

SHARJAH INSURANCE COMPANY P.S.C.

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

SHARJAH INSURANCE COMPANY P.S.C.

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Sharjah Insurance Company P.S.C.
Sharjah, United Arab Emirates

Report on the Financial Statements

We have audited the accompanying financial statements of **Sharjah Insurance Company P.S.C. (the "Company")**, Sharjah, United Arab Emirates which comprise the statement of financial position as at 31 December 2014, and the statement of income, 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 judgement, 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 **Sharjah Insurance Company P.S.C., Sharjah, 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. We have obtained all the 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.

Deloitte & Touche (M.E.)



Samir Madbak
Registration No 386
7 March 2015

Statement of financial position
At 31 December 2014

	Notes	2014 AED	2013 AED
ASSETS			
Non-current assets			
Property and equipment	5	1,322,495	1,826,273
Investment properties	6	35,953,090	53,225,090
Investments designated at fair value through other comprehensive income (FVTOCI)	7.1	274,821,694	289,743,859
Statutory deposit	8	2,500,000	2,500,000
Total non-current assets		314,597,279	347,295,222
Current assets			
Reinsurance contract assets	9	34,705,082	42,744,249
Insurance and other receivables	10	70,465,113	75,618,246
Investments at fair value through profit or loss (FVTPL)	7.2	31,186,408	-
Bank balances and cash	11	15,322,715	16,448,976
Total current assets		151,679,318	134,811,471
Total assets		466,276,597	482,106,693
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	137,500,000	137,500,000
Statutory reserve	13.1	40,524,342	39,955,469
General reserve	13.2	30,000,000	30,000,000
Cumulative change in fair value of financial investments designated at FVTOCI		(20,562,257)	(21,495,501)
Retained earnings		125,900,910	119,358,117
Total equity		313,362,995	305,318,085
Non-current liabilities			
Provision for employees' end of service indemnity	14	2,377,645	2,003,289
Current liabilities			
Insurance contract liabilities	9	65,994,283	76,121,586
Insurance and other payables	15	59,500,437	60,405,309
Bank overdrafts	16	25,041,237	38,258,424
Total current liabilities		150,535,957	174,785,319
Total liabilities		152,913,602	176,788,608
Total equity and liabilities		466,276,597	482,106,693



Chairman



Vice Chairman



Managing Director

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

Statement of income
For the year ended 31 December 2014

	Notes	2014 AED	2013 AED
Insurance premium revenue	17	77,825,356	88,344,434
Insurance premium ceded to reinsurers	17	(41,920,660)	(51,173,714)
Net insurance premium revenue	17	35,904,696	37,170,720
Gross claims incurred	9	(69,872,143)	(68,953,670)
Reinsurance share of claims incurred	9	13,493,824	22,984,035
Net claims incurred	9	(56,378,319)	(45,969,635)
Net commission earned		9,825,819	13,110,184
Underwriting (loss)/profit		(10,647,804)	4,311,269
General and administrative expenses relating to underwriting activities		(9,421,175)	(10,092,952)
Net underwriting loss		(20,068,979)	(5,781,683)
Investment and other income	18	29,309,239	15,781,911
Finance costs		(1,432,533)	(1,932,398)
Unallocated general and administrative expenses		(2,118,995)	(2,718,929)
Profit for the year	19	5,688,732	5,348,901
Basic earnings per share	20	0.04	0.04

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

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

	2014	2013
	AED	AED
Profit for the year	5,688,732	5,348,901
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Net fair value gain on investments designated at FVTOCI	10,199,540	103,403,095
Gain on sale of investments designated at FVTOCI	5,906,638	11,396,655
Total other comprehensive income for the year	16,106,178	114,799,750
Total comprehensive income for the year	21,794,910	120,148,651

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

SHARJAH INSURANCE COMPANY P.S.C.

Statement of changes in equity
For the year ended 31 December 2014

	Share capital AED	Statutory reserve AED	General reserve AED	Cumulative change in fair value of financial investments designated at FVTOCI AED	Retained earnings AED	Total AED
Balance at 31 December 2012	137,500,000	39,420,579	30,000,000	(122,735,097)	114,733,952	198,919,434
Profit for the year	-	-	-	-	5,348,901	5,348,901
Other comprehensive income	-	-	-	103,403,095	11,396,655	114,799,750
Total comprehensive income for the year	-	-	-	103,403,095	16,745,556	120,148,651
Transfer to retained earnings on disposal of investments designated at FVTOCI	-	-	-	(2,163,499)	2,163,499	-
Transfer to statutory reserve	-	534,890	-	-	(534,890)	-
Dividends (Note 28)	-	-	-	-	(13,750,000)	(13,750,000)
Balance at 31 December 2013	137,500,000	39,955,469	30,000,000	(21,495,501)	119,358,117	305,318,085
Profit for the year	-	-	-	-	5,688,732	5,688,732
Other comprehensive income	-	-	-	10,199,540	5,906,638	16,106,178
Total comprehensive income for the year	-	-	-	10,199,540	11,595,370	21,794,910
Transfer to retained earnings on disposal of investments designated at FVTOCI	-	-	-	(9,266,296)	9,266,296	-
Transfer to statutory reserve	-	568,873	-	-	(568,873)	-
Dividends (Note 28)	-	-	-	-	(13,750,000)	(13,750,000)
Balance at 31 December 2014	137,500,000	40,524,342	30,000,000	(20,562,257)	125,900,910	313,362,995

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

Statement of cash flows
For the year ended 31 December 2014

	2014 AED	2013 AED
Cash flows from operating activities		
Profit for the year	5,688,732	5,348,901
Adjustments for:		
Depreciation of property and equipment	576,220	604,006
Provision for employees' end of service indemnity	571,357	137,629
Investment income	(28,862,158)	(15,664,414)
Allowance for doubtful debts	-	681,857
Reversal of allowance for doubtful debts	-	(1,911,446)
Finance costs	1,432,533	1,932,398
Property and equipment written off	1,902	5,037
Operating cash flows before changes in operating assets and liabilities	(20,591,414)	(8,866,032)
Decrease in reinsurance contract assets	8,039,167	28,412,095
Decrease in insurance contract liabilities	(10,127,303)	(27,086,636)
Decrease/(increase) in insurance and other receivables	5,153,133	(16,593,357)
(Decrease)/increase in insurance and other payables	(1,041,777)	491,807
Cash used in operations	(18,568,194)	(23,642,123)
Employees' end of service indemnity paid	(197,001)	(214,737)
Interest paid	(1,432,533)	(1,932,398)
Net cash used in operating activities	(20,197,728)	(25,789,258)
Cash flows from investing activities		
Purchase of property and equipment	(74,344)	(396,842)
Purchase of investment properties	(408,000)	(272,000)
Purchase of investments designated at FVTOCI	(1,142,175)	(2,400,953)
Purchase of investments at FVTPL	(67,144,927)	-
Proceeds from disposal of investments designated at FVTOCI	32,170,518	24,706,449
Proceeds from disposal of investments at FVTPL	37,887,313	-
Proceeds from sale of investment properties	30,000,000	-
Interest received	57,004	81,312
Dividends received	11,418,846	11,570,364
Income from investment properties	3,137,514	4,012,738
Net cash generated from investing activities	45,901,749	37,301,068
Cash flows from financing activities		
(Decrease)/increase in bank overdrafts	(13,217,187)	9,992,139
Dividends paid	(13,613,095)	(13,647,504)
Net cash used in financing activities	(26,830,282)	(3,655,365)
Net (decrease)/increase in cash and cash equivalents	(1,126,261)	7,856,445
Cash and cash equivalents at the beginning of the year	13,948,976	6,092,531
Cash and cash equivalents at the end of the year (Note 21)	12,822,715	13,948,976

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

Sharjah Insurance Company P.S.C. - Sharjah (the "Company") is incorporated as a public shareholding company by an Amiri Decree issued by His Highness, The Ruler of Sharjah on 8 March 1970 and is registered under Federal Law No. 8 of 1984 (as amended) relating to commercial companies in U.A.E. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its Operations and is registered in the Insurance Companies register of Insurance Authority of U.A.E. under registration No.12. The Company operates through its head office in Sharjah and has branches in Dubai and Ajman. The address of the Company's registered office is P.O. Box 792, Sharjah, United Arab Emirates.

The principal activity of the Company is dealing in all types of insurance including life assurance. The Company mainly carries out general insurance business.

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:

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • 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)

New and revised IFRSs

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

- IFRS 7 *Financial Instruments*: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9. When IFRS 9 is first applied
- IFRS 9 *Financial Instruments* (2014) 1 January 2018

Finalised version of IFRS 9 (IFRS 9 *Financial Instruments* (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.

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.

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.

- IFRS 15 *Revenue from Contracts with Customers* 1 January 2017
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 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

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:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

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)

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • IFRS 15 Revenue from Contracts with Customers (continued) <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"> • Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34. 	1 January 2016
<ul style="list-style-type: none"> • Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortization. 	1 January 2016
<ul style="list-style-type: none"> • Amendments to IFRS 11 to clarify accounting for acquisitions of Interests in Joint Operations. 	1 January 2016
<ul style="list-style-type: none"> • Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16. 	1 January 2016
<ul style="list-style-type: none"> • Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business. 	1 January 2016
<ul style="list-style-type: none"> • 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. 	1 January 2016
<ul style="list-style-type: none"> • Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities. 	1 January 2016
<ul style="list-style-type: none"> • Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. 	1 January 2016
<ul style="list-style-type: none"> • 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. 	1 July 2014
<ul style="list-style-type: none"> • Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40. 	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)

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • 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. 	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. 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 the United Arab Emirates (U.A.E.) Federal Law No. 8 of 1984 (as amended) and the 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. 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 Definition

The Company issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

3.3.2 Recognition and measurement

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

3.3.3 Short-term insurance contracts

These contracts are casualty, property and short-duration life insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non contractual events.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Short-duration life insurance contracts protect the Company's customers from the consequences of events that would affect on the ability of the customer or customer's dependents to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these 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.

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

3. Significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.3 Short-term insurance contracts (continued)

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

3.3.4 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 classified 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 with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Company reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

3.3.5 Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the end of the reporting period, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprises the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the reporting date and is estimated using 1/8th method. The unearned premium calculated by the above method (after reducing the reinsurance share) complies with the minimum unearned premium amounts to be maintained using 25% and 40% method for marine and non-marine business respectively, as required by U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its operations.

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

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

3. Significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.6 Salvage and subrogation reimbursements

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

3.3.7 Liability adequacy test

At the end of each reporting period, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision is created.

3.3.8 Receivables and payables related to insurance contracts

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets

3.4 Revenue recognition

3.4.1 Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements (Note 3.3).

3.4.2 Interest income

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 the asset's net carrying amount.

3.4.3 Dividend income

Dividend income from investments is recognised when the Company's rights to receive payment have been established.

3.4.4 Rental income

Rental income from investment property which are leased under operating leases are recognised on a straight-line basis over the term of the relevant lease.

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

3. Significant accounting policies (continued)

3.5 General and administrative expenses

85% of general and administrative expenses for the year are allocated to insurance departments in proportion to each department's share of written premium.

3.6 Foreign currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in 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 recorded 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

3.7 Employee benefits

3.7.1 Defined contribution plan

U.A.E. 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.

3.7.2 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.

3.7.3 Provision for employees' end of service indemnity

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

The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service indemnity is disclosed as a non-current liability.

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

3. Significant accounting policies (continued)

3.8 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets 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.

The 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 all the assets are 4 - 5 years.

3.9 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.

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

3.10 Impairment of tangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

3. Significant accounting policies (continued)

3.10 Impairment of tangible 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 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 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.

3.11 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 the 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.

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.

3.12 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.13 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.

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

3. Significant accounting policies (continued)

3.14 Financial assets

All financial assets are recognised and derecognised on trade date where 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, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

Financial assets of the Company are classified into the following specified categories: cash and cash equivalents, 'financial assets measured at fair value through other comprehensive income (FVTOCI)', financial assets at fair value through profit and loss (FVTPL) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

3.14.1 Bank balances and cash

Bank balances and cash comprise cash on hand and fixed deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3.14.2 Financial investments designated at fair value through other comprehensive income (FVTOCI)

At 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 in equity instruments 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 in equity. Fair value is determined in the manner described in Note 26. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the cumulative changes in fair value of securities in equity is not reclassified to profit or loss, but is reclassified to retained earnings.

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.

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

3. Significant accounting policies (continued)

3.14 Financial assets (continued)

3.14.3 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).

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 26.

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.

3.14.4 Loans and receivables

Insurance and other receivables (excluding prepayments) that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are initially measured at fair value, plus transaction costs and subsequently 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.

3.14.5 Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, 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.

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

3. Significant accounting policies (continued)

3.14 Financial assets (continued)

3.14.5 Impairment of financial assets (continued)

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.

3.14.6 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or 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.

3.15 Financial liabilities and equity instruments issued by the Company

3.15.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.15.2 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 recorded at the proceeds received, net of direct issue costs.

3.15.3 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Company does not have any financial liabilities measured at FVTPL.

3.15.4 Other financial liabilities

Insurance and other payables are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except for short term payable when 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 through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

3. Significant accounting policies (continued)

3.15 Financial liabilities and equity instruments issued by the Company (continued)

3.15.5 Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

3.15.6 Dividend distribution

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3 to these financial statements, management is required to make judgments, 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.

4.1 Critical accounting judgements

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 decides on acquisition of an investment whether it should be classified as FVTPL or FVTOCI. The Company classifies investments at FVTPL if they are acquired primarily for the purpose of making a short term profit by the dealers.

Equity instruments are classified as financial assets measured at FVTOCI when they are considered by management to be strategic equity investments that are not held to benefit from changes in their fair value and are not held for trading.

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.

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

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

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 both for the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of each reporting period. 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.

4.2.2 Impairment of insurance receivables

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Company evaluating, the credit and liquidity position of the policyholders and the insurance companies, historical recovery rates including detailed investigations carried out during 2014 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the profit or loss at the time of collection.

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 Valuation of unquoted equity instruments

Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models. In the absence of an active market for these investments or any recent transactions that could provide evidence of the current fair value, management estimates the fair value of these instruments using expected cash flows discounted at current rates for similar instruments or other valuation models.

4.2.5 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.

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

5. Property and equipment

	Decoration and office improvements AED	Furniture and office equipments AED	Total AED
Cost			
At 31 December 2012	1,949,075	2,253,826	4,202,901
Additions during the year	104,150	292,692	396,842
Written off during the year	(322,975)	(358,499)	(681,474)
	<u>1,730,250</u>	<u>2,188,019</u>	<u>3,918,269</u>
At 31 December 2013	1,730,250	2,188,019	3,918,269
Additions during the year	-	74,344	74,344
Written off during the year	(9,775)	(317,098)	(326,873)
	<u>1,720,475</u>	<u>1,945,265</u>	<u>3,665,740</u>
At 31 December 2014			
Accumulated depreciation			
At 31 December 2012	418,977	1,745,450	2,164,427
Charge for the year	328,787	275,219	604,006
Written off during the year	(321,284)	(355,153)	(676,437)
	<u>426,480</u>	<u>1,665,516</u>	<u>2,091,996</u>
At 31 December 2013	426,480	1,665,516	2,091,996
Charge for the year	328,150	248,070	576,220
Written off during the year	(9,775)	(315,196)	(324,971)
	<u>744,855</u>	<u>1,598,390</u>	<u>2,343,245</u>
At 31 December 2014			
Carrying amount			
At 31 December 2014	<u>975,620</u>	<u>346,875</u>	<u>1,322,495</u>
	<u>1,303,770</u>	<u>522,503</u>	<u>1,826,273</u>
At 31 December 2013	1,303,770	522,503	1,826,273

At 31 December 2014, the cost of fully depreciated property and equipment that was still in use amounted to AED 1,137,802 (2013: AED 1,212,192).

6. Investment properties

	2014 AED	2013 AED
Fair value at the beginning of the year	53,225,090	52,953,090
Additions during the year	408,000	272,000
Disposal during the year	(17,680,000)	-
	<u>35,953,090</u>	<u>53,225,090</u>
Fair value at the end of the year	<u>35,953,090</u>	<u>53,225,090</u>

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

6. Investment properties (continued)

Investment properties are stated at fair value and are located in U.A.E.. Fair value represents the amounts at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of the valuation. Valuations are performed on a periodic basis, at least annually, and the fair value gains and losses are recorded in the profit or loss.

The fair value of the Company's investments properties as at 31 December 2014 and 31 December 2013 has been arrived at on the basis of valuations carried on the respective dates by independent valuers who are not related to the Company and have 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. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Investment properties includes properties mortgaged to Insurance Authority of U.A.E. amounting to AED 16.3 million (2013: AED 16.3 million) in accordance with the requirements of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its operations (Note 8).

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

As at 31 December 2014, no properties are pledged against bank overdrafts (2013: AED 17.3 million) (Note 16).

The property rental income earned by the Company from its investment properties and the direct operating expenses related to the investment properties are as follows:

	2014	2013
	AED	AED
Rental income	3,241,606	4,269,901
Direct operating expenses	(104,092)	(257,163)
Income from investment property (Note 18)	3,137,514	4,012,738

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

7. Financial investments

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

7.1 Financial investments designated at FVTOCI

	2014 AED	2013 AED
Quoted securities	269,148,499	284,010,303
Unquoted securities	5,673,195	5,733,556
	<u>274,821,694</u>	<u>289,743,859</u>

Financial investments at FVTOCI with fair value of AED 47.9 million (2013: AED 44 million) are pledged to the bank against credit facility granted to the Company (see Note 16).

The geographical classification of the investments is as follows:

	2014 AED	2013 AED
Within U.A.E.	216,029,679	218,342,935
In other GCC countries	58,792,015	71,400,924
	<u>274,821,694</u>	<u>289,743,859</u>

7.2 Financial investments at FVTPL

	2014 AED	2013 AED
Quoted securities in U.A.E.	31,186,408	-

The movements in financial investments are as follows:

	At fair value through other comprehensive income		At fair value through profit or loss	
	2014 AED	2013 AED	2014 AED	2013 AED
Fair value, at the beginning of the year	289,743,859	197,249,605	-	-
Purchased during the year	1,142,175	2,400,953	67,144,927	-
Disposals during the year	(26,263,880)	(13,309,794)	(32,680,013)	-
Change in fair value	10,199,540	103,403,095	(3,278,506)	-
Fair value, at the end of the year	<u>274,821,694</u>	<u>289,743,859</u>	<u>31,186,408</u>	<u>-</u>

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

8. Statutory deposit

In accordance with the requirements of Federal Law No. 6 of 2007, on Establishment of Insurance Authority of U.A.E. and Organisation of its operations, the Company maintains a bank deposit of AED 2,500,000 (31 December 2013: AED 2,500,000) as a statutory deposit. In addition to the aforementioned fixed deposit there are investment properties with a fair value amounting to AED 16.3 million (2013: AED 16.3 million) pledged to Insurance Authority (see note 6).

9. Insurance contract liabilities and reinsurance contract assets

	2014	2013
	AED	AED
Gross		
Insurance contract liabilities		
Claims reported unsettled	33,933,870	40,571,992
Claims incurred but not reported	3,543,268	3,058,175
Unearned premium	28,517,145	32,491,419
Total insurance contract liabilities, gross	65,994,283	76,121,586
Recoverable from reinsurers		
Re-insurance contract assets		
Claims reported unsettled	19,048,022	27,938,168
Unearned premium	15,657,060	14,806,081
Total reinsurers' share of insurance liabilities	34,705,082	42,744,249
Net		
Claims reported unsettled	14,885,848	12,633,824
Claims incurred but not reported	3,543,268	3,058,175
Unearned premium	12,860,085	17,685,338
	31,289,201	33,377,337

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

9. Insurance contract liabilities and reinsurance contract assets (continued)

Movements in the insurance contract liabilities and reinsurance contract assets during the year were as follows:

	2014			2013		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
Claims						
Notified claims	40,571,992	(27,938,168)	12,633,824	64,549,603	(49,607,527)	14,942,076
Incurred but not reported	3,058,175	-	3,058,175	3,938,885	-	3,938,885
Total at the beginning of the year	43,630,167	(27,938,168)	15,691,999	68,488,488	(49,607,527)	18,880,961
Claims settled in the year	(76,025,172)	22,383,970	(53,641,202)	(93,811,991)	44,653,394	(49,158,597)
Increase in liabilities	69,872,143	(13,493,824)	56,378,319	68,953,670	(22,984,035)	45,969,635
Total at the end of the year	37,477,138	(19,048,022)	18,429,116	43,630,167	(27,938,168)	15,691,999
Notified claims						
Incurred but not reported	33,933,870	(19,048,022)	14,885,848	40,571,992	(27,938,168)	12,633,824
	3,543,268	-	3,543,268	3,058,175	-	3,058,175
Total at the end of the year	37,477,138	(19,048,022)	18,429,116	43,630,167	(27,938,168)	15,691,999
Unearned premium						
Total at the beginning of the year	32,491,419	(14,806,081)	17,685,338	34,719,734	(21,548,817)	13,170,917
Increase during the year	28,517,145	(15,657,060)	12,860,085	32,491,419	(14,806,081)	17,685,338
Release during the year	(32,491,419)	14,806,081	(17,685,338)	(34,719,734)	21,548,817	(13,170,917)
Net ((decrease)/increase during the year (Note 17))	(3,974,274)	(850,979)	(4,825,253)	(2,228,315)	6,742,736	4,514,421
Total at the end of the year	28,517,145	(15,657,060)	12,860,085	32,491,419	(14,806,081)	17,685,338

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

10. Insurance and other receivables

	2014 AED	2013 AED
Receivables arising from insurance and reinsurance contracts		
Due from policyholders	38,307,810	39,179,494
Allowance for doubtful debts	(1,341,252)	(1,341,252)
	<u>36,966,558</u>	<u>37,838,242</u>
Due from local insurance companies	15,614,109	15,922,539
Due from foreign insurance companies	16,404,752	20,448,821
Due from brokers	999,769	1,021,457
Allowance for doubtful debts	(1,896,717)	(1,896,717)
	<u>31,121,913</u>	<u>35,496,100</u>
Other receivables		
Prepayments and others	2,376,642	2,283,904
	<u>70,465,113</u>	<u>75,618,246</u>

The average credit period is 120 days. Due from policyholders outstanding between 180 days and 365 days are provided for (other than for government related entities) based on estimated irrecoverable amounts determined by reference to past default experience.

Before accepting any new customer, the Company assesses the potential customers' credit quality and defines credit limits by customer. Of the due from policyholders balance at the end of year, AED 14.1 million (2013: AED 15.2 million) is due from the Company's largest customer. There is 1 (2013: 1) other customer who represents 18% (2013: 17%) of the total balance due from policyholders at the end of the reporting period.

Included in the Company's due from policyholders balance receivable balances with a carrying amount of AED 22.6 million (2013: AED 30 million) which are past due at the reporting date for which the Company has not considered provision for impairment as there has not been a significant change in credit quality and the amounts are still considered recoverable.

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

10. Insurance and other receivables (continued)

Ageing of insurance receivables:

	2014	2013
	AED	AED
Neither past due nor impaired	19,001,352	30,124,115
Past due but not impaired:		
180 to 365 days	23,948,652	29,320,323
More than 365 days	25,138,467	13,889,904
	49,087,119	43,210,227
Past due and impaired – policyholders and insurance companies	3,237,969	3,237,969
Total	71,326,440	76,572,311
Due from government related entities included in above	22,603,814	30,081,071

Movements in allowance for doubtful debts:

	2014	2013
	AED	AED
Balance at the beginning of the year	3,237,969	4,467,558
Allowances made during the year	-	681,857
Reversal during the year	-	(1,911,446)
Balance at the end of the year	3,237,969	3,237,969

In determining the recoverability of an insurance receivable, the Company considers any change in the credit quality of the insurance receivable from the date credit was initially granted up to the reporting date.

The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the available allowance for doubtful debts.

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

11. Bank balances and cash

	2014	2013
	AED	AED
Fixed deposits under lien	2,500,000	2,500,000
Call accounts	113,040	10,594,682
Current accounts and cash	12,709,675	3,354,294
	<u>15,322,715</u>	<u>16,448,976</u>

Fixed deposits are under lien against credit facilities granted to the Company (Note 16).

The interest rate on fixed deposits with banks is 1% to 1.2% (2013: 1% to 1.4%) per annum. All fixed deposits are held in local banks in the United Arab Emirates.

Bank balances are held

	2014	2013
	AED	AED
Within U.A.E.	12,553,361	15,386,621
Outside U.A.E	2,769,354	1,062,355
	<u>15,322,715</u>	<u>16,448,976</u>

12. Share capital

	2014	2013
	AED	AED
Authorised, issued and fully paid:		
137.5 million ordinary shares of AED 1 each		
(2013: 137.5 million ordinary shares of AED 1 each)	137,500,000	137,500,000
	<u>137,500,000</u>	<u>137,500,000</u>

13. Reserves

13.1 Statutory reserve

In accordance with U.A.E. Federal Commercial Companies Law Number 8 of 1984, as amended, the Company has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law.

13.2 General reserve

The general reserve is established through transfers from profit for the year as recommended by the Board of Directors and approved by the Shareholders at the Annual General Meeting. The reserve is distributable based on a recommendation by the Board of Directors, approved by a Shareholders' resolution.

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

14. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2014 AED	2013 AED
Balance at the beginning of the year	2,003,289	2,080,397
Amounts charged to income during the year	571,357	137,629
Amounts paid during the year	(197,001)	(214,737)
	2,377,645	2,003,289

15. Insurance and other payables

	2014 AED	2013 AED
Payables arising from insurance and reinsurance contracts:		
Trade payables	11,915,308	10,289,999
Due to insurance companies	37,388,623	38,772,386
Due to brokers	295,369	729,722
Premium reserve withheld	1,979,682	3,384,100
	51,578,982	53,140,207
Other payables		
Accrued expenses and provisions	4,193,348	3,673,899
Unclaimed dividends	2,224,788	2,087,883
Other payables	1,503,319	1,503,320
	59,500,437	60,405,309

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

16. Bank overdrafts

The bank overdrafts are secured by lien over fixed deposit of AED 2.5 million (2013: AED 2.5 million) (Note 11) and pledge over investments designated at FVTOCI having a fair value of AED 47.9 million (2013: AED 44 million) (Note 7).

At 31 December 2014, no properties are pledged against bank overdrafts (2013: AED 17.3 million) (Note 6).

17. Net insurance premium revenue

	2014	2013
	AED	AED
Gross premium written		
Gross premium written	73,851,082	86,116,119
Change in unearned premium (Note 9)	3,974,274	2,228,315
	<u>77,825,356</u>	<u>88,344,434</u>
Reinsurance premium ceded		
Reinsurance premium ceded	(42,771,639)	(44,430,978)
Change in unearned premium (Note 9)	850,979	(6,742,736)
	<u>(41,920,660)</u>	<u>(51,173,714)</u>
Net insurance premium revenue	<u>35,904,696</u>	<u>37,170,720</u>

18. Investment and other income

	2014	2013
	AED	AED
Profit from disposal of financial investments at FVTPL	5,207,300	-
Unrealised loss on financial investments at FVTPL	(3,278,506)	-
Dividends from investments	11,418,846	11,570,364
Income from investment property (Note 6)	3,137,514	4,012,738
Profit from disposal of investment properties	12,320,000	-
Interest on bank deposits	57,004	81,312
Other investment income	115,757	-
	<u>28,977,915</u>	<u>15,664,414</u>
Other income	331,324	117,497
	<u>29,309,239</u>	<u>15,781,911</u>

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

19. Profit for the year

Profit for the year has been arrived at after charging the following expenses:

	2014	2013
	AED	AED
Staff costs	6,269,353	5,983,183
Depreciation of property and equipment	576,220	604,007

20. Basic earnings per share

	2014	2013
Profit for the year (AED)	5,688,732	5,348,901
Number of shares	137,500,000	137,500,000
Basic earnings per share (AED)	0.04	0.04

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

21. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks net of fixed deposits in banks with maturity over three months. Cash and cash equivalents at the end of the year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2014	2013
	AED	AED
Bank balances and cash (see Note 11)	15,322,715	16,448,976
Fixed deposit under lien (see Note 11)	(2,500,000)	(2,500,000)
Cash and cash equivalents	12,822,715	13,948,976

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

22. 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.

At the end of the reporting period, amounts due from/to related parties included under due from policyholders and gross outstanding claims were as follows:

	2014	2013
	AED	AED
Due from policyholders	803,411	846,018
Due to policyholders	445,682	113,123

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received and no expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

Transactions:

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

	2014	2013
	AED	AED
Sale of investment properties	30,000,000	-
Gross premium written	1,686,200	1,808,371
Claims paid	1,022,230	2,221,431
Rent paid	745,000	745,000

Premiums are charged to related parties at rates agreed with the management.

Compensation of board of directors/key management personnel

	2014	2013
	AED	AED
Short-term benefits	600,000	600,000
Long-term benefits	25,000	18,480
Directors' fees	-	200,000

23. Contingent liabilities

	2014	2013
	AED	AED
Letters of guarantee	126,000	128,530

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

24. 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.

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 carrying 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.

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.

24.1 Frequency and severity of claims

The Company has the right not to renew individual policies, re-price the risk, impose deductibles and 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).

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 limit of AED 200,000 in any one policy. 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.

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

24. Insurance risk (continued)

24.2 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.

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 reporting date.

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 reinsurance) are analysed below by type of risk where the insured operates for current and prior year premiums earned.

	2014	2013
Type of risk		
Motor	100 – 105%	95 – 100%
Non-motor	75 – 80%	120 – 125%

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

24. Insurance risk (continued)

24.3 Process used to decide on assumptions

The risks associated with these 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 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.

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.

24.4 Concentration of insurance risk

Substantially all of the Company's underwriting activities are carried out in the United Arab Emirates.

The insurance risk before and after reinsurance in relation to the motor and non-motor insurance risk accepted is summarised below:

	2014			2013		
	Type of risk			Type of risk		
	Motor	Non-Motor	Total	Motor	Non-Motor	Total
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
Gross	1,430,179	27,725,220	29,155,399	1,463,406	28,558,065	30,021,471
Net	1,359,124	6,195,938	7,555,062	1,445,686	6,459,207	7,904,893

24.5 Reinsurance risk

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.

24.6 Sensitivity of underwriting profit and losses

The contribution by the insurance operations is a loss of AED 20.1 million for the year ended 31 December 2014 (2013: AED 5.7 million loss). The Company does not foresee any major impact from insurance operations to the Company's results and expects to increase the contribution by insurance operations to the profitability due to the following reasons:

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

24. Insurance risk (continued)

24.6 Sensitivity of underwriting profit and losses (continued)

The Company has an overall retention level of 42.1% (2013: 48.4%) and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 100%. However, in this class, the risk is adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Company earns a net commission income of AED 9.8 million (2013: AED 13.1 million). These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

25. Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its Operations.
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

In U.A.E., Insurance Authority 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. The Company is subject to local insurance solvency regulations with which it has complied with during the year. The Company has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

The table below summarises the minimum required capital of the Company and the total capital held.

	2014	2013
	AED	AED
Total capital held	137,500,000	137,500,000
Minimum regulatory capital	100,000,000	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 reinsurance 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

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

26. 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 most important components of this financial risk are interest rate risk, equity price risk, foreign currency risk and credit risk.

26.1 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.

26.2 Categories of financial instruments

	2014 AED	2013 AED
Financial assets		
Financial investments designated at FVTOCI	274,821,694	289,743,859
Financial investments at FVTPL	31,186,408	-
Statutory deposit	2,500,000	2,500,000
Insurance and other receivables (excluding prepayments)	69,719,301	73,334,342
Bank balances and cash	15,322,715	16,448,976
	<hr/>	<hr/>
Total	393,550,118	382,027,177
	<hr/>	<hr/>
Financial liabilities		
Insurance and other payables	59,500,437	60,405,309
Bank overdrafts	25,041,237	38,258,424
	<hr/>	<hr/>
Total	84,541,674	98,663,733
	<hr/>	<hr/>

Management considers that the carrying amounts of financial assets and financial liabilities recognized at amortised cost in the financial statements approximate their fair values.

26.3 Fair value measurements

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)

26. Financial instruments (continued)

26.3 Fair value measurements (continued)

	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31 December 2014 AED	31 December 2013 AED				
Investment designated at FVTOCI						
Quoted equity securities	269,148,499	284,010,303	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	5,673,195	5,733,556	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets were determined based on the latest available audited/historical financial information.	Net asset value	Higher the net assets, value of the investees, higher the fair value.
Investment at FVTPL						
Quoted equity securities	31,186,408	-	Level 1	Quoted bid prices in an active market.	None	N/A

There were no transfers between each of level during the year.

Below is a reconciliation of movements in level 3 financial assets measured at fair values:

	2014 AED	2013 AED
Balance at the beginning of the year	5,733,556	6,073,717
Disposals during the year	(60,361)	(340,161)
Balance at the end of the year	5,673,195	5,733,556

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

26. Financial instruments (continued)

26.4 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Market risk exposures are measured using sensitivity analysis. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

26.5 Foreign currency risk

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams, other G.C.C. currencies or US Dollars to which the Dirham is fixed.

26.6 Credit risk

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; and
- amounts due from insurance intermediaries;

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 its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by Management annually.

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 collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company.

Insurance receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of insurance receivable.

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

26. Financial instruments (continued)

26.6 Credit risk (continued)

At the end of the reporting period, the Company's maximum exposure to credit risk, from insurance receivables situated outside the U.A.E. were as follows:

	2014	2013
	AED	AED
Europe	5,061,305	13,684,985
Other Arab countries	9,639,261	10,387,102
Other G.C.C. countries	148,574	131,062

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. 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 banks with high credit-ratings assigned by international credit-rating agencies.

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.

26.7 Liquidity risk

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

The table below summarises the maturity profile of the Company's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the financial assets and financial liabilities at the reporting date based on contractual repayment arrangements was as follows:

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

26. Financial instruments (continued)

26.7 Liquidity risk (continued)

	Less than 30 days AED	31-90 days AED	91-180 days AED	181 - 365 days AED	Above 365 days AED	Total AED
31 December 2014						
Financial assets						
Investments designated at						
FVTOCI	-	-	-	-	274,821,694	274,821,694
Financial investment at FVTPL	31,186,408	-	-	-	-	31,186,408
Statutory deposit	-	-	-	-	2,500,000	2,500,000
Insurance and other receivables	12,330,081	16,420,690	9,760,701	20,691,992	10,515,837	69,719,301
Bank balances and cash – non interest bearing	12,709,675	-	-	-	-	12,709,675
Bank balances and cash – interest bearing	113,040	-	-	-	2,500,000	2,613,040
	<u>56,339,204</u>	<u>16,420,690</u>	<u>9,760,701</u>	<u>20,691,992</u>	<u>290,337,531</u>	<u>393,550,118</u>
Financial liabilities						
Insurance and other payables	18,194,329	9,431,435	11,963,091	14,157,532	5,754,050	59,500,437
Bank overdrafts	8,683,309	9,569,585	3,252,894	2,199,186	1,336,263	25,041,237
	<u>26,877,638</u>	<u>19,001,020</u>	<u>15,215,985</u>	<u>16,356,718</u>	<u>7,090,313</u>	<u>84,541,674</u>
31 December 2013						
Financial assets						
Investments designated at						
FVTOCI	-	-	-	-	289,743,859	289,743,859
Statutory deposit	-	-	-	-	2,500,000	2,500,000
Insurance and other receivables	8,846,987	7,425,252	10,614,447	29,320,323	17,127,333	73,334,342
Bank balances and cash – non interest bearing	3,354,294	-	-	-	-	3,354,294
Bank balances and cash – interest bearing	10,594,682	-	-	-	2,500,000	13,094,682
	<u>22,795,963</u>	<u>7,425,252</u>	<u>10,614,447</u>	<u>29,320,323</u>	<u>311,871,192</u>	<u>382,027,177</u>
Financial liabilities						
Insurance and other payables	11,897,466	9,735,258	10,818,753	7,904,883	20,048,949	60,405,309
Bank overdrafts	3,688,702	8,014,044	11,158,707	9,405,195	5,991,776	38,258,424
	<u>50,155,890</u>	<u>9,735,258</u>	<u>10,818,753</u>	<u>7,904,883</u>	<u>20,048,949</u>	<u>98,663,733</u>

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

26. Financial instruments (continued)

26.8 Interest risk

The Company's exposure to interest rate risk relates to its bank deposits and bank overdrafts. At 31 December 2014, bank deposits carried interest at the range of 1 to 1.2% per annum (2013: 1 to 1.4% per annum). The interest rate on bank overdraft ranges between 2.2% to 6.5% per annum (2013: 2.4% to 7% per annum)

If interest rates had been 50 basis points lower throughout the year and all other variables were held constant, the Company's profit for the year ended 31 December 2014 and equity as at 31 December 2014 would increase by approximately AED 125,206 (2013: AED 191,292).

The Company's sensitivity to interest rates has not changed significantly from the prior year.

26.9 Equity price risk

26.9.1 Sensitivity analysis

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:

- profit for the year would have increased/decreased by AED 3,118,640 (2013: Nil).
- other comprehensive income and equity would have increased/decreased by AED 27.5 million (2013: AED 28.9 million).

26.9.2 Method and assumptions for sensitivity analysis

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

27. Segment information

The Company is organised into four main business segments, accident and liabilities insurance, fire insurance, marine insurance and other classes of insurance.

These segments are the basis on which the Company reports its primary segment information to the Managing Director.

Insurance premium represents the total income arising from insurance contracts. The Company does not conduct any business outside U.A.E. There are no transactions between the business segments.

Segmental information is presented below:

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

27. Segment information (continued)

31 December 2014	Underwriting (AED)				Total AED	Investments		Total AED
	Accident and liabilities	Fire	Marine	Others		AED	AED	
Segment revenue – gross	52,539,559	17,584,706	2,277,275	1,449,542	73,851,082	-	-	73,851,082
Segment result (net)	(20,138,236)	(1,155,317)	678,094	546,480	(20,068,979)	27,876,706		7,807,727
Unallocated costs								(2,118,995)
Profit for the year								5,688,732
Segment assets					107,670,195	344,461,192		452,131,387
Unallocated assets								14,145,210
Total assets								466,276,597
Segment liabilities					123,269,932	25,041,237		148,311,169
Unallocated liabilities								4,602,433
Total liabilities								152,913,602

There are no transactions between the business segments.

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

27. Segment information (continued)

31 December 2013	Accident and liabilities	Underwriting (AED)			Total AED	Investments		Total AED
		Fire	Marine	Others		AED	AED	
Segment revenue - gross	63,811,425	18,613,240	2,317,947	1,373,507	86,116,119	-		86,116,119
Segment result (net)	(10,530,918)	5,216,649	(366,760)	(100,654)	(5,781,683)	13,849,513		8,067,830
Unallocated costs								(2,718,929)
Profit for the year								5,348,901
Segment assets					120,862,495	345,468,949		466,331,444
Unallocated assets								15,775,249
Total assets								482,106,693
Segment liabilities					134,439,012	38,258,424		172,697,436
Unallocated liabilities								4,091,172
Total liabilities								176,788,608

There are no transactions between the business segments.

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

28. Dividends

During the year, cash dividend of AED 13.75 million (AED 10 fils per share) was paid to the shareholders for the year 2013 (2013: AED 13.75 million, AED 10 fils per share for 2012).

The Board of Directors propose that a dividend of AED 10 fils per share amounting to AED 13.75 million (2013: AED 10 fils per share amounting to AED 13.75 million) be paid to the shareholders in 2015. These are subject to approval by the shareholders at the Annual General Meeting and have not been included as a liability in these financial statements.

29. Approval of the financial statements

The financial statements were approved by the Board of Directors and authorized for issue on 7 March 2015.