

**AL WATHBA NATIONAL
INSURANCE COMPANY PJSC**

**Reports and financial
statements for the year
ended 31 December 2013**

AL WATHBA NATIONAL INSURANCE COMPANY PJSC

Reports and financial statements for the year ended 31 December 2013

	Pages
Board of Directors' Report	1 - 2
Board of Directors	3
Independent auditor's report	4 - 5
Statement of financial position	6
Statement of income	7
Statement of comprehensive income	8
Statement of changes in equity	9
Statement of cash flows	10 - 11
Notes to the financial statements	12 - 58



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

Board of Directors' Report on the Company Business

For the year ended 31 December 2013

The Board of Directors of Al Wathba National Insurance Company (the "Company") is pleased to submit the annual report of the Company's activities accompanied by the audited financial statements for the year ended 31 December 2013.

The year 2013 began with promising indications in the worldwide economy. Capital markets achieved notable gains across the board beginning with growth in the Gross Domestic Products (GDP). This made a positive impact in the international insurance industry which had earlier experienced negative growth during the period of the global economic crisis; and is now showing signs of steady recovery with growth rates of up to 2.5% which is higher than the global inflation rate.

As for the region in general, and the UAE in particular, local economies have shown that the phase of the crisis has been overcome. It is gradually settling down into a period of recovery at various levels of the economy led by activities in various economic sectors with the financial sector in the lead, followed by the real estate and construction sectors.

Under these positive circumstances, the insurance sector is noted to be a contributory and vital element to its role in the local economy as reflected in the growth of the volume of business generated. Insurance companies and the insurance market today with particular to the UAE remain the largest in the region, however, high levels of competition between companies operating in the market remains an obstacle to the progress and further development of this vital sector. It is expected however that the development of regulatory framework will be able to adequately address and regulate the market activities of companies.

Al Wathba National Insurance Company focused its activities during the last period on customer service and diversification of insurance products which made a positive impact on the premium growth of the Company which rose to Dhs. 404.050 million during the year 2013, representing a growth rate of 5%. Net premium earned also rose to Dhs. 231.452 million in the year 2013, an increase of 9% from the previous year. Total underwriting income for the year is Dhs. 64.663 million before expenses and underwriting income after expenses amounted to Dhs. 29.071 million.

رأس المال المدفوع والمصرح به (١٨٠) مليون درهم شركة خاضعة لأحكام القانون الإتحادي 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
Head Office: P.O.Box: 45154, Abu Dhabi, U.A.E. Tel: +971 (2) 4185300, Fax: +971 (2) 6776628

E-mail: alwathba@awnic.com

Web: www.awnic.com



The profit of the Company stood at Dhs. 148.771 million in the year 2013; an increase of 279% from the year 2012, and investment returns represent 83% of the total profit and was achieved following the investment strategy implemented by the Board of Directors which include the restructuring of the investment portfolio, and capitalizing on opportunities in the market, particularly the local financial market which has witnessed a boom in activity and growth thus initiating a recovery phase in the financial sector. It is worth mentioning that the shareholder's equity rose to Dhs. 728.154 million representing an increase of 62% compared to 2012.

Finally, the Board of Directors hereby seizes this opportunity to express its highest thanks and appreciation to H.H. Sheikh Khalifa Bin Zayed Al Nahyan, President of UAE and Ruler of Abu Dhabi and H.H. Sheikh 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 continuous support for the pursuit of the country, for all its economic institutions and for Al Wathba National Insurance Company.

The Board of the Directors also wishes to express its gratitude to the shareholders and customers for their trust and continued support to the Company.

Sheikh Saif Bin Mohammed Bin Butti Al Hamed
Chairman of the Board of Directors

BOARD OF DIRECTORS

Chairman	H.E. Sheikh Saif Bin Mohamed Bin Butti Al Hamed
Deputy Chairman	Mr. Rashed Darwish Ahmed Saif Al Ketbi
Directors	Mr. Shukri Salem Musabah Humaid Almheiri
	Mr. Mohamed Saeed Abdulla Musallam Al Qubaisi
	Mr. Saeed Omeir Yousef Ahmed Al Mheiri
	Mr. Ahmed Ali Khalfan Al Mutawa Al Dhaheri
	Mr. Aamer Abdul Jalil M.A.R Al Fahim
	Mr. Rasheed Ali Rasheed Naser Al Omaira
	Mr. Khalifa Saif Darwish Ahmed Al Ketbi
General Manager	Mr. Bassam Adib Chilmeran
Auditors	Deloitte & Touche (M.E.)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Al Wathba National Insurance Company PJSC
Abu Dhabi, UAE

Report on the financial statements

We have audited the financial statements of Al Wathba National Insurance Company PJSC (the "Company"), which comprise the statement of financial position as at 31 December 2013, 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 for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Company, and the information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), UAE Federal Law No. 6 of 2007 concerning the establishment of the Insurance Authority and organization of its operations or the Articles of Association of the Company which might have a material effect on the financial position of the Company or on the results of its operations for the year.


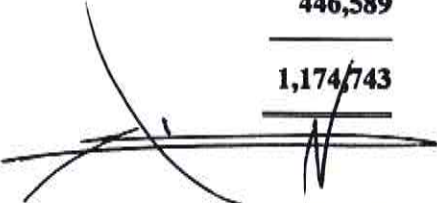

Deloitte & Touche (M.E.)



Mohammad Khamees Al Tah
Registration No. 717
5 February 2014



**Statement of financial position
as at 31 December 2013**

	Notes	2013 AED'000	2012 AED'000 (restated)	2011 AED'000 (restated)
ASSETS				
Property and equipment	5	5,349	5,224	4,485
Investment properties	6	304,254	284,337	301,837
Investment at amortised cost	7	9,771	8,670	-
Investment in associates	8	23,341	16,608	12,472
Investments carried at fair value through other comprehensive income (FVTOCI)	9	311,188	241,507	234,782
Investments carried at fair value through profit or loss (FVTPL)	10	237,085	37,990	-
Insurance receivables and prepayments	11	64,951	81,384	94,007
Re-insurance contract assets	13	160,010	136,742	116,131
Cash and bank balances	14	58,794	104,709	109,372
Total assets		1,174,743	917,171	873,086
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	15	180,000	180,000	120,000
Legal reserve	16	61,455	46,578	42,657
Statutory reserve	17	45,000	33,921	30,000
General reserve	18	23,323	23,323	23,323
Capital reserve	19	9,959	9,959	9,959
Investment revaluation reserve		124,457	20,593	3,869
Retained earnings		283,960	134,435	175,949
Total equity		728,154	448,809	405,757
Liabilities				
Employees' end of service benefit	21	7,179	6,244	5,184
Insurance contract liabilities	13	295,064	322,015	309,191
Bank overdraft	22	46,545	55,673	63,536
Trade and other payables	23	97,801	84,430	75,418
Term loan		-	-	14,000
Total liabilities		446,589	468,362	467,329
Total equity and liabilities		1,174,743	917,171	873,086
  				
H.E. Sheikh Saif Bin Mohamed Bin Butti Al Hamed	Rashed Darwish Ahmed Saif Al Ketbi	Bassam Adib Chilmeran		
Chairman	Managing Director	General Manager		

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

**Statement of income
for the year ended 31 December 2013**

	Notes	2013 AED'000	2012 AED'000 (restated)
Gross premiums written		404,050	384,253
Change in unearned premium provision		38,633	(9,524)
Premium income earned		442,683	374,729
Reinsurance premium ceded		(208,289)	(169,380)
Change in unearned premium provision		(2,942)	6,792
Reinsurance ceded		(211,231)	(162,588)
Net premium earned		231,452	212,141
Gross claims incurred		(304,738)	(226,712)
Reinsurance share of claims recovered		124,084	77,619
Net claims incurred		(180,654)	(149,093)
Gross commission earned		34,851	31,218
Less: Commission incurred		(20,986)	(24,096)
Net commission earned		13,865	7,122
Underwriting income		64,663	70,170
General and administrative expenses relating to underwriting	24	(35,592)	(36,348)
Net underwriting income		29,071	33,822
Other expenses	24	(10,368)	(3,053)
Net investment income	25	135,327	11,799
Board of directors' remuneration		(3,630)	(630)
Finance costs		(1,629)	(2,723)
Profit for the year	26	148,771	39,215
Basic and diluted earnings per ordinary share (AED)	27	0.826	0.218

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

**Statement of comprehensive income
for the year ended 31 December 2013**

	2013 AED'000	2012 AED'000 (restated)
Profit for the year	148,771	39,215
Other comprehensive income:		
<i><u>Item that will not be reclassified subsequently to profit or loss:</u></i>		
Increase in fair value of investments carried at FVTOCI	148,574	15,837
Total comprehensive income for the year	297,345	55,052

**Statement of changes in equity
for the year ended 31 December 2013**

	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 2012 (as previously reported) Restatement (note 32)	120,000	43,848 (1,191)	30,000	23,323	9,959	3,869	186,035 (10,086)	417,034 (11,277)
Balance at 1 January 2012 (restated)	120,000	42,657	30,000	23,323	9,959	3,869	175,949	405,757
Profit for the year	-	-	-	-	-	-	39,215	39,215
Other comprehensive income for the year	-	-	-	-	-	15,925	(88)	15,837
Total comprehensive income for the year	-	-	-	-	-	15,925	39,127	55,052
Transfer to retained earnings on disposal of investments carried at FVTOCI	-	-	-	-	-	799	(799)	-
Issuance of bonus shares	60,000	-	-	-	-	-	(60,000)	-
Transfer to legal reserve	-	3,921	-	-	-	-	(3,921)	-
Transfer to statutory reserve	-	-	3,921	-	-	-	(3,921)	-
Dividends (note 15)	-	-	-	-	-	-	(12,000)	(12,000)
Balance at 1 January 2013 (restated)	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	-	-	-	-	-	148,574	-	148,574
Total comprehensive income for the year	-	-	-	-	-	148,574	148,771	297,345
Transfer to retained earnings on disposal of investments at FVTOCI	-	-	-	-	-	(44,710)	44,710	-
Transfer to legal reserve	-	14,877	-	-	-	-	(14,877)	-
Transfer to statutory reserve	-	-	11,079	-	-	-	(11,079)	-
Dividends (note 15)	-	-	-	-	-	-	(18,000)	(18,000)
Balance at 31 December 2013	180,000	61,455	45,000	23,323	9,959	124,457	283,960	728,154

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

**Statement of cash flows
for the year ended 31 December 2013**

	2013 AED'000	2012 AED'000 (restated)
Cash flows from operating activities		
Profit for the year	148,771	39,215
Adjustments for:		
Depreciation of property and equipment	778	524
Changes in fair value of investment properties	12,787	17,500
Reversal of allowance for doubtful receivables, net	(1,832)	(1,462)
Provision for employees' end of service benefits	1,506	1,206
Increase in fair value of investments carried at FVTPL	(62,204)	(4,158)
Gain on disposal of investments carried at FVTPL	(54,597)	(486)
Share of profit of associates	(3,399)	(884)
Dividend income	(14,348)	(10,071)
Gain on disposal of property and equipment	-	(9)
Finance costs	1,629	2,723
Interest income	(540)	(1,008)
Cash flow from operating activities before movements in working capital	28,551	43,090
Net movement in re-insurance contract assets	(23,268)	(20,612)
Net movement in insurance contract liabilities	(26,951)	12,825
Decrease in insurance receivables and prepayments	17,991	14,085
Increase in trade and other payables	13,371	9,418
Cash from operating activities	9,694	58,806
Finance costs paid	(1,629)	(2,723)
Employees' end of service benefits paid	(571)	(146)
Net cash generated from operating activities	7,494	55,937
Cash flows from investing activities		
Payments for purchase of property and equipment	(903)	(1,263)
Payments for purchase of investment properties	(32,704)	-
Additional investment in an associate	(3,334)	-
Proceeds from disposal of property and equipment	-	9
Payment for purchase of investments carried at FVTOCI	-	(3,857)
Proceeds from disposal of investments carried at FVTOCI	78,893	9,311
Payments for purchase of investments carried at FVTPL	(316,085)	(55,489)
Proceeds from disposal of investments carried at FVTPL	233,791	22,143
Payments for purchase of investment at amortised cost	(1,101)	(8,670)
Decrease/(increase) in term deposits with original maturity over three months	13,713	(11,748)
Increase in statutory deposit	-	(1,500)
Interest received	814	1,030
Dividends received	14,348	10,049
Net cash used in investing activities	(12,568)	(39,985)

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

**Statement of cash flows
for the year ended 31 December 2013 (continued)**

	2013 AED'000	2012 AED'000 (restated)
Cash flows from financing activities		
Dividends paid	(18,000)	(12,000)
Repayment of term loan	-	(14,000)
	<hr/>	<hr/>
Net cash used in financing activities	(18,000)	(26,000)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(23,074)	(10,048)
Cash and cash equivalents at beginning of the year	14,044	24,092
	<hr/>	<hr/>
Cash and cash equivalents at end of the year (note 14)	(9,030)	14,044
	<hr/>	<hr/>

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

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

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

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

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

New and revised IFRSs

Summary of requirement

IAS 19 *Employee Benefits* (as revised in 2011)

IAS 19 includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised.

IAS 27 *Separate Financial Statements* (as revised in 2011)

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

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

**2.1 New and revised IFRSs applied with no material effect on the financial statements
(continued)**

New and revised IFRSs

Summary of requirement

Amendments to IFRS 7
Financial Instruments: Disclosures relating to offsetting financial assets and liabilities

Amends the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 *Financial Instruments: Presentation*.

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* relating to accounting for government loans at below market interest rate

Amends IFRS 1 *First-time Adoption of International Financial Reporting Standards* to address how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRSs. The amendments mirror the requirements for existing IFRS preparers in relation to the application of amendments made to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in relation to accounting for government loans.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)

This standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

IFRS 10 *Consolidated Financial Statements*

The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').

IFRS 11 *Joint Arrangements*

Replaces IAS 31 *Interests in Joint Ventures*. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

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

**2.1 New and revised IFRSs applied with no material effect on the financial statements
(continued)**

New and revised IFRSs

Summary of requirement

*IFRS 12 Disclosure of Interests
in Other Entities*

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

*IFRS 13 Fair Value
Measurement*

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs, Level 1 – quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date, Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, Level 3 – unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognised in the financial statements or merely disclosed) and the level in which it is classified.

*Annual Improvements 2009 –
2011 Cycle covering
amendments to IFRS 1, IAS 1,
IAS 16, IAS 32 and IAS 34*

Makes amendments to the following standards: IFRS 1 – Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets, IAS 1 – Clarification of the requirements for comparative information, IAS 16 – Classification of servicing equipment, IAS 32 – Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes, IAS 34 – Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 *Operating Segments*.

*IFRIC 20 Stripping Costs in the
Production Phase of a Surface
Mine*

Clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

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

**2.1 New and revised IFRSs applied with no material effect on the financial statements
(continued)**

<u>New and revised IFRSs</u>	<u>Summary of requirement</u>
Amendments to IAS 1 <i>Presentation of Financial Statements</i>	The amendments require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> , IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i> relating to requirements to provide comparative information	The amendments provide additional transition relief in by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Also, amendments to IFRS 11 and IFRS 12 eliminate the requirement to provide comparative information for periods prior to the immediately preceding period.

2.2 New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to offsetting financial assets and financial liabilities	1 January 2014
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> , IFRS 12 <i>Disclosure of Interests in Other Entities</i> and IAS 27 <i>Separate Financial Statements</i> relating to investment entities and exemption of consolidation of particular subsidiaries	1 January 2014
Amendments to IAS 39 <i>Financial instruments – Recognition and Measurement</i> relating to for novations of derivatives and continuation of hedge accounting	1 January 2014
Amendment to IAS 36 <i>Impairment of Assets</i> relating to recoverable amount disclosures for non-financial assets	1 January 2014

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

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

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
IFRIC 21 <i>Levies</i>	1 January 2014
Annual improvements 2010-2012 covering amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38	1 July 2014
Annual improvements 2011-2013 covering amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40	1 July 2014
Amendment to IAS 19 <i>Employee Benefits</i> relating to defined benefit plans and employee contributions	1 July 2014

Management anticipates that the adoption of these IFRSs in the future periods will have no material impact on the financial statements of the Company in the period of initial application.

2.3 Standards adopted before effective date

The Company adopted IFRS 9 *Financial Instruments* in 2010 in advance of its effective date which is no earlier than annual periods beginning on or after 1 January 2017. Refer to notes 3.11 and 3.12 for the accounting policies regarding financial instruments.

3 Summary of significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of UAE Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organisation of its Operations.

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments and investment properties. Historical cost is generally based on fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

3 Summary of significant accounting policies (continued)

3.2 Basis of preparation (continued)

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, or value in use in IAS 36.

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

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

The principal accounting policies are set out below.

3.3 Change in accounting policy

During the year, the Company changed its accounting policy for the calculation of the unearned premium reserve and the third party administrator fees.

The Company previously computed the unearned premium reserve using fixed percentages of 25% and 40% of gross premiums for marine and non-marine businesses respectively. The Company now defers the unearned premium proportionally over the period of coverage using the 365th method. Also, the Company recognises the third party administrator fees proportionally over the period of coverage in line with the gross premiums.

These new accounting policies have been applied retrospectively in these financial statements as if these policies have always been applied.

3.4 Insurance contracts

Definition

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

Recognition and measurement

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

These contracts are casualty and property insurance contracts.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

3 Summary of significant accounting policies (continued)

3.4 Insurance contracts (continued)

Recognition and measurement (continued)

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

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

For all these insurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability.

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

Re-insurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as re-insurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its re-insurance contracts held are recognised as re-insurance contract assets. The Company assesses its re-insurance contract assets for impairment on a regular basis. If there is objective evidence that the re-insurance contract asset is impaired, the Company reduces the carrying amount of the re-insurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the end of the reporting period, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the end of the reporting period and is estimated using the time proportionate method. The unearned premiums are computed using the 365th method to spread the premium written proportionally over the period of coverage.

The re-insurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as re-insurance contract assets in the financial statements.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

3 Summary of significant accounting policies (continued)

3.4 Insurance contracts (continued)

Deferred policy acquisition costs

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are amortised over the terms of the policies as premium is earned.

Salvage and subrogation reimbursements

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

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs. Any deficiency is immediately charged to profit or loss initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Receivables and payables related to insurance contracts

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

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

3.5 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the statement of income during the financial period in which they are incurred.

Depreciation is calculated so as to write off the cost of property and equipment less their estimated residual values, on a straight line basis over their expected useful economic lives, as follows:

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

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

3 Summary of significant accounting policies (continued)

3.5 Property and equipment (continued)

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3.6 Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes), are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the profit or loss for the period in which they arise.

3.7 Impairment of non-financial assets

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

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

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

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

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

3 Summary of significant accounting policies (continued)

3.8 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3.9 Employee benefits

Accrual is made for the full amount of end of service benefits due to non-UAE national employees in accordance with UAE Labour Law, for their period of service up to the end of the reporting period.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. 9 of 2000 for Pension and Social Security. Such contributions are charged to profit or loss during the employees' period of service.

3.10 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 results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Company's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

3 Summary of significant accounting policies (continued)

3.10 Investment in associates (continued)

Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale.

When a group entity transacts with an associate of the Company, profits and losses resulting from the transactions with the associate are recognised in the Company's financial statements only to the extent of interests in the associate that are not related to the Company.

3.11 Financial assets

3.11.1 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held with banks (excluding deposits held under lien) with original maturities of three months or less.

3.11.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.11.3 Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

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

All other financial assets are subsequently measured at fair value.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

3 Summary of significant accounting policies (continued)

3.11 Financial assets (continued)

3.11.4 The effective interest method

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

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

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

A financial asset is held for trading if:

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

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

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

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

Investments in equity instruments are classified as at FVTPL, unless the Company designates an investment as at FVTOCI on initial recognition.

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

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

3 Summary of significant accounting policies (continued)

3.11 Financial assets (continued)

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

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in profit or loss.

Dividend income on investments in equity instruments at FVTPL is recognised in profit or loss when the Company's right to receive the dividends is established in accordance with IAS 18 Revenue and is included in the net gain or loss described above.

3.11.7 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in profit or loss; and
- for financial assets that are designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the income statement.

3.11.8 Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

3 Summary of significant accounting policies (continued)

3.11 Financial assets (continued)

3.11.8 Impairment of financial assets (continued)

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

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

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

3.11.9 Derecognition of financial assets

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

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

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

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

3 Summary of significant accounting policies (continued)

3.12 Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

Financial liabilities comprised of insurance payables and other liabilities, term loan and bank overdraft are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term liabilities when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

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

3.13 Dividend distribution

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

3.14 Revenue recognition

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

Rental income

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

Interest income

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

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

3 Summary of significant accounting policies (continued)

3.14 Revenue recognition (continued)

Dividend income

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

Commission income and expenses

Commission income is recognised when re-insurance is entered into and commission expenses are recognised when the policies are issued based on the terms and percentages agreed with other insurance companies and/or brokers.

3.15 Foreign currencies

For the purpose of these financial statements, UAE Dirhams (AED) is the functional and the presentation currency of the Company.

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

4 Critical accounting judgments and key sources of estimation of uncertainty

While applying the accounting policies as stated in note 3, management of the Company has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

4.1 Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as at FVTOCI, FVTPL or amortised cost. In judging whether investments in securities are as at FVTOCI, FVTPL or amortised cost, Management has considered the detailed criteria for determination of such classification as set out in IFRS 9 *Financial Instruments* in 2011. Management is satisfied that its investments in securities are appropriately classified.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

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

4.2 Impairment of amounts due from policy holders

An estimate of the collectible amount from policy holders is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired entails the management's evaluation of the specific credit and liquidity position of the policy holders and their historical recovery rates including detailed investigations carried out during 2013 and feedback received from the Company's legal department. Allowance for impairment of amounts due from policy holders at 31 December 2013 is AED 13.0 million (2012: AED 16.7 million).

4.3 The ultimate liability arising from claims made under insurance contracts

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

4.4 Liability adequacy test

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

4.5 Impairment of amounts due from insurance and re-insurance companies

Management regularly reviews the collectability of amounts due from insurance and re-insurance companies. The majority of these receivables are due from reputable local and international insurance and re-insurance companies. Such balances are regularly reconciled by both parties and are settled by on account payments on a regular basis. Based on above evaluation, Management is satisfied that no impairment is necessary on receivables from insurance and re-insurance companies

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

5 Property and equipment

	Building AED'000	Motor vehicles AED'000	Furniture and equipment AED'000	Total AED'000
Cost				
At 1 January 2012	4,741	659	6,612	12,012
Additions	-	30	1,233	1,263
Disposal	-	(15)	-	(15)
At 1 January 2013	4,741	674	7,845	13,260
Additions	-	-	903	903
At 31 December 2013	4,741	674	8,748	14,163
At 1 January 2012	316	659	6,552	7,527
Charge for the year	316	5	203	524
Eliminated on disposal	-	(15)	-	(15)
At 1 January 2013	632	649	6,755	8,036
Charge for the year	316	7	455	778
At 31 December 2013	948	656	7,210	8,814
Carrying amount				
At 31 December 2013	3,793	18	1,538	5,349
At 31 December 2012	4,109	25	1,090	5,224

All property and equipment are located in United Arab Emirates.

6 Investment properties

	Land AED'000	Buildings AED'000	Investment properties under construction AED'000	Total AED'000
At 1 January 2012	95,044	199,500	7,293	301,837
Changes in fair value	(20,400)	2,900	-	(17,500)
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	-	32,704	-	32,704
At 31 December 2013	62,750	241,504	-	304,254

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

6 Investment properties (continued)

Investment properties comprise the following:

(a) Abu Dhabi Head Office building

The construction of this building was completed during 2004. 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 (2012: AED 173.0 million).

(b) 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 (2012: AED 28.5 million).

(c) 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 (2012: AED 0.9 million).

(d) 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 (2012: AED 81.9 million).

(e) New York residential condominium units

In November 2013, the Company purchased two condominium units located in New York, United States of America. The fair value of this property is estimated to be 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:

	2013 AED'000	2012 AED'000
Rental income	15,093	14,724
Direct operating expenses	(2,704)	(2,472)
	<hr/> 12,389	<hr/> 12,252

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

6 Investment properties (continued)

The fair value of the Company's investment properties as at 31 December 2013 and 2012 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 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 Company's investment properties as at 31 December 2013 and 2012 are classified under Level 3 fair value measurement.

7 Investment at amortised cost

Included in investment at amortised cost is a five-year sukuk amounting to AED 5,000,000 (2012: AED 5,000,000) which bears interest of 6-month EIBOR + 300 bps or 6.25%, whichever is higher, and a USD 1,300,000 (2012: USD 1,000,000) perpetual sukuk which carries interest at 6.375% per annum.

8 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 %
			2013 and 2012	2013 and 2012
Vision Insurance SAOC	Insurance business	Sultanate of Oman	20%	20%
Vision Capital Brokerage Company L.L.C.	Provision of share brokerage services	United Arab Emirates	10%	10%
UR International Insurance	Insurance business	Iraq	40%	40%

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.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

8 Investment in associates (continued)

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

	2013 AED'000	2012 AED'000
At 1 January	16,608	12,472
Additions during the year	3,334	-
Share of income during the year (note 25)	3,399	884
Transferred from investment carried at FVTOCI (note 9)	-	3,252
	<hr/>	<hr/>
At 31 December	23,341	16,608
	<hr/>	<hr/>

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

	2013 AED'000	2012 AED'000
Total assets	214,761	172,249
Total liabilities	(90,912)	(92,821)
	<hr/>	<hr/>
Net assets	123,849	79,428
	<hr/>	<hr/>
Company's share of associates' net assets	23,341	16,608
	<hr/>	<hr/>
Total revenue	118,718	100,761
	<hr/>	<hr/>
Profit for the year	18,777	5,776
	<hr/>	<hr/>
Company's share of associates' profit for the year	3,399	884
	<hr/>	<hr/>

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

9 Investments carried at fair value through other comprehensive income (FVTOCI)

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

	2013 AED'000	2012 AED'000
Quoted securities	297,755	221,993
Unquoted securities	13,433	19,514
	<u>311,188</u>	<u>241,507</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 2013 was AED 9.96 million (2012: AED 8.17 million).

The movement in investments carried at FVTOCI during the year is as follows:

	2013 AED'000	2012 AED'000
Fair value at 1 January	241,507	234,782
Additions	-	3,857
Disposals	(78,893)	(9,399)
Transferred to investment in associate (note 8)	-	(3,252)
Transferred to a related party	-	(406)
Increase in fair value	148,574	15,925
Fair value at 31 December	<u>311,188</u>	<u>241,507</u>

The geographical distribution of investments is as follows:

	2013 AED'000	2012 AED'000
Within UAE	307,605	234,795
Outside UAE	3,583	6,712
	<u>311,188</u>	<u>241,507</u>

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

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

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

The movement in investments carried at FVTPL during the year is as follows:

	2013 AED'000	2012 AED'000
Fair value at 1 January	37,990	-
Additions	316,085	55,489
Disposals	(179,194)	(21,657)
Increase in fair value (note 25)	62,204	4,158
Fair value at 31 December	237,085	37,990

11 Insurance receivables and prepayments

	2013 AED'000	2012 AED'000
Insurance receivables:		
- Due from policy holders	46,354	64,155
- Due from policy holders – related parties (note 12)	13,684	16,888
	60,038	81,043
Less: Allowance for doubtful receivables	(13,033)	(16,721)
	47,005	64,322
Due from insurance and reinsurance companies	10,588	8,659
Prepayments	935	731
Other receivables	6,423	7,672
	64,951	81,384

The average credit period on insurance contracts is 90 days. No interest is charged on insurance and other receivables.

Included in the Company's insurance receivables and prepayments are insurance receivables with a carrying amount of AED 27.6 million (2012: AED 34.9 million) which are past due at the end of the reporting period for which the Company has not provided as there has not been a significant change in the credit quality of the receivables and the amounts are still considered recoverable.

Before accepting any new customer, the Company assesses the potential customers' credit quality and defines credit limits by customer. In determining the recoverability of an insurance receivable, the Company considers any change in the credit quality of the insurance receivables from the date credit was initially granted up to the end of the reporting period.

Notes to the financial statements
for the year ended 31 December 2013 (continued)

11 Insurance receivables and prepayments (continued)

The Company has adopted a policy of dealing with only creditworthy counterparties. Adequate credit assessment is made before accepting an order for sale of services from any counterparty. At the end of the reporting period, an amount of AED 20.1 million representing 33% of the insurance receivables is due from 11 major customers (2012 : AED 29.9 million representing 37% of the insurance receivables is due from 10 major customers). Management considers these customer to be reputable and creditworthy and is confident that this concentration of credit risk will not result in any significant loss to the Company.

Ageing of insurance receivables:

	2013 AED'000	2012 AED'000
Not past due	19,341	29,424
Past due but not impaired		
91 to 180 days	13,364	18,178
181 to 365 days	5,997	6,226
More than 1 year	8,303	10,494
	27,664	34,898
Past due and impaired		
181 to 365 days	2,077	4,855
More than 1 year	10,956	11,866
	13,033	16,721
Total due from policy holders	60,038	81,043

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

	2013 AED'000	2012 AED'000
At 1 January	16,721	22,756
Charge for the year	1,758	3,497
Amounts written off during the year	(1,856)	(4,573)
Amounts recovered during the year	(3,590)	(4,959)
At 31 December	13,033	16,721

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

12 Related parties

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

	2013 AED'000	2012 AED'000
Gross premiums written	25,565	27,524
Claims paid	(3,681)	(5,448)
Transfer of investment in associate to a related party	-	406
Remuneration of key management personnel:		
Short-term benefits	4,964	4,880
Employees' end of service benefits	400	282
	5,364	5,162

Directors' remuneration amounting to AED 3,000,000 has been proposed for the year ended 31 December 2013 (2012: AED 630,000). The remuneration of Directors is subject to approval by the Shareholders at the Annual General Meeting and as per limits set by the Commercial Companies Law No.8 of 1984, as amended.

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

The Company does not have any past history of significant defaults of balances due from related parties since the majority of the counter-parties are parties owned by the board of directors. There is no provision for impairment of amounts due from related parties at 31 December 2013 and 2012.

Balances with related parties at the end of the reporting period comprise of:

	2013 AED'000	2012 AED'000
Included under insurance receivables and prepayments:		
Due from related parties	13,684	16,888
Included under trade and other payables:		
Due to related parties	2,261	3,556
Accruals	3,000	-
	5,261	3,556

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

13 Insurance contract liabilities

	2013 AED'000	2012 AED'000 (restated)	2011 AED'000 (restated)
Insurance liabilities			
Claims reported unsettled	199,711	188,029	188,729
Claims incurred but not reported	5,000	5,000	1,000
Unearned premiums	90,353	128,986	119,462
	<u>295,064</u>	<u>322,015</u>	<u>309,191</u>
Recoverable from re-insurers			
Claims reported unsettled	122,585	96,375	82,556
Unearned premiums	37,425	40,367	33,575
	<u>160,010</u>	<u>136,742</u>	<u>116,131</u>
Insurance liabilities - net			
Claims reported unsettled	77,126	91,654	106,173
Claims incurred but not reported	5,000	5,000	1,000
Unearned premiums	52,928	88,619	85,887
	<u>135,054</u>	<u>185,273</u>	<u>193,060</u>

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

13 Insurance contract liabilities (continued)

The movements in the insurance contract liabilities and re-insurance contract assets during the year were as follows:

	2013			2012		
	Gross AED'000	Re-insurance AED'000	Net AED'000	Gross AED'000 (restated)	Re-insurance AED'000 (restated)	Net AED'000 (restated)
Claims						
Notified claims	188,029	96,375	91,654	188,729	82,556	106,173
Incurred but not reported	5,000	-	5,000	1,000	-	1,000
Total at the beginning of the year	193,029	96,375	96,654	189,729	82,556	107,173
Claims settled	(295,210)	(100,028)	(195,182)	(223,412)	(63,800)	(159,612)
Increase in liabilities	306,892	126,238	180,654	226,712	77,619	149,093
Total at the end of the year	204,711	122,585	82,126	193,029	96,375	96,654
Notified claims						
Incurred but not reported	199,711	122,585	77,126	188,029	96,375	91,654
	5,000	-	5,000	5,000	-	5,000
Total at the end of the year	204,711	122,585	82,126	193,029	96,375	96,654
Unearned premium						
Total at the beginning of the year	128,986	40,367	88,619	119,462	33,575	85,887
Increase during the year	404,050	208,289	195,761	384,253	169,380	214,873
Release during the year	(442,683)	(211,231)	(231,452)	(374,729)	(162,588)	(212,141)
Net (decrease)/increase during the year	(38,633)	(2,942)	(35,691)	9,524	6,792	2,732
Total at the end of the year	90,353	37,425	52,928	128,986	40,367	88,619

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

14 Cash and cash equivalents

	2013 AED'000	2012 AED'000
Bank and cash	16,828	60,191
Statutory deposit	6,000	6,000
Term deposits	35,966	38,518
	<hr/>	<hr/>
Cash and bank balances	58,794	104,709
Less: Bank overdraft	(46,545)	(55,673)
Term deposits with original maturity over 3 months	(15,279)	(28,992)
Statutory deposit	(6,000)	(6,000)
	<hr/>	<hr/>
	(9,030)	14,044
	<hr/>	<hr/>

Term deposits are held locally in financial institutions. The original maturity ranges from one to twelve months. Interest is receivable at annual rates ranging from 0.4% to 2.6% per annum (2012: 0.5% to 3.0% 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 6,000,000 (2012: AED 6,000,000) which cannot be utilised without the consent of the UAE Insurance Authority.

15 Share capital

	2013 AED' 000	2012 AED' 000
Authorised, issued and fully paid		
180,000,000 (2012: 180,000,000) ordinary shares of AED 1 each	180,000	180,000
	<hr/>	<hr/>

At the Annual General Meeting held on 10 March 2013, the Shareholders approved the distribution of cash dividends of AED 0.10 per ordinary share amounting to AED 18,000,000.

16 Legal reserve

In accordance with the UAE Federal Law No. 8 of 1984 (as amended) concerning Commercial Companies, 10% of the profit for the year is to be transferred to a non-distributable legal reserve until the balance of the legal reserve equals 50% of the Company's paid up share capital. This reserve is not available for dividend distribution.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

17 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.

18 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.

19 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 (2012: AED Nil).

20 Proposed cash dividends and bonus shares

In respect of the current year, the Board of Directors propose a cash dividend of AED 0.10 per share (2012: AED 0.10 per share) amounting to AED 18 million (2012: AED 18 million) and bonus shares of 15% per share (2012: Nil). The cash dividend and bonus shares are subject to the approval of the Shareholders at the Annual General Meeting.

21 Employees' end of service benefit

	2013	2012
	AED'000	AED'000
At 1 January	6,244	5,184
Charge for the year	1,506	1,206
Paid during the year	(571)	(146)
	<hr/>	<hr/>
At 31 December	7,179	6,244
	<hr/>	<hr/>

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

22 Bank overdraft

	2013 AED'000	2012 AED'000
Bank overdraft	46,545	55,673

The bank overdraft is repayable on demand and secured by the pledge over local shares with market value of AED 135 million (2012: AED 135.0 million). Interest is charged at the rate of 1 month EIBOR plus 2.5% per annum. The bank reserves the right to charge penalty interest at 2% per annum over and above the stipulated interest rate for any balances and or drawings in excess of the eligible limit, which represents the value of existing shares pledged with the bank.

23 Trade and other payables

	2013 AED'000	2012 AED'000
Trade payables	18,882	18,499
Due to related parties (note 12)	2,261	3,556
Insurance and reinsurance balances payable	45,932	39,200
Accrued expenses	25,496	18,397
Other payables	5,230	4,778
	<u>97,801</u>	<u>84,430</u>

The average credit period is 60 days. No interest is charged on trade and other payables. The Company has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

24 Other expenses

	2013 AED'000	2012 AED'000
Staff costs	38,374	30,384
Fees and licenses	2,738	2,992
Rent	1,090	995
Depreciation of property and equipment	778	524
Provision for doubtful receivables, net of reversals	(1,832)	(1,462)
Others	4,812	5,968
	<u>45,960</u>	<u>39,401</u>
<i>Allocated to:</i>		
Underwriting	35,592	36,348
Other expenses	10,368	3,053
	<u>45,960</u>	<u>39,401</u>

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

25 Net investment income

	2013 AED'000	2012 AED'000
Rental income, net (note 6)	12,389	12,252
Changes in fair value of investment properties (note 6)	(12,787)	(17,500)
Gain on disposal of investments at FVTPL (note 10)	54,597	486
Increase in fair value of investments at FVTPL (note 10)	62,204	4,158
Dividend income	14,348	10,071
Interest income	540	1,008
Share of profit of associates (note 8)	3,399	884
Other income	637	440
	<u>135,327</u>	<u>11,799</u>

26 Profit for the year

Profit for the year was arrived at after charging:

	2013 AED'000	2012 AED'000
Staff costs	<u>38,374</u>	<u>30,384</u>
Depreciation of property and equipment	<u>778</u>	<u>524</u>

27 Earnings per share

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

	2013	2012 (restated)
Profit for the year (AED'000)	<u>148,771</u>	<u>39,215</u>
Weighted number of shares in issue throughout the year	<u>180,000,000</u>	<u>180,000,000</u>
Basic earnings per share (AED)	<u>0.826</u>	<u>0.218</u>

As of 31 December 2013 and 2012, the Company has not issued any instruments that have an impact on earnings per share when exercised.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

28 Insurance risks

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable.

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

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

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

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:

Underwriting year	2009 and earlier AED'000	2010 AED'000	2011 AED'000	2012 AED'000	2013 AED'000	Total AED'000
At the end of the underwriting year	111,794	44,504	55,648	50,472	75,773	n/a
One year later	228,017	109,271	103,062	112,307	-	n/a
Two years later	235,015	107,818	112,988	-	-	n/a
Three years later	274,669	106,496	-	-	-	n/a
Four years later	218,972	-	-	-	-	n/a
Current estimate of cumulative claims	218,972	106,496	112,988	112,307	75,773	626,536
Cumulative payments to date	(191,072)	(99,891)	(95,518)	(91,544)	-	(478,025)
Liability recognised in the statement of financial position	27,900	6,605	17,470	20,763	75,773	148,511

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

28 Insurance risks (continued)

Motor - Gross:

Accident year	2009 and earlier AED'000	2010 AED'000	2011 AED'000	2012 AED'000	2013 AED'000	Total AED'000
At the end of the accident year	102,702	48,224	19,353	43,960	15,113	n/a
One year later	207,043	37,908	47,886	73,050	-	n/a
Two years later	158,074	44,967	54,724	-	-	n/a
Three years later	145,097	45,894	-	-	-	n/a
Four years later	127,472	-	-	-	-	n/a
Current estimate of cumulative claims	127,472	45,894	54,724	73,050	15,113	316,253
Cumulative payments to date	(123,543)	(41,067)	(45,106)	(50,337)	-	(260,053)
Liability recognised in the statement of financial position	3,929	4,827	9,618	22,713	15,113	56,200

Frequency and severity of claims

The Company has the right not to renew individual policies, re-price the risk, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation).

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set limit of AED 250,000 for motor, AED 250,000 for general accident and AED 750,000 for all other class of business. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

28 Insurance risk (continued)

Sources of uncertainty in the estimation of future claim payments

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

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

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

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

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

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

28 Insurance risk (continued)

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

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

<u>Type of risk</u>	<u>Year ended 31 December 2013</u>		<u>Year ended 31 December 2012</u>	
	<u>Gross loss ratio</u>	<u>Net loss ratio</u>	<u>Gross loss ratio</u>	<u>Net loss ratio</u>
Motor	60%	75%	79%	67%
Non-Motor	73%	80%	53%	73%

Process used to decide on assumptions

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

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

The Company's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe.

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

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

28 Insurance risk (continued)

Concentration of insurance risk

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarised below:

Type of risk	Year ended 31 December 2013		Year ended 31 December 2012	
	Gross	Net	Gross	Net
	AED'000	AED'000	AED'000	AED'000
Motor				
UAE	2,438,134	1,540,677	2,089,425	1,361,966
GCC countries	18,395	18,395	34,624	-
	<u>2,456,529</u>	<u>1,559,072</u>	<u>2,124,049</u>	<u>1,361,966</u>
Non-Motor				
UAE	106,397,567	41,718,096	104,134,811	47,245,348
GCC countries	789,440	239,046	1,123,412	131,800
Others	9,685	612	1,032,786	52,276
	<u>107,196,692</u>	<u>41,957,754</u>	<u>106,291,009</u>	<u>47,429,424</u>
Grand total	<u>109,653,221</u>	<u>43,516,826</u>	<u>108,415,058</u>	<u>48,791,390</u>

Sensitivity of underwriting profit and losses

The contribution by the insurance operations in the profit of the Company amounts to AED 29.1 million for the year ended 31 December 2013 (2012: AED 33.8 million). The Company does not foresee any major impact from insurance operations due to the following reasons:

The Company has an overall risk retention level of 48% (2012: 56%) and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 70% (2012: 80%). However, in this class the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Company has net commission earnings of around 48% (2012: 21%) of the net underwriting profit predominantly from the reinsurance placement which remains as a comfortable source of income.

Because of low risk retention in 10% volume of business and limited exposure in high retention areas like motor, the Company is comfortable to maintain a net loss ratio in the region of 55% - 60% and does not foresee any serious financial impact in the insurance net profit.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

29 Financial instruments

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, re-insurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, foreign currency risk and credit risk.

29.1 Capital risk management

The Company's objectives when managing capital are:

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

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

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

	2013 AED'000	2012 AED'000 (restated)
Total Shareholders' equity	728,154	448,809
Minimum regulatory capital	100,000	100,000

29.2 Significant accounting policies

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

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

29 Financial instruments (continued)

29.3 Categories of financial instruments

	2013 AED'000	2012 AED'000 (restated)
Financial assets		
Investments at amortised cost	9,771	8,670
Investments carried at FVTOCI	311,188	241,507
Investments carried at FVTPL	237,085	37,990
Insurance receivables	64,016	80,653
Statutory deposit	6,000	6,000
Term deposits	35,966	38,518
Bank and cash	16,828	60,191
Total	680,854	473,529
Financial liabilities		
Trade and other payables	97,801	84,430
Bank borrowings	46,545	55,673
Total	144,346	140,103

29.4 Market price risk management

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market risk with respect to its investments in quoted securities held by it directly or through investment managers. The Company limits market risk by actively monitoring the key factors that affect stock and the market movements, including analysis of the operational and financial performance of the investees.

Equity price sensitivity analysis

At the end of the reporting period, if the equity prices are 5% higher/lower as per the assumptions mentioned below and all the other variables were held constant:

- Profit for the year would increase/(decrease) by AED 11.9 million (2012: AED 207 thousand) as result of the Company's investments carried at FVTPL.
- Equity reserves at the end of the year would increase/(decrease) by AED 15.6 million (2012: AED 12.1 million) as a result of the Company's investments carried at FVTOCI.

29.5 Foreign currency risk management

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 losses due to exchange rate fluctuations and consequently, the Company does not hedge foreign currency exposure.

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

29 Financial instruments (continued)

29.6 Credit risk management

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

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

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

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

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

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policy holders and groups of policy holders are collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policy holders, or homogenous groups of policy holders, a financial analysis equivalent to that conducted for re-insurers is carried out by the Company. Details on concentration of amounts due from policy holders is disclosed in note 11.

Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policy holders.

At 31 December 2013 and 2012, virtually all of the deposits were placed with 5 banks. Management is confident that this concentration of liquid assets at year end does not result in any significant credit risk to the Company as the banks are major banks operating in the UAE and are highly regulated by the Central Bank.

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

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

29 Financial instruments (continued)

29.7 Liquidity risk management

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. Bank facilities, the policy holders and the re-insurers, are the major sources of funding for the Company and the liquidity risk for the Company is assessed to be low. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Company's financial liabilities with maturities determined on the basis of the remaining period from the end of the reporting period to the contractual maturity/repayment date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

	On demand AED'000	Up to 1 year AED'000	More than 1 year AED'000	Total AED'000
<u>At 31 December 2013</u>				
Bank overdraft	46,545	-	-	46,545
Trade and other payables	-	97,801	-	97,801
Total	46,545	97,801	-	144,346
<u>At 31 December 2012</u>				
Bank overdraft	55,673	-	-	55,673
Trade and other payables	-	84,430	-	84,430
Total	55,673	84,430	-	140,103

29.8 Interest risk management

The Company's exposure to interest rate risk relates to its term deposits and bank overdrafts.

Interest rate sensitivity analysis

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's profit for the year would decrease/increase by AED 45,790 (2012: increase/decrease by AED 111,550).

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

29 Financial instruments (continued)

29.9 Fair value of financial instruments

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

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

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<u>At 31 December 2013</u>				
<i>Financial assets at FVTPL</i>				
Quoted equities	237,085	-	-	237,085
<i>Financial assets at FVTOCI</i>				
Quoted equities	297,755	-	-	297,755
Unquoted equities	-	5,276	8,157	13,433
	<u>534,840</u>	<u>5,276</u>	<u>8,157</u>	<u>548,273</u>
<u>At 31 December 2012</u>				
<i>Financial assets at FVTPL</i>				
Quoted equities	37,990	-	-	37,990
<i>Financial assets at FVTOCI</i>				
Quoted equities	221,993	-	-	221,993
Unquoted equities	-	6,575	12,939	19,514
	<u>259,983</u>	<u>6,575</u>	<u>12,939</u>	<u>279,497</u>

There were no transfers between Level 1 and 2 during the year.

Reconciliation of financial assets categorised within Level 3

	2013 AED' 000	2012 AED' 000
At 1 January	12,939	9,263
Additions	-	3,676
Decrease in fair value	(4,782)	-
At 31 December	8,157	12,939

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

30 Segment information

The Company has two reportable segments, as described below, which are the Company's strategic business units. The strategic business units are managed separately because they require different approach, technology and marketing strategies. For each of the strategic business units, the Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis.

The following summary describes the two main business segments:

- Underwriting of general insurance business – incorporating all classes of general insurance such as marine, aviation, fire, general accident and miscellaneous.
- Investments – incorporating investments in marketable equity securities, term deposits with banks and investment properties and other securities.

Information regarding the Company's reportable segments is presented below.

AL WATHBA NATIONAL INSURANCE COMPANY PJSC

54

Notes to the financial statements
for the year ended 31 December 2013 (continued)

30 Segment information (continued)

30.1 Segment revenue and results

	2013				2012			
	Underwriting		Investments		Underwriting		Investments	
	Marine and aviation AED'000	Fire and general accident AED'000	AED'000	Total AED'000	Marine and aviation AED'000 (restated)	Fire and general accident AED'000 (restated)	AED'000 (restated)	Total AED'000 (restated)
Gross premiums written	19,068	384,982	-	404,050	29,010	355,243	-	384,253
Reinsurance premium ceded	(17,588)	(190,701)	-	(208,289)	(27,540)	(141,840)	-	(169,380)
Movement in provision for unearned premiums	13	35,678	-	35,691	(142)	(2,590)	-	(2,732)
Net claims incurred	(436)	(180,218)	-	(180,654)	(312)	(148,781)	-	(149,093)
Net commission earned	3,288	10,577	-	13,865	2,823	4,299	-	7,122
Rental income	-	-	12,389	12,389	-	-	12,252	12,252
Investment gain/(loss), net	-	-	121,309	121,309	-	-	(3,176)	(3,176)
Allocated expenses	(4,130)	(31,462)	-	(35,592)	(2,260)	(34,088)	-	(36,348)
Segment profit	215	28,856	133,698	162,769	1,579	32,243	9,076	42,898
Unallocated expenses				(13,998)				(3,683)
Profit for the year				148,771				39,215

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues during the year ended 31 December 2013 and 2012.

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3.

AL WATHBA NATIONAL INSURANCE COMPANY PJSC

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

30 Segment information (continued)

30.2 Segment assets and liabilities

	At 31 December 2013			At 31 December 2012		
	Underwriting AED'000	Investments AED'000	Total AED'000	Underwriting AED'000 (restated)	Investments AED'000 (restated)	Total AED'000 (restated)
Segment assets						
Unallocated assets	235,061	927,604	1,162,665 12,078	271,156	633,631	904,787 12,384
Total assets			<u>1,174,743</u>			<u>917,171</u>
Segment liabilities						
Unallocated liabilities	360,103	54,243	414,346 32,243	382,062	62,768	444,830 23,532
Total liabilities			<u>446,589</u>			<u>468,362</u>
Capital expenditure	903	-	903	1,263	-	1,263

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

30 Segment information (continued)

30.3 Segment revenue from underwriting departments

The following is an analysis of the Company's revenues classified by major underwriting departments.

	2013 AED'000	2012 AED'000
Motor	111,332	126,098
Engineering	41,088	34,765
Fire and general accidents	45,421	43,147
Marine and aviation	22,708	32,382
Life, medical and personal assurance	218,352	179,079
	<u>438,901</u>	<u>415,471</u>

30.4 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 of the underwriting and investment segments by geographical location are detailed below:

	Revenue		Total assets	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000 (restated)
UAE	427,356	393,406	1,053,998	855,251
Europe	11,545	22,065	57,662	43,890
USA	-	-	32,780	-
Other countries	-	-	30,303	18,030
	<u>438,901</u>	<u>415,471</u>	<u>1,174,743</u>	<u>917,171</u>

31 Contingent liabilities

At 31 December 2013, the Company had contingent liabilities in respect of outstanding letters of guarantee issued in the normal course of business, amounting to AED 7.5 million (2012: AED 10.7 million).

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

32 Restatement of comparative information

In accordance with the requirements of IAS 1 "*Presentation of Financial Statements*" and IAS 8 "*Accounting Policies, Changes in Accounting Estimates and Errors*", the below items have been corrected retrospectively and accordingly balances in the financial statements for the year ended 31 December 2012 and 2011 have been restated as follows:

- (a) During the year, the Company changed its accounting policy for the calculation of the third party administrator fees. These fees which were previously recognised as expense at the time of issuance of the policy are now recognised using the time proportionate method.
- (b) During the year, the Company changed its accounting policy for the calculation of the unearned premium reserve from using fixed percentages of 25% and 40% for marine and non-marine businesses respectively to the 365th method.
- (c) During the year, management reassessed the accounting treatment on board of directors' remuneration and determined that it should have been reflected in profit or loss instead of other comprehensive income.

The impact of the above changes is as follows:

		As previously reported AED'000	Restatements AED'000	Restated AED'000
At 31 December 2012				
<i>Statement of financial position</i>				
Insurance receivables and prepayments	(a)	80,141	1,243	81,384
Re-insurance contract assets	(b)	160,068	(23,326)	136,742
Legal reserve	(a, b, c)	(46,869)	291	(46,578)
Statutory reserve	(a, b, c)	(33,021)	(900)	(33,921)
Retained earnings	(a, b, c)	(136,691)	2,256	(134,435)
Insurance contract liabilities	(b)	(342,451)	20,436	(322,015)
<i>Statement of income</i>				
Gross change in unearned premium provision	(b)	23,732	(14,208)	9,524
Reinsurers' share of change in unearned premium provision	(b)	(10,626)	3,834	(6,792)
Commission incurred	(a)	23,352	744	24,096
Board of directors' remuneration	(c)	-	630	630
Basic and diluted earnings per ordinary share	(c)	0.168	0.049	0.217
<i>Statement of comprehensive income</i>				
Board of directors' remuneration	(c)	630	(630)	-
At 31 December 2011				
<i>Statement of financial position</i>				
Insurance receivables and prepayments	(a)	92,020	1,987	94,007
Re-insurance contract assets	(b)	135,622	(19,491)	116,131
Legal reserve	(a, b, c)	(43,848)	1,191	(42,657)
Retained earnings	(a, b, c)	(186,035)	10,086	(175,949)
Insurance contract liabilities	(b)	(315,418)	6,227	(309,191)

**Notes to the financial statements
for the year ended 31 December 2013 (continued)**

34 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue in their meeting on 5 February 2014.