

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

**Reports and consolidated  
financial statements for the  
year ended 31 December 2014**

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**Report of the Board of Directors  
for the year ended 31 December 2014**

The Board of Directors of Al Khazna Insurance Company PSC has the pleasure to present the Annual Board of Directors report and the audited consolidated financial statements for the year ended 31 December 2014.

Presented below are the technical and financial results of the Group:

**1. Insurance activities:**

Gross written premium increased from AED 95.4 million in 2013 to AED 127.9 million in 2014.

The claims paid decreased from AED 66.9 million in 2013 to AED 57.7 million in 2014. The claims incurred increased from AED 42.5 million in 2013 to AED 75.8 million in 2014.

Net underwriting results before operating expenses registered a decrease from AED 16.4 million in 2013 to AED 12.9 million in 2014.

**2. Investment activity:**

There was no change in the investment portfolio in 2014. The portfolio is comprised of long term investments in properties and investments in the securities market listed shares as well as unlisted shares.

The investment portfolio is consistent with the prior year. The investment activities resulted in a loss of AED 33.9 million in 2014 compared to AED 127 million in 2013. Other income and expenses resulted in a net loss of AED 22.7 million in 2014 as compared to AED 16.5 million in 2013.

**3. Marketing and Administrative expenses:**

Marketing and administrative expenses decreased from AED 35.2 million in 2013 to AED 24.6 million in 2014.

**4. Loss for the year:**

The Group incurred a loss amounting to AED 68.4 million in 2014 compared to AED 162.9 million in 2013.

**Report of the Board of Directors  
for the year ended 31 December 2014 (continued)**

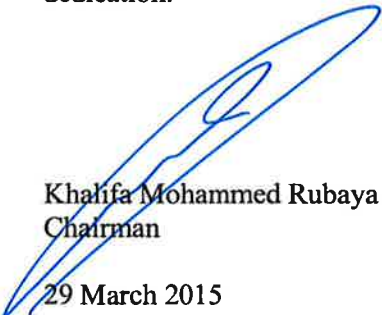
**5. Board of Directors suggestions:**

The Board of Directors suggests that the shareholders undertake the following:

- Approve and endorse the financial statements for the year ended in 31 December 2014.
- To hire or rehire the external auditor for the year 2015 and agree on their fees.

Finally the Board of Directors would like to extend its sincere thanks and gratitude to H.H. Sheikh Khalifa Bin Zayed Al Nahyan, the President of the United Arab Emirates and Ruler of the Emirate of Abu Dhabi, H.H. Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai, H.H. Sheikh Mohammed Bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi, and the Rulers of all the other Emirates for their wise leadership and support. We would like to also thank the Securities and Commodities Authority, the Abu Dhabi Stock Market and the Insurance Authority for their continuous support.

The Board would like also to express its high appreciation to the Company's Shareholders, corporate and individual customers, reinsurers, brokers and the Company's external auditors for their constant trust and continuous support in addition to the Company's Management team and staff for their sincere efforts and dedication.



Khalifa Mohammed Rubaya Al Muhairi  
Chairman

29 March 2015

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders  
Al Khazna Insurance Company P.S.C.  
Abu Dhabi, UAE

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Al Khazna Insurance Company P.S.C. ("the Company") and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

**INDEPENDENT AUDITOR'S REPORT (continued)***Basis for qualified opinion*

1. As disclosed in note 6, during the prior period, all of the Group's investment properties were revalued by another valuation expert and their fair value was determined to be AED 330.8 million as at 31 December 2013. The impact of this change in fair value estimate as at 31 December 2013 resulted in a decrease in investment properties by AED 129.5 million compared to their carrying amount as of 31 December 2012 with the corresponding loss recognised in the consolidated statement of profit or loss for year ended 31 December 2013. Management did not complete its assessment on whether the full fair value loss relates to 2013 or previous years. As there was no sufficient evidence available at the date of this report, we were unable to determine whether the comparative figures presented should be restated. Accordingly, we were unable to satisfy ourselves that the fair value loss amounting to AED 129.5 million recorded in the consolidated statement of profit or loss for the year ended 31 December 2013 is fairly stated nor whether the Group's net equity and carrying amount of investment properties as at 1 January 2013 are fairly stated.
2. As disclosed in note 10, Insurance and other receivables include a balance of prepaid rent of AED 9.4 million (31 December 2013: AED 14.2 million) relating to a leased building which management intends to use for a university project. The future economic benefits from the leased property will flow to the Group only if the university project materialises. At the date of this report, the project status and documentation in place do not provide sufficient evidence that future economic benefits will probably flow to the Group. Accordingly, we were unable to satisfy ourselves that the prepaid rent reflected in the accompanying consolidated statement of financial position is fairly stated.

*Qualified opinion*

In our opinion, except for the effect of the matters described in the basis for qualified opinion paragraph above, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of matter*


Without further qualifying our opinion, we draw attention to the fact, as explained in Note 17 to the consolidated financial statements that the Group has been granted a bank facility which currently has a carrying amount of AED 207.6 million, for which the Group is disputing the interest charged by the Bank since 2009. The dispute has arisen as the Bank changed the interest charged on the facility to a rate higher than that stipulated in the loan agreement. The excess interest charged up to 31 December 2014 is approximately AED 18.5 million. This has not been recorded by the Group as a finance cost. The Group is currently in negotiations with the Bank to adjust the interest being charged on the bank loan; however no formal consent has been obtained from the Bank. Thus, the final outcome of the matter cannot presently be determined.

## INDEPENDENT AUDITOR'S REPORT (continued)

### 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 organisation 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.)

  
Georges F. Najem  
Registration Number 809  
29 March 2015



**Consolidated statement of financial position  
as at 31 December 2014**

	Notes	2014 AED	2013 AED
<b>ASSETS</b>			
Property and equipment	5	7,068,202	6,832,319
Investment properties	6	333,124,000	330,764,000
Investments in securities:			
- Available-for-sale (AFS) investments	7	84,530,976	76,905,209
- Investments designated at fair value through profit or loss (FVTPL)	7	215,827,431	265,604,878
Statutory deposit	8	10,000,000	10,000,000
Re-insurance contract assets	9	99,488,168	80,562,263
Insurance and other receivables	10	93,711,043	77,642,321
Prepayments		1,259,743	992,427
Deferred acquisition costs		1,912,644	1,140,225
Term deposits		1,774,848	1,738,020
Bank and cash	11	30,123,360	30,178,380
<b>Total assets</b>		<b>878,820,415</b>	<b>882,360,042</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	12	420,000,000	420,000,000
Share premium		1,788,422	1,788,422
Legal reserve	13	62,145,349	62,145,349
Regulatory reserve	14	60,103,225	60,103,225
Fair value reserve		39,485,185	31,859,418
Revaluation reserve		11,736,841	11,736,841
Accumulated losses		(177,439,767)	(108,997,170)
<b>Total capital and reserves</b>		<b>417,819,255</b>	<b>478,636,085</b>
<b>LIABILITIES</b>			
Provision for end of service benefit	15	4,389,215	4,024,237
Insurance contract liabilities	9	158,802,151	116,676,651
Insurance and other payables	16	80,294,537	84,709,351
Bank borrowings	17	207,926,622	188,811,730
Re-insurance deposit retained		3,422,608	4,250,820
Unearned reinsurance commission		2,617,868	2,584,337
Accruals and deferred income		3,548,159	2,666,831
<b>Total liabilities</b>		<b>461,001,160</b>	<b>403,723,957</b>
<b>Total equity and liabilities</b>		<b>878,820,415</b>	<b>882,360,042</b>


  
Chairman


  
Director


  
Chief Financial Officer

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



**Consolidated statement of profit or loss  
for the year ended 31 December 2014**

	Notes	2014 AED	2013 AED
Gross premiums written		127,927,415	95,417,609
Change in unearned premium provision		(24,072,029)	2,675,060
<b>Premium income earned</b>		<b>103,855,386</b>	<b>98,092,669</b>
Reinsurance premium ceded		(60,313,257)	(58,852,924)
Change in unearned premium provision		2,883,532	2,340,052
<b>Reinsurance ceded</b>		<b>(57,429,725)</b>	<b>(56,512,872)</b>
<b>Net premium earned</b>		<b>46,425,661</b>	<b>41,579,797</b>
Gross claims paid		(57,764,944)	(66,993,122)
Change in outstanding claims provision		(18,053,471)	24,447,190
<b>Gross claims incurred</b>		<b>(75,818,415)</b>	<b>(42,545,932)</b>
Reinsurance share of claims paid		22,583,037	21,245,326
Change in reinsurance share of outstanding claims		16,042,373	(7,646,975)
<b>Reinsurance share of claims incurred</b>		<b>38,625,410</b>	<b>13,598,351</b>
<b>Net claims incurred</b>		<b>(37,193,005)</b>	<b>(28,947,581)</b>
Commission expenses - net		(1,940,062)	(2,476,222)
Commission income		5,648,048	6,274,696
Operating expenses	19	(24,625,967)	(35,232,916)
<b>Net underwriting loss</b>		<b>(11,685,325)</b>	<b>(18,802,226)</b>
Net investment loss	20	(33,974,970)	(127,482,663)
Other expenses	19	(4,781,943)	(4,720,458)
Finance costs - net		(18,785,860)	(15,530,987)
Loss on disposal of subsidiaries	21	-	(337,810)
Other income - net		785,501	4,007,855
<b>Loss for the year attributable to equity holders of the parent company</b>	<b>23</b>	<b>(68,442,597)</b>	<b>(162,866,289)</b>
<b>Basic and diluted loss per share</b>	<b>23</b>	<b>(0.162)</b>	<b>(0.388)</b>

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

**Consolidated statement of comprehensive income  
for the year ended 31 December 2014**

	<b>2014</b>	2013
	<b>AED</b>	AED
<b>Loss for the year</b>	<b>(68,442,597)</b>	<b>(162,866,289)</b>
<b>Other comprehensive loss:</b>		
<i>Items that will be reclassified subsequently to profit or loss:</i>		
Net fair value gain on available-for-sale investments	<b>7,625,767</b>	13,697,732
Other comprehensive income for the year	<b>7,625,767</b>	13,697,732
<b>Total comprehensive loss for the year</b>	<b>(60,816,830)</b>	<b>(149,168,557)</b>
<b>Attributable to:</b>		
Equity holders of the Parent Company	<b>(60,816,830)</b>	<b>(149,168,557)</b>

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

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

Consolidated statement of changes in equity  
for the year ended 31 December 2014

	Share capital AED	Share premium AED	Legal reserve AED	Regulatory reserve AED	Revaluation reserves AED	Retained earnings/ (accumulated losses) AED	Attributable to the equity holders of the Company AED
Balance at 1 January 2013	410,000,000	1,785,315	62,145,349	60,103,225	29,898,527	63,869,119	627,801,535
Loss for the year	-	-	-	-	-	(162,866,289)	(162,866,289)
Other comprehensive income	-	-	-	-	13,697,732	-	13,697,732
Total comprehensive loss for the year	-	-	-	-	13,697,732	(162,866,289)	(149,168,557)
Dividends distribution through issuance of bonus shares (note 12)	10,000,000	3,107	-	-	-	(10,000,000)	3,107
Balance at 1 January 2014	420,000,000	1,788,422	62,145,349	60,103,225	43,596,259	(108,997,170)	478,636,085
Loss for the year	-	-	-	-	-	(68,442,597)	(68,442,597)
Other comprehensive income	-	-	-	-	7,625,767	-	7,625,767
Total comprehensive loss for the year	-	-	-	-	7,625,767	(68,442,597)	(60,816,830)
<b>Balance at 31 December 2014</b>	<b>420,000,000</b>	<b>1,788,422</b>	<b>62,145,349</b>	<b>60,103,225</b>	<b>51,222,026</b>	<b>(177,439,767)</b>	<b>417,819,255</b>

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

**Consolidated statement of cash flows  
for the year ended 31 December 2014**

	2014 AED	2013 AED
<b>Cash flows from operating activities</b>		
Loss for the year	(68,442,597)	(162,866,289)
<b>Adjustments for:</b>		
Depreciation of property and equipment	732,529	1,424,644
Net fair value (gain)/loss on investment properties	(2,360,000)	129,476,400
Impairment on AFS investments	-	494,166
Net fair value loss on investments designated at FVTPL	49,777,447	16,754,673
Dividends from investments in securities	(9,270,897)	(11,880,577)
Net income from investment properties	(5,145,315)	(9,302,031)
Interest income	(69,242)	(130,046)
Finance costs	18,785,860	15,530,987
(Gain)/loss on disposal of property, plant and equipment	(155,263)	7,596
Loss on disposal of subsidiaries	-	337,810
Allowance for doubtful debts – net of reversals	(3,585,989)	4,517,346
Provision for employees' end of service benefit	737,001	1,083,334
<b>Cash flows used in operating activities before movements in working capital</b>	<b>(18,996,466)</b>	<b>(14,551,987)</b>
Net movement in deferred acquisition costs	(772,419)	305,542
Net movement in reinsurance contract assets	(18,925,905)	5,306,923
Net movement in insurance contract liabilities	42,125,500	(27,122,250)
Net movement in unearned reinsurance commissions	33,531	(199,611)
(Increase)/decrease in insurance and other receivables	(11,676,160)	9,323,696
(Increase)/decrease in prepayments	(267,316)	135,715
(Decrease)/increase in insurance and other payables	(4,080,793)	2,199,306
Decrease in reinsurance deposit retained	(828,212)	(2,305,618)
Increase/(decrease) in accruals and deferred income	881,328	(3,067,710)
<b>Cash used in operating activities</b>	<b>(12,506,912)</b>	<b>(29,975,994)</b>
Employees' end of service benefit paid	(372,023)	(824,846)
<b>Net cash used in operating activities</b>	<b>(12,878,935)</b>	<b>(30,800,840)</b>
<b>Cash flows from investing activities</b>		
Movement in term deposits with maturity of greater than three months	(36,828)	(45,520)
Payments to acquire property and equipment	(1,086,302)	(393,714)
Dividends received	9,270,897	11,880,577
Net income received from investment properties	4,331,664	10,907,730
Interest income received	76,320	139,584
Proceeds from sale of property and equipment	273,153	108,822
<b>Net cash generated from investing activities</b>	<b>12,828,904</b>	<b>22,597,479</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(4,989)	(18,897)
Proceeds from issuance of ordinary shares	-	3,107
<b>Net cash used in financing activities</b>	<b>(4,989)</b>	<b>(15,790)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(55,020)</b>	<b>(8,219,151)</b>
Cash and cash equivalents at beginning of the year	30,178,380	38,397,531
<b>Cash and cash equivalents at end of the period (note 24)</b>	<b>30,123,360</b>	<b>30,178,380</b>

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

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

### 1 General information

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

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

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

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

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

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

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

<u>New and revised IFRSs</u>	<u>Summary of requirements</u>
Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to offsetting financial assets and liabilities	The amendments clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas: (a) the meaning of ‘currently has a legally enforceable right of set-off’ (b) the application of simultaneous realisation and settlement (c) the offsetting of collateral amounts and (d) the unit of account for applying the offsetting requirements.
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	Amends 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> to: (a) provide ‘investment entities’ (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 <i>Financial Instruments</i> or IAS 39 <i>Financial Instruments: Recognition and Measurement</i> (b) require additional disclosure about why the entity is considered an investment entity, details of the entity’s unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries and (c) require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

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

**New and revised IFRSs**

**Summary of requirements**

Amendments to IAS 36  
*Impairment of Assets* relating to  
recoverable amount disclosures  
for non-financial assets

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

Amendments to IAS 39  
*Financial instruments –  
Recognition and Measurement*  
amendments for novations of  
derivatives and continuation of  
hedge accounting

The amendments make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

IFRIC 21 *Levies*

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies: (a) the liability is recognised progressively if the obligating event occurs over a period of time and (b) if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

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

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

**2.2 New and revised IFRSs in issue but not yet effective**

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

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
• Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24.	1 July 2014
• Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40	1 July 2014
• Amendments to IAS 19 <i>Employee Benefits</i> clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	1 July 2014
• Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortisation.	1 January 2016
• Amendments to IFRS 11 to clarify accounting for acquisitions of Interests in Joint Operations.	1 January 2016
• Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16.	1 January 2016
• Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business.	1 January 2016
• Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements.	1 January 2016
• Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities.	1 January 2016
• Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.	1 January 2016
• Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.	1 January 2016

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

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

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

**New and revised IFRSs**

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

• **IFRS 15 *Revenue from Contracts with Customers***

1 January 2017

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

- **Amendments to IFRS 7 *Financial Instruments: Disclosures*** relating to disclosures about the initial application of IFRS 9.
- **IFRS 7 *Financial Instruments***: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.

When IFRS 9 is first applied

When IFRS 9 is first applied



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

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

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

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
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- IFRS 9 *Financial Instruments* (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial Instruments* (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

1 January 2018

IFRS 9 *Financial Instruments* (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9.

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

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

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies****3.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and also comply with the applicable requirements of the laws of the UAE.

**3.2 Basis of preparation**

The consolidated 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 Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated 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, such as 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:

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

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

**3.3 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Name of subsidiary	Proportion of ownership		Country of incorporation	Principal activities
	2014	2013		
The Best Tenants LLC ***	99%	99%	UAE	To market, promote and deliver property management and advisory services.
Real Estate Academy Est. (Al Akarya Academy) **	100%	100%	UAE	To market, promote and delivery management and advisory services in respect of real estate.
Al Khazna Real Estate Est. *	100%	100%	UAE	To market, promote and deliver management and advisory services in respect of real estate.
Modern Academy Administrative Training LLC *	100%	100%	UAE	To provide business management training.
IT Academy LLC *	100%	100%	UAE	To provide business management training.
Real Estate Academy for Training LLC *	100%	100%	UAE	To provide business management training.
Academy of Tourism and Holidays LLC *	100%	100%	UAE	To provide training in the field of travel, tourism and hotel management.
First Deal Real Estate LLC ***	100%	100%	UAE	To manage investments in real estate.
Academy for Investment Est. *	100%	100%	UAE	To manage investments in real estate.
Under Writing Electronics Solutions Est. *	100%	100%	UAE	Data formatting, computer system and instruments filling services.
Tadawel Electronics Solutions Est. *	100%	100%	UAE	Software consultancy, storing and retrieving data.
Tel Fast Recruitment Agencies LLC *	99%	99%	UAE	Employment services – recruitment.
Tel Fast Manpower Supply LLC *	99%	99%	UAE	Labourers supply services.

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

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies (continued)****3.3 Basis of consolidation (continued)**

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies (continued)****3.4 Foreign currencies**

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

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 the end of the reporting period. 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 the consolidated statement of profit or loss in the period in which they arise.

**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 Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the consolidated statement of profit or loss 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, fixtures and office equipment	5 years
Motor vehicles	4 years
Computer equipment and accessories	5 years

The estimated useful lives, residual values and depreciation method reviewed at the end of each annual reporting period with the effect of any changes accounted for on a prospective basis. 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.

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

**3.6 Capital work in progress**

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. When the asset is ready for its intended use and is commissioned, capital work in progress is transferred to the appropriate property, plant and equipment or intangible asset category and is depreciated or amortised on the same basis as other assets in accordance with Group's policies.

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies (continued)****3.7 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.

**3.8 Impairment of non-financial assets**

At the end of each reporting period, the Group 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 Group 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.

**3.9 Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

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 using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies (continued)****3.10 Insurance contracts**

The Group issues insurance contracts which are those contracts that transfer significant insurance risk.

*Recognition and measurement*

General insurance contracts protect the Group's customers for damage suffered to their assets as well as against the risk of causing harm to third parties as a result of their legitimate activities. General insurance contracts also protect the Group's customers from the consequences of events such as illness and disability.

For all these contracts, premiums are recognised as revenue 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 reporting as the unearned premium liability. Premiums are shown before deduction of commission.

Claim and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owned to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group.

The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

*Liability adequacy tests*

Liability adequacy tests are performed at the end of the reporting period to ensure the adequacy of the contract liabilities. In performing these test, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

*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 365<sup>th</sup> 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 consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies (continued)****3.10 Insurance contracts (continued)***Reinsurance contracts held*

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

Insurance contracts entered into by the Group under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contract and in accordance with the terms of each reinsurance contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expenses when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance assets is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the consolidated statement of income.

Reinsurance commissions received from the reinsurers are carried over the same period as the related ceded premiums.

*Deferred policy acquisition costs*

Commissions that are related to securing new contracts and renewing existing contracts are capitalised as Deferred Acquisition Costs ("DAC"). All other costs are recognised as expenses when incurred. Deferred acquisition costs are subsequently amortised over the life of the contracts. The resulting change to the carrying value of the DAC is charged to the consolidated statement of profit or loss.

*Receivable 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 Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated statement of profit or loss.

The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.



**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies (continued)****3.10 Insurance contracts (continued)***Salvage and subrogation reimbursements*

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimated of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

**3.11 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.

**3.12 Operating leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as a lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

**3.13 Financial assets**

All financial assets are recognised and derecognised on trade date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies (continued)****3.13 Financial assets (continued)****3.13.1 Classification of financial assets**

The Group classifies its financial assets under the following categories: loans and receivables, available for sale financial assets and financial assets at fair value through profit or loss (FVTPL).

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

Cash and cash equivalents which include cash on hand and deposits held at call with banks with original maturities of three months or less, are classified as financial assets at amortised cost.

Insurance receivables

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

**3.13.3 Financial assets at fair value through profit or loss**

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

A financial asset is classified as held for trading if:

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

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies (continued)****3.13 Financial assets (continued)****3.13.3 Financial assets at fair value through profit or loss (continued)**

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

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

**3.13.4 Available for-sale financial assets**

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

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

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

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

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

**3.13.5 Impairment of financial assets**

Financial assets that are measured at amortised cost are assessed for indicators of 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 asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies (continued)****3.13 Financial assets (continued)****3.13.5 Impairment of financial assets (continued)**

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, as well as observable changes in local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, reflecting the impact of collateral and guarantees, 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.

**3.13.6 Derecognition of financial assets**

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

**3.14 Financial liabilities and equity instruments****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 Group are recorded at the proceeds received, net of direct issue costs.

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies (continued)****3.14 Financial liabilities and equity instruments (continued)**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 Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

**3.15 Dividend distribution**

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

**3.16 Revenue recognition**

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

Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these consolidated financial statements (see above 3.10)

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.

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.

Dividend income

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****3 Summary of significant accounting policies (continued)****3.16 Revenue recognition (continued)**Interest income

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

**4 Critical accounting judgments and key sources of estimation of uncertainty**

While applying the accounting policies as stated in Note 3, management of the Group 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 available for sale or FVTPL. In judging whether investments in securities are as at available for sale or FVTPL. Management has considered the detailed criteria for determination of such classification as set out in IAS 39, *Financial Instruments: Recognition and Measurement*. Management is satisfied that its investments in securities are appropriately classified.

**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 the year. Impairment of amounts due from policy holders at 31 December 2014 is AED 25,234,317 (2013: AED 28,820,306).

**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 Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group 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 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 Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****4 Critical accounting judgments and key sources of estimation of uncertainty (continued)****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 Group 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.

**4.6 Impairment for available-for-sale financial assets**

The Group follows the guidance of IAS 39 '*Financial Instruments*': *Recognition and Measurement* to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business for the investee.

**4.7 Interest on bank loan**

The Group accounted for the interest expense on the bank loan using the interest rate stipulated in the loan agreement. A dispute with the Bank has arisen as the Bank changed the interest charged on the facility to a rate higher than that stipulated in the loan agreement. The excess interest charged to 31 December 2014 is approximately AED 18.5 million (2013: AED 15.9 million). This has not been recorded by the Group as a finance cost. The Group is currently in negotiations with the Bank to adjust the interest being charged on the bank loan.

**4.8 Carrying value of the long term prepaid rent**

Included in the insurance and other receivables is prepaid rent with a carrying value of AED 9.4 million. This relates to a 5 year prepaid rent contract with an original value of AED 49 million. The Group intends to enter into an educational project on this leased property. Management estimate that as of 31 December 2014 an amount of AED 9.4 million (2013: AED 14.2 million) will be recoverable and will be contributed to the project (note 10). A change in the estimates or the delay in the project would have a significant effect on the consolidated financial results of the Group.

**4.9 Estimate of fair value of investment properties**

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determined the amount within a range of reasonable fair value estimates. In making its judgment, the Group considered recent prices of similar properties in the same location and similar conditions, which adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

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

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

**4.10 Useful lives and residual values of property and equipment**

Management reviews the residual values and estimated useful lives of property and equipment at the end of each annual reporting period in accordance with IAS 16 *Property, Plant and Equipment*. Management has determined that current year expectations do not differ from previous estimates based on its review.

**5 Property and equipment**

	Furniture, fixtures and office equipment AED	Motor vehicles AED	Computer equipment and accessories AED	Capital work in progress AED	Total AED
<b>Cost</b>					
1 January 2013	10,073,302	1,614,229	5,822,009	5,145,916	22,655,456
Additions	199,596	87,888	106,230	-	393,714
Disposals	(1,146,580)	(272,745)	(1,968)	-	(1,421,293)
Derecognised on disposal of subsidiary (note 21)	(2,367,599)	-	(671,274)	-	(3,038,873)
<b>1 January 2014</b>	<b>6,758,719</b>	<b>1,429,372</b>	<b>5,254,997</b>	<b>5,145,916</b>	<b>18,589,004</b>
Additions	29,500	409,330	647,472	-	1,086,302
Disposals	(37,655)	(444,432)	-	-	(482,087)
<b>31 December 2014</b>	<b>6,750,564</b>	<b>1,394,270</b>	<b>5,902,469</b>	<b>5,145,916</b>	<b>19,193,219</b>
<b>Accumulated depreciation</b>					
1 January 2013	8,343,284	1,228,806	4,765,889	-	14,337,979
Charge for the year	817,641	212,576	394,427	-	1,424,644
Eliminated on disposals	(1,080,178)	(222,729)	(1,968)	-	(1,304,875)
Derecognised on disposal of subsidiary (note 21)	(2,096,721)	-	(604,342)	-	(2,701,063)
<b>1 January 2014</b>	<b>5,984,026</b>	<b>1,218,653</b>	<b>4,554,006</b>	<b>-</b>	<b>11,756,685</b>
Charge for the year	264,325	127,246	340,958	-	732,529
Eliminated on disposals	(15,279)	(348,918)	-	-	(364,197)
<b>31 December 2014</b>	<b>6,233,072</b>	<b>996,981</b>	<b>4,894,964</b>	<b>-</b>	<b>12,125,017</b>
<b>Carrying amount</b>					
<b>31 December 2014</b>	<b>517,492</b>	<b>397,289</b>	<b>1,007,505</b>	<b>5,145,916</b>	<b>7,068,202</b>
31 December 2013	774,693	210,719	700,991	5,145,916	6,832,319

Capital work in progress of AED 5.1 million (2013: AED 5.1 million) at 31 December 2014 is largely comprised of a flat in a property under development in Dubai which the management intend to hold for their Group's use. The contracted value of the flat is AED 18.3 million of which AED 9.1 million has been advanced and the remaining commitment in respect of this flat amounts to AED 9.2 million at 31 December 2014 (2013: AED 9.2 million).



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

**6 Investment properties**

	<b>Land AED</b>	<b>Buildings AED</b>	<b>Total AED</b>
At 1 January 2013	227,290,000	232,950,400	460,240,400
Changes in fair value	(66,226,000)	(63,250,400)	(129,476,400)
	<hr/>	<hr/>	<hr/>
At 1 January 2014	161,064,000	169,700,000	330,764,000
Changes in fair value	(800,000)	3,160,000	2,360,000
	<hr/>	<hr/>	<hr/>
<b>31 December 2014</b>	<b>160,264,000</b>	<b>172,860,000</b>	<b>333,124,000</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Investment properties represent the fair value of lands with a total value of AED 160.3 million (2013: AED 161.1 million) and buildings with a value of AED 172.9 million (2013: AED 169.7 million) owned by the Group in Abu Dhabi, Al Ain and Mussaffah.

The fair value of the investment properties as of 31 December 2014 has been arrived at on the basis of valuations carried out by M/s Colliers International P.O. Box 71591, Dubai, United Arab Emirates, independent valuers that are not related to the Group. Messrs Colliers International is a member of the Royal Institute of Surveyors, and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations.

**Fair value of building properties**

The fair values of building properties were determined based on a combination of market comparable approach and income capitalisation approach. Market comparable approach involves making adjustments to the rents achieved for comparable properties to account for differences in location, configuration, floor area, date of transaction, included facilities, potential views, and other individual characteristics.

Having established its opinion on the market rents based on the market comparable approach, the Group has thereafter utilised the income capitalisation method to assess the market value of the property. This methodology involves the capitalisation of the subject property's net income stream at an appropriate investment yield, after the deduction of non-recoverable items such as operational costs. The capitalisation rate adopted is made with reference to the yield rates observed by the valuer's for similar properties in the locality and adjusted based on the valuer's knowledge of the factors specific to the respective properties.

**Fair value of land properties**

The fair values of land properties were determined based on market comparable approach. This approach involves making adjustments to the sales price of comparable properties to account for differences in location, frontage, services provided, plot area and shape, level of site works required, maximum permitted Gross Floor Area (GFA) allowance, height allowance, date of sale, potential views, aspect and other relevant points of difference between the subject plot and the comparable evidence.

There has been no change to the valuation technique during the year.

In estimating the fair value of the properties, the highest and best use of properties is their current use.

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

**6 Investment properties (continued)**

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2014 and 2013 are as follows:

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
<b>31 December 2014</b>				
<i>Building in Abu Dhabi</i>	-	-	149,000,000	149,000,000
<i>Building in Al Ain</i>	-	-	23,860,000	23,860,000
<i>Land plots in Abu Dhabi</i>	-	-	160,264,000	160,264,000
	-----	-----	-----	-----
	-	-	333,124,000	333,124,000
	=====	=====	=====	=====
<b>31 December 2013</b>				
<i>Building in Abu Dhabi</i>	-	-	146,000,000	146,000,000
<i>Building in Al Ain</i>	-	-	23,700,000	23,700,000
<i>Land plots in Abu Dhabi</i>	-	-	161,064,000	161,064,000
	-----	-----	-----	-----
	-	-	330,764,000	330,764,000
	=====	=====	=====	=====

For investments categorised into Level 3 of the fair value hierarchy, the following information is relevant:

Property	Valuation techniques	Significant unobservable inputs	Sensitivity
<i>Building in Abu Dhabi</i>	Combination of Market comparable approach and Income capitalisation approach	Capitalisation rate (taking into account the capitalization of rental income, potential, nature of property, and prevailing market condition) of 9.5%.	A 0.5% increase in the capitalisation rate used would result to a decrease in fair value by AED 8 million and vice versa
	Income capitalisation approach	Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average of AED 2,300 per square meter per year for the showroom unit and AED 1,200 for other units.	A 5% increase in the market rent used would result to an increase in fair value by AED 7 million and vice versa
<i>Building in Al Ain</i>	Combination of Market comparable approach and Income capitalisation approach	Capitalisation rate (taking into account the capitalization of rental income, potential, nature of property, and prevailing market condition) of 8.9%.	A 0.5% increase in the capitalisation rate used would result to a decrease in fair value by AED 1.3 million and vice versa
	Income capitalisation approach	Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at a range of AED 700 to AED 1,075 per square meter.	A 5% increase in the market rent used would result to an increase in fair value by AED 1.2 million and vice versa
<i>Land plots in Abu Dhabi</i>	Market comparable approach	Market value per Gross Floor Area (GFA), taking into account differences in location, frontage, services provided, plot area and shape, level of site works required, maximum permitted GFA allowance, height allowance, date of sale, potential views, aspect and other relevant points of difference between the subject plot and the comparable evidence.	A 5% increase in the market value per GFA used would result to an increase in fair value by AED 8.2 million and vice versa

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

**6 Investment properties (continued)**

In the prior year, the impact of the change in fair value estimate as at 31 December 2013 resulted in a decrease in investment properties by AED 129.5 million compared to their carrying value as of 31 December 2013. Management did not complete its assessment on whether this decrease in fair value came as a result of changes in circumstances or failure to use reliable information that was available when consolidated financial statements for prior periods were authorised for issue. As the assessment was not completed, the decrease in fair value amounting to AED 129.5 million has been fully charged to the consolidated profit or loss for the year ended 31 December 2013.

A building with a carrying value of AED 149 million (2013: AED 146 million) is mortgaged in favour of First Gulf Bank against the bank loan (note 17).

Included within investment property are two plots of land with a carrying value of AED 89.3 million (2013: AED 89.3 million) whose title was not transferred to the name of the Group, pending the settlement of the last installment. Also included within investment property is a plot of land valued at AED 10.8 million (2013: AED 11.6 million) whose transfer of title is currently being processed.

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

	<b>2014</b>	2013
	<b>AED</b>	AED
Rental income	<b>6,314,339</b>	10,221,796
Direct operating expenses	<b>(1,169,024)</b>	(919,765)
	<hr/>	<hr/>
	<b>5,145,315</b>	9,302,031
	<hr/>	<hr/>

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

**7 Investments in securities**

	2014 AED	2013 AED
<b>Available for sale (AFS) investments</b>		
Quoted UAE equity securities	5,774,610	6,124,587
Unquoted UAE equity securities	78,756,366	70,780,622
	<u>84,530,976</u>	<u>76,905,209</u>
<b>Investments at FVTPL</b>		
Quoted UAE securities	170,683,999	198,303,813
Quoted foreign equity securities	44,805,432	66,927,804
Unquoted foreign equity securities	338,000	373,261
	<u>215,827,431</u>	<u>265,604,878</u>

The movement in the investments in securities is as follows:

	AED	AED
<b>AFS investments</b>		
Fair value at 1 January	76,905,209	63,701,643
Increase in fair value taken to other comprehensive income	7,625,767	13,697,732
Impairment losses on unlisted UAE equity securities	-	(494,166)
	<u>84,530,976</u>	<u>76,905,209</u>
<b>Investments at FVTPL</b>		
Fair value at 1 January	265,604,878	282,359,551
Decrease in fair value taken to profit or loss (note 20)	(49,777,447)	(16,754,673)
	<u>215,827,431</u>	<u>265,604,878</u>

The geographical distribution of investments is as follows:

	2014 AED	2013 AED
Within UAE	255,214,975	275,209,022
Outside UAE	45,143,432	67,301,065
	<u>300,358,407</u>	<u>342,510,087</u>

**8 Statutory deposit**

In accordance with the requirements of UAE Federal Law No.6/2007 covering insurance companies and agencies, the Company maintains a bank deposit of AED 10,000,000 (2013: AED 10,000,000) which cannot be utilised without the consent of the UAE Insurance Authority.

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

**9 Insurance contract liabilities and re-insurance contract assets**

	<b>2014</b>	<b>2013</b>
	<b>AED</b>	<b>AED</b>
<b>Insurance liabilities - gross</b>		
- Claims reported unsettled	85,279,122	67,600,221
- Claims incurred but not reported	2,916,000	2,541,430
- Unearned premiums	70,607,029	46,535,000
	<u>158,802,151</u>	<u>116,676,651</u>
<b>Recoverable from re-insurers</b>		
- Claims reported unsettled	69,300,199	53,246,286
- Claims incurred but not reported	1,019,273	1,030,813
- Unearned premiums	29,168,696	26,285,164
	<u>99,488,168</u>	<u>80,562,263</u>
<b>Insurance liabilities - net</b>		
- Claims reported unsettled	15,978,923	14,353,935
- Claims incurred but not reported	1,896,727	1,510,617
- Unearned premiums	41,438,333	20,249,836
	<u>59,313,983</u>	<u>36,114,388</u>

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

## 9 Insurance contract liabilities and re-insurance contract assets (continued)

	2014			2013		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
<b>CLAIMS</b>						
Notified claims	67,600,221	53,246,286	14,353,935	91,767,841	60,660,602	31,107,239
Included but not reported	2,541,430	1,030,813	1,510,617	2,821,000	1,263,472	1,557,528
<b>Total at 1 January</b>	<b>70,141,651</b>	<b>54,277,099</b>	<b>15,864,552</b>	<b>94,588,841</b>	<b>61,924,074</b>	<b>32,664,767</b>
Claims settled	(57,764,944)	(22,583,037)	(35,181,907)	(66,993,122)	(21,245,326)	(45,747,796)
Increase in liabilities	75,818,415	38,625,410	37,193,005	42,545,932	13,598,351	28,947,581
<b>Total at 31 December</b>	<b>88,195,122</b>	<b>70,319,472</b>	<b>17,875,650</b>	<b>70,141,651</b>	<b>54,277,099</b>	<b>15,864,552</b>
Notified claims	85,279,122	69,300,199	15,978,923	67,600,221	53,246,286	14,353,935
Included but not reported	2,916,000	1,019,273	1,896,727	2,541,430	1,030,813	1,510,617
<b>Total at 31 December</b>	<b>88,195,122</b>	<b>70,319,472</b>	<b>17,875,650</b>	<b>70,141,651</b>	<b>54,277,099</b>	<b>15,864,552</b>
<b>UNEARNED PREMIUM</b>						
<b>Total at 1 January</b>	<b>46,535,000</b>	<b>26,285,164</b>	<b>20,249,836</b>	<b>49,210,060</b>	<b>23,945,112</b>	<b>25,264,948</b>
Premiums written during the year	127,927,415	60,313,257	67,614,158	95,417,609	58,852,924	36,564,685
Release during the year	(103,855,386)	(57,429,725)	(46,425,661)	(98,092,669)	(56,512,872)	(41,579,797)
Net increase/(decrease) during the year	24,072,029	2,883,532	21,188,497	(2,675,060)	2,340,052	(5,015,112)
<b>Total at 31 December</b>	<b>70,607,029</b>	<b>29,168,696</b>	<b>41,438,333</b>	<b>46,535,000</b>	<b>26,285,164</b>	<b>20,249,836</b>

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

**10 Insurance and other receivables**

	2014 AED	2013 AED
Due from policy holders	65,261,205	50,902,966
Due from agents, brokers and intermediaries	19,787,959	21,777,928
Due from insurance companies	14,863,582	11,663,276
Less: provision for impairment of receivables	(25,234,317)	(28,820,306)
	<u>74,678,429</u>	<u>55,523,864</u>
Deposits and other receivables	12,891,247	12,955,536
Less: provision for impairment of other receivables	(5,400,000)	(6,285,000)
	<u>7,491,247</u>	<u>6,670,536</u>
Prepaid rent	9,440,411	14,160,616
Rent receivables	2,100,956	1,287,305
	<u>93,711,043</u>	<u>77,642,321</u>

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

The Group signed a Memorandum of Understanding (MoU) with Abu Dhabi Holding, a related party, on 27 March 2013. As per the MoU, both parties agreed to enter into a partnership to establish and operate a University, whereby the Group contribution would be providing the leased premises to the partnership for which the prepaid rent of AED 9.4 million is outstanding as at 31 December 2014 (2013: AED 14.2 million). The partnership has not been established as at 31 December 2014, and is subject to obtaining regulatory approvals and finalisation of legal documentation.

At 31 December 2014, the Group had a concentration of credit risk, with five customers (2013: three customers) accounting for 41.0% of insurance receivables outstanding at that date (2013: 40.2%). Management is confident that this concentration of credit risk will not result in any loss to the Group considering the credit history of these customers.

As at 31 December 2014, insurance receivables with a carrying value of AED 25.23 million (2013: AED 28.82 million) were impaired and fully provided. An amount of AED 25 million (2013: 28.0 million) of impaired loans and receivables were overdue for more than 1 year.

The movement in allowance for impairment loss in respect of receivables is as follows:

	2014 AED	2013 AED
At 1 January	28,820,306	24,866,122
Provision for the year	421,326	7,018,100
Release of provision	(4,007,315)	(3,063,916)
	<u>25,234,317</u>	<u>28,820,306</u>
At 31 December	<u>25,234,317</u>	<u>28,820,306</u>

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

**10 Insurance and other receivables (continued)**

Insurance receivables that are outstanding for more than three months are considered past due. At 31 December 2014, due from contract holders, agents, brokers, intermediaries and reinsurers of AED 58.2 million (2013: AED 51.0 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	<b>2014</b>	<b>2013</b>
	<b>AED</b>	<b>AED</b>
Not past due:	<b>16,477,256</b>	4,485,969
Past due but not impaired:		
91 to 180 days	<b>32,377,661</b>	29,006,200
181 to 365 days	<b>5,089,715</b>	171,988
More than 1 year	<b>20,733,797</b>	21,859,707
	<b>58,201,173</b>	51,037,895
Past due and impaired:		
181 to 365 days	-	805,954
More than 1 year	<b>25,234,317</b>	28,014,352
	<b>25,234,317</b>	28,820,306
	<b>99,912,746</b>	84,344,170

**Impairment of other receivables**

The Group has recognised a reversal/(loss) of AED 0.9 million (2013: AED Nil) for the impairment of its other receivables during the year ended 31 December 2013. The provision for impaired other receivables amounted to AED 5.4 million at 31 December 2014 (2013: AED 6.3 million).

The creation of provision for impaired insurance receivables and the provision for impaired other receivables has been included in the consolidated statement of profit or loss. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

**11 Bank and cash**

	<b>2014</b>	<b>2013</b>
	<b>AED</b>	<b>AED</b>
Balances held at UAE banks	<b>28,437,928</b>	28,500,998
Balances held at foreign banks abroad	<b>1,519,892</b>	1,542,372
Cash on hand	<b>165,540</b>	135,010
	<b>30,123,360</b>	30,178,380



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

**12 Share capital**

	<b>2014</b>	<b>2013</b>
	<b>AED</b>	<b>AED</b>
<b>Authorised:</b>		
420,000,000 shares of AED 1 each (2013: 420,000,000 shares of AED 1 each)	<b>420,000,000</b>	420,000,000
	<hr/>	<hr/>
<b>Allotted, issued and fully paid:</b>		
420,000,000 shares of AED 1 each (2013: 420,000,000 shares of AED 1 each)	<b>420,000,000</b>	420,000,000
	<hr/>	<hr/>

At the Annual General Meeting held on 23 April 2013, the Shareholders approved to distribute dividends for an amount of AED 10 million through the issuance of bonus shares and increasing the number of issued shares from 410 million shares to 420 million shares. In an Extraordinary General Meeting on 22 December 2013, the Shareholders approved to increase the share capital of the Company by AED 200 million. The Company is in the process of obtaining the necessary approvals from the concerned authorities for the capital increase. Moreover, the Shareholders have requested the issue of bonus shares up to the maximum amount.

**13 Legal reserve**

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

**14 Regulatory reserve**

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

**15 Provision for end of service benefits**

	<b>2014</b>	<b>2013</b>
	<b>AED</b>	<b>AED</b>
Balance at the beginning of the year	<b>4,024,237</b>	3,765,749
Charge for the year	<b>737,001</b>	1,083,334
Paid during the year	<b>(372,023)</b>	(824,846)
	<hr/>	<hr/>
Balance at the end of the year	<b>4,389,215</b>	4,024,237
	<hr/>	<hr/>

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

**16 Insurance and other payables**

	2014 AED	2013 AED
Due to insurance companies	20,924,489	21,749,042
Other insurance payables	31,521,617	33,711,585
Dividends payable	18,048,972	18,053,961
Accruals and other payables	9,799,459	11,194,763
	80,294,537	84,709,351

**17 Bank borrowings**

	Current AED	Non-current AED	Total AED
<b><u>As at 31 December 2014</u></b>			
Term loan 1	31,400,000	22,341,662	53,741,662
Term loan 2	81,084	236,489	317,573
Bank overdrafts	153,867,387	-	153,867,387
	185,348,471	22,578,151	207,926,622
<b><u>As at 31 December 2013</u></b>			
Term loan 1	31,400,000	48,578,428	79,978,428
Bank overdrafts	108,833,302	-	108,833,302
	140,233,302	48,578,428	188,811,730

Term loan 1 is from First Gulf Bank and is repayable in semi-annual installments of AED 15.7 million each up to 2017. The loan carries interests at a rate of 6 month EIBOR + 1.50%. The Group has provided First Gulf Bank with a primary mortgage over AKIC Tower, classified under the investment properties, fair valued at AED 149 million (2013: AED 146 million).

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

The bank has opened a bank overdraft facility in the name of the Group for the repayment of the eight due installments on which the group defaulted from 2011 to 2013. The outstanding overdraft balance as at 31 December 2014 amounted to AED 153.9 million (2013: AED 108.8 million). The Bank charged an interest at a rate of 10% on this overdraft facility.

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

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

**17 Bank borrowings (continued)**

The excess interest charged to date on the loan and the overdraft facility is approximately AED 18.5 million (2013: AED 15.9 million).

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

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

Term loan 2 is from a local bank and is repayable in monthly installments of AED 6,757 each up to November 2018. The loan carries interests at a rate of 5%.

**18 Related parties**

Related parties comprise the major Shareholders, the Directors and key management personnel of the Group and those entities in which they have the ability to control or exercise significant influence in financial and operation decisions.

The Group maintains significant balances with these related parties which arise from commercial transactions as follows:

	2014 AED	2013 AED
Due from policyholders	6,219,631	914,146
Other receivables	3,351,341	3,343,182
Due to policyholders	11,565	4,477,743

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

	2014 AED	2013 AED
Net premiums written	34,736,000	16,184,955
Claims paid	13,186,295	6,643,049
Remuneration of key management personnel	6,935,479	7,499,075

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

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

**19 Operating expenses**

	2014 AED	2013 AED
Staff costs	21,078,873	22,999,723
Rent	7,159,161	7,103,919
(Reversals)/provision for doubtful receivables, net	(3,585,989)	4,517,346
Depreciation and property and equipment	732,529	1,424,644
Fees and licenses	950,366	766,649
Others	3,072,970	3,141,093
	<u>29,407,910</u>	<u>39,953,374</u>
<i>Allocated to:</i>		
Underwriting	24,625,967	35,232,916
Other expenses	4,781,943	4,720,458
	<u>29,407,910</u>	<u>39,953,374</u>

**20 Net investment loss**

	2014 AED	2013 AED
Net fair value gain/(loss) on investment properties (note 6)	2,360,000	(129,476,400)
Net fair value loss on investments at FVTPL (note 7)	(49,777,447)	(16,754,673)
Dividends from investments in securities	9,270,897	11,880,577
Net income from investment properties (note 6)	5,145,315	9,302,031
Impairment on available for sale investments (note 7)	-	(494,166)
Interest on term deposits	69,242	130,046
Other investment loss – net	(1,042,977)	(2,070,078)
	<u>(33,974,970)</u>	<u>(127,482,663)</u>

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

**21 Disposal of subsidiaries**

In accordance with an MOU signed with Abu Dhabi Holding, the Group disposed Pearl Capital Investments L.L.C. and National Publishers L.L.C. effective 14 November 2013. In accordance with the MOU, all assets of Pearl Capital Investments L.L.C., except for certain assets specified in the MOU, have been transferred to the Company, after which the subsidiaries have been disposed of without consideration.

**21.1 Analysis of asset and liabilities over which control was lost**

	AED
<b>Non-current assets</b>	
Property, plant and equipment	337,810

**21.2 Loss on disposal of subsidiaries**

	AED
Consideration received	-
Property, plant and equipment	(337,810)
	<u>(337,810)</u>

**22 Loss for the year**

Loss for the year is arrived after charging the following:

	2014 AED	2013 AED
Staff costs	21,078,873	22,999,723
Depreciation on property and equipment	732,529	1,424,644

**23 Basic and diluted loss per share**

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

	2014	2013
Loss for the year (AED)	(68,442,597)	(162,866,289)
Weighted number of ordinary shares in issue throughout the year	420,000,000	420,000,000
Basic and diluted loss per share (AED)	(0.162)	(0.388)

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

**23 Basic and diluted loss per share (continued)**

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

**24 Cash and cash equivalents**

	2014 AED	2013 AED
Term deposits	1,774,848	1,738,020
Bank balances and cash	30,123,360	30,178,380
Less: Term deposits with original maturity of greater than three months	(1,774,848)	(1,738,020)
	<u>30,123,360</u>	<u>30,178,380</u>

For the purpose of the consolidated statement of cash flows, bank overdraft amounting to AED 153.9 million (2013: AED 108.8 million) was excluded from cash and cash equivalents since it relates to the financing of the bank loan (note 17) and is included within the financing activities.

**25 Segment information**

The segments disclosed in the current year were revised based on the new measure reported to the Chief Operating Decision Maker for purposes of resource allocation and segments performance.

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

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

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

**Primary segment information- business segment**

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

	Underwriting		Investments		Total	
	2014 AED	2013 AED	2014 AED	2013 AED	2014 AED	2013 AED
Segment revenue	133,575,463	101,692,305	(33,974,970)	(127,482,663)	99,600,493	(25,790,358)
Segment result	(11,685,325)	(18,802,226)	(38,756,913)	(132,203,121)	(50,442,238)	(151,005,347)
Unallocated expenses					(18,000,359)	(11,860,942)
Loss for the year					<u>(68,442,597)</u>	<u>(162,866,289)</u>

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

**25 Segment information (continued)**

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

	Underwriting		Investments		Total	
	2014 AED	2013 AED	2014 AED	2013 AED	2014 AED	2013 AED
<b>Segment assets</b>	<b>203,439,800</b>	<b>167,169,555</b>	<b>645,257,255</b>	<b>685,012,107</b>	<b>848,697,055</b>	<b>852,181,662</b>
Unallocated assets					<b>30,123,360</b>	<b>30,178,380</b>
Total assets					<b>878,820,415</b>	<b>882,360,042</b>
<b>Segment liabilities</b>	<b>231,477,407</b>	<b>194,191,435</b>	<b>211,474,781</b>	<b>191,478,561</b>	<b>442,952,188</b>	<b>385,669,996</b>
Unallocated liabilities					<b>18,048,972</b>	<b>18,053,961</b>
Total liabilities					<b>461,001,160</b>	<b>403,723,957</b>

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

**Secondary segment information-revenue from underwriting departments**

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

	2014 AED	2013 AED
Motor	<b>28,147,336</b>	<b>24,311,853</b>
Engineering	<b>6,658,970</b>	<b>8,080,597</b>
Fire and General Accidents	<b>34,877,527</b>	<b>37,095,455</b>
Marine and Aviation	<b>19,828,857</b>	<b>17,121,812</b>
Employee Benefits, Medical and Personal Assurance	<b>44,062,773</b>	<b>15,082,588</b>
	<b>133,575,463</b>	<b>101,692,305</b>

**Geographical information**

The Group's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe. All the investments of the Group are held in the UAE and other GCC countries.

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

**25 Segment information (continued)**

**Geographical information (continued)**

Total revenues and total assets of the underwriting and investment segments by geographical location are detailed below:

	<b>Revenue 2014 AED</b>	<b>Revenue 2013 AED</b>	<b>Total assets 2014 AED</b>	<b>Total assets 2013 AED</b>
United Arab Emirates	128,919,957	96,600,253	811,736,116	794,050,094
Other GCC countries	-	-	1,713,396	1,482,635
Others	4,655,506	5,092,052	65,370,903	86,827,313
	<u>133,575,463</u>	<u>101,692,305</u>	<u>878,820,415</u>	<u>882,360,042</u>

**26 Contingent liabilities and commitments**

At 31 December 2014, the Group had contingent liabilities in respect of outstanding letters of guarantee issued in the normal course of business, amounting to AED 9.2 million (2013: AED 12.6 million).

The Group has a commitment to pay AED 9.2 million for a flat in a property under development in Dubai (note 5).

**27 Insurance risk**

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group 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 Group 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 Group 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.



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

**27 Insurance risk (continued)**

**27.1 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 Group should not suffer net insurance losses of a set limit of AED 200,000 for motor, AED 500,000 for marine, AED 10,000 for medical and AED 750,000 for others in any one policy. The Group 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 Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

The concentration of insurance risk before and after reinsurance in relation to the type of general insurance risk that is accepted is summarized below, with reference to the net carrying amount of the related insurance liabilities (gross and net of reinsurance) arising from general insurance contracts.

	Type of risk					Total AED
	Fire AED	Motor AED	Medical AED	Marine and aviation AED	Accident and others AED	
<b>2014</b>						
Gross	20,961,730	31,940,420	34,377,438	35,556,439	35,966,124	158,802,151
Net	1,618,855	23,565,262	32,651,228	2,306,547	4,964,177	65,106,069
<b>2013</b>						
Gross	15,092,092	27,389,249	12,379,381	26,231,315	35,584,614	116,676,651
Net	1,750,147	20,358,184	11,994,063	1,889,698	5,219,438	41,211,530

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

**27 Insurance risk (continued)**

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

Claims on insurance contracts are payable on a claims-occurrence basis. The Group 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 Group, 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 Group 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 Group 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 Group 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 Group's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes. The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

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

<b>Type of risk</b>	<b><u>Year ended 31 December 2014</u></b>		<b><u>Year ended 31 December 2013</u></b>	
	<b><u>Gross loss ratio</u></b>	<b><u>Net loss ratio</u></b>	<b><u>Gross loss ratio</u></b>	<b><u>Net loss ratio</u></b>
Motor	54%	52%	52%	63%
Non-Motor	70%	56%	63%	91%

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

**27 Insurance risk (continued)**

**27.3 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 Group'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.

**27.4 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 underwriting year basis for motor and non-motor:

Underwriting year	2010 and earlier AED' 000	2011 AED' 000	2012 AED' 000	2013 AED' 000	2014 AED' 000	Total AED' 000
At the end of the underwriting year	741,024	23,416	35,930	10,177	28,851	n/a
One year later	549,462	31,964	26,721	19,028	-	n/a
Two years later	584,199	34,756	32,796	-	-	n/a
Three years later	574,486	33,533	-	-	-	n/a
Four years later	554,196	-	-	-	-	n/a
Current estimate of cumulative claims	554,196	33,533	32,796	19,028	28,851	668,404
Cumulative payments to date	(531,194)	(27,514)	(15,259)	(6,242)	-	(580,209)
Liability recognised in the consolidated statement of financial position	<b>23,002</b>	<b>6,019</b>	<b>17,537</b>	<b>12,786</b>	<b>28,851</b>	<b>88,195</b>

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

**27 Insurance risk (continued)**

**27.5 Concentration of insurance risk**

The Group'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 Group, 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 Group 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 Group from its obligations to policyholders. The Group remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements.

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

Territory		31 December 2014		
		Type of risk		
		Marine AED '000	Non-marine AED '000	Total AED '000
UAE	Gross	1,116,242	37,548,545	38,664,787
	Net	208,605	9,097,446	9,306,051
GCC Countries	Gross	-	478,755	478,755
	Net	-	104,290	104,290
Others	Gross	-	556,388	556,388
	Net	-	49,150	49,150
Total	Gross	1,116,242	38,583,688	39,699,930
	Net	208,605	9,250,886	9,459,491

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

**27 Insurance risk (continued)**

**27.5 Concentration of insurance risk (continued)**

Territory		31 December 2013		
		Type of risk		
		Marine AED '000	Non-marine AED '000	Total AED '000
UAE	Gross	970,592	43,645,411	44,616,003
	Net	195,789	2,890,041	3,085,830
		<hr/>	<hr/>	<hr/>
GCC Countries	Gross	11,419	242,042	253,461
	Net	2,705	12,000	14,705
		<hr/>	<hr/>	<hr/>
Total	Gross	982,011	43,887,453	44,869,464
	Net	198,494	2,902,041	3,100,535
		<hr/>	<hr/>	<hr/>

**27.6 Sensitivity of underwriting profit and losses**

The contribution by the insurance operations in the loss of the Group amounts to AED 11.7 million for the year ended 31 December 2014 (2013: AED 16.4 million). The Group does not foresee any major impact from insurance operations due to the following reasons:

The Company has an overall risk retention level of 53% and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 75%. However, in this class the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.

**27.7 Managing insurance risk**

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group 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.

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

**28 Financial instruments**

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

**28.1 Capital risk management**

The Group's objectives in managing its capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007 concerning the formation of Insurance Authority of UAE;
- to safeguard the Group'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 Group and the total capital held.

	<b>2014</b>	<b>2013</b>
	<b>AED</b>	<b>AED</b>
Total Shareholders' equity	<b>417,819,255</b>	478,636,085
Minimum regulatory capital	<b>100,000,000</b>	100,000,000

**28.2 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 recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the consolidated financial statements.

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

**28 Financial instruments (continued)**

**28.3 Categories of financial instruments**

	2014 AED'000	2013 AED'000
<b>Financial assets</b>		
AFS investments	84,530,976	76,905,209
Investments designated at FVTPL	215,827,431	265,604,878
Statutory deposit	10,000,000	10,000,000
Reinsurers' share of outstanding claims	69,300,199	53,246,286
Reinsurers' share of claims incurred but not recorded	1,019,273	1,030,813
Reinsurers' share of unearned premiums	29,168,696	26,285,164
Insurance and other receivables	84,270,632	63,481,705
Term deposits	1,774,848	1,738,020
Bank balances and cash	30,123,360	30,178,380
<b>Total</b>	<b>526,015,415</b>	<b>528,470,455</b>
<b>Financial liabilities</b>		
Gross outstanding claims	85,279,122	67,600,221
Gross claims incurred but not reported	2,916,000	2,541,430
Gross unearned premiums	70,607,029	46,535,000
Insurance and other payables	80,294,537	84,709,351
Bank borrowings	207,926,622	188,811,730
<b>Total</b>	<b>447,023,310</b>	<b>390,197,732</b>

**28.4 Interest rate risk management**

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Group. The Group's result will be affected by changes in prevailing interest rates since it incurs significant interest on borrowings. A minor portion of its income derives from interest on investments and bank deposits.

The Group generally tries to minimise the interest rate risk by closely monitoring the market interest rates and investing in those financial assets in which such risk is expected to be minimal. The Group is exposed to cash flow interest rate risk as the bank borrowing carries interest at a floating rate.

Interest rate sensitivity analysis

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the end of the reporting period.

If on the outstanding borrowings at 31 December 2014 the interest rates had been 1% higher/lower during the year with all other variables held constant, loss for the year would have been AED 2.1 million higher/lower (2013: AED 1.9 million lower/higher profits), mainly as a result of higher/lower interest expense on floating rate borrowings.

**Notes to the consolidated financial statements  
for the year ended 31 December 2014 (continued)****28 Financial instruments (continued)****28.5 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 Group is exposed to market price risk with respect to its quoted investments. The Group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Group actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

***Equity price risk 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,:

- The Group's loss would (decrease)/increase by 10.8 million (2013: AED 13.3 million) as a result of the Group's portfolio classified under fair value through profit and loss (FVTPL).
- The Group's fair value reserves would increase/(decrease) by AED 4.2 million (2013: AED 3.8 million) as a result of the Group's available-for-sale financial assets portfolio.

**28.6 Foreign currency risk management**

Foreign currency risk is the risk that the financial instrument will fluctuate due to change in foreign currency rates. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures.

Management believes that there is minimal risk of significant loss due to exchange rate fluctuations and consequently the Group does not hedge its foreign currency exposure.

The Group's main operations are currently in the United Arab Emirates and therefore have limited exposure to foreign exchange risk. The transactions and balances are denominated in either AED or in currencies which the AED is currently pegged to.

**28.7 Credit risk management**

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

Key areas where the Group 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 Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group'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.



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

**28 Financial instruments (continued)**

**28.7 Credit risk management (continued)**

Re-insurance is used to manage insurance risk. This does not, however, discharge the Group'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 Group 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 Group. 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 Group. Details on concentration of amounts due from policy holders is disclosed in Note 10. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policy holders.

At 31 December 2014 and 2013, virtually all of the deposits were placed with 8 banks. Management is confident that this concentration of liquid assets at year end does not result in any credit risk to the Group 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 Group's maximum exposure to credit risk for such receivables and liquid funds.

**28.8 Liquidity risk management**

Liquidity risk is the risk that the Group 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 Group is assessed to be low. The Group 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 maturities of the Group's undiscounted financial liabilities as of 31 December 2014 and 2013 based on contractual payment dates and current market interest rates.

	<b>&lt; 1 year AED</b>	<b>&gt; 1 year AED</b>	<b>Total AED</b>
<b>31 December 2014</b>			
Gross outstanding claims	85,279,122	-	85,279,122
Gross claims incurred but not reported	2,916,000	-	2,916,000
Gross unearned premiums	70,607,029	-	70,607,029
Insurance and other payables	80,294,537	-	80,294,537
Bank borrowings	185,348,471	22,578,151	207,926,622
	<hr/>	<hr/>	<hr/>
	424,445,159	22,578,151	447,023,310
	<hr/>	<hr/>	<hr/>

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

**28 Financial instruments (continued)**

**28.8 Liquidity risk management (continued)**

	< 1 year AED	> 1 year AED	Total AED
<b>31 December 2013</b>			
Gross outstanding claims	67,600,221	-	67,600,221
Gross claims incurred but not reported	2,541,430	-	2,541,430
Gross unearned premiums	46,535,000	-	46,535,000
Insurance and other payables	84,709,351	-	84,709,351
Bank borrowings	140,233,302	48,578,428	188,811,730
	<u>341,619,304</u>	<u>48,578,428</u>	<u>390,197,732</u>

The maturity profile of assets as of 31 December 2014 and 2013 was as follows:

	Current AED	Non-current AED	Total AED
<b>31 December 2014</b>			
AFS investments	-	84,530,976	84,530,976
Investments designated at FVTPL	215,827,431	-	215,827,431
Statutory deposit	-	10,000,000	10,000,000
Reinsurers' share of outstanding claims	69,300,199	-	69,300,199
Reinsurers' share of claims incurred but not reported	1,019,273	-	1,019,273
Reinsurers' share of unearned premiums	29,168,696	-	29,168,696
Insurance and other receivables	84,270,632	-	84,270,632
Term deposits	1,774,848	-	1,774,848
Bank balances and cash	30,123,360	-	30,123,360
	<u>431,484,439</u>	<u>94,530,976</u>	<u>526,015,415</u>
<b>31 December 2013</b>			
AFS investments	-	76,905,209	76,905,209
Investments designated at FVTPL	265,604,878	-	265,604,878
Statutory deposit	-	10,000,000	10,000,000
Reinsurers' share of outstanding claims	53,246,286	-	53,246,286
Reinsurers' share of claims incurred but not reported	1,030,813	-	1,030,813
Reinsurers' share of unearned premiums	26,285,164	-	26,285,164
Insurance and other receivables	63,481,705	-	63,481,705
Term deposits	1,738,020	-	1,738,020
Bank balances and cash	30,178,380	-	30,178,380
	<u>441,565,246</u>	<u>86,905,209</u>	<u>528,470,455</u>

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

**28 Financial instruments (continued)**

**28.9 Fair value of financial instruments**

While the Group prepares its consolidated statements under the historical cost convention modified for measurement to fair value of investments carried at fair value and investment properties, in the opinion of management, the estimated carrying values and fair values of financial assets and liabilities, that are not carried at fair value in the consolidated financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of deposits, frequently repriced.

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy for the year ended 31 December 2014 and 2013:

<b>31 December 2014</b>	<b>Date of valuation</b>	<b>Level 1 AED</b>	<b>Level 2 AED</b>	<b>Level 3 AED</b>	<b>Total AED</b>
<b>ASSETS MEASURED AT FAIR VALUE</b>					
<b>At fair value through profit or loss</b>					
Quoted equity securities	31.12.2014	215,489,431	-	-	215,489,431
Unquoted equity securities	31.12.2014	-	-	338,000	338,000
		<u>215,489,431</u>	<u>-</u>	<u>338,000</u>	<u>215,827,431</u>
<b>AFS financial assets</b>					
Quoted equity securities	31.12.2014	5,774,610	-	-	5,774,610
Unquoted equity securities	31.12.2014	-	10,129,577	68,626,789	78,756,366
		<u>5,774,610</u>	<u>10,129,577</u>	<u>68,626,789</u>	<u>84,530,976</u>
<b>31 December 2013</b>					
	<b>Date of valuation</b>	<b>Level 1 AED</b>	<b>Level 2 AED</b>	<b>Level 3 AED</b>	<b>Total AED</b>
<b>ASSETS MEASURED AT FAIR VALUE</b>					
<b>At fair value through profit or loss</b>					
Quoted equity securities	31.12.2013	265,231,617	-	-	265,231,617
Unquoted equity securities	31.12.2013	-	-	373,261	373,261
		<u>265,231,617</u>	<u>-</u>	<u>373,261</u>	<u>265,604,878</u>
<b>AFS financial assets</b>					
Quoted equity securities	31.12.2013	6,124,587	-	-	6,124,587
Unquoted equity securities	31.12.2013	-	10,500,758	60,279,864	70,780,622
		<u>6,124,587</u>	<u>10,500,758</u>	<u>60,279,864</u>	<u>76,905,209</u>

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

**28 Financial instruments (continued)**

**28.9 Fair value of financial instruments (continued)**

*Reconciliation of level 3 fair value measurements*

	2014 AED	2013 AED
Opening balance	60,653,125	57,134,916
Increase in fair value	8,311,664	3,518,209
	<hr/>	<hr/>
Closing balance	68,964,789	60,653,125
	<hr/> <hr/>	<hr/> <hr/>

*Transfer between categories*

During the year, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements (2013: None).

The following is a description of the determination of fair value for assets which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the assets.

*Investments carried at fair value through profit or loss*

Investments carried at fair value through profit and loss are listed equity instruments in local as well as international exchanges. Valuations are based on market prices as quoted in the exchange.

*Available for sale investments*

The revaluation gains/losses of which are recognised through equity, comprise long term strategic investments in listed equities and companies. Listed equity valuations are based on market prices as quoted in the exchange. For companies, the financial statements provide the valuations of these investments which are arrived at primarily by discounted cash flow analysis. Fair value of the unquoted ordinary shares has been estimated using DCF model and Price Earning Multiple basis valuation. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility and price earnings multiples. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

**29 Approval of consolidated financial statements**

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2015.