

# **Al Wathba National Insurance Company (PJSC)**

## **BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2014**

**Al Wathba National Insurance  
Company (PJSC)**

BOARD OF DIRECTORS' REPORT

31 DECEMBER 2014



شركة الوثبة الوطنية للتأمين  
ALWATHBA NATIONAL INSURANCE CO. P.J.S.C.

## **Board of Directors Report on the Company Business For the Period Ending 30<sup>th</sup> December, 2014**

The Board of Directors is pleased to submit the annual report of the company's activities accompanied by the financial statement for the period ending 30/12/2014.

The performance of the national economy of the United Arab Emirates during the year 2014 had a positive impact on the various economic sectors. Forecasted growth in GDP was positive and expected to exceed 4%, this development coupled with the country's well designed economic infrastructure established on clear yet flexible economic planning is reflective of Abu Dhabi's Vision 2030 and Dubai Expo 2020 and also demonstrates the country's investment diversity. Various sources of income are through the economic utility of non-oil sectors which has limited the negative impact of the decline in oil prices during the last quarter of the year.

In such a positive atmosphere, the company's management and Board of Directors worked on getting a financial assessment of the company by a specialized internationally recognized rating company. After a detailed study of each aspect of the company's performance and operation, the company was awarded with a rating of BBB+ Outlook Stable which reflects the company's financial stability and performance.

Under these conditions, Al Wathba National Insurance Company achieved gross profits of AED 109.052 million compared to AED 148.771 million dirhams in the year 2013. The 2014 net underwriting income amounted to AED 17.573 million dirhams compared to AED 29.071 million dirhams in 2013 reflective of the intense competition in the local insurance market.

رأس المال المدفوع والمصرح به (٢٠٧) مليون درهم شركة خاضعة لأحكام القانون الاتحادي رقم (٦) لسنة ٢٠٠٧ في شأن إنشاء هيئة التأمين وتنظيم أعماله ومقيدة بسجل شركات التأمين الرقم (١٠)

المكتب الرئيسي : ص.ب. ٤٥١٥٤، أبوظبي، ا.ع.م.، هاتف: ٤١٨٥٣٠٠ (٢) ٩٧١، فاكس: ٦٧٧٦٦٢٨ (٢) ٩٧١

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The company's investment activity had a positive impact on the overall results generating a net profit of AED 91.479 million dirhams for the year 2014 compared to AED 119.700 million dirhams in the year 2013, this positive performance is due to the company's diversified investment policy, however; results were also influenced by the impact of the decline witnessed in the financial markets during the latter part of the year.

The company achieved a total comprehensive income of AED 166.061 million for 2014 compared to AED 297.345 million dirhams for the year 2013. Shareholders' equity increased to AED 872.615 million dirhams compared to AED 728.154 million dirhams in 2013.

Finally, the Board of Directors seizes this opportunity to express its highest thanks and appreciation to H.H Shiekh Khalifa Bin Zayed Al Nahyan, President of UAE and Ruler of Abu Dhabi and H.H Shiekh Mohamed Bin Rashid Al Maktoum, the Vice President , Prime Minister and the ruler of Dubai and H.H Sheikh Mohammed Bin Zayed Al Nahyan, the Crown Prince and to all the rulers of the Emirates for their steadfast support for the progress of this country, all its economic institutions and Al Wathba National Insurance Company.

The Board of Directors likewise extends its appreciation and gratitude to all the company's shareholders and customers for their trust and continued support, and to all staff for their dedication and contribution to the company's performance during the last period

**Shiekh Saif Bin Mohamed Bin Butti Al Hamed**  
Chairman

**Al Wathba National Insurance  
Company (PJSC)**

FINANCIAL STATEMENTS

31 DECEMBER 2014

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL WATHBA NATIONAL INSURANCE COMPANY PJSC**

### **Report on the financial statements**

We have audited the accompanying financial statements of Al Wathba National Insurance Company PJSC (the "Company"), which comprise the statement of financial position as at 31 December 2014, the statements of income, comprehensive income, changes in equity and 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 the applicable provisions of the articles of association of the Company, the UAE Commercial Companies Law of 1984 (as amended) and the UAE Federal law No. (6) of 2007, and for such internal control as management determines is necessary to enable preparation of financial statements that are free from material misstatements, whether due to fraud or error.

#### *Auditors' 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 whether the financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects the financial position of the Company as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Other matters*

The financial statements of the Company for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements on 5 February 2014.

**Report on other legal and regulatory requirements**

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal law No. (6) of 2007 and the articles of association of the Company; proper books of account have been kept by the Company; and the contents of the report of the Board of Directors relating to these financial statements are consistent with the books of account. We further report that we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal law No. (6) of 2007 or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

*Ernst & Young*

Signed by:  
Mohammad Mobin Khan  
Partner  
Ernst & Young  
Registration No. 532

18 February 2015  
Abu Dhabi

# Al Wathba National Insurance Company (PJSC)

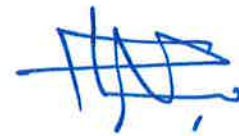
## STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	31 December 2014 AED 000	31 December 2013 AED 000
<b>ASSETS</b>			
Cash and bank balances	3	99,454	58,794
Investments carried at fair value through other comprehensive income	4	246,249	311,188
Investments carried at fair value through profit or loss	5	292,360	237,085
Investments at amortised cost	6	9,771	9,771
Insurance receivables and prepayments	7	75,664	64,951
Reinsurance contracts assets	14	184,979	160,010
Investment properties	8	326,279	304,254
Investment in associates	9	147,978	23,341
Property and equipment	10	7,005	5,349
<b>TOTAL ASSETS</b>		<b>1,389,739</b>	<b>1,174,743</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	11	207,000	180,000
Legal reserve	12	72,360	61,455
Statutory reserve	12	51,750	45,000
General reserve	12	23,323	23,323
Capital reserve	12	9,959	9,959
Investment revaluation reserve		109,589	124,457
Retained earnings		398,634	283,960
<b>Total equity</b>		<b>872,615</b>	<b>728,154</b>
<b>LIABILITIES</b>			
Employees' end of service benefits	18	7,986	7,179
Insurance contract liabilities	14	317,325	295,064
Bank overdrafts	3	88,262	46,545
Trade and other payables	17	103,551	97,801
<b>Total liabilities</b>		<b>517,124</b>	<b>446,589</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,389,739</b>	<b>1,174,743</b>

  
Sheikh Saif Bin Mohamed  
Bin Butti Al Hamed  
CHAIRMAN

  
Rashid Darwish Ahmed  
Saif Al Ketbi  
MANAGING DIRECTOR

  
Bassam Adib Chilmeran  
GENERAL MANAGER

The attached notes 1 to 28 form part of these financial statements.



# Al Wathba National Insurance Company (PJSC)

## INCOME STATEMENT

For the year ended 31 December 2014

	Notes	2014 AED 000	2013 AED 000
Gross premiums written	27.1	427,183	404,050
Less: reinsurance premium ceded	27.1	(205,551)	(208,289)
Net premiums written		221,632	195,761
Net movement in provision for unearned premiums	27.1	(10,291)	35,691
<b>Net premium earned</b>		<b>211,341</b>	<b>231,452</b>
Gross claims paid		(293,030)	(295,210)
Less: claims recovered from reinsurers		113,369	100,028
Net claims paid		(179,661)	(195,182)
Net movement in provision for outstanding claims		12,999	14,528
<b>Net claims incurred</b>	27.1	<b>(166,662)</b>	<b>(180,654)</b>
Gross commission earned		31,130	34,851
Less: commission expense		(19,102)	(20,986)
<b>Net commission earned</b>	27.1	<b>12,028</b>	<b>13,865</b>
<b>Underwriting income</b>		<b>56,707</b>	<b>64,663</b>
General and administrative expenses relating to underwriting	20	(39,134)	(35,592)
<b>Net underwriting income</b>		<b>17,573</b>	<b>29,071</b>
Other expenses	20	(10,805)	(10,368)
Net investment income	21	82,385	131,928
Share of profit of associates	9	21,665	3,399
Board of directors' remuneration		-	(3,630)
Finance costs		(1,766)	(1,629)
<b>PROFIT FOR THE YEAR</b>	22	<b>109,052</b>	<b>148,771</b>
Basic and diluted earnings per share (AED)	23	<b>0.53</b>	<b>0.72</b>

The attached notes 1 to 28 form part of these financial statements.

# Al Wathba National Insurance Company (PJSC)

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	<i>Notes</i>	<b>2014</b> <b>AED 000</b>	<b>2013</b> <b>AED 000</b>
<b>Profit for the year</b>		<b>109,052</b>	<b>148,771</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to statement of income:</b>			
Share of other comprehensive income of associates	9	<b>15,463</b>	-
Gain on sale of investments carried at fair value through other comprehensive income		<b>23,515</b>	29,200
Changes in fair value relating to investments carried at fair value through other comprehensive income, net	4	<b>22,531</b>	119,374
Board of directors' remuneration		<b>(4,500)</b>	-
<b>Other comprehensive income for the year</b>		<b><u>57,009</u></b>	<b><u>148,574</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>166,061</u></b>	<b><u>297,345</u></b>

The attached notes 1 to 28 form part of these financial statements.

# Al Wathba National Insurance Company (PJSC)

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital AED 000	Legal reserve AED 000	Statutory reserve AED 000	General reserve AED 000	Capital reserve AED 000	Investment revaluation reserve AED 000	Retained earnings AED 000	Total equity AED 000
Balance at 1 January 2013	180,000	46,578	33,921	23,323	9,959	20,593	134,435	448,809
Profit for the year	-	-	-	-	-	-	148,771	148,771
Other comprehensive income for the year	-	-	-	-	-	119,374	29,200	148,574
Total comprehensive income for the year	-	-	-	-	-	119,374	177,971	297,345
Transfer to retained earnings on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	-	(15,510)	15,510	-
Transfer to legal reserve	-	14,877	-	-	-	-	(14,877)	-
Transfer to statutory reserve	-	-	11,079	-	-	-	(11,079)	-
Dividends paid (note 11)	-	-	-	-	-	-	(18,000)	(18,000)
Balance at 31 December 2013	<u>180,000</u>	<u>61,455</u>	<u>45,000</u>	<u>23,323</u>	<u>9,959</u>	<u>124,457</u>	<u>283,960</u>	<u>728,154</u>
Balance at 1 January 2014	180,000	61,455	45,000	23,323	9,959	124,457	283,960	728,154
Profit for the year	-	-	-	-	-	-	109,052	109,052
Other comprehensive income for the year	-	-	-	-	-	37,994	19,015	57,009
Total comprehensive income for the year	-	-	-	-	-	37,994	128,067	166,061
Transfer to retained earnings on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	-	(52,862)	52,862	-
Transfer to legal reserve	-	10,905	-	-	-	-	(10,905)	-
Transfer to statutory reserve	-	-	6,750	-	-	-	(6,750)	-
Issuance of bonus shares (note 11)	27,000	-	-	-	-	-	(27,000)	-
Dividends paid (note 11)	-	-	-	-	-	-	(21,600)	(21,600)
Balance at 31 December 2014	<u>207,000</u>	<u>72,360</u>	<u>51,750</u>	<u>23,323</u>	<u>9,959</u>	<u>109,589</u>	<u>398,634</u>	<u>872,615</u>

The attached notes 1 to 28 form part of these financial statements.

# Al Wathba National Insurance Company (PJSC)

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 AED 000	2013 AED 000
<b>OPERATING ACTIVITIES</b>			
Profit for the period		109,052	148,771
Adjustments for:			
Unearned premium, net		10,291	(35,691)
Outstanding claims		6,642	11,682
Reinsurance share of outstanding claims		(19,641)	(26,210)
Depreciation of property and equipment	10	1,247	778
Changes in fair value of investment properties	8	-	12,787
Provision on insurance receivable, net		(1,585)	(1,832)
Provision for employees end of service benefits	18	1,000	1,506
Change in fair value of investments carried at fair value through profit or loss	5	18,670	(62,204)
Gain on disposal of investments carried at fair value through profit or loss	21	(70,416)	(54,597)
Share of profit of associates	9	(21,665)	(3,399)
Dividend income	21	(16,435)	(14,348)
Gain on disposal of property and equipment		(32)	-
Finance costs		1,766	1,629
Interest income		(372)	(540)
		18,522	(21,668)
Working capital changes:			
Insurance receivables and prepayments		(9,128)	17,991
Trade and other payables		1,250	13,371
Cash from operations		10,644	9,694
Finance costs paid		(1,766)	(1,629)
Employees' end of service benefits paid	18	(193)	(571)
Net cash from operating activities		8,685	7,494
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	10	(2,903)	(903)
Purchase of investment properties	8	(22,025)	(32,704)
Additional investment in associate	9	(91,166)	(3,334)
Proceeds from disposal of property and equipment		32	-
Purchase of investments carried at fair value through other comprehensive income	4	(7,355)	-
Proceeds from disposal of investments carried at fair value through other comprehensive income		118,340	78,893
Purchase of investments carried at fair value through profit or loss	5	(405,418)	(316,085)
Proceeds from disposal of investments carried at fair value through profit or loss		401,889	233,791
Purchase of investments carried at amortised cost		-	(1,101)
Dividends received from associates	9	3,657	-
Term deposits		(51,135)	13,713
Interest received		372	814
Dividends received		16,435	14,348
Net cash used in investing activities		(39,277)	(12,568)
<b>FINANCING ACTIVITY</b>			
Dividends paid		(21,600)	(18,000)
Cash used in financing activity		(21,600)	(18,000)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(52,192)	(23,074)
Cash and cash equivalents at the beginning of the year		(9,030)	14,044
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	3	(61,222)	(9,030)

The attached notes 1 to 28 form part of these financial statements.

# Al Wathba National Insurance Company (PJSC)

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## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 1 GENERAL INFORMATION

Al Wathba National Insurance Company PJSC (the “Company”), incorporated in Abu Dhabi is registered as a public shareholding company in accordance with the UAE Federal Law No. 8 of 1984 (as amended).

The Company is registered in accordance with UAE Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organisation of its Operations, and is registered in the Insurance Companies Register under registration No. 10.

The Company’s principal activity is the transaction of general insurance and re-insurance business of all classes. The Company operates through its head office in Abu Dhabi and branch offices in Dubai, Al Ain, and Sharjah. The Company is domiciled in the United Arab Emirates and its registered head office is P.O. Box 45154, Abu Dhabi, United Arab Emirates.

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

The Company’s financial statements were approved for issuance by the Board of Directors on 18 February 2015.

### 2.1 BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention as modified for re-measurement of investment securities and investment properties at fair value.

The financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of UAE Commercial Companies Law (as amended) and UAE Federal law No. (6) of 2007.

The financial statements are presented in United Arab Emirates Dirhams (AED) being the functional currency of the Company.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses will not be offset unless required or permitted by any accounting standard or interpretation.

The Company presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position (current) and more than 12 months after the statement of financial position date (non-current) is presented in the notes.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2014:

- IFRS 10: Consolidated Financial Statements (Amendment)
- IFRS 12: Disclosure of Interests in Other Entities (Amendment)
- IAS 27: Separate Financial Statements (Amendment)
- IAS 32: Financial Instruments: Presentation (Amendment)
- IAS 36: Impairment of Assets (Amendment)
- IAS 39: Financial Instruments: Recognition and Measurement (Amendment)
- IFRIC 21: Levies

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES** continued

The adoption of the standards or interpretations is described below:

**IFRS 10, IFRS 12 and IAS 27: (Amendment)**

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IAS 39: *Financial Instruments: Recognition and Measurement* or IFRS 9: *Financial Instruments* (as applicable) in the consolidated and separate financial statements. In addition, the amendments introduce new disclosure requirements related to investment entities in IFRS 12: *Disclosure of Interest in Other Entities* and IAS 27: *Separate Financial Statements*.

These amendments are not relevant to the Company, as the Company did not qualify to be an investment entity under IFRS 10.

**IAS 32: Financial Instruments: Presentation (Amendment):**

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

The amendment did not have any impact on the accounting policy, financial position and performance of the Company during the year.

**IAS 36: Impairment of Assets (Amendment):**

This amendment requires the disclosure of information about the recoverable amount of impaired non-financial assets, if that amount is based on fair value less costs of disposal. They also require the disclosure of additional information about that fair value measurement. In addition, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using the present value technique, the amendments also require the disclosure of the discount rates that have been used in the current and previous measurements.

The amendment did not have any significant impact on the financial position and performance of the Company during the year.

**IAS 39: Financial Instruments: Recognition and Measurement (Amendment):**

This amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

The amendment did not have any impact on the accounting policy, financial position and performance of the Company during the year.

**IFRIC 21: Levies:**

This amendment clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

The amendment did not have any impact on the accounting policy, financial position and performance of the Company during the year.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 2.3 SIGNIFICANT ACCOUNTING POLICIES

#### **Revenue recognition**

##### *Gross premiums*

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods.

##### *Commission earned*

Commission earned are recognised as revenue over the period in which the related services are performed. If the commissions are for services provided in future periods, then they are deferred and recognised over those future periods.

##### *Investment income*

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established.

#### **Claims**

Claims comprising amounts payable to contract holders are charged to income as incurred. Claims comprise the estimated amounts payable of claims incurred.

The Company generally estimates its claims based on previous experience. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the underwriting account for that year.

#### **Finance cost**

Interest paid is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

#### **Insurance contract liabilities**

Contract liabilities include claims incurred but not reported (IBNR), outstanding claims, and the provision for unearned premium. The IBNR is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not. Delays can be experienced in the notification and / or approval of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. The Company provides unearned premium reserve based on actual terms of the policy.

#### **Insurance receivables**

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

**2.3 SIGNIFICANT ACCOUNTING POLICIES** continued

**Insurance payables**

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

**Reinsurance**

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

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

**Financial assets**

Financial assets are classified in their entirety on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the investments. Financial assets are measured either at amortised cost or fair value.

Debt instruments are measured at amortised cost only if:

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

If either of the two criteria is not met the financial instrument is classified at fair value through profit or loss. Further, even if the asset meets the amortised cost criteria, the Company may choose at initial recognition to designate the financial asset as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. Interest and dividends income on investments classified as fair value through profit or loss are included in 'interest income' and 'dividend income' in the statement of income.

Investments in equity instruments are classified and measured at fair value through profit or loss except if the equity investment is not held for trading and is designated by the Company at fair value through other comprehensive income. If the equity investment is designated at fair value through other comprehensive income, all gains and losses, except for dividend income recognised in accordance with IAS 18 Revenue, are recognised in other comprehensive income and are not subsequently reclassified to the statement of income.



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 2.3 SIGNIFICANT ACCOUNTING POLICIES continued

#### **Impairment of financial assets**

The Company assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost (such as amounts due from banks and debt instruments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. Financial assets at amortised cost together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Other income'.

#### **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 or substantially all the risks and rewards of ownership 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 associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 2.3 SIGNIFICANT ACCOUNTING POLICIES continued

#### Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of assets, as follows:

Furniture and equipment	2-4 years
Motor vehicles	4 years
Building	20 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair values less costs to sell and their values in use. Impairment losses are recognised in the income statement.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

#### Investment in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Company's investments in its associates is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The statement of income reflects the Company's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Company's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of income. The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the statement of income.

Upon loss of significant influence over the associate, the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the statement of income.

On acquisition of the investment in an associate, any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is accounted for as goodwill (negative goodwill) in accordance with IFRS 3 Business Combinations.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 2.3 SIGNIFICANT ACCOUNTING POLICIES continued

#### **Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the assets' or cash-generating units' recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill is allocated. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

#### **Fair value measurement**

The Company measures financial instruments, such as investments carried at fair value through other comprehensive income and investments carried at fair value through profit or loss and non-financial assets such as investment properties, at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 2.3 SIGNIFICANT ACCOUNTING POLICIES continued

#### **Fair value measurement continued**

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 26.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria for valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

The management, in conjunction with the Company's external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 2.3 SIGNIFICANT ACCOUNTING POLICIES continued

#### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and could be reliably measured.

#### **Employees' benefits**

The Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Company makes contributions to the Abu Dhabi Pension and Retirement Fund calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

### 2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

#### **Judgements**

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements.

#### *Classification of investments*

Management designates at the time of acquisition of securities whether these should be classified as at fair value through other comprehensive income, fair value through profit or loss or amortised cost. In judging whether investments in securities are as at fair value through other comprehensive income, fair value through profit or loss or amortised cost, Management has considered the detailed criteria for determination of such classification as set out in IFRS 9 Financial Instruments. Management is satisfied that its investments in securities are appropriately classified.

#### *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statements of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

#### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *Provision for incurred but not reported claims and claims reported but not approved*

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date but not approved and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty.

The carrying value at the statement of financial position date of IBNR is AED 5 million (2013: AED 5 million).

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

#### **Estimation uncertainty continued**

##### *Provision for outstanding claims*

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters along with the Company's internal legal counsel normally estimate such claims.

The carrying value at the statement of financial position date of provision for outstanding claims (net of related reinsurance receivables) is AED 64 million (2013: AED 77 million). Further, the Company has made a provision of AED 32 million in respect of claims requiring court or arbitration decisions.

##### *Reinsurance*

The Company is exposed to disputes with, and possibility of defaults by its reinsurer. The Company monitors on a monthly basis the evolution of disputes with and the strength of its reinsurer.

##### *Impairment of accounts receivable*

An estimate of the collectible amount of policyholders balances is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates. At the statement of financial position date, gross insurance receivable balances were AED 64.6 million (2013: AED 60 million), and the provision for doubtful debts was AED 11.4 million (2013: AED 13 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

##### *Estimation of fair value of investment properties*

The fair value of investment properties is determined by independent real estate valuation consultants based on Comparative Method of Valuation method.

Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual values realised.

Under the Comparative Method of Valuation the fair value is determined by considering recent prices of similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices.

As a result of the fair value assessment, there were no changes in fair value (2013: decrease in fair value of AED 12.8 million) recognised in the income statement for the year.

### 2.5 FUTURE CHANGES IN ACCOUNTING POLICIES – NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

New standards and amendments to existing standards issued but not yet effective up to the date of the issuance of the Company's financial statements are listed below.

**IFRS 9: Financial Instruments - hedge accounting (Amendments to IFRS 9, IFRS 7 and IAS 39)** introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 2.5 FUTURE CHANGES IN ACCOUNTING POLICIES – NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

**IFRS 9: Financial Instruments - impairment** introduces new requirements for impairment. On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The IASB has addressed the key concern that arose as a result of the financial crisis that the incurred loss model in IAS 39 contributed to the delayed recognition of credit losses, by issuing the new impairment requirements that are based on a more forward-looking expected credit loss model. The requirements of IFRS 9 relating to impairment are for annual periods beginning on or after 1 January 2018, with early application permitted.

**IFRS 14: Regulatory Deferral Accounts** is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

**IFRS 15: Revenue from Contracts with Customers** was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted.

**IFRS 11: Joint Arrangements (Amendment)** require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

**IAS 16 and IAS 38: (Amendment)** clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

**IAS 16 and IAS 41: (Amendment)** changes the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

**2.5 FUTURE CHANGES IN ACCOUNTING POLICIES – NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS ISSUED BUT NOT YET EFFECTIVE** continued

**IAS 27: Separate Financial Statements (Amendment)** will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

The Company intends to adopt these new standards and amendments to existing standards, when they become effective.

The Company however, expects no material impact from the adoption of the above new and amended standards on its financial position or performance.

**3 CASH AND CASH EQUIVALENTS**

	<i>2014</i> <i>AED 000</i>	<i>2013</i> <i>AED 000</i>
Bank and cash	23,852	16,828
Statutory deposit	6,000	6,000
Term deposits	<u>69,602</u>	<u>35,966</u>
Cash and bank balances	99,454	58,794
Less: bank overdrafts	(88,262)	(46,545)
Less: term deposits with original maturity over 3 months	(66,414)	(15,279)
Less: statutory deposits	<u>(6,000)</u>	<u>(6,000)</u>
	<u>(61,222)</u>	<u>(9,030)</u>

Geographical concentration of cash and cash equivalents is as follows:

Within UAE	<u>11,192</u>	<u>12,249</u>
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Term deposits are held with financial institutions in UAE. The original maturity ranges from one to twelve months. Interest is receivable at annual rates ranging from 0.4% to 2.6% per annum (2013: 0.4% to 2.6% per annum).

In accordance with the requirements of UAE Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its Operations, the Company maintains a bank deposit of AED 6 million (2013: AED 6 million) which cannot be utilised without the consent of the UAE Insurance Authority.



# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 4 INVESTMENTS CARRIED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Company's investments carried at fair value through other comprehensive income at the end of the reporting period are detailed below.

	<i>2014</i> <i>AED 000</i>	<i>2013</i> <i>AED 000</i>
Quoted securities	230,712	297,755
Unquoted securities	<u>15,537</u>	<u>13,433</u>
	<u>246,249</u>	<u>311,188</u>

Certain securities are registered in the name of a director on behalf of the Company. The fair value of these securities as at 31 December 2014 was AED 11 million (2013: AED 9.96 million).

The movement in investments during the year is as follows:

	<i>2014</i> <i>AED 000</i>	<i>2013</i> <i>AED 000</i>
Fair value at 1 January	311,188	241,507
Additions	7,355	-
Disposals	(94,825)	(49,693)
Increase in fair value	<u>22,531</u>	<u>119,374</u>
Fair value at 31 December	<u>246,249</u>	<u>311,188</u>

The geographical distribution of investments is as follows:

	<i>2014</i> <i>AED 000</i>	<i>2013</i> <i>AED 000</i>
Within UAE	236,730	307,605
Outside UAE	<u>9,519</u>	<u>3,583</u>
	<u>246,249</u>	<u>311,188</u>

### 5 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments at fair value through profit or loss consist of quoted investments in UAE securities.

The movement in investments at fair value through profit or loss is as follows:

	<i>2014</i> <i>AED 000</i>	<i>2013</i> <i>AED 000</i>
Fair value at beginning of year	237,085	37,990
Additions	405,418	316,085
Disposals	(331,473)	(179,194)
Change in fair value	<u>(18,670)</u>	<u>62,204</u>
Fair value at end of the year	<u>292,360</u>	<u>237,085</u>

# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 5 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS continued

The geographical distribution of investments is as follows:

	2014 AED 000	2013 AED 000
Within UAE	<u>292,360</u>	<u>237,085</u>

### 6 INVESTMENTS AT AMORTISED COST

Included in investments at amortised cost is a five-year sukuk amounting to AED 5,000,000 (31 December 2013: AED 5,000,000) which carries interest of 6-month EIBOR + 300 bps or 6.25%, whichever is higher, and perpetual sukuk of USD 1,300,000 (equivalent to AED 4,771,000) (31 December 2013: USD 1,300,000) which carries interest at 6.375% per annum (31 December 2013: 6.375% per annum).

### 7 INSURANCE RECEIVABLES AND PREPAYMENTS

	2014 AED 000	2013 AED 000
<i>Insurance receivables:</i>		
Due from policy holders	50,467	46,353
Due from policy holders - related parties	<u>14,099</u>	<u>13,685</u>
	64,566	60,038
Less: allowance for impaired receivables	<u>(11,386)</u>	<u>(13,033)</u>
	53,180	47,005
Due from insurance and reinsurance companies	11,513	10,588
Prepayments	2,397	935
Accrued income	2,790	2,061
Other receivables	<u>5,784</u>	<u>4,362</u>
	<u>75,664</u>	<u>64,951</u>

As at 31 December, the ageing of unimpaired insurance receivables is as follows:

	Neither past due nor impaired		Past due but not impaired		
			31-90 days	91 - 180 days	Above 180 days
	Total AED '000	AED '000	AED '000	AED '000	AED '000
<b>31 December 2014</b>					
Insurance receivables	53,180	8,909	12,338	14,632	17,301
<b>31 December 2013</b>					
Insurance receivables	47,005	7,281	12,060	13,364	14,300

# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 7 INSURANCE RECEIVABLES AND PREPAYMENTS continued

The movement in the allowance for impaired receivables is as follows:

	<b>2014</b> <b>AED 000</b>	<b>2013</b> <b>AED 000</b>
At 1 January	<b>13,033</b>	16,721
Charge for the year	<b>2,067</b>	1,758
Amounts written off during the year	<b>(62)</b>	(1,856)
Amounts recovered during the year	<b><u>(3,652)</u></b>	<u>(3,590)</u>
At 31 December	<b><u>11,386</u></b>	<u>13,033</u>

### 8 INVESTMENT PROPERTIES

	<i>Land</i> <i>AED '000</i>	<i>Buildings</i> <i>AED '000</i>	<i>Investment</i> <i>properties under</i> <i>construction</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<b>2014</b>				
At 1 January 2014	<b>62,750</b>	<b>241,504</b>	-	<b>304,254</b>
Changes in fair value	-	-	-	-
Additions	<u>-</u>	<u>22,025</u>	<u>-</u>	<u>22,025</u>
At 31 December 2014	<b><u>62,750</u></b>	<b><u>263,529</u></b>	<u>-</u>	<b><u>326,279</u></b>
<b>2013</b>				
At 1 January 2013	74,644	202,400	7,293	284,337
Changes in fair value	(11,894)	6,400	(7,293)	(12,787)
Additions	<u>-</u>	<u>32,704</u>	<u>-</u>	<u>32,704</u>
At 31 December 2013	<u>62,750</u>	<u>241,504</u>	<u>-</u>	<u>304,254</u>

Investment properties include:

#### (i) Abu Dhabi Head Office building

The Company occupies three floors of the building for its Head Office with the remaining sixteen floors available for letting to third parties. The fair value of this property is estimated to be AED 175 million (2013: AED 175 million).

#### (ii) Al Jumeirah Island Commercial villas

This property consists of five villas in Dubai available for letting to third parties. The fair value of this property is estimated to be AED 32.5 million (2013: AED 32.5 million).

#### (iii) Al Nakheel flat

This property is located at Al Nakheel building, The Greens; Dubai, and is available for letting to third parties. The fair value of this property is estimated to be AED 1.3 million (2013: AED 1.3 million).

# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 8 INVESTMENT PROPERTIES continued

#### (iv) Land in Dubai Technology, Electronic, Commerce and Media Free Zone Authority

The freehold land in Dubai was purchased in 2004. The fair value of this plot of land in Dubai is estimated to be AED 62.75 million (2013: AED 62.75 million).

#### (v) New York residential condominium units

During 2013, the Company purchased two condominium units, being unit no's.11D and 14B located in New York, United States of America. During 2014, the Company purchased an additional unit, being unit no. 14A for an amount of AED 22 million. The fair value of these properties are estimated to be AED 54.7 million (2013: AED 32.7 million).

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

	2014 AED 000	2013 AED 000
Rental income	15,617	15,093
Direct operating expenses	<u>(2,464)</u>	<u>(2,704)</u>
	<u>13,153</u>	<u>12,389</u>

The fair value of the Company's investment properties as at 31 December 2014 and 2013 has been arrived by management by reference to valuation carried out on the respective dates by an independent valuer not related to the Company. The independent valuer has appropriate qualifications and recent experience in the valuation of properties in the relevant locations.

The fair value of buildings was determined based on the market comparable approach that reflects recent transaction 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.

The fair value of land was determined using a combination of the investment method approach and residual method approach.

### 9 INVESTMENT IN ASSOCIATES

Details of Company's associates as of 31 December are as follows:

Name of the associate	Principal activities	Place of incorporation	Voting power %	Ownership interest %
Vision Insurance SAOC	Insurance business	Sultanate of Oman	20%	20%
Vision Capital Brokerage Company LLC	Provision of share brokerage services	United Arab Emirates	10%	10%
UR International Insurance	Insurance business	Iraq	40%	40%
FOODCO Holding PJSC	Import and distribution of food stuff	United Arab Emirates	23%	23%

Although the Company holds less than 20% of the voting power in Vision Capital Brokerage Company L.L.C., as at the end of the reporting period it exercised significant influence by virtue of its representation on the Board of Directors of this company.

# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 9 INVESTMENT IN ASSOCIATES continued

The Company acquired a 22.81% equity stake in FOODCO Holding PJSC effective 16 April 2014 for a consideration of AED 91,166 thousand.

FOODCO Holding PJSC is involved in the import and distribution of food stuff and household items in the UAE, along with investing, development and management of real estate and commercial enterprises.

The negative difference between cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of FOODCO Holding PJSC recognized at the date of the acquisition amounting to AED 9,748 thousand was provisionally identified as negative goodwill (credited to the income statement) and included in the carrying value of investment in FOODCO Holding PJSC.

The fair value of the Company's investment in FOODCO Holding PJSC, listed on Abu Dhabi Exchange, is AED 98,558 thousand as at 31 December 2014. Management has assessed the total carrying value of investment in FOODCO Holding PJSC for impairment and determined that no impairment provision is required to be recognised at 31 December 2014.

The movement on investment in associates during the year is as follows:

	<b>2014</b> <b>AED 000</b>	<b>2013</b> <b>AED 000</b>
At 1 January	23,341	16,608
Additions during the year	91,166	3,334
Share of profit for the year (including negative goodwill of AED 9,748 thousand and adjustment of AED 426 thousand, net relating to 2013)	21,665	3,399
Share of other comprehensive income of associates	15,463	-
Less: Cash dividends received	<u>(3,657)</u>	<u>-</u>
At 31 December	<u><b>147,978</b></u>	<u><b>23,341</b></u>

The summarised financial information in respect of the Company's associates is set out below:

	<b>2014</b> <b>AED 000</b>	<b>2013</b> <b>AED 000</b>
Total assets	1,201,331	214,761
Total liabilities	<u>(535,807)</u>	<u>(90,912)</u>
Net assets	<u><b>665,524</b></u>	<u><b>123,849</b></u>
Company's share of associates' net assets	<u><b>147,978</b></u>	<u><b>23,341</b></u>
Total revenue	<u><b>101,334</b></u>	<u><b>118,718</b></u>
Profit for the year	<u><b>42,889</b></u>	<u><b>18,777</b></u>
Company's share of associates' profit for the year including negative goodwill of AED 9,748 thousand (2013: nil)	<u><b>21,665</b></u>	<u><b>3,399</b></u>

# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 10 PROPERTY AND EQUIPMENT

	<i>Building AED '000</i>	<i>Motor vehicles AED '000</i>	<i>Furniture and equipment AED '000</i>	<i>Total AED '000</i>
<b>2014</b>				
Cost:				
At 1 January 2014	4,741	674	8,748	14,163
Additions	-	33	2,870	2,903
Disposals	-	(78)	(17)	(95)
At 31 December 2014	<u>4,741</u>	<u>629</u>	<u>11,601</u>	<u>16,971</u>
Depreciation:				
At 1 January 2014	948	656	7,210	8,814
Charge for the year	316	13	918	1,247
Disposals	-	(78)	(17)	(95)
At 31 December 2014	<u>1,264</u>	<u>591</u>	<u>8,111</u>	<u>9,966</u>
Carrying amount:				
At 31 December 2014	<u>3,477</u>	<u>38</u>	<u>3,490</u>	<u>7,005</u>
<b>2013</b>				
Cost:				
At 1 January 2013	4,741	674	7,845	13,260
Additions	-	-	903	903
At 31 December 2013	<u>4,741</u>	<u>674</u>	<u>8,748</u>	<u>14,163</u>
Depreciation:				
At 1 January 2013	632	649	6,755	8,036
Charge for the year	<u>316</u>	<u>7</u>	<u>455</u>	<u>778</u>
At 31 December 2013	<u>948</u>	<u>656</u>	<u>7,210</u>	<u>8,814</u>
Carrying amount:				
At 31 December 2013	<u>3,793</u>	<u>18</u>	<u>1,538</u>	<u>5,349</u>

### 11 SHARE CAPITAL

	<b>2014 AED 000</b>	<b>2013 AED 000</b>
<i>Authorised, issued and fully paid</i>		
207,000,000 (31 December 2013: 180,000,000) ordinary shares of AED 1 each	<u>207,000</u>	<u>180,000</u>

At the Annual General Meeting held on 17 March 2014, the Shareholders approved the distribution of cash dividends of AED 0.12 per share amounting to AED 21,600,000 (31 December 2013: AED 0.1 per share amounting to AED 18,000,000) and bonus shares of AED 0.15 per share amounting to 27 million shares equivalent to AED 27,000,000 (31 December 2013: nil).

# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 12 RESERVES

#### Legal reserve

As required by the U.A.E. Commercial Companies Law of 1984 (as amended), 10% of the profit for the year has been transferred to the legal reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of the issued share capital. This reserve is not available for distribution.

#### Statutory reserve

As required by the Company's Articles of Association, 10% of the profit for the year is required to be transferred to the statutory reserve until the balance of the statutory reserve equals 25% of the Company paid up share capital. This reserve is not available for distribution.

#### General reserve

Transfers to and from the general reserve are made at the discretion of the Board of Directors as per the authority granted to them in the Company's Articles of Association. This reserve may be used for such purposes as they deem fit.

#### Capital reserve

In accordance with the Board of Directors' resolution which was adopted by the Shareholders in their Annual General Meeting held on 19 May 1999, this reserve is earmarked for the settlement of any claims with respect to compensating the previous non-national shareholders of the Company. There was no payment made to these shareholders during the year (2013: AED Nil).

### 13 PROPOSED CASH DIVIDENDS AND BONUS SHARES

In respect of the current year, the Board of Directors propose a cash dividend of AED 0.15 per share (2013: AED 0.12 per share) amounting to AED 31.1 million (2013: AED 21.6 million) and bonus shares of AED nil per share (2013: AED 0.15 per share). The cash dividend are subject to the approval of the Shareholders at the Annual General Meeting.

### 14 INSURANCE CONTRACT LIABILITIES

Gross outstanding claims, claims incurred but not reported and and unearned premiums, and related reinsurers' share is as follows:

	2014			2013		
	Gross AED '000	Reinsurers' share AED '000	Net AED '000	Gross AED '000	Reinsurers' share AED '000	Net AED '000
Outstanding claims provision	206,353	(142,226)	64,127	199,711	(122,585)	77,126
Claims incurred but not reported	5,000	-	5,000	5,000	-	5,000
Unearned premiums	105,972	(42,753)	63,219	90,353	(37,425)	52,928
Total liabilities as of 31 December	317,325	(184,979)	132,346	295,064	(160,010)	135,054

# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 15 UNEARNED PREMIUMS

The movement in the unearned premiums, and the related reinsurers share, was as follows:

	2014			2013		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>AED '000</i>	<i>share</i>	<i>AED '000</i>	<i>AED '000</i>	<i>share</i>	<i>AED '000</i>
<b>Unearned Premiums</b>						
At 1 January	90,353	(37,425)	52,928	128,986	(40,367)	88,619
Earned during the year	(411,564)	200,223	(211,341)	(442,683)	211,231	(231,452)
Written during the year	<u>427,183</u>	<u>(205,551)</u>	<u>221,632</u>	<u>404,050</u>	<u>(208,289)</u>	<u>195,761</u>
At 31 December	<u>105,972</u>	<u>(42,753)</u>	<u>63,219</u>	<u>90,353</u>	<u>(37,425)</u>	<u>52,928</u>

The increase in unearned premiums amounting to AED 10.3 million (2013: decrease of AED 35.7 million) is disclosed on the face of the income statement.

### 16 OUTSTANDING CLAIMS

The movement in the provision for outstanding claims, and the related reinsurers share, was as follows:

	2014			2013		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>AED '000</i>	<i>share</i>	<i>AED '000</i>	<i>AED '000</i>	<i>share</i>	<i>AED '000</i>
<b>Outstanding claims</b>						
At 1 January	199,711	(122,585)	77,126	188,029	(96,375)	91,654
Insurance claims paid during the year	(293,030)	113,369	(179,661)	(295,210)	100,028	(195,182)
Provided during the year	<u>299,672</u>	<u>(133,010)</u>	<u>166,662</u>	<u>306,892</u>	<u>(126,238)</u>	<u>180,654</u>
At 31 December	<u>206,353</u>	<u>(142,226)</u>	<u>64,127</u>	<u>199,711</u>	<u>(122,585)</u>	<u>77,126</u>

The decrease in provision for outstanding claims amounting to AED 13 million (2013: decrease of AED 14.5million) is disclosed on the face of the income statement.

### 17 TRADE AND OTHER PAYABLES

	2014	2013
	<i>AED 000</i>	<i>AED 000</i>
Trade payables	20,198	10,674
Due to related parties	3,302	2,261
Insurance and reinsurance balances payable	31,803	45,932
Accrued expenses	27,795	19,205
Dividends payable	5,543	4,904
Other payables	<u>14,910</u>	<u>14,825</u>
	<u>103,551</u>	<u>97,801</u>

Accounts payable are non-interest bearing and are normally settled on 60 to 90 days terms.



# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 18 EMPLOYEES' END OF SERVICE BENEFITS

	2014 AED 000	2013 AED 000
At 1 January	7,179	6,244
Charge for the year	1,000	1,506
Paid during the year	<u>(193)</u>	<u>(571)</u>
	<u>7,986</u>	<u>7,179</u>

### 19 RELATED PARTIES

Related parties represent major shareholders, directors and key management personnel of the Company, and the companies of which they are principal owners and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

#### Compensation of key management personnel of the Company

Compensation of key management personnel of the Company, consisting of salaries and benefits, was AED 7.6 million (2013: AED 7.4 million) made up as follows:

	2014 AED '000	2013 AED '000
Short term benefits	5,035	4,964
Employees' end of service benefits	<u>2,590</u>	<u>2,389</u>
	<u>7,625</u>	<u>7,353</u>
<b>Transactions with related parties</b>		
Gross premiums written	29,573	25,565
Claims paid	(4,621)	(3,681)
Board remuneration	(4,500)	(3,630)
<b>Balances with related parties</b>		
Due from related parties	14,099	13,685
Due to related parties	(3,302)	(2,261)

### 20 OTHER EXPENSES

	2014 AED 000	2013 AED 000
Staff costs	37,738	38,374
Fees and licenses	3,325	2,738
Rent	1,532	1,090
Depreciation of property and equipment (note 10)	1,247	778
Provision for impaired receivables, net of reversals (note 7)	(1,585)	(1,832)
Others	<u>7,682</u>	<u>4,812</u>
	<u>49,939</u>	<u>45,960</u>
<i>Allocated to:</i>		
Underwriting	39,134	35,592
Other expenses	<u>10,805</u>	<u>10,368</u>
	<u>49,939</u>	<u>45,960</u>

# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 21 NET INVESTMENT INCOME

	<i>2014</i> <i>AED 000</i>	<i>2013</i> <i>AED 000</i>
Rental income, net (note 8)	13,153	12,389
Changes in fair value of investment properties (note 8)	-	(12,787)
Gain on disposal of investments at fair value through profit or loss	70,416	54,597
Changes in fair value of investments at fair value through profit or loss (note 5)	(18,670)	62,204
Dividend income	16,435	14,348
Interest income	372	540
Other income	679	637
	<u>82,385</u>	<u>131,928</u>

### 22 PROFIT FOR THE YEAR

Profit for the year was arrived at after charging:

	<i>2014</i> <i>AED 000</i>	<i>2013</i> <i>AED 000</i>
Staff costs	<u>37,738</u>	<u>38,374</u>
Depreciation of property and equipment	<u>1,247</u>	<u>778</u>

### 23 EARNINGS PER SHARE

Basic earnings per share amounts for the year are calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

The following reflects the income and share data used in the earnings per share computations:

	<i>2014</i>	<i>2013</i>
Profit for the year (AED '000)	<u>109,052</u>	<u>148,771</u>
Weighted number of shares in issue throughout the year	<u>207,000,000</u>	<u>207,000,000</u>
Basic and diluted earnings per share (AED)	<u>0.53</u>	<u>0.72</u>

As of 31 December 2014 and 2013, the Company has not issued any instruments that have a dilutive impact on earnings per share when exercised.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 24 RISK MANAGEMENT

#### **Governance framework**

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that could hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

#### **Capital management objectives, policies and approach**

The Company has established the following capital management objectives, policies and approach to manage the risks that affect its capital position.

The capital management objectives are:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To retain financial flexibility by maintaining strong liquidity;
- To align the profile of assets and liabilities taking account of risks inherent in the business;
- To hold sufficient capital to cover the statutory requirements;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders; and
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.

The operations of the Company are also subject to regulatory requirements within the United Arab Emirates where it operates.

#### **Approach to capital management**

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity funds provided by shareholders.

The Company has had no significant changes in its policies and processes relating to its capital structure during the past year from previous years.

No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2013. Capital comprises share capital, legal reserve, statutory reserve, general reserve, capital reserve, investment revaluation reserve and retained earnings, and is measured at AED 873 million as at 31 December 2014 (2013: AED 728 million).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

**25 INSURANCE AND FINANCIAL RISK continued**

**Regulatory framework**

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

The operations of the Company are subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimise the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.

The Directors believe all regulatory matters have been complied with.

**Insurance risk**

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements use.

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. The reinsurance strategy of the Company is designed to protect exposures to individual risks and events based in current risk exposures through cost effective insurance agreements.

***Frequency and amounts of claims***

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly fire and general accident (including medical) and marine and aviation risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

***Fire and general accident***

*Property*

For property insurance contracts the main risks are fire and business interruption.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has obtained necessary reinsurance covers to limit losses from individual claims.

*Motor*

For motor contracts, the main risks are claims for death and bodily injury and the replacement or repair of vehicles.

The level of court awards for deaths and to injured parties and the replacement costs of, and repairs to motor vehicles are the key factors that influence the level of claims.

*Medical*

For medical insurance, the main risks are claims for in-patient which includes the non-excluded cases of medical conditions or bodily injuries requiring hospitalization and claims for out-patient which includes physician consultation, diagnostic procedures, pharmaceuticals, therapies and minor day care surgery.

The Company has excess of loss protection which covers to limit losses from individual claims.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

**25 INSURANCE AND FINANCIAL RISK continued**

**Insurance risk continued**

***Marine and aviation***

For marine and aviation insurance, the main risks are loss or damage to marine hull, aviation craft and accidents resulting in the total or partial loss of cargoes. The underwriting strategy for the marine and aviation class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Company has obtained necessary reinsurance covers to limit losses from individual claims.

***Concentration of insurance risk***

The Company does not have any single insurance contract or small number of related contracts that cover low frequency, high-severity risks such as earthquakes, or insurance contracts covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risks that many involve significant litigation. The segmental concentration of insurance risk is set out in note 27.

***Managing 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 arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

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.

***Claims development process***

The following schedules reflect the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last five years on an accident year basis for motor and an underwriting year basis for non-motor:

**Non-Motor- Gross:**

	<b>2010 and earlier AED '000</b>	<b>2011 AED '000</b>	<b>2012 AED '000</b>	<b>2013 AED '000</b>	<b>2014 AED '000</b>	<b>Total AED '000</b>
<b>Underwriting year</b>						
At the end of the underwriting year	296,787	92,455	97,297	127,085	201,418	
One year later	477,777	139,869	159,132	147,822		
Two year later	483,322	149,795	157,848			
Three year later	550,520	145,028				
Four year later	467,170					
Current estimate of cumulative claims	467,170	145,028	157,848	147,822	201,418	1,119,286
Cumulative payments to date	(432,359)	(136,471)	(145,505)	(102,158)	(138,602)	(955,095)
Liability recognised in the statement of financial position	<u>34,811</u>	<u>8,557</u>	<u>12,343</u>	<u>45,664</u>	<u>62,816</u>	<u>164,191</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

25 INSURANCE AND FINANCIAL RISK continued

Insurance risk continued

Motor- Gross:

<i>Underwriting year</i>	<i>2010 and earlier AED '000</i>	<i>2011 AED '000</i>	<i>2012 AED '000</i>	<i>2013 AED '000</i>	<i>2014 AED '000</i>	<i>Total AED '000</i>
At the end of the underwriting year	124,477	19,638	44,620	47,081	55,689	
One year later	252,445	48,171	73,710	75,353		
Two year later	210,535	55,009	80,524			
Three year later	203,054	53,869				
Four year later	173,562					
Current estimate of cumulative claims	173,562	53,869	80,524	75,353	55,689	438,997
Cumulative payments to date	(172,537)	(47,547)	(66,657)	(68,893)	(36,201)	(391,835)
Liability recognised in the statement of financial position	<u>1,025</u>	<u>6,322</u>	<u>13,867</u>	<u>6,460</u>	<u>19,488</u>	<u>47,162</u>

Financial risk

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk, market price risk and liquidity risk. Senior management reviews and agrees policies for managing each of these risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties.

The Company's five largest customers account for 30% of outstanding accounts receivable at 31 December 2014 (2013: 25 %).

With respect to credit risk arising from the other financial assets of the Company, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company manages credit risk on its cash deposits and investments by ensuring that counter parties have a good credit rating. The Company does not have an internal credit rating of counter parties and consider all counter parties with which the Company deals to be of the same high credit quality.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the Board of Directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

Equity price risk

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

Equity price risk is the risk that the fair values of equities change as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Company's investment portfolio.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

**25 INSURANCE AND FINANCIAL RISK continued**

**Financial risk continued**

**Equity price risk continued**

The following table estimates the sensitivity to a possible change in equity markets on the Company's total comprehensive income for the year, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

Market index	Change in variables	31 December 2014 Impact on Comprehensive income AED '000	31 December 2013 Impact on Comprehensive income AED '000
Abu Dhabi Securities Exchange	5%	18,776	17,595
Dubai Financial Market	5%	7,352	9,121
Other Markets	5%	20	26

**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is not excessively exposed to interest rate risk as its interest sensitive assets are repriced frequently.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit based on interest bearing financial assets held at 31 December.

	Effect on profit AED '000
<b>2014</b>	
100 decrease in basis points	186
100 increase in basis points	(186)
<b>2013</b>	
100 decrease in basis points	46
100 increase in basis points	(46)

**Currency risk**

Foreign currency risk is the risk that financial instrument will fluctuate due to change in foreign exchange rates. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Management believes that there is a minimal risk of significant loss due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

The Company's major transactions in foreign currencies are in US Dollars. As the exchange rates of the UAE Dirham is pegged to the US Dollar, the Company is not subject to significant currency risk.

**Liquidity risk**

Liquidity risk is the risk that Company will not be able to meet its commitments associated with insurance contracts and financial liabilities as they fall due.

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

# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 25 INSURANCE AND FINANCIAL RISK continued

#### Financial risk continued

#### Liquidity risk continued

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2014 and 31 December 2013, based on contractual payment dates and current market interest rates.

	<i>Current Up to 1 year AED '000</i>	<i>Non-current &gt;1 year AED '000</i>	<i>Total AED '000</i>
<b>31 December 2014</b>			
Trade and other payables	103,551	-	103,551
Insurance contract liabilities	<u>317,325</u>	<u>-</u>	<u>317,325</u>
<b>Total</b>	<b><u>420,876</u></b>	<b><u>-</u></b>	<b><u>420,876</u></b>
<b>31 December 2013</b>			
Trade and other payables	97,801	-	97,801
Insurance contract liabilities	<u>295,064</u>	<u>-</u>	<u>295,064</u>
<b>Total</b>	<b><u>392,865</u></b>	<b><u>-</u></b>	<b><u>392,865</u></b>

The expected maturity profile of the assets at 31 December 2014 and 2013 is as follows:

	<i>Current AED '000</i>	<i>Non-current AED '000</i>	<i>Total AED '000</i>
<b>31 December 2014</b>			
Cash and bank balances	93,454	6,000	99,454
Investments carried at fair value through other comprehensive income	-	246,249	246,249
Investments carried at fair value through profit or loss	292,360	-	292,360
Investments at amortised cost	-	9,771	9,771
Insurance receivables and prepayments	75,664	-	75,664
Reinsurance contracts assets	184,979	-	184,979
Investment properties	-	326,279	326,279
Investment in associates	-	147,978	147,978
Property and equipment	<u>-</u>	<u>7,005</u>	<u>7,005</u>
	<b><u>646,457</u></b>	<b><u>743,282</u></b>	<b><u>1,389,739</u></b>
<b>31 December 2013</b>			
Cash and bank balances	52,794	6,000	58,794
Investments carried at fair value through other comprehensive income	-	311,188	311,188
Investments carried at fair value through profit or loss	237,085	-	237,085
Investments at amortised cost	-	9,771	9,771
Insurance receivables and prepayments	64,951	-	64,951
Reinsurance contracts assets	160,010	-	160,010
Investment properties	-	304,254	304,254
Investment in associates	-	23,341	23,341
Property and equipment	<u>-</u>	<u>5,349</u>	<u>5,349</u>
	<b><u>514,840</u></b>	<b><u>659,903</u></b>	<b><u>1,174,743</u></b>

Except for end of service benefits of AED 7,986 thousand (2013: AED 7,179), the Company expects its liabilities of AED 509,138 thousand (2013: AED 439,410 thousand) to mature in less than twelve months from the date of the statement of financial position.



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 25 INSURANCE AND FINANCIAL RISK continued

#### Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes.

### 26 FAIR VALUES

#### Fair value of financial instruments and non-financial assets

Financial instruments comprise of financial assets and financial liabilities.

The fair values of the financial assets and liabilities of the Company are not materially different from their carrying values at the reporting date.

The following table shows the analysis of financial instruments and non-financial assets recorded at fair value by level of the fair value hierarchy:

	<i>Level 1</i> <i>AED '000</i>	<i>Level 2</i> <i>AED '000</i>	<i>Level 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<b>At 31 December 2014</b>				
Investments carried at fair value through profit or loss	292,360	-	-	292,360
Investments carried through other comprehensive income	230,712	15,537	-	246,249
Investment properties	-	-	326,279	326,279
	<u>523,072</u>	<u>15,537</u>	<u>326,279</u>	<u>864,888</u>
<b>At 31 December 2013</b>				
Investments carried at fair value through profit or loss	237,085	-	-	237,085
Investments carried through other comprehensive income	297,755	13,433	-	311,188
Investment properties	-	-	304,254	304,254
	<u>534,840</u>	<u>13,433</u>	<u>304,254</u>	<u>852,527</u>

During the reporting periods ended 31 December 2014 and 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The fair value of the financial assets is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values of non-financial assets:

- Investment properties are valued based on an evaluation performed by an accredited external, independent valuer, applying a valuation model (note 8).

# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 27 SEGMENT REPORTING

For management purposes the Company is organised into departments based on the classes of insured risks. The reportable operating segments of the Company are fire and general accident, medical, marine, aviation and investments.

Management monitors the underwriting results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on underwriting profit. The following table presents disclosure of segment revenues, measurement of segment profit for the year and their reconciliation to the Company's income and profit for the year.

#### 27.1 Segment revenue and results

	2014				2013					
	Marine and aviation AED'000	Fire and general accident AED'000	Medical AED'000	Investments AED'000	Total AED'000	Marine and aviation AED'000	Fire and general accident AED'000	Medical AED'000	Investments AED'000	Total AED'000
Gross premiums written	21,445	284,054	121,684	-	427,183	19,068	278,403	106,579	-	404,050
Reinsurance premium ceded	(19,553)	(176,232)	(9,766)	-	(205,551)	(17,588)	(181,805)	(8,896)	-	(208,289)
Movement in provision for unearned premiums	170	(12,801)	2,340	-	(10,291)	13	14,936	20,742	-	35,691
Net claims incurred	325	(70,814)	(96,173)	-	(166,662)	(436)	(79,571)	(100,647)	-	(180,654)
Net commission earned	3,339	16,773	(8,084)	-	12,028	3,288	20,373	(9,796)	-	13,865
Rental income	-	-	-	13,153	13,153	-	-	-	12,389	12,389
Net investment income , net of finance costs	-	-	-	89,131	89,131	-	-	-	121,309	121,309
Segment profit before allocated expenses	5,726	40,980	10,001	102,284	158,991	4,345	52,336	7,982	133,698	198,361
Allocated expenses	(1,411)	(28,691)	(9,032)	-	(39,134)	(1,413)	(24,863)	(9,316)	-	(35,592)
Segment profit (loss)	4,315	12,289	969	102,284	119,857	2,932	27,473	(1,334)	133,698	162,769
Unallocated expenses	-	-	-	-	(10,805)	-	-	-	-	(13,998)
Profit for the year	-	-	-	-	109,052	-	-	-	-	148,771

# Al Wathba National Insurance Company (PJSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

### 27 SEGMENT REPORTING continued

#### 27.2 Segment assets and liabilities

	31 December 2014			31 December 2013		
	Underwriting AED '000	Investments AED '000	Total AED '000	Underwriting AED '000	Investments AED '000	Total AED '000
Segment assets	274,434	1,098,237	1,372,671	235,061	927,604	1,162,665
Unallocated assets			<u>17,068</u>			<u>12,078</u>
Total assets			<u>1,389,739</u>			<u>1,174,743</u>
Segment liabilities	374,623	101,161	475,784	360,103	54,243	414,346
Unallocated liabilities			<u>41,340</u>			<u>32,243</u>
Total liabilities			<u>517,124</u>			<u>446,589</u>
Capital expenditure	<u>2,903</u>	<u>-</u>	<u>2,903</u>	<u>903</u>	<u>-</u>	<u>903</u>

#### 27.3 Segment revenue from underwriting departments

The following is an analysis of the Company's revenues (representing gross written premiums and gross commissions earned) classified by major underwriting departments.

	2014 AED 000	2013 AED 000
Motor	124,629	111,332
Engineering	23,331	41,088
Fire and general accidents	43,083	45,421
Marine and aviation	25,122	22,708
Life, medical and personal assurance	<u>242,148</u>	<u>218,352</u>
	<u>458,313</u>	<u>438,901</u>

#### 27.4 Geographical segment

The Company's underwriting business is based entirely within UAE, except for treaty re-insurance arrangements which are held with companies based primarily in Europe. All the investments of the Company are held in the UAE except for certain investments in securities which are held in other countries and investment properties which are held in the United States of America (USA).

Total revenues and total assets by geographical location are detailed below:

	Revenue		Total assets	
	2014 AED 000	2013 AED 000	2014 AED 000	2013 AED 000
UAE	441,413	427,356	1,243,791	1,053,998
Europe	16,900	11,545	48,621	57,662
USA	-	-	55,157	32,780
Other countries	<u>-</u>	<u>-</u>	<u>42,170</u>	<u>30,303</u>
	<u>458,313</u>	<u>438,901</u>	<u>1,389,739</u>	<u>1,174,743</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

**28 COMMITMENTS AND CONTINGENT LIABILITIES**

***Contingent liabilities***

At 31 December 2014, the Company had contingent liabilities in respect of outstanding letters of guarantee issued in the normal course of business, amounting to AED 7.8 million (2013: AED 7.5 million).

***Legal claims***

The Company, in common with the significant majority of insurers, is subject to litigation in the normal course of the business. The management, based on advice from independent loss adjusters and internal legal counsel, has made a provision of AED 32 million representing amounts expected to result in a probable outflow of economic resources.