



ALLIANCE INSURANCE P.S.C.

Financial statements and  
independent auditor's report  
for the year ended 31 December 2014

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## **ALLIANCE INSURANCE P.S.C.**

<b>Contents</b>	<b>Pages</b>
<b>Board of Director's report</b>	<b>1 - 3</b>
<b>Independent auditor's report</b>	<b>4 - 5</b>
<b>Statement of financial position</b>	<b>6</b>
<b>Income statement</b>	<b>7</b>
<b>Statement of underwriting results - General</b>	<b>8</b>
<b>Statement of underwriting results - Life</b>	<b>9</b>
<b>Statement of comprehensive income</b>	<b>10</b>
<b>Statement of changes in equity</b>	<b>11 - 12</b>
<b>Statement of cash flows</b>	<b>13 - 14</b>
<b>Notes to the financial statements</b>	<b>15 - 65</b>

## **Board of Directors' Report For the Year Ended December 31, 2014.**

### **Dear Shareholders,**

On behalf of the board of Directors and myself, it gives me a great pleasure to welcome you to the Annual General Meeting, to present before you the financial report for the year 2014 along with the financial statement as well as the Auditor's report for the year ended 31st December 2014.

More than six years have passed since the global economic crisis, and the UAE insurance market continues to face very tough challenges. It is very apparent that the only way insurance companies are addressing this threat is by adopting the same negative methodology in an unreasonable and unacceptable manner with further deterioration in insurance rates at an old time low. Additionally, the over-crowded industry with over sixty two insurance companies, not to mention the large number of insurance brokers is only making matters worse.

We have on many occasions discussed these practices and hoped that 2015 would be the beginning of improved and corrective measures by insurance companies. Unfortunately this is yet to be seen, and the overall factors before us would only allow us to conclude that matters may become worse if strong corrections are not applied soon. This conclusion based on hard facts leads us to further consolidate our efforts to be extremely cautious in our risk approach and investments to protect the assets of the company, its shareholders and clients.

With regards to Alliance, we continue to be steadfast with our philosophy of being conservative in our strategy and approach, capitalizing carefully on this change in financial environment, by a strong focus on good bottom-line results through proper planning, careful analysis of the market conditions and proper risk selection to ensure results continue to remain healthy. By adapting this conservative approach, we will continue to manage our climb to better positions with improved financial results, increasing company reserves to stand out as a reputable company, and to face challenges that may arise. For the last eight consecutive years Alliance, has maintained its A.M. Best rating of (A-Excellent).

Moving forward, we have currently started a number of initiatives that will definitely enhance our position furthermore even with tougher market conditions.



The overall performance of the company during 2014 was very good when compared to that of 2013 in the following chart below:

	<b>2014 AED</b>	<b>2013 AED</b>
<b>Cash and cash equivalents / Deposits</b>	740,992,636	751,796,489
<b>Investment in Bonds</b>	97,359,639	36,070,067
<b>Total Assets</b>	1,214,164,380	1,166,439,481
<b>Shareholder Equity</b>	421,528,931	393,020,328
<b>Gross Insurance Premiums</b>	320,725,511	307,606,337
<b>Paid Claims</b>	54,538,492	36,860,919
<b>Profit for the year</b>	48,133,471	44,260,332

The net profit for the year 2014 after technical reserves and doubtful debts stands at AED 48,133,471 compared to 44,260,332 in 2013.

In light of the results for the financial year 2014 ended December 31, 2014; the Board of Directors presents for your consideration the following recommendations:

1. The approval of the Directors' report and the Auditors' report for the year 2014.
2. The approval of the financial statements for the year ended December 31, 2014.
3. To approve the recommendation of the Board for the distribution of profits for the year 2014 and the retained earnings of the year 2013 amounting AED 56,434,915, after transferring 10% to the Legal Reserve and 10% to the Regular Reserve as well as the Directors' remunerations, as per Company statute, as follows:





- a. Allocation of AED 25,000,000 being 25% of the Company's paid-up capital as dividends to be paid in cash to shareholders,
  - b. Transfer of AED 15,000,000 to the General Reserve,
  - c. Carry forward AED 6,808,220 to Retained Earnings for the next year.
4. To discharge the Chairman, Board of Directors and Auditors from their responsibility for the year ended December 31, 2014.
  5. To appoint or re-appoint the Auditors for the year 2015 and determine their fees.

In conclusion, the Board of Directors would like to take this opportunity to extend their sincere appreciation and gratitude to His Highness Sheikh Khalifa Bin Zayed Bin Sultan Al Nahyan, the president of the United Arab Emirates, His Highness Sheikh Mohamed Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, and their Highnesses, the brothers Sheikhs, members of the Supreme Council of the Union for their continuous support of national companies.

We also take this opportunity to express our appreciation to all our reinsurance partners who continue to support us. We also express our sincere appreciation to our clients for their trust in our company and to the management and staff of Alliance for their dedication, hard work and loyalty.

**Chairman of the Board**

**4 March 2015**

## INDEPENDENT AUDITOR'S REPORT

**The Shareholders**  
**Alliance Insurance P.S.C.**  
**Dubai**  
**United Arab Emirates**

### Report on the Financial Statements

We have audited the accompanying financial statements of **Alliance Insurance P.S.C. (the "Company")**, **Dubai, United Arab Emirates** which comprise the statement of financial position as at 31 December 2014, and the income statement, statement of underwriting results – general, statement of underwriting results – life, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's responsibility for the financial statements*

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

#### *Auditor's responsibility*

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

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

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

Cont'd...

**INDEPENDENT AUDITOR'S REPORT** (continued)*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Alliance Insurance P.S.C. (the "Company")**, Dubai, United Arab Emirates as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on other legal and regulatory requirements**

Also, in our opinion, the Company has maintained proper books of account. The information included in the Directors' report relating to the financial statements is in agreement with the books. We have obtained all information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended), the U.A.E. Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations or the Articles of Association of the Company which might have a material effect on the financial position of the Company or its financial performance.

*Other Matter*

The financial statements of the Company for the year ended 31 December 2013 were audited by another auditor, who expressed an unmodified opinion on those financial statements on 19 February 2014.

Deloitte & Touche (M.E.)

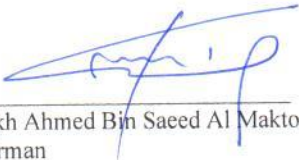


Samir Madbak  
Registration Number 386  
4 March 2015




**Statement of financial position**  
**At 31 December 2014**

	Notes	2014 AED	2013 AED
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	3,952,965	3,234,011
Investment properties	6	186,327,600	179,669,600
Financial investments at fair value through other comprehensive income (FVTOCI)	7	7,674,368	32,255,892
Financial investments at amortized cost	7	97,359,639	36,070,067
Financial assets – deposits at amortized cost	7	34,113,922	34,051,007
Policyholders' loans	8	48,661,900	47,334,317
Statutory deposits	9	10,000,000	10,000,000
<b>Total non-current assets</b>		<b>388,090,394</b>	<b>342,614,894</b>
<b>Current assets</b>			
Re-insurance contract assets	10	56,039,742	51,201,963
Insurance and other receivables	11	73,155,530	64,877,142
Financial assets – deposits at amortized cost	7	675,001,434	681,074,365
Cash and cash equivalents	12	21,877,280	26,671,117
<b>Total current assets</b>		<b>826,073,986</b>	<b>823,824,587</b>
<b>Total assets</b>		<b>1,214,164,380</b>	<b>1,166,439,481</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	13	100,000,000	100,000,000
Statutory reserve	14.1	61,555,797	56,742,450
Regular reserve	14.2	51,966,597	47,153,250
General reserve	14.3	165,000,000	160,000,000
Cumulative change in fair value of securities		(3,131,548)	(6,418,412)
Retained earnings		46,138,085	35,543,040
<b>Total equity</b>		<b>421,528,931</b>	<b>393,020,328</b>
<b>Non-current liabilities</b>			
Provision for employees' end of service indemnity	15	4,415,866	4,826,891
Policyholders' funds	16	597,488,010	577,807,552
<b>Total non-current liabilities</b>		<b>601,903,876</b>	<b>582,634,443</b>
<b>Current liabilities</b>			
Insurance contract liabilities	10	80,900,834	76,534,754
Insurance and other payables	17	109,830,739	114,249,956
<b>Total current liabilities</b>		<b>190,731,573</b>	<b>190,784,710</b>
<b>Total liabilities</b>		<b>792,635,449</b>	<b>773,419,153</b>
<b>Total equity and liabilities</b>		<b>1,214,164,380</b>	<b>1,166,439,481</b>

  
Sheikh Ahmed Bin Saeed Al Maktoum  
Chairman

  
Juma Saif Rashid Bin Bakhit  
Vice- Chairman

  
Aimen Saba Azara  
Director and General Manager

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



**Income statement  
for the year ended 31 December 2014**

	Noted	2014 AED	2013 AED
<b>Net underwriting income - General</b>		<b>12,494,768</b>	11,534,320
Income from investment property (net)	25.3	<b>6,078,985</b>	3,760,787
Profit from investment activities	25.3	<b>2,340,296</b>	884,822
Interest income	25.3	<b>9,441,910</b>	9,908,916
Other income	25.3	<b>3,043,760</b>	3,042,597
<b>Profit from General insurance</b>		<b>33,399,719</b>	29,131,442
<b>Surplus transferred from long-term business (Life) account</b>	<b>16</b>	<b>14,733,752</b>	15,128,890
<b>Profit for the year</b>		<b>48,133,471</b>	44,260,332
<b>Basic earnings per share (AED) (Note 23)</b>		<b>48.13</b>	44.26

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

**Statement of underwriting results - General  
for the year ended 31 December 2014**

	Notes	2014 AED	2013 AED
Gross insurance premium	25.1	214,149,219	199,727,688
Less: Insurance premium ceded to reinsurers	25.1	(176,933,991)	(164,595,450)
Net retained premium		37,215,228	35,132,238
Net change in unearned premium	25.1	(213,453)	(353,969)
<b>Net earned insurance premium</b>		<b>37,001,775</b>	<b>34,778,269</b>
Gross claims settled	25.2	(53,649,673)	(35,881,238)
Insurance claims recovered from reinsurers	25.2	36,661,493	20,481,914
<b>Net claims settled</b>		<b>(16,988,180)</b>	<b>(15,399,324)</b>
Net change in outstanding claims and reserve for claims incurred but not reported	25.2	741,577	(883,695)
<b>Net claims incurred</b>		<b>(16,246,603)</b>	<b>(16,283,019)</b>
Reinsurance commission income	25.3	12,939,866	12,978,089
Commission expenses	25.3	(4,048,622)	(3,404,003)
Movement in deferred acquisition cost	25.3	(270,212)	316,535
<b>Net commission</b>		<b>8,621,032</b>	<b>9,890,621</b>
Other underwriting expenses		(2,630,693)	(2,297,040)
General and administrative expenses	25.3	(14,250,743)	(14,554,511)
<b>Net underwriting income – General</b>		<b>12,494,768</b>	<b>11,534,320</b>

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

**Statement of underwriting results - Life  
for the year ended 31 December 2014**

	Notes	2014 AED	2013 AED
Gross insurance premium	25.1	106,576,292	107,878,649
Less: Insurance premium ceded to reinsurers	25.1	(3,572,053)	(3,172,579)
Net retained premium		103,004,239	104,706,070
Gross claims settled	25.2	(888,819)	(979,681)
Insurance claims recovered from reinsurers	25.2	314,031	428,711
<b>Net claims settled</b>		<b>(574,788)</b>	<b>(550,970)</b>
Net change in outstanding claims reserve	25.2	213,787	2,151,997
<b>Net claims incurred</b>		<b>(361,001)</b>	<b>1,601,027</b>
Reinsurance commission income	25.3	1,325,178	687,706
Commission expenses	25.3	(7,313,834)	(7,258,110)
<b>Net commission</b>		<b>(5,988,656)</b>	<b>(6,570,404)</b>
Maturities and surrenders paid		(70,388,823)	(65,886,547)
Bonus paid to policyholders		(21,653,608)	(13,981,807)
Other underwriting expenses		(363,929)	(349,671)
General and administrative expenses	25.3	(8,674,662)	(8,502,197)
<b>Net underwriting (loss)/income – Life</b>		<b>(4,426,440)</b>	<b>11,016,471</b>
Income from investment property (net)	25.3	12,884,919	6,881,756
Profit from investment activities	25.3	6,067,835	3,703,013
Interest income	25.3	19,426,157	20,868,707
Other income	25.3	461,739	574,500
<b>Profit before movement in life assurance fund</b>		<b>34,414,210</b>	<b>43,044,447</b>
Policyholders' funds as at 1 January	16	577,807,552	549,891,995
Surplus transferred to income statement	16	(14,733,752)	(15,128,890)
<b>Policyholders' funds as at 31 December</b>		<b>597,488,010</b>	<b>577,807,552</b>

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

**Statement of comprehensive income  
for the year ended 31 December 2014**

	<b>2014 AED</b>	2013 AED
<b>Profit for the year</b>	<b>48,133,471</b>	44,260,332
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Net fair value gains on revaluation of financial investments at FVTOCI	<b>169,626</b>	11,356,026
Gain on sale of financial investments at FVTOCI	<b>5,875,642</b>	183,326
Directors' remuneration	<b>(670,136)</b>	(608,166)
<b>Total other comprehensive income</b>	<b>5,375,132</b>	10,931,186
<b>Total comprehensive income for the year</b>	<b>53,508,603</b>	55,191,518

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



**Statement of changes in equity  
for the year ended 31 December 2014**

	<b>Share capital AED</b>	<b>Statutory reserve AED</b>	<b>Regular reserve AED</b>	<b>General reserve AED</b>	<b>Cumulative changes in fair value of securities AED</b>	<b>Retained earnings AED</b>	<b>Total AED</b>
Balance at 31 December 2012	100,000,000	52,316,417	42,727,217	140,000,000	(18,012,687)	35,797,863	352,828,810
Profit for the year	-	-	-	-	-	44,260,332	44,260,332
Other comprehensive income for the year	-	-	-	-	11,356,026	(424,840)	10,931,186
Total comprehensive income for the year	-	-	-	-	11,356,026	43,835,492	55,191,518
Dividend paid (Note 32)	-	-	-	-	-	(15,000,000)	(15,000,000)
Transfer to statutory reserve	-	4,426,033	-	-	-	(4,426,033)	-
Transfer to general reserve	-	-	-	20,000,000	-	(20,000,000)	-
Transfer to regular reserve	-	-	4,426,033	-	-	(4,426,033)	-
Transfer to retained earnings on disposal of investments at FVTOCI	-	-	-	-	238,249	(238,249)	-
Balance at 31 December 2013	100,000,000	56,742,450	47,153,250	160,000,000	(6,418,412)	35,543,040	393,020,328

**Statement of changes in equity  
for the year ended 31 December 2014 (continued)**

	<b>Share capital AED</b>	<b>Statutory reserve AED</b>	<b>Regular reserve AED</b>	<b>General reserve AED</b>	<b>Cumulative changes in fair value of securities AED</b>	<b>Retained earnings AED</b>	<b>Total AED</b>
Balance at 31 December 2013	100,000,000	56,742,450	47,153,250	160,000,000	(6,418,412)	35,543,040	393,020,328
Profit for the year	-	-	-	-	-	48,133,471	48,133,471
Other comprehensive income for the year	-	-	-	-	169,626	5,205,506	5,375,132
Total comprehensive income for the year	-	-	-	-	169,626	53,338,977	53,508,603
Dividend paid (Note 32)	-	-	-	-	-	(25,000,000)	(25,000,000)
Transfer to statutory reserve	-	4,813,347	-	-	-	(4,813,347)	-
Transfer to general reserve	-	-	-	5,000,000	-	(5,000,000)	-
Transfer to regular reserve	-	-	4,813,347	-	-	(4,813,347)	-
Transfer to retained earnings on disposal of investments at FVTOCI	-	-	-	-	3,117,238	(3,117,238)	-
<b>Balance at 31 December 2014</b>	<b>100,000,000</b>	<b>61,555,797</b>	<b>51,966,597</b>	<b>165,000,000</b>	<b>(3,131,548)</b>	<b>46,138,085</b>	<b>421,528,931</b>

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

**Statement of cash flows  
for the year ended 31 December 2014**

	<b>2014</b>	2013
	<b>AED</b>	AED
<b>Cash flows from operating activities</b>		
Profit for the year	<b>48,133,471</b>	44,260,332
Adjustments for:		
Depreciation of property and equipment	<b>290,492</b>	254,394
Gain on disposal of property and equipment	<b>(28,999)</b>	(299)
(Increase)/decrease in fair value of investment properties	<b>(6,658,000)</b>	950,000
Increase in policyholders' fund	<b>19,680,458</b>	27,915,557
Income from deposits	<b>(28,868,067)</b>	(30,777,624)
Income from investments at amortized cost	<b>(3,980,076)</b>	(188,276)
Dividend income on securities	<b>(1,013,071)</b>	(1,322,854)
Realised gains on sale of financial investments at FVTPL	<b>(200,049)</b>	-
Interest on policyholders' loans	<b>(3,214,935)</b>	(3,076,705)
Income from investment properties	<b>(12,305,904)</b>	(11,592,543)
Amortization on financial investments	<b>(65,213)</b>	(12,317)
Allowance for doubtful debts	<b>174,787</b>	128,535
Provision for employees' end of service indemnity	<b>326,051</b>	669,224
<b>Operating cash flows before changes in operating assets and liabilities</b>	<b>12,270,945</b>	27,207,424
Increase in insurance and other receivables	<b>(7,557,751)</b>	(25,403,819)
(Increase)/decrease in reinsurance contract assets	<b>(4,837,779)</b>	15,104,857
Increase/(decrease) in insurance contract liabilities	<b>4,366,080</b>	(16,335,725)
(Decrease)/increase in insurance and other payables	<b>(5,089,353)</b>	39,583,592
<b>Cash (used in)/generated from operations</b>	<b>(847,858)</b>	40,156,329
Employees' end of service indemnity paid	<b>(737,076)</b>	(615,430)
<b>Net cash (used in)/generated from operating activities</b>	<b>(1,584,934)</b>	39,540,899

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

**Statement of cash flows  
for the year ended 31 December 2014 (continued)**

	<b>2014</b>	2013
	<b>AED</b>	AED
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	<b>(1,009,451)</b>	(335,372)
Proceeds on disposal of property and equipment	<b>29,004</b>	299
Purchases of financial investments at FVTPL	<b>(2,018,144)</b>	-
Proceeds from sale of financial investments at FVTPL	<b>2,218,193</b>	-
Movement in policyholders' loans	<b>1,887,352</b>	1,188,831
Proceeds from disposal of financial investment at FVTOCI	<b>30,626,792</b>	3,818,115
Purchases of financial investments at amortised cost	<b>(61,224,359)</b>	(36,057,750)
Income received on deposits	<b>30,494,958</b>	34,545,914
Income received from investments at amortized cost	<b>3,225,743</b>	-
Dividend income received	<b>1,013,071</b>	1,322,854
Deposits encashed/(made) during the year	<b>4,383,125</b>	(30,767,309)
Income from investment properties	<b>12,164,813</b>	11,536,244
	<hr/>	<hr/>
<b>Net cash generated from/(used in) investing activities</b>	<b>21,791,097</b>	(14,748,174)
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<b>Cash flows from financing activities</b>		
Dividends paid	<b>(25,000,000)</b>	(15,000,000)
	<hr/>	<hr/>
<b>Cash used in financing activities</b>	<b>(25,000,000)</b>	(15,000,000)
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<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(4,793,837)</b>	9,792,725
	<hr/>	<hr/>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>26,671,117</b>	16,878,392
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<b>Cash and cash equivalents at the end of the year (Note 12)</b>	<b>21,877,280</b>	26,671,117
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The accompanying notes form an integral part of these financial statements.



## Notes to the financial statements for the year ended 31 December 2014

### 1. General information

Alliance Insurance P.S.C. (the "Company") is a Public Shareholding Company which was originally established in Dubai on 1 July 1975 as a limited liability company under the name of Credit and Commerce Insurance Company. The Company was subsequently incorporated in Dubai on 6 January 1982 as a limited liability company under an Emiri Decree. The Company was converted to a Public Shareholding Company (P.S.C.) in January 1995, in accordance with the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended). The Company's shares are listed on the Dubai Financial Market.

The Company underwrites accident and liabilities, life, fire, transportation risk, credit and saving, health and other types of insurance business.

The registered address of the Company is Warba Centre, P.O. Box 5501, Dubai, United Arab Emirates.

### 2. Application of new and revised International Financial Reporting Standards ("IFRSs")

#### 2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2014, have been adopted in these financial statements. The application of these revised and new IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 32 Financial Instruments: Presentation relating to application guidance on the offsetting of financial assets and financial liabilities.
- Amendments to IAS 36 recoverable amount disclosures:  
The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to the period in which an impairment loss has been recognised or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Guidance on Investment Entities  
On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs.
- IFRIC 21 – Levies: Interpretation was developed to address the concerns about how to account for levies that are based on financial data of a period that is different from that in which the activity that give rise to the payment of the levy occurs.

#### 2.2 New and revised IFRSs in issue but not yet effective and not early adopted

The Company has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
• 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

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)**

**2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	When IFRS 9 is first applied
<ul style="list-style-type: none"> <li>• IFRS 9 <i>Financial Instruments</i> (2014)</li> </ul> <p>Finalised version of IFRS 9 (IFRS 9 <i>Financial Instruments</i> (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.</p> <p>A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.</p> <p>A new impairment model based on expected credit losses will apply to debt instruments measured at amortized costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.</p>	1 January 2018
<ul style="list-style-type: none"> <li>• IFRS 15 <i>Revenue from Contracts with Customers</i></li> </ul> <p>In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 <i>Revenue</i>, IAS 11 <i>Construction Contracts</i> and the related interpretations when it becomes effective.</p> <p>The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:</p> <ul style="list-style-type: none"> <li>▪ Step 1: Identify the contract(s) with a customer.</li> <li>▪ Step 2: Identify the performance obligations in the contract.</li> <li>▪ Step 3: Determine the transaction price.</li> <li>▪ Step 4: Allocate the transaction price to the performance obligations in the contract.</li> <li>▪ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.</li> </ul>	1 January 2017

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)**

**2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<ul style="list-style-type: none"> <li>• IFRS 15 Revenue from Contracts with Customers (continued)</li> </ul> <p>Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.</p>	
<ul style="list-style-type: none"> <li>• Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.</li> </ul>	1 January 2016
<ul style="list-style-type: none"> <li>• Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortization.</li> </ul>	1 January 2016
<ul style="list-style-type: none"> <li>• Amendments to IFRS 11 to clarify accounting for acquisitions of Interests in Joint Operations.</li> </ul>	1 January 2016
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	1 January 2016
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	1 January 2016
<ul style="list-style-type: none"> <li>• Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IFRS 9 or using the equity method in an entity’s separate financial statements.</li> </ul>	1 January 2016
<ul style="list-style-type: none"> <li>• Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities.</li> </ul>	1 January 2016
<ul style="list-style-type: none"> <li>• Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.</li> </ul>	1 January 2016
<ul style="list-style-type: none"> <li>• Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24.</li> </ul>	1 July 2014
<ul style="list-style-type: none"> <li>• Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.</li> </ul>	1 July 2014

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)**

**2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<ul style="list-style-type: none"> <li>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.</li> </ul>	1 July 2014

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company’s 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 (2014) and IFRS 15, may have no material impact on the financial statements of the Company in the period of initial application.

Management anticipates that IFRS 15 and IFRS 9 (2014) will be adopted in the Company’s financial statements for the annual period beginning 1 January 2017 and 1 January 2018 respectively. The application of IFRS 15 and IFRS 9 (2014) may have significant impact on amounts reported and disclosures made in the Company’s financial statements in respect of revenue from contracts with customers and the Company’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Company performs a detailed review.

**3. Summary of significant accounting policies**

**3.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates (U.A.E.) Federal Law No. 8 of 1984 (as amended) and United Arab Emirates (U.A.E.) Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations.

**3.2 Basis of preparation**

The financial statements have been prepared on the historical cost basis except for investment properties and financial instruments that have been measured at revalued amounts, amortised cost or fair value as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.



## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 3. Summary of significant accounting policies (continued)

#### 3.2 Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1,2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the assets or liability.

The principal accounting policies are set out below.

#### 3.3 Insurance contracts

##### 3.3.1 *Product classification*

Insurance contracts are those contracts that the Company (the insurer) has accepted the significant insurance risk from another party (policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. An insurance contract can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable provided in case of a non-financial variable, that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime even if the insurance risk reduces significantly during this period unless all rights and obligations are extinguished or expire. An investment contract can however be classified as an insurance contract after its inception if the insurance risk becomes significant.

##### 3.3.2 *Recognition and measurement*

Insurance contracts are classified into two main categories, depending on the nature of the risk, duration of the risk and whether or not the terms and conditions are fixed.

These contracts are general insurance contracts and life assurance contracts.

##### 3.3.3 *General insurance contracts*

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown in the profit and loss before deduction of commission.

Claims and loss adjustment expenses are charged to the profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)****3. Summary of significant accounting policies (continued)****3.3 Insurance contracts (continued)***3.3.4 Life assurance contracts*

In respect of the short term life assurance contracts, premiums are recognised as revenue (earned premiums) proportionately over the period of coverage. The portion of the premium received in respect of in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before the deduction of the commission.

In respect of long term life assurance contracts, premium are recognised as revenue (earned premiums) when they become payable by the contract holder. Premiums are shown before deduction of commission.

A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums are recognised. The liability is based on the assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions.

Where a life assurance contract has a single premium or limited number of premium payments due over a significantly shorter period than the period during which the benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contract in-force or for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at the end of each reporting period using the assumptions established at the inception of the contract..

Claims and benefits payable to contract holders are recorded as expenses when they are incurred.

*3.3.5 Reinsurance contracts*

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are recognised as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer, are included in insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts are recognised as reinsurance contract assets.

The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract assets are impaired, the Company reduces the carrying amount of the reinsurance contract assets to their recoverable amounts and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

The Company also assumes reinsurance risk in the normal course of business for life insurance and general insurance contracts where applicable. Premium and claims on assumed reinsurance contracts are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**3. Summary of significant accounting policies (continued)**

**3.3 Insurance contracts (continued)**

*3.3.5 Reinsurance contracts (continued)*

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

*3.3.6 Insurance contract liabilities*

*3.3.6.1 Unearned premium reserve*

At the end of the reporting period, proportions of net retained premium of the general insurance, group life and medical insurance are provided to cover portions of risks which have not expired on time proportion basis except for marine which is calculated at 25%.

*3.3.6.2 IBNR provision*

A provision is made for any claims incurred but not reported (IBNR) at the reporting date on the basis of management estimates. The method used by the Company to calculate claims incurred but not reported takes into account certain ratios based on historical data, past estimates and details of reinsurance programmes to assess the quantum of reinsurance recoveries.

*3.3.6.3 Life assurance fund*

The life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience and industry mortality tables. Adjustments to the balance of the fund are effected by charging to profit or loss.

*3.3.6.4 Unit linked liabilities*

For unit linked policies, liability is equal to the policy account values. The account value is the number of units times the unit price.

*3.3.6.5 Outstanding claims*

Insurance contract liabilities towards outstanding claims are recognised for all claims intimated and unpaid at the end of the reporting period. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when it is expired, discharged or cancelled.

*3.3.7 Policy acquisition costs*

Commissions and other acquisition costs are related to securing new insurance contracts and renewing existing insurance contracts. These costs include commission or brokerage fee paid to agents or brokers.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**3. Summary of significant accounting policies (continued)**

**3.3 Insurance contracts (continued)**

*3.3.7 Policy acquisition costs (continued)*

Acquisition costs are deferred, where they relate to unearned premium. The deferred acquisition costs are amortised on the same basis as the earning pattern of insurance premiums over the life of the related insurance contract.

*3.3.8 Liability adequacy test*

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Company 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.

*3.3.9 Receivables and payables related to insurance contracts*

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers, insurance contract holders and reinsurance companies.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss.

*3.3.10 Salvage and subrogation reimbursements*

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

**3.4 Revenue recognition**

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

*3.4.1 Revenue from insurance contracts*

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements.

*3.4.2 Commission income*

Commission income is recognised when the reinsurance premium is ceded based on the terms and percentages agreed with the reinsurers.

The Company is deferring these amounts and recognizing as income using the same methodology adopted for amortization of the related policy acquisition cost.

*3.4.3 Dividend income*

Dividend income is recognised when the Company's right to receive the payment has been established.

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 3. Summary of significant accounting policies (continued)

#### 3.4 Revenue recognition (continued)

##### 3.4.4 Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

##### 3.4.5 Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

### 3.5 Foreign currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in United Arab Emirates Dirhams ("AED"), which is the functional currency of the Company and the presentation currency for the financial statements.

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the year in which they arise.

### 3.6 Property and equipment

Land is not depreciated and is stated at cost.

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

Other property and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

Depreciation is charged so as to write off the cost of assets, other than capital work in progress and land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)****3. Summary of significant accounting policies (continued)****3.6 Property and equipment (continued)**

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The useful lives considered in the calculation of depreciation for the assets are 4 years.

**3.7 Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the period of retirement or disposal.

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation or commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

Fair value is determined by open market values based on valuations performed by independent surveyors and consultants.

**3.8 Impairment of non-financial assets**

At the end of each reporting period, the Company reviews the carrying amounts of their tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use.

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 3. Summary of significant accounting policies (continued)

#### 3.8 Impairment of non-financial assets (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### 3.9 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, (where the effect of time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### 3.10 Employee benefits

##### 3.10.1 *Defined contribution plan*

UAE national employees of the Company are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Company is required to contribute 12.5% of the “contribution calculation salary” of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the “contribution calculation salary” respectively, to the scheme. The only obligation of the Company with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to profit or loss.

##### 3.10.2 *Annual leave and leave passage*

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)****3. Summary of significant accounting policies (continued)****3.10 Employee benefits (continued)***3.10.3 Provision for employees' end of service indemnity*

Provision is made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law and is based on current remuneration and their period of service at the end of the reporting period.

**3.11 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Company has no finance leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

**3.12 Financial instruments***3.12.1 Recognition and measurement*

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

A financial asset and financial liability is offset and the net amount is reported in the financial statements only when there is legally enforceable right to set off the recognised amount and the Company intends either to settle on a net basis or realise the assets and settle the liabilities simultaneously.

**3.13 Financial assets**

All financial assets are recognised and derecognised on trade date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs. All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.



**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**3. Summary of significant accounting policies (continued)**

**3.13 Financial assets (continued)**

*3.13.1 Classification of financial assets*

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under IAS 32 Financial Instruments: Presentation) except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

*3.13.2 Financial assets at amortised cost and the effective interest method*

Debt instruments are measured at amortised cost if both of the following conditions are met:

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

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment (see 3.13.5 below), with interest income recognised on an effective yield basis (note 3.4.4).

Subsequent to initial recognition, the Company is required to reclassify debt instruments from amortised cost to FVTPL if the objective of the business model changes so that the amortised cost criteria are no longer met.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

The Company may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

*3.13.2.1 Cash and cash equivalents*

Cash and cash equivalents, which include cash on hand and current accounts with banks, are classified as financial assets at amortised cost.

*3.13.2.2 Insurance and other receivables, deposits and statutory deposits*

Insurance and other receivables (excluding prepayments), deposits and statutory deposits are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**3. Summary of significant accounting policies (continued)**

**3.13 Financial assets (continued)**

*3.13.3 Financial assets at fair value through other comprehensive income (FVTOCI)*

On initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

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

Investments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value of securities reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments, but reclassified to retained earnings.

The Company has designated all investments in equity instruments and funds that are not held for trading as at FVTOCI.

Dividends on these investments in equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

*3.13.4 Financial assets at fair value through profit or loss (FVTPL)*

Investments in equity instruments are classified as at FVTPL, unless the Company designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see above).

Debt instruments that do not meet the amortised cost criteria (see above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 30.3.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**3. Summary of significant accounting policies (continued)**

**3.13 Financial assets (continued)**

*3.13.4 Financial assets at fair value through profit or loss (FVTPL) (continued)*

Dividend income on investments in equity instruments at FVTPL is recognised in profit or loss when the Company's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

*3.13.5 Impairment of financial assets*

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as insurance receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of insurance receivables, where the carrying amount is reduced through the use of an allowance account. When an insurance receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)****3. Summary of significant accounting policies (continued)****3.13 Financial assets (continued)***3.13.6 Derecognition of financial assets*

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost or measured at FVTPL, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair value of securities reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

**3.14 Financial liabilities and equity instruments issued by the Company***3.14.1 Classification as debt or equity*

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

**3.15 Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at proceeds received, net of direct issue costs.

**3.16 Financial liabilities**

All financial liabilities are initially measured at fair value net of transactions costs except financial liabilities at fair value through profit or loss (FVTPL) which are initially measured at fair value. All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL. The Company does not have any financial liabilities measured at FVTPL.

*3.16.1 Financial liabilities subsequently measured at amortised cost*

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of the reporting period. The Company's financial liabilities measured at amortised costs include insurance other payables (excluding premiums received in advance and rent received in advance).

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)****3. Summary of significant accounting policies (continued)****3.16 Financial liabilities (continued)***3.16.1 Financial liabilities subsequently measured at amortised cost (continued)*

The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method with interest expense that is not capitalised as part of the cost of an asset, is recognised in profit or loss except for short term payables where the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

*3.16.2 Foreign exchange gains and losses*

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the profit or loss.

*3.16.3 Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

**3.17 Dividend distribution**

Dividend distribution to the Shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Shareholders.

**4. Critical accounting judgements and key sources of estimation of uncertainty**

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The significant judgements and estimates made by management that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)****4. Critical accounting judgements and key sources of estimation of uncertainty (continued)****4.1 Critical judgements in applying accounting policies**

The following are the critical judgements, apart from those involving estimations (see 4.2 below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

*4.1.1 Classification of investments*

Management determines at the time of acquisition of securities whether these should be classified as at FVTOCI, FVTPL, or amortised cost. In determining whether investments in securities are classified as at FVTOCI, or amortised cost, management has considered the detailed criteria for determination of such classification as set out in IFRS 9 Financial Instruments. Management is satisfied that the Company's investments in securities are appropriately classified.

*4.1.2 Classification of properties*

In the process of classifying properties, management has made various judgments. Judgments are needed to determine whether a property qualifies as an investment property, property and equipment, property under development and/or property held for sale. Management develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment, property under development and property held for sale. In making its judgment, management has considered the detailed criteria and related guidance set out in IAS 2 – Inventories, IAS 16 – Property, Plant and Equipment, and IAS 40 – Investment Property, with regards to the intended use of the property.

*4.1.3 Financial investments at amortized costs*

Management has reviewed the Company's financial assets measured at amortized cost in the light of its capital maintenance and liquidity requirements and has confirmed the Company's positive intent and ability to hold these assets until their maturity so as to collect the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The carrying amount of financial assets measured at amortized cost is AED 97 million at 31 December 2014 (2013: AED 36 million). Details of these assets are set out in note 7.3.

**4.2 Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*4.2.1 The ultimate liability arising from claims made under insurance contracts*

The estimation of ultimate liability arising from the claims made under insurance contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**4. Critical accounting judgements and key sources of estimation of uncertainty (continued)**

**4.2 Key sources of estimation uncertainty (continued)**

*4.2.2 Impairment of insurance receivables*

An estimate of the collectible amounts of insurance receivable is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired entails management's evaluation of the specific credit and liquidity position of the contract holders and their historical recovery rates including detailed reviews carried out during 2014 and feedback received from the legal department. Based on this estimate, an allowance of AED 174,787 (2013: AED 128,535) has been recognised in the current year.

*4.2.3 Liability adequacy test*

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Company 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.

*4.2.4 Actuarial valuation of life assurance fund*

Mortality and withdrawal rate assumptions used in actuarial valuation of life fund are based on experience and the most current industry standard mortality table.

*4.2.5 Provision for claims incurred but not reported (IBNR)*

This reserve represents management's best estimates of potential liabilities at the end of the reporting period in respect of premium deficiency, IBNR and shortfall in the estimated amounts of the unpaid reported claims.

*4.2.6 Depreciation of property and equipment*

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. Management has not considered any residual value as it is deemed immaterial.

*4.2.7 Amortization of deferred acquisition costs ("DAC")*

Deferred acquisition costs are amortized using methods that provide the most appropriate bases of recognizing acquisition costs as expenses in line with the recognition of revenue from related insurance contracts. The various assumptions, inputs and estimates are used in these calculations by management.

Notes to the financial statements  
for the year ended 31 December 2014 (continued)

5. Property and equipment

	Land AED	Furniture and fixtures AED	Office equipment AED	Motor vehicles AED	Capital work-in- progress AED	Total AED
<i>Cost</i>						
At 31 December 2012	2,470,555	6,112,460	4,059,367	883,450	-	13,525,832
Additions	-	-	264,744	6,500	64,128	335,372
Disposals	-	(637,491)	(393,102)	(4,150)	-	(1,034,743)
At 31 December 2013	2,470,555	5,474,969	3,931,009	885,800	64,128	12,826,461
Additions	-	11,295	257,352	6,750	734,054	1,009,451
Disposals	-	-	-	(196,400)	-	(196,400)
<b>At 31 December 2014</b>	<b>2,470,555</b>	<b>5,486,264</b>	<b>4,188,361</b>	<b>696,150</b>	<b>798,182</b>	<b>13,639,512</b>
<i>Accumulated depreciation</i>						
At 31 December 2012	-	5,988,882	3,740,777	643,140	-	10,372,799
Charge for the year	-	9,720	163,726	80,948	-	254,394
Eliminated on disposal	-	(637,491)	(393,102)	(4,150)	-	(1,034,743)
At 31 December 2013	-	5,361,111	3,511,401	719,938	-	9,592,450
Charge for the year	-	8,148	212,261	70,083	-	290,492
Eliminated on disposal	-	-	-	(196,395)	-	(196,395)
<b>At 31 December 2014</b>	<b>-</b>	<b>5,369,259</b>	<b>3,723,662</b>	<b>593,626</b>	<b>-</b>	<b>9,686,547</b>
<i>Carrying amount</i>						
<b>At 31 December 2014</b>	<b>2,470,555</b>	<b>117,005</b>	<b>464,699</b>	<b>102,524</b>	<b>798,182</b>	<b>3,952,965</b>
At 31 December 2013	2,470,555	113,858	419,608	165,862	64,128	3,234,011

- Capital work-in-progress mainly represents construction in progress for warehouses in Sharjah.



**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**6. Investment properties**

	<b>2014</b>	2013
	<b>AED</b>	AED
Balance at the beginning of the year	<b>179,669,600</b>	180,619,600
Increase/(decrease) in fair value during the year	<b>6,658,000</b>	(950,000)
<b>Balance at the end of the year</b>	<b>186,327,600</b>	179,669,600

Investment property comprises two commercial buildings in Dubai, United Arab Emirates.

The Company occupies part of a commercial building for use in its own business. The Directors consider it appropriate for fair presentation to include this property under investment property rather than a part as 'owner occupied properties' under property and equipment as the Company occupies an insignificant area of the property for business use.

The fair value of the Company's investment properties as at 31 December 2014 and 2013 has been arrived at on the basis of valuations carried on the respective dates by independent valuer who is not related to the Company and has appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

The fair value was determined based on the market comparable approach that reflects recent transactions prices for similar properties / capitalization of net income method, where the market rentals of all lettable units of the properties are assessed by reference to the rental achieved in the lettable units. The capitalization rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuer's knowledge of the factors specific to the respective property. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Company's investment properties are classified as Level 3 in the fair value hierarchy as at 31 December 2014 (2013: Level 3).

**7. Financial investments**

**7.1 Composition of financial investments**

The Company's financial investments at the end of reporting period are detailed below:

	<b>2014</b>	2013
	<b>AED</b>	AED
At fair value through other comprehensive income (note 7.2)	<b>7,674,368</b>	32,255,892
Measured at amortised cost (note 7.3)	<b>97,359,639</b>	36,070,067
	<b>105,034,007</b>	68,325,959

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**7. Financial investments (continued)**

**7.2 Financial investments at fair value through other comprehensive income**

	<b>Domestic</b>		<b>International</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>AED</b>	<b>AED</b>	<b>AED</b>	<b>AED</b>	<b>AED</b>	<b>AED</b>
Equity securities and funds						
- Quoted	<b>7,632,018</b>	22,016,828	-	10,196,714	<b>7,632,018</b>	32,213,542
- Unquoted	<b>42,350</b>	42,350	-	-	<b>42,350</b>	42,350
	<u><b>7,674,368</b></u>	<u>22,059,178</u>	<u>-</u>	<u>10,196,714</u>	<u><b>7,674,368</b></u>	<u>32,255,892</u>
	<u><u><b>7,674,368</b></u></u>	<u><u>22,059,178</u></u>	<u><u>-</u></u>	<u><u>10,196,714</u></u>	<u><u><b>7,674,368</b></u></u>	<u><u>32,255,892</u></u>

**7.3 Financial investments measured at amortised cost**

	<b>Domestic</b>		<b>International</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>AED</b>	<b>AED</b>	<b>AED</b>	<b>AED</b>	<b>AED</b>	<b>AED</b>
Quoted bonds	<b>61,161,122</b>	-	-	-	<b>61,161,122</b>	-
Unquoted bonds	<b>36,198,517</b>	36,070,067	-	-	<b>36,198,517</b>	36,070,067
	<u><b>97,359,639</b></u>	<u>36,070,067</u>	<u>-</u>	<u>-</u>	<u><b>97,359,639</b></u>	<u>36,070,067</u>
	<u><u><b>97,359,639</b></u></u>	<u><u>36,070,067</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u><b>97,359,639</b></u></u>	<u><u>36,070,067</u></u>

The bonds carry interest at the rates of 5.00% to 6.25% per annum and interest is payable semi-annually. The Company holds these investments with the objective of receiving the contractual cash flows over the instruments life. The fair value of the quoted bonds at 31 December 2014 is AED 61 million and are classified as Level 1 of the fair value hierarchy and other investments measured at amortised costs are classified as Level 3. There were no transfers between each of level during the year.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**7. Financial investments (continued)**

**7.4 Movements in financial investments**

The movements in financial investments are as follows:

	Fair value through OCI AED	Amortised cost AED	Total AED
At 31 December 2012	24,534,655	-	24,534,655
Purchases	-	36,057,750	36,057,750
Disposals	(3,634,789)	-	(3,634,789)
Amortisation	-	12,317	12,317
Changes in fair value	11,356,026	-	11,356,026
At 31 December 2013	32,255,892	36,070,067	68,325,959
Purchases	-	61,224,359	61,224,359
Disposals	(24,751,150)	-	(24,751,150)
Amortisation	-	65,213	65,213
Changes in fair value	169,626	-	169,626
<b>At 31 December 2014</b>	<b>7,674,368</b>	<b>97,359,639</b>	<b>105,034,007</b>

During the year 2014, the Company purchased financial investments at fair value through profit or loss (FVTPL) for AED 2,018,144 and sold it for AED 2,218,193 which resulted in a gain of AED 200,049.

**7.5 Financial assets – deposits at amortized cost**

	2014 AED	2013 AED
Short term deposits with banks in U.A.E.	675,001,434	681,074,365
Long term deposits with banks in U.A.E.	34,113,922	34,051,007
	<b>709,115,356</b>	<b>715,125,372</b>

Deposits comprise of fixed deposits with various banks bearing annual interest rates ranging from 1.00% to 5.25% (31 December 2013: 1.20% to 5.25%).

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**8. Policyholders' loans**

	<b>2014</b>	2013
	<b>AED</b>	AED
Balance at the beginning of year	<b>47,334,317</b>	47,639,677
Loans sanctioned during the year	<b>29,667,405</b>	24,066,021
Repayment during the year	<b>(25,815,698)</b>	(22,085,409)
Accrued interest on loans	<b>(2,524,124)</b>	(2,285,972)
	<hr/>	<hr/>
Balance at the end of the year	<b>48,661,900</b>	47,334,317
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The interest on policyholders' loans for the current year is 8% (2013: 8%).

**9. Statutory deposits**

A deposit of AED 10,000,000 (2013: AED 10,000,000) has been placed with one of the Company's bankers, in accordance with Article 42 of U.A.E. Federal Law No. (6) of 2007 regarding Establishment of the Insurance Authority and Organization of its Operations. This deposit has been pledged to the bank as security against a guarantee issued by the Bank in favour of the Insurance Authority for the same amount. This deposit cannot be withdrawn without prior approval of the Insurance Authority and bears an interest rate of 3% per annum. (2013: 3% per annum).

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**10. Insurance contract liabilities and re-insurance contract assets**

	<b>2014</b>	2013
	<b>AED</b>	AED
<b>Gross</b>		
Insurance contract liabilities:		
Claims reported unsettled	<b>15,700,520</b>	16,118,960
Claims incurred but not reported	<b>3,150,584</b>	2,934,749
Unearned premiums	<b>59,352,664</b>	55,054,191
Deferred acquisition costs	<b>2,697,066</b>	2,426,854
	<hr/>	<hr/>
<b>Total insurance contract liabilities - gross</b>	<b>80,900,834</b>	76,534,754
	<hr/>	<hr/>
<b>Recoverable from re-insurers</b>		
Claims reported unsettled	<b>7,819,311</b>	7,066,552
Unearned premiums	<b>48,220,431</b>	44,135,411
	<hr/>	<hr/>
<b>Total re-insurers' share of insurance contract liabilities</b>	<b>56,039,742</b>	51,201,963
	<hr/>	<hr/>
<b>Insurance contract liabilities - net</b>		
Claims reported unsettled	<b>7,881,209</b>	9,052,408
Claims incurred but not reported	<b>3,150,584</b>	2,934,749
Unearned premiums	<b>11,132,233</b>	10,918,780
Deferred acquisition costs	<b>2,697,066</b>	2,426,854
	<hr/>	<hr/>
	<b>24,861,092</b>	25,332,791
	<hr/> <hr/>	<hr/> <hr/>

**11. Insurance and other receivables**

	<b>2014</b>	2013
	<b>AED</b>	AED
Due from policyholders, brokers and agents	<b>58,852,402</b>	53,112,856
Due from insurance companies	<b>3,098,049</b>	3,556,501
Due from related parties	<b>2,079,937</b>	1,719,847
Less: Allowance for doubtful debts	<b>(1,386,182)</b>	(1,383,277)
	<hr/>	<hr/>
<b>Total insurance receivables</b>	<b>62,644,206</b>	57,005,927
Prepayments and other receivables	<b>9,538,795</b>	7,291,597
Rent receivable	<b>491,301</b>	350,210
Accrued interest	<b>645,526</b>	356,792
Less: Allowance for doubtful debts	<b>(164,298)</b>	(127,384)
	<hr/>	<hr/>
<b>Total insurance and other receivables</b>	<b>73,155,530</b>	64,877,142
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**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**11. Insurance and other receivables (continued)**

The average credit period of insurance receivables is 90 to 120 days. No interest is charged on overdue balances and no collateral is taken on insurance receivables.

The Company has adopted a policy of dealing with creditworthy counterparties. Adequate credit assessment is made before accepting an insurance contract from any counterparty. The Company does not have any single counterparty whose outstanding balance at the end of the period exceeds 5% of the total receivable balance.

Included in the Company's total insurance receivables are balances amounting to AED 35,041,369 (2013: AED 38,743,779) which are past due at the end of the reporting period for which no allowance has been provided for, as there was no significant change in credit quality of these insurance receivables and the amounts are considered recoverable.

**11.1 Ageing of insurance receivables**

	<b>2014</b>	2013
	<b>AED</b>	AED
Neither past due nor impaired	<b>27,602,837</b>	18,262,148
121 to 180 days	<b>11,082,327</b>	16,250,369
above 180 days	<b>23,959,042</b>	22,493,410
	<hr/>	<hr/>
	<b>62,644,206</b>	57,005,927
Past due and impaired	<b>1,386,182</b>	1,383,277
	<hr/>	<hr/>
<b>Gross insurance receivables</b>	<b>64,030,388</b>	58,389,204
	<hr/> <hr/>	<hr/> <hr/>

**11.2 Movement in the allowance for doubtful debts**

	<b>2014</b>	2013
	<b>AED</b>	AED
Balance at beginning of the year	<b>1,510,661</b>	1,382,126
Allowance made during the year	<b>174,787</b>	128,535
Amounts written off as uncollectible during the year	<b>(95,937)</b>	-
Provision no more required written back	<b>(39,031)</b>	-
	<hr/>	<hr/>
<b>Balance at end of the year</b>	<b>1,550,480</b>	1,510,661
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The Company has provided for certain receivables above 365 days based on estimated recoverable amounts, determined after review of credit quality of specific customers and past default experience. In determining the recoverability of an insurance receivable, the Company considers any change in the credit quality of the customer from the date credit was initially granted up to the reporting date. Accordingly, management believes that no further provision is required in excess of the allowance for doubtful debts that has been provided for.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**12. Cash and cash equivalents**

	<b>2014 AED</b>	2013 AED
Cash on hand	<b>824,076</b>	886,490
Current accounts with banks	<b>21,053,204</b>	25,784,627
	<b>21,877,280</b>	26,671,117

**13. Share capital**

	<b>2014 AED</b>	2013 AED
Authorised, issued and fully paid 1,000,000 shares of AED 100 each (31 December 2013: 1,000,000 shares of AED 100 each)	<b>100,000,000</b>	100,000,000

**14. Reserves**

*14.1 Statutory reserve*

In accordance with the Company's Articles of Association and Article 192 of the U.A.E. Commercial Companies Law No. 8 of 1984 (as amended), a minimum of 10% of the Company's profit for the year should be transferred to a non-distributable statutory reserve. As per the Company's Articles of Association, such transfers are required until the balance on the statutory reserve equals 100% of the Company's paid-up share capital. Accordingly, AED 4,813,347 (2013: AED 4,426,033) was transferred to the statutory reserve on 31 December 2014.

*14.2 Regular reserve*

In accordance with the Company's Articles of Association, at least 10% of the Company's annual net income must be transferred to a regular reserve. Such transfers are required until the balance on this reserve equals 100% of the Company's paid-up share capital, or until the transfer is discontinued by resolution of the shareholders. Accordingly, AED 4,813,347 (2013: AED 4,426,033) was transferred to the regular reserve on 31 December 2014.

*14.3 General reserve*

The Board of Directors approved the transfer of AED 5,000,000 in 2014 (2013: AED 20,000,000) to a general reserve which can be utilised for any purpose approved by the shareholders as per the Articles of Association of the Company.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**15. Provision for employees' end of service indemnity**

	<b>2014</b>	2013
	<b>AED</b>	AED
Balance at the beginning of the year	<b>4,826,891</b>	4,773,097
Charge for the year	<b>326,051</b>	669,224
Paid during the year	<b>(737,076)</b>	(615,430)
	<hr/>	<hr/>
Balance at the end of the year	<b>4,415,866</b>	4,826,891
	<hr/> <hr/>	<hr/> <hr/>

**16. Policyholders' funds**

	<b>2014</b>	2013
	<b>AED</b>	AED
Balance at the beginning of the year	<b>577,807,552</b>	549,891,995
Excess of income over expenditure for the year in the long term business	<b>34,414,210</b>	43,044,447
Surplus available	<b>(14,733,752)</b>	(15,128,890)
	<hr/>	<hr/>
	<b>597,488,010</b>	577,807,552
	<hr/> <hr/>	<hr/> <hr/>
Movement in life assurance fund	<b>19,680,458</b>	27,915,557
	<hr/> <hr/>	<hr/> <hr/>

Policyholders' funds represent amounts set aside to meet the aggregate amount of the liabilities of the Company in relation to its long-term life business as at 31 December 2014.

The consulting actuary assessed a surplus of AED 14,733,752 in the individual life business, as at 31 December 2014 (2013: AED 15,128,890).

The Company has appointed an independent actuary to perform the actuarial valuation for the year. Actuary determined the liability arising out of the actuarial valuation of individual life (life assurance fund) to be as follows:

	<b>2014</b>	2013
	<b>AED</b>	AED
Net liabilities under insurance policies	<b>426,832,308</b>	412,128,466
Provision for terminal bonus to policyholders	<b>170,655,702</b>	165,679,086
	<hr/>	<hr/>
	<b>597,488,010</b>	577,807,552
	<hr/> <hr/>	<hr/> <hr/>



**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**17. Insurance and other payables**

	<b>2014</b>	2013
	<b>AED</b>	AED
Insurance payables	22,898,108	18,922,292
Due to other insurers and reinsurers for insurance operations	63,766,465	67,084,419
Accruals and provisions	9,340,948	8,550,965
Premiums collected in advance	6,754,395	7,990,289
Rent received in advance	1,665,137	5,923,539
Other insurance payables	5,405,686	5,778,452
	<hr/>	<hr/>
	<b>109,830,739</b>	114,249,956
	<hr/> <hr/>	<hr/> <hr/>

The average credit period is 60 to 90 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

An amount of AED 61,874 is due to related parties as at 31 December 2014 and has been classified under insurance payables (2013: AED 9,269).

**18. General and administrative expenses**

	<b>2014</b>	2013
	<b>AED</b>	AED
Staff costs	14,422,954	14,330,801
Short term benefits	3,000,000	2,750,000
Rent	247,923	476,955
Bank charges	1,318,113	1,269,398
Communication expenses	451,367	437,810
Depreciation on property and equipment	290,492	254,394
Travel and conveyance	26,930	103,993
Other expenses	3,167,626	3,433,357
	<hr/>	<hr/>
	<b>22,925,405</b>	23,056,708
	<hr/> <hr/>	<hr/> <hr/>

**19. Income from investment properties (net)**

	<b>2014</b>	2013
	<b>AED</b>	AED
Rental income	16,242,429	15,552,636
Change in fair value of investment properties	6,658,000	(950,000)
Maintenance expenses	(3,936,525)	(3,960,093)
	<hr/>	<hr/>
	<b>18,963,904</b>	10,642,543
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**20. Profit from investment activities**

	<b>2014</b>	2013
	<b>AED</b>	AED
Dividend income from financial investments at FVTOCI	<b>1,013,071</b>	1,322,854
Realised gains on sale of financial investments at FVTPL	<b>200,049</b>	-
Interest income from policyholders' loans	<b>3,214,935</b>	3,076,705
Interest income from financial investments at amortised cost	<b>3,980,076</b>	188,276
	<b>8,408,131</b>	4,587,835

**21. Other income**

	<b>2014</b>	2013
	<b>AED</b>	AED
Gain on disposal of property and equipment	<b>28,999</b>	299
Other income	<b>3,476,500</b>	3,616,798
	<b>3,505,499</b>	3,617,097

**22. Profit for the year**

Profit for the year is stated after charging:

	<b>2014</b>	2013
	<b>AED</b>	AED
Staff costs	<b>14,422,954</b>	14,330,801
Depreciation of property and equipment	<b>290,492</b>	254,394

**23. Basic earnings per share**

	<b>2014</b>	2013
Profit for the year (AED)	<b>48,133,471</b>	44,260,332
Number of shares	<b>1,000,000</b>	1,000,000
Basic earnings per share (AED)	<b>48.13</b>	44.26

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**23. Basic earnings per share (continued)**

Basic earnings per share are calculated by dividing the profit for the year by the number of shares outstanding at the end of the reporting period.

**24. Related party transactions**

Related parties include the Company's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

**24.1 At the end of the reporting period, amounts due from/to related parties are as follows:**

	<b>2014</b>	2013
	<b>AED</b>	AED
Due from related parties	<b>2,079,937</b>	1,719,847
Due to related parties	<b>61,874</b>	9,269

**24.2 During the year, the Company entered into the following transactions with related parties:**

	<b>2014</b>	2013
	<b>AED</b>	AED
Premiums	<b>3,342,420</b>	5,340,129
Claims	<b>456,774</b>	793,026

Transactions are entered with related parties at rates agreed with management.

**24.3 Compensation of key management personnel**

	<b>2014</b>	2013
	<b>AED</b>	AED
Directors' remuneration	<b>670,136</b>	608,166
Short term benefits	<b>3,591,600</b>	3,245,323
Total compensation paid to the key management personnel	<b>4,261,736</b>	3,853,489

Directors' remuneration is calculated in accordance with the Article 55 of the Article of Association of the Company.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)****25. Segment information**

For management purposes, the Company is organised into two business segments, general insurance and life assurance. The general insurance segment comprises motor, marine, fire, engineering, medical, group life, and general accident. The life assurance segment includes only long term life. These segments are the basis on which the Company reports its primary segment information. No transactions were conducted between the segments.

During the year, the Company revisited the segmental classifications and accordingly have reclassified the medical and group life into general division which were earlier included in life segment.

The above changes have been reflected in the comparative information presented for 2013 in these financial statements.

Segment information is presented below:

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**25. Segment information (continued)**

**25.1 Segment revenue**

	General Insurance			Life Assurance			Gross AED	Total Reinsurance AED	Net AED
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED			
<b>Year 2014</b>									
Insurance premium	214,149,219	(176,933,991)	37,215,228	106,576,292	(3,572,053)	103,004,239	320,725,511	(180,506,044)	140,219,467
Movement in provision for unearned premium			(213,453)			-			(213,453)
Insurance premium earned			37,001,775			103,004,239			140,006,014
<b>Unearned premium as at 31 December 2014</b>	<b>59,352,664</b>	<b>(48,220,431)</b>	<b>11,132,233</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,352,664</b>	<b>(48,220,431)</b>	<b>11,132,233</b>
<b>Year 2013</b>									
Insurance premium	199,727,688	(164,595,450)	35,132,238	107,878,649	(3,172,579)	104,706,070	307,606,337	(167,768,029)	139,838,308
Movement in provision for unearned premium			(353,969)			-			(353,969)
Insurance premium earned			34,778,269			104,706,070			139,484,339
<b>Unearned premium as at 31 December 2013</b>	<b>55,054,191</b>	<b>(44,135,411)</b>	<b>10,918,780</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,054,191</b>	<b>(44,135,411)</b>	<b>10,918,780</b>

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**25. Segment information (continued)**

**25.2 Segment claims**

	General Insurance			Life Assurance			Total		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
<b>Year 2014</b>									
Claims settled	53,649,673	(36,661,493)	16,988,180	888,819	(314,031)	574,788	54,538,492	(36,975,524)	17,562,968
Changes in provision for outstanding claims			(957,412)			(213,787)			(1,171,199)
Movement in IBNR			215,835			-			215,835
			<hr/>			<hr/>			<hr/>
<b>Claims incurred</b>			<b>16,246,603</b>			<b>361,001</b>			<b>16,607,604</b>
			<hr/>			<hr/>			<hr/>
<b>Year 2013</b>									
Claims settled	35,881,238	(20,481,914)	15,399,324	979,681	(428,711)	550,970	36,860,919	(20,910,625)	15,950,294
Changes in provision for outstanding claims			1,192,232			(2,151,997)			(959,765)
Movement in IBNR			(308,537)			-			(308,537)
			<hr/>			<hr/>			<hr/>
Claims incurred			16,283,019			(1,601,027)			14,681,992
			<hr/>			<hr/>			<hr/>

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**25. Segment information (continued)**

**25.3 Segment results**

	Year ended 31 December 2014			Year ended 31 December 2013		
	General insurance AED	Life assurance AED	Total AED	General insurance AED	Life assurance AED	Total AED
Net insurance premium earned	37,001,775	103,004,239	140,006,014	34,778,269	104,706,070	139,484,339
<b>Net claims incurred</b>	<b>(16,246,603)</b>	<b>(361,001)</b>	<b>(16,607,604)</b>	(16,283,019)	1,601,027	(14,681,992)
Reinsurance commission income	12,939,866	1,325,178	14,265,044	12,978,089	687,706	13,665,795
Commission expenses	(4,048,622)	(7,313,834)	(11,362,456)	(3,404,003)	(7,258,110)	(10,662,113)
Movement in deferred acquisition cost	(270,212)	-	(270,212)	316,535	-	316,535
<b>Net commission</b>	<b>8,621,032</b>	<b>(5,988,656)</b>	<b>2,632,376</b>	9,890,621	(6,570,404)	3,320,217
Maturities and surrenders paid	-	(70,388,823)	(70,388,823)	-	(65,886,547)	(65,886,547)
Bonus paid to policyholders	-	(21,653,608)	(21,653,608)	-	(13,981,807)	(13,981,807)
Other underwriting expenses	(2,630,693)	(363,929)	(2,994,622)	(2,297,040)	(349,671)	(2,646,711)
General and administrative expenses	(14,250,743)	(8,674,662)	(22,925,405)	(14,554,511)	(8,502,197)	(23,056,708)
<b>Net underwriting profit</b>	<b>12,494,768</b>	<b>(4,426,440)</b>	<b>8,068,328</b>	11,534,320	11,016,471	22,550,791
Income from investment property (net)	6,078,985	12,884,919	18,963,904	3,760,787	6,881,756	10,642,543
Profit from investment activities	2,340,296	6,067,835	8,408,131	884,822	3,703,013	4,587,835
Interest income	9,441,910	19,426,157	28,868,067	9,908,916	20,868,707	30,777,623
Other income	3,043,760	461,739	3,505,499	3,042,597	574,500	3,617,097
Movement in life assurance fund	-	(19,680,458)	(19,680,458)	-	(27,915,557)	(27,915,557)
<b>Profit for the year</b>	<b>33,399,719</b>	<b>14,733,752</b>	<b>48,133,471</b>	29,131,442	15,128,890	44,260,332

Notes to the financial statements  
for the year ended 31 December 2014 (continued)

25. Segment information (continued)

25.4 Segment assets and liabilities

	As at 31 December 2014			As at 31 December 2013		
	General insurance AED	Life assurance AED	Total AED	General insurance AED	Life assurance AED	Total AED
Segment assets	<u>500,929,944</u>	<u>713,234,436</u>	<u>1,214,164,380</u>	<u>470,807,567</u>	<u>695,631,914</u>	<u>1,166,439,481</u>
Segment liabilities	<u>145,971,211</u>	<u>646,664,238</u>	<u>792,635,449</u>	<u>142,522,292</u>	<u>630,896,861</u>	<u>773,419,153</u>
Depreciation on property and equipment	<u>182,494</u>	<u>107,998</u>	<u>290,492</u>	<u>205,366</u>	<u>49,028</u>	<u>254,394</u>
Additions to property and equipment	<u>36,603</u>	<u>972,848</u>	<u>1,009,451</u>	<u>200,609</u>	<u>134,763</u>	<u>335,372</u>



**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**26. Contingent liabilities and capital commitments**

	<b>2014</b>	2013
	<b>AED</b>	AED
Capital commitments	<b>401,818</b>	-
Letters of guarantees	<b>11,087,840</b>	11,127,018

The Company in common with the significant majority of insures, is subject to litigation in normal course of its business. The Company, based on independent legal advice, does not expect that the outcome of these court cases will have a material impact on the Company's financial performance or financial position.

**27. Operating lease commitments**

**Leases as lessee**

At the end of the reporting period, minimum lease commitments under non-cancellable operating lease agreements are as follows:

	<b>2014</b>	2013
	<b>AED</b>	AED
Less than one year	<b>362,336</b>	373,189

**28. Insurance risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the estimated amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)****28. Insurance risk (continued)**

The Company manages risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

*28.1 Frequency and severity of claims*

The Company has the right not to renew individual policies, to re-price the risk, to impose deductibles and to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Company's strategy limits the total exposure to any one territory and the exposure to any one industry.

Property insurance contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. Property insurance contracts are subdivided into four risk categories: fire, business interruption, weather damage and theft. The insurance risk arising from these contracts is not concentrated in any of the territories in which the Company operates, and there is a balance between commercial and personal properties in the overall portfolio of insured buildings.

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set maximum limit of AED 750,000 thousand in any one event. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

*28.2 Sources of uncertainty in the estimation of future claim payments*

Claims on insurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and element of the claims provision includes incurred but not reported claims (IBNR). The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some insurance contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities. In estimating the liability for the cost of reported claims not yet paid, the Company considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**28. Insurance risk (continued)**

*28.2 Sources of uncertainty in the estimation of future claim payments (continued)*

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The amount of insurance claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Insurance contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period.

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

In calculating the estimated cost of unpaid claims (both reported and not), the Company's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes. The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

The initial estimate of the loss ratios used for the current year before and after reinsurance are analysed below by type of risk where the insured operates for current and prior year premium earned.

Type of risk	Year ended 31 December 2014		Year ended 31 December 2013	
	Gross Loss Ratio	Net Loss Ratio	Gross Loss Ratio	Net Loss Ratio
Life insurance	<b>86.7%</b>	<b>89.7%</b>	72.5%	74.7%
Non-life insurance	<b>24.7%</b>	<b>43.9%</b>	18.4%	46.8%

*28.3 Process used to decide on assumptions*

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**28. Insurance risk (continued)**

*28.3 Process used to decide on assumptions (continued)*

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**28. Insurance risk (continued)**

*28.4 Claims development process*

Claims development tables are disclosed in order to put the unpaid claims estimates included in the financial statements into a context, allowing comparison of the development claims provisions with those seen in previous years.

In effect, the table highlights the Company's ability to provide an estimate of the total value of claims. This table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year ends. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. Data in the table related to acquired businesses is included from the acquisition date onwards.

The Company believes that the estimates of total claims outstanding as of the end of 2014 are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Analysis of claims development (gross – General)

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>AED</b>	<b>AED</b>	<b>AED</b>	<b>AED</b>	<b>AED</b>	<b>AED</b>
Estimate of cumulative claims- General						
At the end of the accident year	7,373,140	2,834,451	3,275,759	3,282,661	3,604,325	3,114,597
One year earlier	10,598,545	5,526,182	2,365,311	3,328,787	2,155,229	2,786,276
Two years earlier	3,593,201	3,702,402	4,593,166	795,684	534,773	273,216
Three years earlier	4,226,145	2,014,986	2,872,768	2,735,709	866,472	127,148
Four years earlier	706,125	3,000,710	923,719	228,767	194,942	180,777
Five years earlier	11,138,067	489,065	1,551,648	19,224	185,741	24,950
Six years earlier	-	-	-	133,917	958,523	1,067,962
	<u>37,635,223</u>	<u>17,567,796</u>	<u>15,582,371</u>	<u>10,524,749</u>	<u>8,500,005</u>	<u>7,574,926</u>
Gross outstanding liabilities	=====	=====	=====	=====	=====	=====

The above table does not include cumulative claims for life insurance.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)****28. Insurance risk (continued)***28.5 Concentration of insurance risk*

Substantially all the Company's underwriting business are carried out in the United Arab Emirates (U.A.E.).

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

To minimise its exposure to significant losses from reinsurer insolvencies, the Company 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 Company from its obligations to policyholders. The Company 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.

*28.6 Sensitivity of underwriting profit*

The contribution by the insurance operations to the profit of the Company is AED 8,068,328 for the year ended 31 December 2014 (2013: AED 22,550,791). The Company does not foresee any adverse change in the contribution of insurance profit due to the following reasons:

- The Company has an overall risk retention level of 43% (2013: 45%) and this is mainly due to low retention levels in general accident, fire and engineering. However, for other lines of business, the Company is adequately covered by excess of loss reinsurance programs to guard against major financial impact.
- The Company has commission income of AED 14,265,044 (2013: AED 13,665,795) predominantly from the reinsurance placement which remains a comfortable source of income.

Because of low risk retention of 44% (2013: 45%) of the volume of the business and limited exposure in high retention areas such as motor, the Company is comfortable to maintain an overall net loss ratio of 78% (2013: 68 %) and does not foresee any serious financial impact in the net underwriting profit.

**29. Capital risk management**

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of Its Operations. The Company manages its capital on a basis of 100% of its minimum regulatory capital requirement presented in the table below.
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the Shareholders and benefits for other stakeholders; and
- to provide an adequate return to the Shareholders by pricing insurance contracts commensurately with the level of risk.

The Company is financed by its shareholders. The Company's capital structure is regularly reviewed to ensure that it remains relevant to the business and its plans for growth. Management has a reasonable expectation that the Company has adequate resources to continue operating in the foreseeable future.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**29. Capital risk management (continued)**

In the UAE, the local insurance regulator specifies the minimum amount and type of capital that must be held by the Company in addition to its insurance liabilities. The minimum required capital (presented in the table below) must be maintained at all times throughout the year.

	<b>2014 AED</b>	2013 AED
Minimum regulatory capital	<b>100,000,000</b>	100,000,000
Total paid up capital	<b>100,000,000</b>	100,000,000

The UAE Insurance Authority has issued resolution no. 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing insurance firms and AED 250 million for re-insurance firms. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies. The Company is in compliance with the minimum capital requirements.

**30. Financial instruments**

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term, its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The risks that the Company primarily faces due to the nature of its investments and underwriting business are interest rate risk, foreign currency risk, and market price risk, credit risk and liquidity risk.

**30.1 Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**30. Financial instruments (continued)**

**30.2 Categories of financial instruments**

	<b>2014</b>	2013
	<b>AED</b>	AED
<b>Financial assets</b>		
Investments designated at FVTOCI	<b>7,674,368</b>	32,255,892
Financial investments at amortised cost	<b>97,359,639</b>	36,070,067
Statutory deposits	<b>10,000,000</b>	10,000,000
Insurance and other receivables (excluding prepayments)	<b>71,561,810</b>	63,407,804
Policyholders' loans	<b>48,661,900</b>	47,334,317
Deposits at amortised cost	<b>709,115,356</b>	715,125,372
Cash and cash equivalents	<b>21,877,280</b>	26,671,117
	<hr/>	<hr/>
Total	<b>966,250,353</b>	930,864,569
	<hr/> <hr/>	<hr/> <hr/>
<b>Financial liabilities</b>		
Insurance and other payables (excluding premium and rent received in advance)	<b>101,411,207</b>	100,336,128
	<hr/> <hr/>	<hr/> <hr/>

Management considers that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values, except for the financial investments at amortised cost and disclosed in note 7.3 of these financial statements.

**30.3 Fair value measurement**

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the reporting date.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.



**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**30. Financial instruments (continued)**

**30.3 Fair value measurement (continued)**

*30.3.1 Fair value of the Company's financial assets that are measured at fair value on recurring basis*

Some of the Company's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined;

<b>Financial investments at FVTOCI</b>	<b>31 December 2014 AED</b>	<b>Fair value as at 31 December 2013 AED</b>	<b>Fair value hierarchy</b>	<b>Valuation techniques and key inputs</b>	<b>Significant unobservable input</b>	<b>Relationship of unobservable inputs to fair value</b>
Quoted equity securities and funds	<b>7,632,018</b>	32,213,542	Level 1	Quoted bid prices in an active market.	None.	NA
Unquoted equity securities	<b>42,350</b>	42,350	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information.	Net assets value.	Higher the net assets value of the investees, higher the fair value.

*30.3.2 Fair value hierarchy*

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

**At 31 December 2014**

<b>Financial assets</b>	<b>Level 1 AED</b>	<b>Level 2 AED</b>	<b>Level 3 AED</b>	<b>Total AED</b>
<b>At fair value through other comprehensive income</b>				
Equity securities - quoted	<b>7,632,018</b>	-	-	<b>7,632,018</b>
Equity securities - unquoted	-	-	<b>42,350</b>	<b>42,350</b>
	<b>7,632,018</b>	-	<b>42,350</b>	<b>7,674,368</b>

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**30. Financial instruments (continued)**

**30.3 Fair value measurement (continued)**

*30.3.2 Fair value hierarchy (continued)*

At 31 December 2013

Financial assets	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
At fair value through other comprehensive income				
Equity securities and funds - quoted	32,213,542	-	-	32,213,542
Equity securities - unquoted	-	-	42,350	42,350
	<u>32,213,542</u>	<u>-</u>	<u>42,350</u>	<u>32,255,892</u>

There was no movements in level 3 of the financial assets measured at fair values during the year of 2014 and 2013.

There were no transfers between each of level during the year. There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table.

**30.4 Market risk management**

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

*30.4.1 Interest rate risk management*

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income of the Company. The Company is exposed to interest rate risk on its financial investments in bonds and deposits that carry fixed interest rates.

The Company generally manages to minimise the interest rate risk by closely monitoring the market interest rates and investing in those financial assets in which such risk is expected to be minimal.

*30.4.2 Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for interest-bearing financial assets assuming the amount of assets at the end of the reporting period were outstanding for the whole year.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2014 would increase/decrease by AED 2.9 million (2013: AED 3.1 million).

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)****30. Financial instruments (continued)****30.4 Market risk management (continued)***30.4.3 Foreign currency risk management*

There are no significant foreign currency risks as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams or United State Dollars to which Dirham is fixed.

*30.4.4 Market price risk management*

Market price 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 Company is exposed to market price risk with respect to their quoted investments. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Company actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Company's other comprehensive income would have increased/decreased by AED 763,202 (2013: AED 3,221,354) in the case of the financial investments at fair value through other comprehensive income.

*Method and assumptions for sensitivity analysis;*

- The sensitivity analysis has been done based on the exposure to equity price risk as at the end of the reporting period.
- As at the end of the reporting period if equity prices are 10% higher/lower on the market value uniformly for all equity while all other variables are held constant, the impact on other comprehensive income has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

**30.5 Credit risk management**

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company.

Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from banks for bank balances and fixed deposits

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)****30. Financial instruments (continued)****30.5 Credit risk management (continued)**

The Company has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of their 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 the management annually.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are registered banks with sound financial positions.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk.

**30.6 Liquidity risk management**

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities at maturity date. The Company manages the liquidity risk through a risk management framework for the Company's short, medium and long-term funding and liquidity management requirements by maintaining adequate reserves, sufficient cash and cash equivalent and bank facilities, to ensure that funds are available to meet their commitments for liabilities as they fall due.

The maturity profile is monitored by management to ensure adequate liquidity is maintained. The table below summarises the maturity profile of the Company's financial assets and liabilities based on remaining contractual obligations including interest receivable and payable.

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**30. Financial instruments (continued)**

**30.6 Liquidity risk management (continued)**

**31 December 2014**

	Statement of financial position AED	Less than 1 year AED	1 to 5 years AED	Over 5 years AED	No maturity date AED	Total AED
<b>Financial assets</b>						
- At fair value through OCI	7,674,368	-	-	-	7,674,368	7,674,368
- At amortised cost	97,359,639	-	97,359,639	-	-	97,359,639
Insurance and other receivables (excluding prepayments)	71,561,810	71,561,810	-	-	-	71,561,810
Policyholders' loans	48,661,900	-	48,661,900	-	-	48,661,900
Deposits at amortised cost	709,115,356	675,001,434	34,113,922	-	-	709,115,356
Statutory deposits	10,000,000	-	-	-	10,000,000	10,000,000
Cash and cash equivalents	21,877,280	21,877,280	-	-	-	21,877,280
<b>Total financial assets</b>	<b>966,250,353</b>	<b>768,440,524</b>	<b>180,135,461</b>	<b>-</b>	<b>17,674,368</b>	<b>966,250,353</b>
<b>Financial liabilities</b>						
Insurance and other payables (excluding rent and premium received in advance)	101,411,207	101,411,207	-	-	-	101,411,207

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**30. Financial instruments (continued)**

**30.6 Liquidity risk management (continued)**

31 December 2013

	Statement of financial position AED	Less than 1 year AED	1 to 5 years AED	Over 5 years AED	No maturity date AED	Total AED
<b>Financial assets</b>						
- At fair value through OCI	32,255,892	-	-	-	32,255,892	32,255,892
- At amortised cost	36,070,067	-	36,070,067	-	-	36,070,067
Insurance and other receivables (excluding prepayments)	63,407,804	63,407,804	-	-	-	63,407,804
Policyholders' loans	47,334,317	-	47,334,317	-	-	47,334,317
Deposits at amortised cost	715,125,372	681,074,365	34,051,007	-	-	715,125,372
Statutory deposits	10,000,000	-	-	-	10,000,000	10,000,000
Cash and cash equivalents	26,671,117	26,671,117	-	-	-	26,671,117
<b>Total financial assets</b>	<b>930,864,569</b>	<b>771,153,286</b>	<b>117,455,391</b>	<b>-</b>	<b>42,255,892</b>	<b>930,864,569</b>
<b>Financial liabilities</b>						
Insurance and other payables (excluding rent and premium received in advance)	100,336,128	100,336,128	-	-	-	100,336,128

**Notes to the financial statements  
for the year ended 31 December 2014 (continued)**

**31. Comparative amounts**

The following amounts in the statement of financial position for the year ended 31 December 2013 have been reclassified to conform to the current year presentation.

	<b>As previously reported as at 31 December 2013 AED</b>	<b>Reclassifications AED</b>	<b>As reclassified as at 31 December 2013 AED</b>
Retained earnings	35,359,714	183,326	35,543,040
Cumulative changes in fair value of investments designated at FVTOCI	(6,235,086)	(183,326)	(6,418,412)
	<u>29,124,628</u>	<u>-</u>	<u>29,124,628</u>

There was no impact on the reported profit for the year ended 31 December 2013 due to the above reclassifications.

**32. Dividends**

The Board of Directors has proposed cash dividends of AED 25 million (AED 25 per share) for the year ended 31 December 2014 (2013: AED 25 million, AED 25 per share) to be paid to the shareholders in 2015. The proposed dividends are subject to the approval of the Shareholders at the Annual General Meeting and therefore, have not been included as a liability in these financial statements.

At the Annual General Meeting held on 23 March 2014, the Shareholders approved cash dividends of 25% which is AED 25 per share amounting to AED 25 million for 2013 (2013: 15% which is AED 15 per share amounting to AED 15 million).

**33. Approval of the financial statements**

The financial statements were approved by the Board of Directors and authorised for issue on 4 March 2015.