, fair valued at AED 149 million (31 December 2014: AED 149 million).

Beginning 2009, the bank changed the interest rates on term loan 1 and charged the Group interest rate greater than what was stipulated in the loan agreement. As per the agreement, changes in interest rate need to be mutually agreed by both parties through a written confirmation. The Group did not acknowledge any change in interest rate and requested the justification from the bank for the change in interest rate.

The bank has opened a bank overdraft facility in the name of the Group for the repayment of the nine due installments on which the group defaulted from 2011 to 31 March 2015. The outstanding overdraft balance as at 31 March 2015 amounted to AED 173.6 million (31 December 2014: AED 153.9 million). The bank charged an interest at a rate of 10% on this overdraft facility.

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

The excess interest charged to date on the loan and the overdraft facility is approximately AED 18.9 million (31 December 2014: AED 18.5 million). This has not been recorded by the Group as a finance cost.

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

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

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

15 Net investment income

	3 month period ended 31 March	
	2015	2014
	(unaudited)	(unaudited)
	AED	AED
Interest on term deposits	6,782	9,565
Net income from investment properties (note 4)	1,656,646	1,467,223
Net fair value gain on investments designated at FVTPL	791,050	571,340
Dividend from investments in securities	1,168,179	853,600
Other costs	(261,082)	(119,520)
	3,361,575	2,782,208

16 Related parties

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

	31 March	31 December
	2015	2014
	(unaudited)	(audited)
	AED	AED
Due from policyholders	7,437,812	6,219,631
Other receivables	3,351,341	3,351,341
Claims payable	9,958	11,565

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

	3 month period ended 31 March	
	2015	2014
	(unaudited)	(unaudited)
Net premiums written	3,479,221	3,246,873
Claims paid	890,603	1,060,899

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

16 Related parties (continued)

	3 month period ended 31 March	
	2015 (unaudited)	2014 (unaudited)
Remuneration to key management personnel	1,823,343	1,646,289

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

17 Loss for the period

Loss for the period is arrived after charging the following:

	3 month period ended 31 March	
	2015 (unaudited) AED	2014 (unaudited) AED
Staff costs	5,348,952	5,115,556
Depreciation on property and equipment	192,834	195,255

18 Basic and diluted loss per share

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

	3 month period ended 31 March	
	2015 (unaudited)	2014 (unaudited)
Loss for the period (AED)	(4,960,587)	(4,018,999)
Weighted number of ordinary shares in issue throughout the period	420,000,000	420,000,000
Basic loss per share (AED)	(0.012)	(0.009)

As of 31 March 2015 and 2014, the Group has not issued any instruments that have an impact on earnings per share when exercised and accordingly diluted earnings per share are the same as basic earnings per share.

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

19 Cash and cash equivalents

	31 March 2015 (unaudited) AED	31 March 2014 (unaudited) AED
Term deposits	1,774,848	1,738,020
Bank balances and cash	28,726,544	24,759,908
Less: Term deposits with original maturity of greater than three months	(1,774,848)	(1,738,020)
	<hr/> 28,726,544 <hr/>	<hr/> 24,759,908 <hr/>

For the purpose of the statement of cash flows, bank overdraft amounting to AED 173.6 million (31 March 2014: AED 127.3 million) was excluded from cash and cash equivalents since it relates to the financing of the term loan 1 (Note 14) and is included within the financing activities.

20 Seasonality of results

No income of seasonal nature was recorded in the statement of profit or loss for the three month period ended 31 March 2015 and 2014.

21 Contingent liabilities

At 31 March 2015, the Group had contingent liabilities in respect of outstanding letters of guarantee issued in the normal course of business, amounting to AED 8.9 million (31 December 2014: AED 9.2 million).

The Group has a commitment to pay AED 9.2 million (31 December 2014: AED 9.2 million) for a flat in a property under development in Dubai.

22 Segment information

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

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

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

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

22 Segment information (continued)

Primary segment information - business segment

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

	3 month period ended 31 March (unaudited)					
	Underwriting		Investments		Total	
	2015 AED	2014 AED	2015 AED	2014 AED	2015 AED	2014 AED
Segment revenue	29,035,429	22,773,335	3,361,575	2,782,208	32,397,004	25,555,543
Segment result	(2,327,163)	(1,512,855)	2,181,361	1,587,153	(145,802)	74,298
Unallocated expenses					(4,814,785)	(4,093,297)
Loss for the period					(4,960,587)	(4,018,999)

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

	Underwriting		Investments		Total	
	31 March 2015 (unaudited) AED	31 December 2014 (audited) AED	31 March 2015 (unaudited) AED	31 December 2014 (audited) AED	31 March 2015 (unaudited) AED	31 December 2014 (audited) AED
	Segment assets	196,695,169	203,439,800	645,679,182	645,257,255	842,374,351
Unallocated assets					28,726,544	30,123,360
Total assets					871,100,895	878,820,415
Segment liabilities	218,489,392	231,477,407	222,074,599	211,474,781	440,563,991	442,952,188
Unallocated liabilities					18,047,359	18,048,972
Total liabilities					458,611,350	461,001,160

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

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

22 Segment information (continued)

Secondary segment information - revenue from underwriting departments

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

	3 month period ended 31 March	
	2015 (unaudited) AED	2014 (unaudited) AED
Motor	9,149,251	7,544,599
Engineering	1,494,083	1,986,560
Fire and General Accidents	3,734,267	6,402,519
Marine and Aviation	794,865	756,135
Employee Benefits, Medical and Personal Assurance	13,862,963	6,083,522
	<hr/> 29,035,429 <hr/>	<hr/> 22,773,335 <hr/>

23 Fair value measurement

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 March 2015 (unaudited)	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
ASSETS MEASURED AT FAIR VALUE				
At fair value through profit or loss				
Quoted equity securities	216,280,481	-	-	216,280,481
Unquoted equity securities	-	-	338,000	338,000
	<hr/> 216,280,481 <hr/>	<hr/> - <hr/>	<hr/> 338,000 <hr/>	<hr/> 216,618,481 <hr/>
AFS financial assets				
Quoted equity securities	5,678,366	-	-	5,678,366
Unquoted equity securities	-	9,856,698	68,626,789	78,483,487
	<hr/> 5,678,366 <hr/>	<hr/> 9,856,698 <hr/>	<hr/> 68,626,789 <hr/>	<hr/> 84,161,853 <hr/>

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

23 Fair value measurement (continued)

31 December 2014 (audited)	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
ASSETS MEASURED AT FAIR VALUE				
At fair value through profit or loss				
Quoted equity securities	215,489,431	-	-	215,489,431
Unquoted equity securities	-	-	338,000	338,000
	<hr/>	<hr/>	<hr/>	<hr/>
	215,489,431	-	338,000	215,827,431
	<hr/>	<hr/>	<hr/>	<hr/>
AFS financial assets				
Quoted equity securities	5,774,610	-	-	5,774,610
Unquoted equity securities	-	10,129,577	68,626,789	78,756,366
	<hr/>	<hr/>	<hr/>	<hr/>
	5,774,610	10,129,577	68,626,789	84,530,976
	<hr/>	<hr/>	<hr/>	<hr/>

During the period, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements (2014: None).

The following table shows a reconciliation of all movements in the fair value of financial assets categorised within Level 3 between the beginning and the end of the period:

	3 month period ended 31 March	
	2015 (unaudited) AED	2014 (unaudited) AED
Opening balance	68,964,789	60,279,864
Net change in fair value	-	-
	<hr/>	<hr/>
Closing balance	68,964,789	60,279,864
	<hr/>	<hr/>

**Notes to the condensed consolidated financial statements
for the three month period ended 31 March 2015 (continued)**

23 Fair value measurement (continued)

Set out below is a comparison of the carrying amount and fair values of financial instruments which are not carried at fair value as at 31 March 2015:

	<u>31 March 2015 (unaudited)</u>		<u>31 December 2014 (audited)</u>	
	Fair value	Carrying amount	Fair value	Carrying amount
	AED	AED	AED	AED
Financial assets				
Statutory deposit	10,000,000	10,000,000	10,000,000	10,000,000
Insurance and other receivables	90,216,830	90,216,830	84,270,632	84,270,632
Term deposits	1,774,848	1,774,848	1,774,848	1,774,848
Bank and cash	28,726,544	28,726,544	30,123,360	30,123,360
	<u>130,718,222</u>	<u>130,718,222</u>	<u>126,168,840</u>	<u>126,168,840</u>
Financial liabilities				
Insurance and other payables	77,072,894	77,072,894	80,294,537	80,294,537
Bank borrowings	211,970,319	211,970,319	207,926,622	207,926,622
Re-insurance deposit retained	3,102,823	3,102,823	3,422,608	3,422,608
	<u>292,146,036</u>	<u>292,146,036</u>	<u>291,643,767</u>	<u>291,643,767</u>

24 Approval of condensed consolidated financial statements

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 12 May 2015.