ADNIC

شركة أبوظبي الوطنية للتأمين

ABU DHABI NATIONAL INSURANCE COMPANY

YOUR RELIABLE INSURER

2014 ANNUAL REPORT

His Highness The Late
Sheikh Zayed bin Sultan Al Nahyan

First President of the United Arab Emirates

His Highness
Sheikh Khalifa bin Zayed Al Nahyan

President of the United Arab Emirates and Ruler of Abu Dhabi

His Highness
Sheikh Mohammed bin Rashid Al Maktoum

Vice President and Prime Minister of the UAE and Ruler of Dubai

His Highness
Sheikh Mohamed bin Zayed Al Nahyan

Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces

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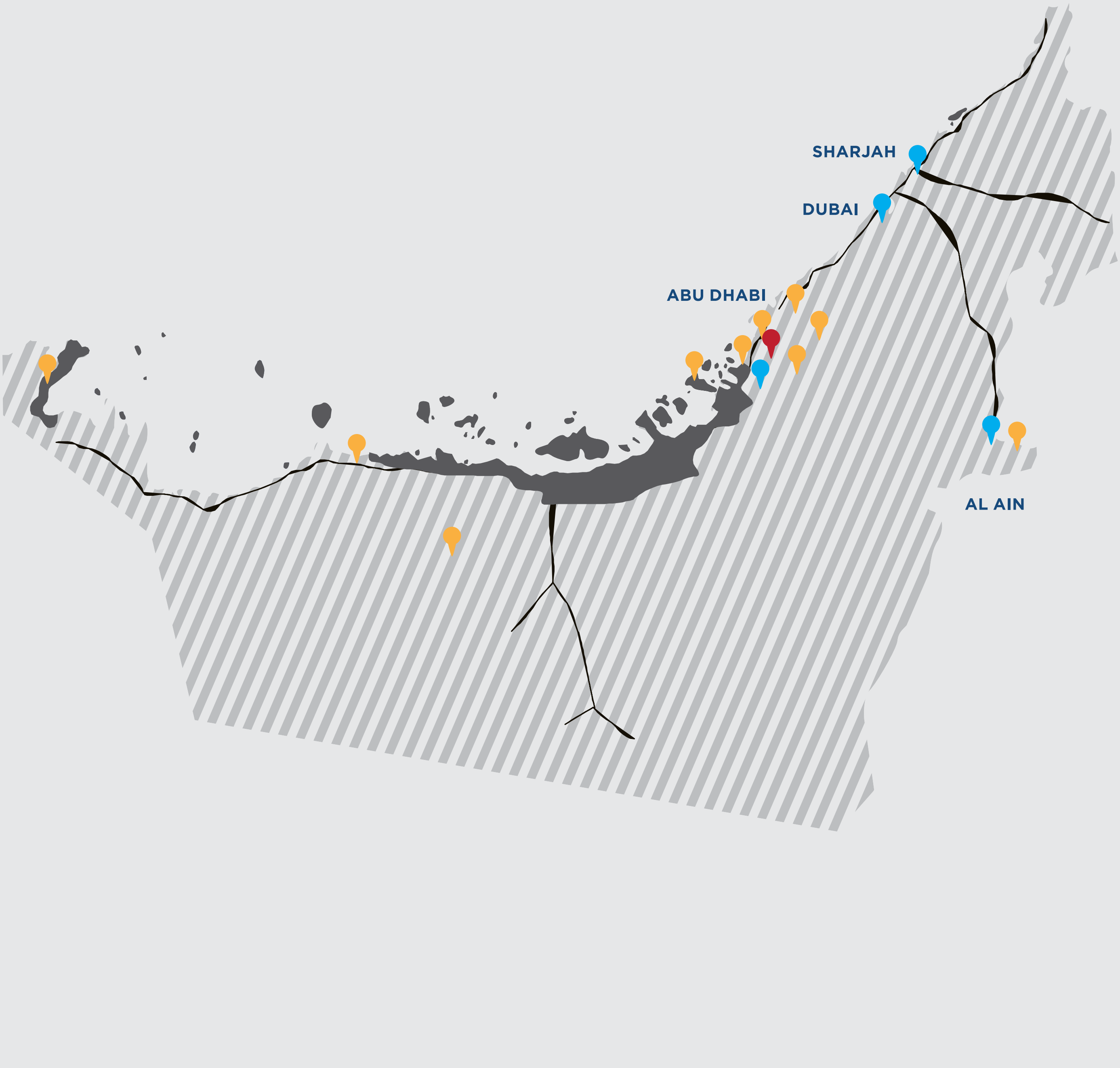

SHARJAH
DUBAI
ABU DHABI
AL AIN

BOARD OF **DIRECTORS**

H.E. KHALIFA MOHAMED AL-KINDI
Chairman

SHEIKH MOHAMMED BIN SAIF AL-NEHAYAN
Vice Chairman

SHEIKH THEYAB BIN TAHNOON AL-NEHAYAN
Member

H.E. AHMED ALI AL-SAYEGH
Member

H.E. SULTAN RASHID AL-DHAHERI
Member

MR. GHANEM ALI HAMOODA AL-DHAHERI
Member

MR. MOHAMMED ABDULAZEEZ AL-MEHAIRI
Member

MR. KHALIFA SULTAN AL-SUWAIDI
Member

MR. ABDULLA KHALAF AL-OTAIBA
Member

A MESSAGE
FROM THE CHAIRMAN OF THE BOARD

H.E. KHALIFA MOHAMED AL-KINDI

On behalf of the Board of Directors of Abu Dhabi National Insurance Company (ADNIC), I hereby present our Forty-Second audited Directors' Report and Financial Statements for the year ended 31 December 2014.

Despite significant challenges in 2014, ADNIC has made progress on a number of strategic fronts that will lay the foundations for the future growth of the Company. The Board of Directors, as well as the Management Team, remain fully focused on delivering growth and shareholder value. Our priority is to ensure that ADNIC remains a market leader both in terms of its standing in the insurance market as well as offering unparalleled services and experience for our customers. ADNIC's performance will be driven by a new leadership that will steer the Company towards operational, commercial, and strategic improvements.

ADNIC is fully supportive of the UAE Government's initiatives to improve corporate governance, social responsibility, and Emiratization. In 2014, our commitment to ABSHER – a program dedicated to supporting UAE nationals seeking work in the private sector – remained a key priority for the Company. We are looking forward to continuing supporting this initiative in 2015. We have also been backing the Al Bayt Mitwahid campaign launched by the Abu Dhabi Crown Prince Court employees to celebrate the unity of the nation and to promote the nation's solidarity across the seven emirates.

On behalf of the shareholders and Management of ADNIC, the Board of Directors expresses its sincere appreciation and utmost gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the United Arab Emirates and Ruler of Abu Dhabi, and to His Highness the Crown Prince Sheikh Mohamed bin Zayed Al Nahyan for their continued support extended to ADNIC and the business community at large.

Khalifa Mohamed Al-Kindi
Chairman of the Board of Directors

A **MESSAGE**
FROM THE CHIEF EXECUTIVE OFFICER

MR.
AHMAD
IDRIS

I hereby present the company's operational and financial results for the year ended 31st December 2014.

Operating Environment

The recent decline in global oil prices is likely to have a limited impact on both short-term economic growth and the delivery of significant infrastructure projects planned in the United Arab Emirates (UAE) and regionally. The UAE Government has continuously and successfully sought to reduce its dependence on hydro-carbons, moving to a more broadly based economy. We expect this to continue, and indeed, it may accelerate, thereby creating new medium-term opportunities for growth across the country and the region. Accordingly, we expect the impact on the insurance industry to be limited. However, against this market background, it is important that we reconsider our pricing strategies in order to ensure healthier portfolios, which will provide sustainable profitability to our shareholders. At the same time, mindful of the longer-term economic opportunities, it is equally vital that we continue to invest in the development of new products, technologies, and services for our customers.

The recently announced UAE Insurance Authority regulations have now formalized the regulatory framework within which the industry must operate. Specifically, this framework addresses capital solvency, technical provisioning, risk management, asset allocation, accounting policies, and financial reporting. In recent years, ADNIC has proactively undertaken several key initiatives towards the adoption of many of the central concepts within the new regulations in order to ensure that we are compliant. We are confident that the new regulatory framework will bring greater stability and transparency to the UAE insurance industry, supporting a standardization of insurance practices and providing more consistent comparability. Improved regulation will engender healthier competition which, in turn, augurs well for the long-term sustainability and growth of the UAE insurance industry.

Insurance Operations

Gross Premium Written

Our Gross Premium Written grew by 9% to AED 2.63bn in 2014 from AED 2.41bn in 2013. This was led predominantly by the growth in our commercial lines portfolio.

Premium Retention

The overall premium retention ratio in 2014 decreased to 54% from 58% in 2013. The complex, high-value risks underwritten during the year contributed to the overall decrease in this ratio.

Net Underwriting Results

ADNIC's Net Underwriting Loss for the year 2014 was AED 157 million, compared to a Net Underwriting Profit of AED 266m in 2013. The traditionally profitable Property, Marine, and Aviation lines of businesses were negatively impacted by low frequency but high value losses. On consumer lines, while we are taking firm action to realign the Motor and Medical portfolios, the 2014 results reflect the servicing of the loss making run-off portfolios.

To enable us to meet our future obligations effectively, we further strengthened our technical reserves in 2014 based on the analytical trends of 2014 and previous years. We continue to be selective in the underwriting of risks and are efficiently re-pricing our consumer lines of business to enable a return to profitability.

Financial Results

General & Administration Expenses

While underlying operating expense ratios continue to be contained, total expenses reflect additional doubtful debt provisions for specific accounts in addition to our strengthened collective provisioning.

Net Investment Income

Net Investment Income increased by approximately 7% to AED 106 million for the year 2014 compared to AED 100 million in 2013. This is primarily due to the realized returns from our rental properties, dividend, and fixed income in 2014.

Net Results

ADNIC's Net Loss for the year 2014 is AED 280 million compared to Net Profit of AED 156 million in 2013. The necessary decision to strengthen our technical reserves highlights ADNIC's financial strength to absorb this loss in 2014.

Outlook

During 2014, ADNIC undertook a series of initiatives, which position the company well for the emerging economic background and the new regulatory framework in which we operate. Our continued commitment to service, product, and innovation remains central to our business strategy. Aligned to our selective and prudent underwriting practices, I am confident that this strategy will return ADNIC to sustained profitability and shareholder value.

Change in Accounting Policies

With effect from 1st January 2014, the Company changed its accounting policies for Unearned Premium Reserves, Unearned Reinsurance Commission Income, and Deferred Acquisition Cost. This change ensures that users of the financial statements will appreciate and understand ADNIC's transition to compliance with the recently announced UAE Insurance Authority regulations, specifically with regard to the recognition of revenue over the period of insurance contracts. Furthermore, these changes will allow management to formulate strategy more effectively and to establish more robust action plans with which to enhance the company's profitability.

Service Excellence

At ADNIC, we fully understand that our customers are at the core of our business and it is our duty to ensure that they receive the highest quality in products and services. At the same time, we will continue to improve our offering to our customers through our constant innovation in products, service, and technology. Our organization is well positioned to adapt quickly to new business realities and leverage the subsequent opportunities to the benefit of our customers. As an example, and to be closer to our customers, we have recently inaugurated our Mussafah Branch in Abu Dhabi.

Appreciation

I would like to express my sincere gratitude to ADNIC's Board of Directors for their continued guidance and confidence in the company and its management. I would also like to thank the management team and employees for all their hard work. In addition to this, I thank ADNIC's clients and business partners for their confidence in ADNIC.

Ahmad Idris
Chief Executive Officer

OUR **CORPORATE TEAM**

EXECUTIVE MANAGEMENT

Back Row – left to right

Saurabh Saran, Chief Operating Officer

Mazen Allabadi, Chief Claims Officer – Consumer Lines Claims

Jugal Madaan, Chief Underwriting Officer – Commercial Lines – Property, Energy (Operational), Aviation, Marine Hull & Cargo

Lazhar Charfeddine, Chief Reinsurance Officer

Hema Padmanabhan, Chief Underwriting Officer – Commercial Lines Engineering, Construction, Energy (Construction), Liabilities & Financial Lines

Vijay Singh, Chief Claims Officer – Commercial Lines Claims

Vaidyanathan Srinivasan, Chief Underwriting Officer – Consumer Lines Underwriting

Front Row – left to right

Alaa Fares, Chief Financial Officer – Finance, Accounting, and Investment

Raed Haddadin, Chief Legal & Compliance Officer

Abdulla Al Nuaimi, Chief Human Resources & Corporate Affairs Officer

Hussein Samara, Chief Information Officer

Tariq Zietoun, Chief Commercial Officer – Strategic Accounts Management

Andrew Woodward, Chief Business Officer

SENIOR MANAGEMENT – UNDERWRITING, CLAIMS, AND REINSURANCE

Back Row – left to right

Tariq Moukarzel, Senior Manager – Life Underwriting
Venkata Krishna Murthy Attada, Deputy Chief Claims Officer – Consumer Lines Claims
Ashraf Genina, Senior Manager – Motor Claims – Dubai, Northern Emirates & Al Ain
Ziad Sawaya, Senior Manager – Motor Underwriting
Kesavan Kannan, Senior Manager – Commercial Lines Claims
Riezad Shawish, Senior Manager – Motor Claims – Abu Dhabi

Front Row – left to right

Sathish Krishnan, Senior Manager – Liabilities, Financial Lines & Energy (Construction) Underwriting
Smita Srivastava, Senior Manager – Medical Claims, Authorizations and Provider Audit
Osama Altajer, Deputy Chief Officer – Aviation, Marine Hull & Cargo Underwriting
Maleka Al Neaimi, Senior Manager – Reinsurance
Nadhmi Dammak, Deputy Chief Reinsurance Officer

Not present in the photo

Adrian Alexander, Deputy Chief Claims Officer – Commercial Lines Claims
Anand Kalandy, Senior Manager – Medical Underwriting
Gurumurthy Lakshminarayanan, Senior Manager – Marine Hull & Cargo Underwriting
Krishnan Raghunathan, Senior Manager – Property & Energy (Operational) Underwriting
Laeeque Shrieff, Senior Manager – Medical Underwriting
Sirish Rao, Senior Manager – Commercial Lines Underwriting
Vamshidhar Vanama, Head of Underwriting International Division

SENIOR MANAGEMENT – SUPPORT SERVICES

Back Row – left to right
Tariq El Tayech, Senior Manager – Human Resources
Esmat Taha, Senior Manager – Investments & Investor Relations
Bushra Coussa, Senior Manager – Administration
Ravi Chandran, Senior Manager – Finance, Accounting, and Investment
Dana Hudairi, Senior Manager – Corporate Marketing & Communications
Anil Dixit, Head of Investments – Finance, Accounting, and Investment
Prabhatha Bellikoth, Senior Manager – Information Technology

Front Row – left to right
Sami Zouagui, Senior Manager – Legal & Compliance Management
Sami Khalil, Deputy Chief Services Officer – Risk Engineering Services
Salma Achour, Senior Manager – Legal & Compliance Management
Mohammed Bin Naqib, Senior Manager – Public Relations
Hammad Khan, Deputy Chief Financial Officer – Finance, Accounting, and Investment
CP. Renganthan, Deputy Chief Information Officer – Information Technology

Not present in the photo
Manish Misra, Deputy Chief Human Resources Officer – Human Resources

SENIOR MANAGEMENT – BRANCHES

Back Row – left to right
Anand Nair, Head of Broker Relations and Alternative Distribution – Dubai & Northern Emirates
Wissam Al Khaldi, Senior Manager – Strategic Accounts Management
Jihad Francis, Head of Broker Business – Abu Dhabi & Western Region
Aditya Kulkarni, Deputy Head of Broker Relations – Dubai & Northern Emirates
Mohammed Mustapha, Branch Manager – Al Ain

Front Row – left to right
Bassam Jbeili, Regional Manager – Abu Dhabi & Western Region
Alya Al Tamimi, Branch Manager – Dubai & Northern Emirates
Eli Daccache, Head of Direct Business – Dubai & Northern Emirates

OUR VISION

To be the leading insurer of choice across the Middle East and North Africa region.

OUR MISSION

To serve our customers by offering quality and innovative, regional and international insurance and reinsurance solutions.

ABOUT **US**

Founded in the United Arab Emirates (UAE) in 1972, Abu Dhabi National Insurance Company (ADNIC) PJSC is a leading multi-line insurance provider with long standing expertise in providing reassurance and support to individuals and corporates. It has a wide network of branches in the UAE, as well as sales and service centers across the country. ADNIC is publicly owned and listed on the Abu Dhabi Securities Exchange (ADX).

ADNIC transacts both Life and Non-Life Insurance and provides a range of innovative insurance products that are customizable and scalable. This flexibility enables the Company to meet the unique needs of individuals, as well as small, mid-sized and large companies in the UAE and the wider Middle East and North Africa (MENA) region.

ADNIC provides cover across a number of business lines including home, life, medical, motor, travel, financial, and property, as well as for a number of specialist sectors, such as the energy, aviation, engineering, and construction industries.

ADNIC is committed to making a positive contribution to the communities within which it operates. Since 2013, ADNIC has been supporting the Al Bayt Mitwahid Association campaign, which was launched by the employees of the Crown Prince Court of Abu Dhabi, H.H. Sheikh Mohamed Bin Zayed Al Nahyan. The campaign provides an open platform for UAE communities to give back to society in a number of ways. This can include taking part in creating, fundraising, planning, and implementing a variety of caring initiatives that benefit a wide range of social causes across all of the seven emirates.

ADNIC is proud to work with the Government to encourage UAE Nationals to work in the private sector. During 2012, ADNIC joined the UAE Government's ABSHER Initiative to promote Emiratization. The Company's current level of Emiratization is amongst the highest in the UAE insurance sector. As of the end of 2014, Emiratis made up over 9% of the total workforce.

ADNIC has worked to build its asset base up to AED 5.6 billion in 2014, while maintaining solid levels of liquidity and capitalization. Financial maturity and a robust balance sheet enables the Company to meet its liability obligations and this reliability helps to provide ADNIC's clients and customers with peace of mind.

The Company also achieved an ISO 9000 Certification in 2012 and has received recognition from its peers with a number of industry awards. These include 'Middle East Insurance Company of the Year' in 2009, 2010, and 2011 by World Finance Magazine; the Insurance Company of the Year Award at the Middle East Insurance Forum 2011; the Corporate LiveWire Innovation and Excellence Award in 2015; and Best Consumer Insurance Product at the 2015 Banker Middle East Industry Awards.

OUR **CORE VALUES**

We pride ourselves in continuously operating in line with our corporate core values when we interact with our shareholders, partners, clients, and employees. These values are integral to the way we do business and communicate with our stakeholders:

- Reliability
- Teamwork
- Innovation
- Integrity
- Transparency
- Fairness
- Customer Centricity
- Loyalty

OUR **STRATEGIC PILLARS**

At the foundation of our business strategy lies seven strategic pillars, which help us to maintain our commitment to be Your Reliable Insurer.

Modernization of our processes, facilities, and infrastructure

Expansion of our suite of products and services

Employer of Choice within the insurance industry

Product Development to ensure solutions are created to address your evolving business needs

Distribution of our products and services wherever you are

Customer Service to ensure that each interaction with you is effective

Innovation & Technology to ensure solutions are offered efficiently

OUR **GLOBAL RECOGNITION**

Receiving global awards and recognitions is yet another acknowledgement of ADNIC's stability, evolution, and high standards. Each year ADNIC proves its financial strength and stability through global recognition from prestigious entities.

Our Financial Strength Rating

Standard & Poor's
(A-) Rated

A.M. Best
(A-) Rated

International Awards

Corporate LiveWire Business Award
Innovation & Excellence Award 2015

Banker Middle East – UAE Product Awards
Best Consumer Insurance Products 2015

The World Finance Insurance Awards
Middle East Insurance Company of the Year 2009
Middle East Insurance Company of the Year 2010
Middle East Insurance Company of the Year 2011

Middle East Insurance Forum (MEIF)
2011 MEIF – Insurance Company of the Year awarded by Central Bank of Bahrain

INSUREX – Achievement of the Year
Achievement of the Year 2011 – Team ADNIC awarded by Policy Magazine

ISO 9001:2008 Certification
Certified for compliance to ISO 9001:2008 international quality standards by Llyod's Register Quality Assurance (LRQA), a leading global certification organization.

OUR **CORPORATE GOVERNANCE**

ADNIC acknowledges its responsibilities to its shareholders, employees, partners, and customers in the UAE. ADNIC also believes that good corporate governance helps to achieve the Management commitment of delivering value to shareholders through setting and achieving appropriate strategic business objectives.

As known across the UAE and GCC, good governance provides an appropriate framework for the Board, its committees and the leadership of ADNIC to proactively and efficiently protect the interests of the Company.

ADNIC maintains high levels of transparency and accountability throughout its Management practices. We believe we have this sacred responsibility to our shareholders and the community collectively.

To this end, ADNIC implements and monitors business objectives, strategies, and procedures that comply with its legal and ethical responsibilities. This is how we embed good corporate governance principles and practices into the way we work.

The Board has established three permanent Board-Level Committees to assist in executing its functions, bestowed them with powers, and entrusted them with responsibilities to implement resolutions of the Board:

Audit Committee

The Audit Committee aims at assisting the Board of Directors in monitoring the duties related to preparing the Company's Financial Statements. It also recommends the appointment of the External and Internal Auditors along with supervising their independency, finding weaknesses and strengths in the Internal Control, and recommending improvements. The Committee holds its meetings at least once every three months or whenever it deems necessary. The minutes of the Committee's meetings are kept by the Secretary of the Committee.

The Audit Committee comprises the following members:

Sheikh Theyab Bin Tahnoon Al-Nehayan
Chairman

Mr. Khalifa Sultan Al-Suwaidi
Member

Mr. Omar Liaqat
External Member

Ms. Munira Stationers
Committee Secretary

Nomination & Remuneration Committee

The Nomination and Remuneration Committee monitors the independency of the Independent Board Members. It also prepares the Remuneration and Incentives Policies and the Human Resources Policies, in order to recruit and maintain qualified staff and to supervise their suitability. Moreover, the Committee develops and implements the plans and initiatives for employing UAE nationals and for providing best service to the Company's clients through strategic planning.

The Nomination & Remuneration Committee comprises the following members:

Sheikh Mohammed Bin Saif Al-Nehayan
Chairman

H.E. Ahmed Ali Al-Sayegh
Member

Mr. Mohammed Abdulazeez Al-Mehairi
Member

Mr. Abdulla Khalaf Al-Otaiba
Member

Mr. Raed Khalil Haddadin
Committee Secretary

Investment Committee

The Investment Committee assists the Board of Directors in supervising, monitoring, and evaluating the Company's investments. The Investment Committee performs its duties efficiently and in the best interest of the Company's shareholders through the following:

1. Clarification of the risks realization, objectives, and guidelines to the Board of Directors for the investment of the Company's assets.
2. Determining the responsibilities of the Company's Management in investment, and how these are supervised by the Board of Directors.
3. Selecting acceptable assets classes that will allow the Company to meet its investment objectives.
4. Determining the appropriate asset allocation mix that will allow the Company to meet its expected investment return while minimizing the amount of risk incurred.
5. Establishing procedures for identifying, selecting, and monitoring investments.
6. Complying with all credit, economic, and due diligence requirements that experienced investment professionals would utilize, and all applicable legislation from various local and Federal Regulatory Authorities.

The Investment Committee comprises the following members:

Sheikh Mohammed Bin Saif Al-Nehayan
Chairman

H.E. Sultan Rashid Al-Dhaheri
Member

Mr. Abdulla Khalaf Al-Otaiba
Member

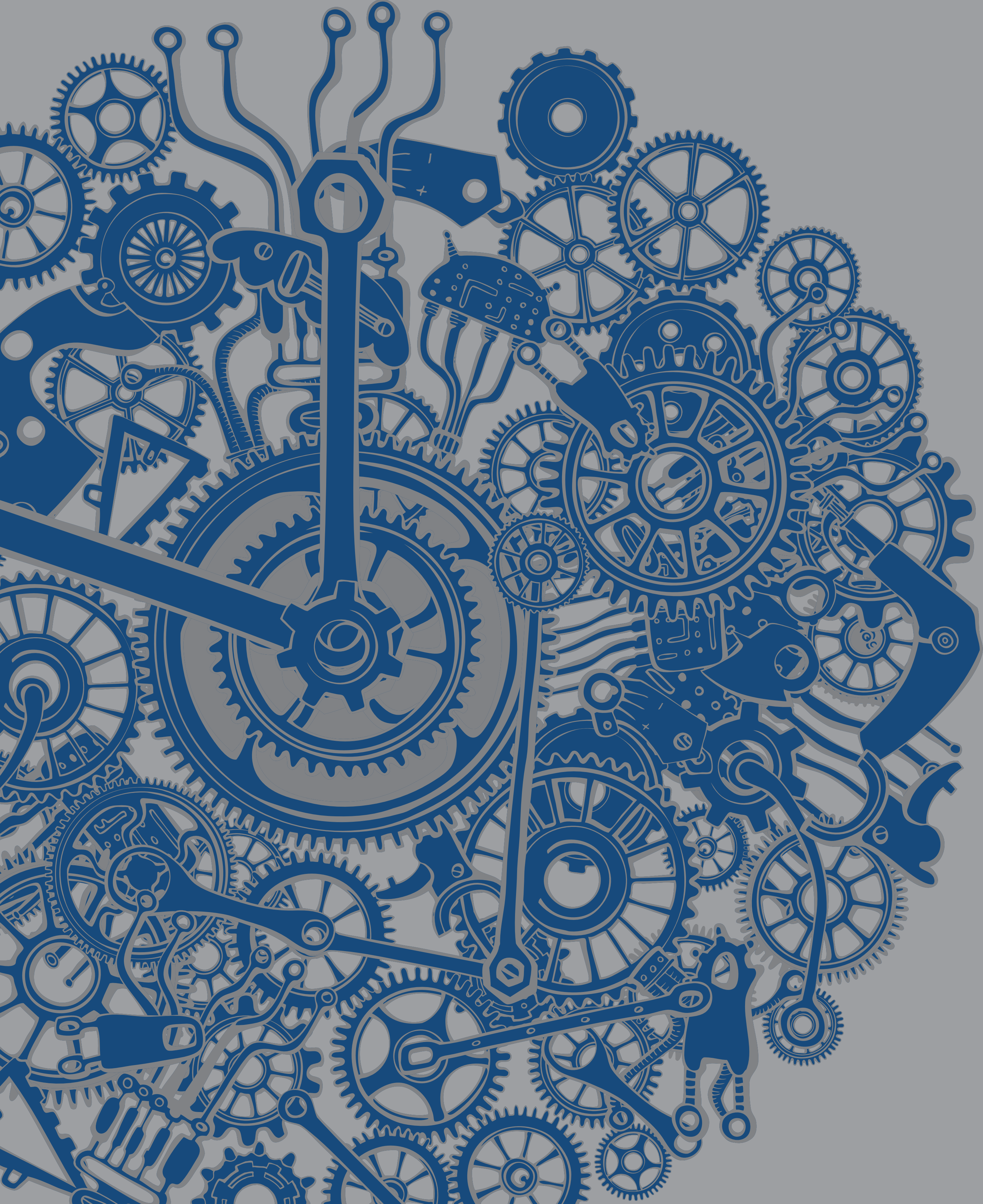
Mr. David Beau
External Member

Mr. Ahmad Idris
Member

Mr. Alaa Fares
Member

Mr. Anil Dixit
Member

Mr. Esmat Taha
Committee Secretary



ADNIC has also established three permanent Executive-Level Committees to assist in the execution of its functions; thus, we bestowed them with powers and entrusted them with responsibilities to assist ADNIC in making informed decisions and achieve its strategic objectives.

Risk Management Committee

The Risk Management Committee (RMC) has been established to assist the Executive Management of ADNIC in taking knowledgeable and prudent decisions when it comes to Risk and in fulfilling the duties of the Chief Executive Officer in respect of the Company's Corporate Governance. The Risk Management Committee is responsible for addressing issues related to Risk Management, Fraud Detection, and Business Continuity.

The Risk Management Committee has been authorized to perform the following:

- Develop a regulatory culture, which is aware of Risk and its effective management.
- Engender an enterprise-wide approach to Risk Management that provides a comprehensive and appropriately tailored response to all identified risks across the insurance cycle and related activities.
- Provide assurance that Risk Management is an integral part of a successful operation of ADNIC in the achievement of its strategic objectives.

The Risk Management Committee consists of key employees from the Executive Management and from various departments within the Company, who have knowledge and experience in Insurance and Risk Management. The Risk Management Committee is chaired by the Chief Executive Officer and administrated by the Risk Management Division.

ADNIC*ity* Life Committee

ADNIC's workplace is characterized by continuous change and growing diversity. Employees' satisfaction and success depends on the capacity to manage this change and to participate within this diversity, thus work-life balance is an important element in meeting this challenge.

ADNIC*ity* Life Committee is an approach to employee relations that recognizes business as well as the social and personal benefits of balancing work with other dimensions of life, plus having initiatives to launch various social and health awareness programs to ensure that ADNIC is the best choice for the employee.

ADNIC has 14 employee volunteers from different backgrounds, skills, and capabilities from various departments. They are always ready and have the ability to listen to ADNIC employees anytime, anywhere.

ADNIC Product Innovation Committee

ADNIC Product Innovation Committee (APIC) provides a formal forum comprising a cross section of ADNIC professionals who are tasked with accomplishing the following key functions:

- Exploring and proposing new insurance products to be developed.
- Gathering market intelligence on competitive products and trends.
- Analyzing and proposing new enhancements, tools, and special offering for existing products of the Company.

The Committee consists of cross functional members from all the relevant departments within the Company. The Committee is chaired by the Chief Commercial Officer.

Our belief in transparency and our drive for continuous improvement in corporate governance has empowered the Company to produce a Corporate Governance Report for the year 2014.

OUR CORPORATE COMMITMENT TO THE COMMUNITY

Corporate Social Responsibility Activities

Our corporate philosophy embraces a commitment to improving the quality of life in the community. At ADNIC, we always seek to play a vital role as a major employer and significant contributor to local charities.

During 2014, we contributed and participated in several community events across the UAE through lending our support, facilities, and staff.

- ABSHER Initiative – Ministry of Presidential Affairs (MOPA) initiative for the support of Emiratis
- Al Bayt Mitwahid – An initative launched by the Crown Prince Court employees to celebrate and promote the nation's unity
- Emirates Association of the Blind
- International Oncology Conference
- Rashid Center for Pediatrics
- Road Safety Conference
- Breast Cancer Self-Examination World Guinness Record

Al Bayt Mitwahid

Emirates Association of the Blind

Rashid Center for Pediatrics

International Oncology Conference

Road Safety Conference

Balancing Work and Social Life

ADNIC recognizes the importance of balancing work with social life activities. Therefore, we have established a committee, ADNIC*ity* Life Committee, which seeks to balance our employees' work and social life by engaging them and their families in social activities.

ADNIC*ity* Life Committee is an approach to employee relations that helps us in our continuous effort to be the Employer of Choice in the insurance industry.

- Annual Family Day
- Annual Ramadan Iftar
- ADNIC Health and Blood Donation Day
- ADNIC Cricket Team

Annual Family Day

ADNIC Health and Blood Donation Day

Annual Ramadan Iftar

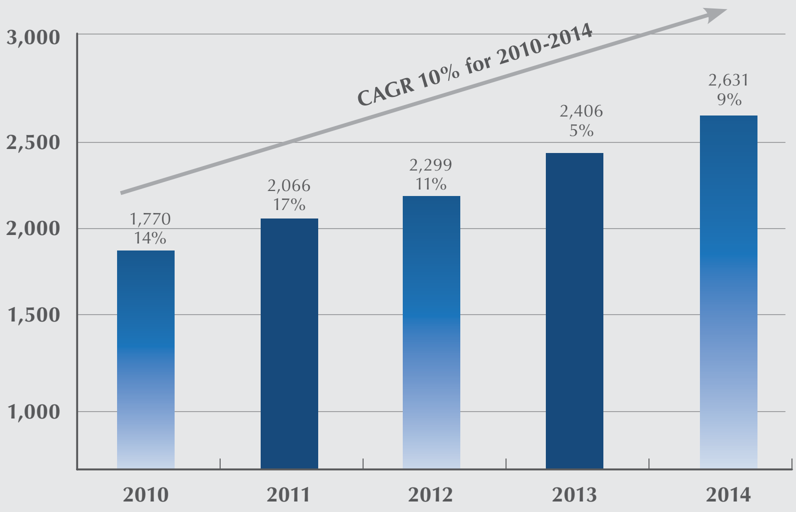
ADNIC Cricket Team

OUR FINANCIAL **STRENGTH**

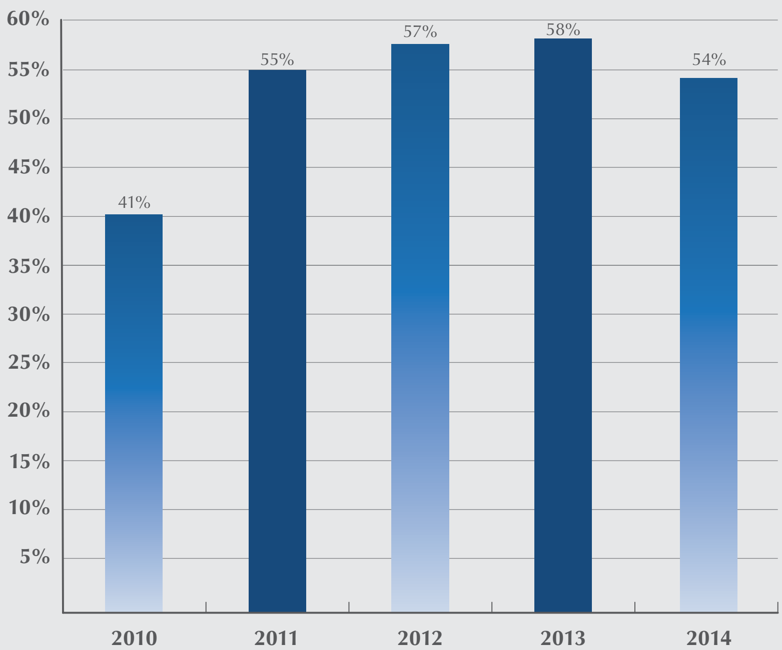
Operating from the UAE since 1972, we hold a strong competitive position among the listed companies with a market share of 15%. We also have the benefit of a strong capitalization of AED 375,000,000.

Our financial strength and commitment to long-term relationships with our clients gave us the opportunity to offer viable solutions to many of the UAE's mega development projects as well as Small-to-Medium sized Enterprises (SMEs) and individual clients.

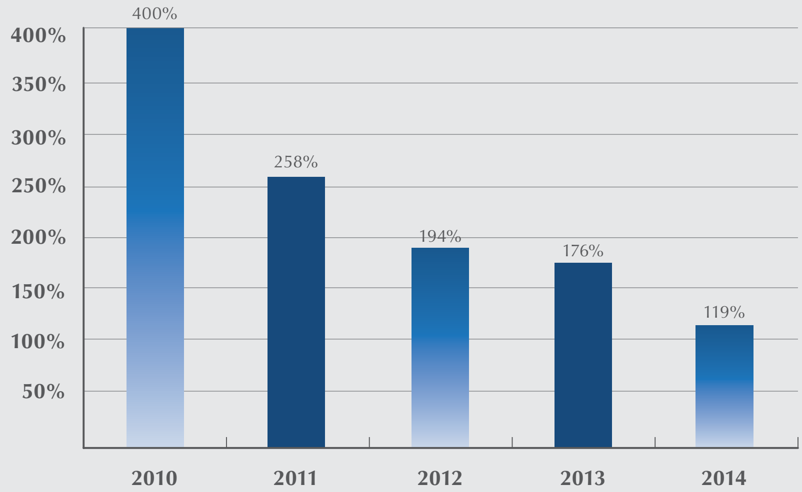
Gross Written Premium Growth (AED Million)



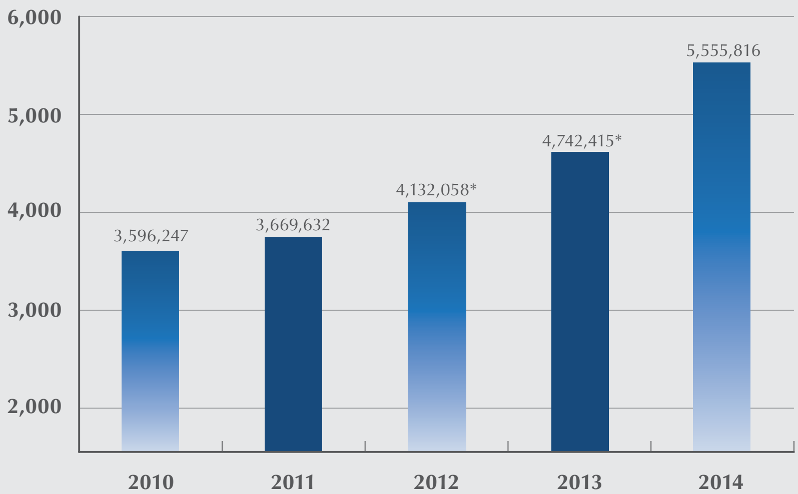
Premium Retention Ratio



Liquidity on Net Technical Reserves

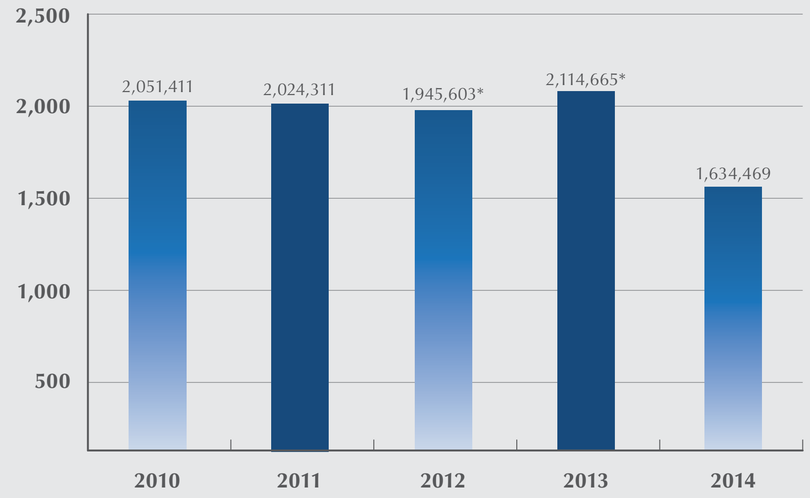


Total Assets (AED '000s)

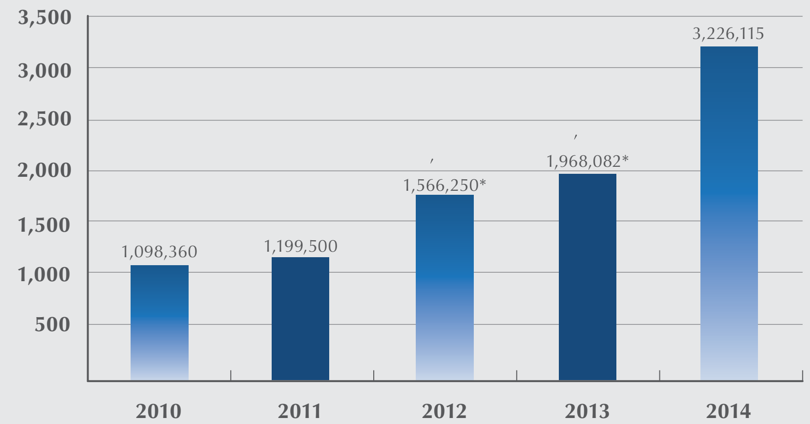


*These figures were restated

Total Equity (AED '000s)



Gross Technical Reserves (AED '000s)



*These figures were restated

PROPOSALS TO SHAREHOLDERS

for the year ended 31 December 2014

The Board of Directors, after the review of the Group's operations during the year 2014, propose the following to the shareholders for their approval:

Ordinary general assembly

(1) To approve the Board of Directors' and Business reports about the Company's operation and its financial position for the year ended 31 December 2014.

(2) To approve auditor's report on the Company's financial position for the year ended 31 December 2014.

(3) To approve the balance sheet and income statement for the year ended 31 December 2014.

(4) To approve the Board of Directors' proposal to transfer AED 300 million from General Reserve to Retained Earnings.

(5) To relieve the Directors and the External Auditor from responsibilities for action in performing their duties during the financial year ended 31 December 2014.

(6) To appoint the External Auditor for 2015 and to define the audit fees.

Note: The above proposals to shareholders were subsequently approved during the ordinary general assembly meeting held on 28th April 2015.

INDEPENDENT AUDITORS' REPORT

To The Shareholders Of
Abu Dhabi National Insurance Company PSC

Report on the financial statements

We have audited the accompanying financial statements of Abu Dhabi National Insurance Company PSC (the "Company''), which comprise the statement of financial position as at 31 December 2014, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company, the UAE Commercial Companies Law of 1984 (as amended) and the UAE Federal law No. (6) of 2007, and for such internal control as management determines is necessary to enable preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

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

Other matters

The financial statements of the Company for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements on 16 March 2014.

Report on other legal and regulatory requirements

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

Signed by:

Ernst & Young

Mohammad Mobin Khan
Partner (Ernst & Young)
Registration No. 532
25 March 2015, Abu Dhabi

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 AED'000	2013 AED'000 (Restated)	2012 AED'000 (Restated)
ASSETS				
Bank balances and cash	24	**559,230**	854,398	1,144,856
Trade and other receivables	7	**897,199**	1,005,214	884,379
Reinsurance contract assets	8	**1,847,279**	956,355	666,144
Investments	10	**1,390,426**	1,139,242	769,009
Investment properties	11	**781,102**	706,928	589,298
Property and equipment	12	**80,580**	80,278	78,372
TOTAL ASSETS		**5,555,816**	4,742,415	4,132,058
EQUITY AND LIABILITIES				
Equity				
Share capital	13	**375,000**	375,000	375,000
Legal reserve	14	**187,500**	187,500	187,500
General reserve	15	**900,000**	1,200,000	1,200,000
Investments revaluation reserve		**126,201**	149,846	31,290
Retained earnings	16	**45,768**	202,319	151,813
Total equity		**1,634,469**	2,114,665	1,945,603
LIABILITIES				
Provision for staff end of service benefits	17	**25,646**	25,736	27,545
Trade and other payables	18	**648,809**	613,155	571,883
Insurance contract liabilities	8	**3,226,115**	1,968,082	1,566,250
Loans from a financial institution	19	**20,777**	20,777	20,777
Total liabilities		**3,921,347**	2,627,750	2,186,455
TOTAL EQUITY AND LIABILITIES		**5,555,816**	4,742,415	4,132,058

Chairman of the Board of Directors

Chief Executive Officer

The attached notes 1 to 27 form an integral part of these financial statements.

STATEMENT OF INCOME

Year ended 31 December 2014

	Notes	*2014 AED'000*	*2013 AED'000 (Restated)*
Underwriting revenue			
Gross written premium	25	**2,631,145**	2,406,376
Change in unearned premium provision		**(101,098)**	(101,549)
Premium income earned		**2,530,047**	2,304,827
Reinsurance premium ceded	25	**(1,199,643)**	(1,003,605)
Change in reinsurance share of unearned premium		**151,293**	47,277
Reinsurance premium ceded		**(1,048,350)**	(956,328)
Net premium earned	25	**1,481,697**	1,348,499
Underwriting expenses			
Gross claims paid	25	**(1,549,624)**	(1,274,794)
Change in outstanding claims and IBNR provision		**(1,156,935)**	(300,283)
Gross claims incurred		**(2,706,559)**	(1,575,077)
Reinsurance share of claims paid	25	**404,189**	282,726
Change in reinsurance share of outstanding claims and IBNR provision		**739,631**	242,934
Reinsurance share of claims incurred		**1,143,820**	525,660
Net claims incurred	25	**(1,562,739)**	(1,049,417)
Commissions			
Commission income	25	**98,449**	105,206
Less: Commission expenses	25	**(144,528)**	(121,978)
Net commission expense		**(46,079)**	(16,772)
Other income related to underwriting activities	25	**10,610**	12,197
Other expenses related to underwriting activities	25	**(40,110)**	(28,870)
Net other underwriting expenses		**(29,500)**	(16,673)
Net underwriting (expenses)/income		**(156,621)**	265,637
Net investment and other income	20	**106,436**	99,600
General and administrative expenses	21	**(230,241)**	(209,225)
(Loss)/profit for the year		**(280,426)**	156,012
Basic and diluted (loss) earnings per share (AED)	22	**(0.75)**	0.42

The notes 1 to 27 form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	2014 AED'000	*2013 AED'000 (Restated)*
(Loss)/profit for the year	**(280,426)**	156,012
Other comprehensive income		
Items that will not be reclassified to the statement of income:		
Gain on sale of investments at fair value through other comprehensive income	**17,175**	50,294
Changes in fair value of investments at fair value through other comprehensive income	**(23,645)**	118,556
Directors' remuneration	**(5,800)**	(5,800)
Total other comprehensive (loss) income	**(12,270)**	163,050
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(292,696)**	319,062

The notes 1 to 27 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Share capital AED '000	*Legal reserve AED '000*	*General reserve AED '000*	*Investments revaluation reserve AED '000*	*Retained earnings AED '000*	*Total AED '000*
Balance at 1 January 2013, as previously reported	375,000	187,500	1,200,000	31,290	295,784	2,089,574
Effect of changes in accounting policies (note 27)	–	–	–	–	(143,971)	(143,971)
Balance at 1 January 2013 (restated)	375,000	187,500	1,200,000	31,290	151,813	1,945,603
Profit for the year (restated)	–	–	–	–	156,012	156,012
Other comprehensive income	–	–	–	118,556	44,494	163,050
Total comprehensive income for the year (restated)	–	–	–	118,556	200,506	319,062
Dividend declared, approved, and paid	–	–	–	–	(150,000)	(150,000)
Balance at 31 December 2013 (restated)	375,000	187,500	1,200,000	149,846	202,319	2,114,665
Balance at 1 January 2014, as previously reported	**375,000**	**187,500**	**1,200,000**	**149,846**	**371,222**	**2,283,568**
Effect of changes in accounting policies (note 27)	–	–	–	–	**(168,903)**	**(168,903)**
Balance at 1 January 2014 (restated)	**375,000**	**187,500**	**1,200,000**	**149,846**	**202,319**	**2,114,665**
Loss for the year	–	–	–	–	**(280,426)**	**(280,426)**
Other comprehensive loss	–	–	–	**(23,645)**	**11,375**	**(12,270)**
Total comprehensive loss for the year	–	–	–	**(23,645)**	**(269,051)**	**(292,696)**
Dividend declared, approved, and paid	–	–	–	–	**(187,500)**	**(187,500)**
Transfer from general reserve to retained earnings (note 16)	–	–	**(300,000)**	–	**300,000**	–
Balance at 31 December 2014	**375,000**	**187,500**	**900,000**	**126,201**	**45,768**	**1,634,469**

The notes 1 to 27 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 AED'000	2013 AED'000 (Restated)
OPERATING ACTIVITIES			
(Loss) profit for the year		**(280,426)**	156,012
Adjustments for:			
Depreciation expense	12	**11,495**	11,206
Net movement in unearned premium reserve		**(50,195)**	54,272
Change in outstanding claims and IBNR provision		**1,156,935**	300,283
Change in reinsurance share of outstanding claims and IBNR provision		**(739,631)**	(242,934)
Net impairment loss on trade receivables	7	**15,732**	7,569
Net increase on revaluation of investment property	11	**–**	(28,242)
Realized gain on investments through profit and loss		**(10,166)**	(601)
Unrealized gain on investments through profit and loss	10	**(5,688)**	(2,794)
Net amortization income	10	**2,705**	2,939
End of service benefits charge	17	**3,411**	2,849
Gain on disposal of property and equipment		**32**	32
		104,204	260,591
Working capital changes:			
Trade and other receivables		**92,283**	(128,404)
Trade and other payables		**29,854**	35,472
Cash generated from operations		**226,341**	167,659
End of service benefits paid	17	**(3,501)**	(4,658)
Net cash generated from operating activities		**222,840**	163,001
INVESTING ACTIVITIES			
Proceeds from sale of investments		**651,367**	606,213
Change in bank deposits		**146,779**	566,239
Proceeds from disposal of property and equipment		**30**	13
Acquisition of investments	10	**(895,872)**	(807,140)
Purchase of property and equipment	12	**(11,859)**	(13,157)
Payment for investment property under development	11	**(74,174)**	(89,388)
Net cash (used in) from investing activities		**(183,729)**	262,780
FINANCING ACTIVITIES			
Dividend paid		**(187,500)**	(150,000)
Net cash used in financing activities		**(187,500)**	(150,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(148,389)**	275,781
Cash and cash equivalents at the beginning of the year		**540,647**	264,866
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	24	**392,258**	540,647

The notes 1 to 27 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

1. Legal status and principal activities

Abu Dhabi National Insurance Company PSC (the "Company") is a public shareholding company incorporated in Abu Dhabi, United Arab Emirates, by Law No. (4) of 1972 as amended by Law No. (4) of 1974, and is governed by the provisions of the United Arab Emirates (UAE) Federal Law No. (6) of 2007 concerning Insurance Companies and agents and Federal Law No. 8 of 1984 (as amended).

The Company's principal activity is the transaction of insurance and reinsurance business of all classes.

The registered office of the Company is Khalifa Street, ADNIC Building, P O Box 839, Abu Dhabi, UAE.

The Company's financial statements were approved for issuance by the Board of Directors on 25 March 2015.

2.1. Basis of preparation

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

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

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

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

2.2. Changes in accounting policies and disclosures

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

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

The adoption of the standards or interpretations is described below:

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

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

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

2.2. Changes in accounting policies and disclosures *(continued)*

IAS 32: Financial Instruments: Presentation (Amendment)

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

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

IAS 36: Impairment of Assets (Amendment)

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

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

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

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

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

IFRIC 21: Levies

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

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

Voluntary changes in accounting policies

Management takes the view that the changes in accounting policies described below provide more relevant and reliable information of the Company’s financial performance and financial position to the economic decisions made by the users of the financial statements. The changes in accounting policies have been applied retrospectively by the Company. The effects of the changes in the accounting policies are described in note 27.

(i) Unearned premium reserve

On 1 January 2014, the Company has voluntarily changed its accounting policy for calculating the unearned premium reserve. Prior to the change in the accounting policy, the Company had computed unearned premium reserve and reinsurance share thereon using the minimum stipulated requirements in United Arab Emirates (UAE) Insurance Companies Law and mathematical models. The change in accounting policy in the current period has resulted in recognizing unearned premium reserve and reinsurance share thereon on a time proportion basis over the effective period of the policy.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

2.2. Changes in accounting policies and disclosures *(continued)*

Voluntary changes in accounting policies (continued)

(ii) Deferred commission expenses and other expenses related to underwriting activities
On 1 January 2014, the Company has voluntarily changed its accounting policy for recognizing commission expenses and other expenses related to underwriting activities. Prior to the change in the accounting policy, the Company had computed commission expenses and other expenses related to underwriting activities using the minimum stipulated requirements in United Arab Emirates (UAE) Insurance Companies Law and mathematical models. The change in accounting policy in the current period has resulted in recognizing commission expenses and other expenses related to underwriting activities on a time proportion basis over the effective period of the policy.

(iii) Unearned commission income and other income related to underwriting activities
On 1 January 2014, the Company has voluntarily changed its accounting policy for recognizing commission income and other income related to underwriting activities. Prior to the change in the accounting policy, the Company had recognized commission income and other income related to underwriting activities when the right to receive the income had been established. The change in accounting policy in the current period has resulted in recognizing commission income and other income related to underwriting activities on a time proportion basis over the effective period of the policy.

Revised accounting policies

The principal accounting policies that have changed due to the change in accounting policies described above are set out as below:

Unearned premium reserve
At the end of each reporting period, portion of gross written premium that relates to unexpired risks is reported as unearned premium. The reserves are calculated on a time proportion basis over the effective period of the policy.

Deferred commission expenses and other expenses related to underwriting activities
At the end of each reporting period, a portion of commission expenses and other expenses related to underwriting activities are provided to cover unexpired risks. The reserves are calculated on a time proportion basis over the effective period of the policy.

Commission income and other income related to underwriting activities reserve
At the end of each reporting period, a portion of commission income and other income related to underwriting activities are provided to cover unexpired risks. The reserves are calculated on a time proportion basis over the effective period of the policy.

2.3. Significant accounting policies

Financial assets and liabilities

Recognition
The Company initially recognizes deposits and debt securities issued on the date that they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Company commits to purchase or sell the asset. All other financial assets and liabilities (including assets designated at fair value through profit and loss) are initially recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

2.3. Significant accounting policies *(continued)*

Financial assets and liabilities *(continued)*

Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognized in:

(i) Income statement, for securities held at amortized cost or FVTPL, or
(ii) Other comprehensive income, for investments at FVTOCI. At the time of derecognition of FVTOCI investment any revaluation reserve is transferred to retained earnings.

The Company derecognizes a financial liability when its contractual obligations are discharged or canceled or expire.

The Company also derecognizes certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Designation at amortized cost

Debt instruments are classified as investments at amortized cost only if:

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

If either of the two criteria is not met the financial instrument is classified at fair value through profit or loss. Further, even if the asset meets the amortized cost criteria, the Company may choose at initial recognition to designate the financial asset as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

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

Other financial assets

Other non-derivative financial assets, such as cash and cash equivalents, statutory deposits, insurance and other receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards. Gains and losses arising from a Group of similar transactions are reported on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

2.3. Significant accounting policies *(continued)*

Financial assets and liabilities *(continued)*

Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 6.

2.3. Significant accounting policies *(continued)*

Fair value measurement *(continued)*

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

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

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

Impairment of financial assets

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

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

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

2.3. Significant accounting policies *(continued)*

Cash and cash equivalents
Cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less.

Insurance contracts
Classification
The Company issues contracts that transfer either insurance risk or both insurance and financial risks. The Company does not issue contracts that transfer only financial risks.

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Company to pay significant additional benefits due to occurrence of the insured event as compared to the non-occurrence. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

Premiums
Gross premiums written reflect amounts recognized during the year to policyholders or other insurers for insurance contracts, and exclude any fees and other amounts calculated based on premiums. These are recognized when the underwriting process is complete.

Premiums include any adjustments in respect of business written in prior accounting periods. The earned portion of premiums is recognized as income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below:

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

Claims
Claims incurred comprise the settlement and the internal and external handling costs for paid claims and changes in the provisions for outstanding claims arising from events occurring during the financial period. Where applicable, deductions are made for salvage and their recoveries.

Claims outstanding comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the financial statements of the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly.

Provision for premium deficiency/liability adequacy test
Provision is made for premium deficiency arising from insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

2.3. Significant accounting policies *(continued)*

Insurance contracts *(continued)*

Reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income, and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income, and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the related insurance policies and in accordance with the relevant reinsurance contracts. Reinsurance premiums are deferred and expensed using the same basis as used to calculate unearned premium reserves for related insurance policies. The deferred portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each statement of financial position date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Impairment losses on reinsurance assets are recognized in statement of income in the period in which they are incurred.

Deferred commission expenses and other expenses and Unearned commission income and other income

At the end of each reporting period, portion of commission income and other income and portion of commission expenses and other expenses related to underwriting activities are deferred to cover for unexpired risks. The reserves are calculated on a time proportion basis over the effective period of the policy.

Insurance receivables

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

Insurance payables

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

Insurance contract liabilities

Contract liabilities include claims incurred but not reported (IBNR), premium deficiency reserve, outstanding claims, and the provision for unearned premium.

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the statement of financial position date, 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 statement of financial position date. Unearned premiums are calculated on a time proportion basis over the effective period of the policy. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. The Company provides unearned premium reserve based on actual terms of the policy.

The liability relating to IBNR and premium deficiency reserve is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

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

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2.3. Significant accounting policies *(continued)*

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

Property and equipment
Recognition and measurement
All items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent cost
The cost of replacing a part of property and equipment is recognized in the carrying amount of the item if it is probable that future economic benefits within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of day-to-day servicing of property and equipment is recognized in the income statement.

Gains and losses on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognized net within other operating income in the income statement.

Depreciation
Depreciation is recognized in the income statement on a straight-line basis over the remaining economic useful lives of all property and equipment. Freehold land and capital work in progress are not depreciated.

The economic useful lives of assets, from the date of use, for the current and comparative period are estimated to be as follows:

	Useful life
Building	10 - 20 years
Furniture, fixtures, and leasehold improvements	4 - 10 years
Office equipment	2 - 8 years
Motor vehicles	5 years

Depreciation methods, useful lives, and residual values are reassessed at each reporting date.

Impairment
The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in the income statement to the extent that carrying values do not exceed the recoverable amounts.

2.3. Significant accounting policies *(continued)*

Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded securities or other available fair value indicators.

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

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

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

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

Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment properties are measured at fair value with any change therein recognized in operating income in the income statement.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

The Company holds investment properties which are disclosed in note 11.

NOTES TO THE FINANCIAL STATEMENTS

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2.3. Significant accounting policies *(continued)*

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

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

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

Dividend income
Dividend income is recognized when the right to receive dividend is established. Usually this is the ex-dividend date for equity securities.

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

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

Realized and unrealized gain
Net gains/losses on financial assets classified at fair value through profit and loss and fair value through other comprehensive income are described under the accounting policy for financial assets and liabilities.

Foreign currency
Transactions denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AED at the foreign exchange rate ruling at the date of the transaction. Realized and unrealized exchange gains and losses have been dealt with in the income statement.

Lease payments
Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. All of the Company's operating lease contracts are renewable.

Leased assets
Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

The Company enters into operating leases for their investment properties. Rental income from such operating leases is recognized on a straight-line basis over the term of the relevant lease.

2.3. Significant accounting policies *(continued)*

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Staff end of service benefits

Defined benefit plan

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

Defined contribution plan

The Company pays its obligations for UAE citizens into a Social Security and UAE Pension Fund in accordance with the UAE Federal Law No. 7 of 1999 for Pension and Social Security.

Directors' remuneration

In accordance with the Ministry of Economy and Commerce interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration has been recorded in statement of other comprehensive income.

Dividend

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

3. Future changes in accounting policies – new standards and amendments to existing standards issued but not yet effective

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

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

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

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

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31 December 2014

3. Future changes in accounting policies – new standards and amendments to existing standards issued but not yet effective *(continued)*

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

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

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

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

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

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

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

4. Risk management

This section summarizes the risks faced by the Company and the way the Company manages them.

4.1. Introduction and overview

Overall framework
The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of the set financial performance objectives. Management recognizes the critical importance of having efficient and effective risk management systems in place.

Capital management framework
The Company has an internal risk management framework for identifying risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on economic capital. The internal framework estimates indicate how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business.

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

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

4.2. Insurance risk

The Company accepts insurance risk through its written insurance contracts. The Company is exposed to uncertainty surrounding the timing, frequency, and severity of claims under these contracts.

The Company writes the following types of general insurance contracts:

- Marine hull insurance
- Marine cargo insurance
- Aviation insurance
- Engineering insurance
- Energy insurance
- Liability insurance
- Financial lines insurance
- Property insurance
- Accident insurance
- Group life insurance
- Motor insurance
- Health insurance

NOTES TO THE FINANCIAL STATEMENTS

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4. Risk management *(continued)*

4.2. Insurance risk *(continued)*

Two key elements of the Company's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

Underwriting strategy
The Company's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome.

The underwriting strategy is set out by the Company that establishes the classes of business to be written, the territories in which business is to be written, and the industry sectors in which the Company is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory, and industry in order to ensure appropriate risk selection within the portfolio. Generally, all general insurance contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Medical selection is part of the Company's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts, including specific risks and guarantees, are tested for profitability according to predefined procedures before approval.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

The Company operates a number of oversight committees that monitor aggregate risk data and take overall risk management decisions.

Reinsurance strategy
The reinsurance arrangements include excess and catastrophe coverage. The Company reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Company has a Reinsurance department that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance program and its ongoing adequacy.

The underwriters buy a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Company. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchases of facultative reinsurance are subject to business unit pre-approval and the total expenditure on facultative reinsurance is monitored regularly by the reinsurance department.

The estimated loss ratios are analyzed below by class of business for the current and previous year:

	Year ended 31 December 2014		*Year ended 31 December 2013*	
Type of risk	***Gross loss ratio***	***Net loss ratio***	*Gross loss ratio*	*Net loss ratio*
Commercial	**107%**	**97%**	48%	47%
Consumer	**107%**	**109%**	90%	88%

4. Risk management *(continued)*

4.2. Insurance risk *(continued)*

Claim development

The following schedule reflects the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last five years on an accident year basis:

	2009 and earlier AED'000	*2010 AED'000*	*2011 AED'000*	*2012 AED'000*	*2013 AED'000*	***2014 AED'000***	***Total AED'000***
Commercial (gross)							
At the end of the reporting year		151,052	107,501	188,446	403,481	**1,102,568**	**1,953,048**
One year later		135,667	171,027	341,396	687,723	**–**	**1,335,813**
Two years later		165,316	199,265	389,482	–	**–**	**754,062**
Three years later		162,013	202,553	–	–	**–**	**364,566**
Four years later		166,853	–	–	–	**–**	**166,853**
Current estimate of cumulative claims		166,853	202,553	389,482	687,723	**1,102,568**	**2,549,179**
Payments to date		161,905	167,848	286,223	228,170	**132,816**	**976,962**
Liability recognized in the statement of financial position 2009 and earlier	8,743						**8,743**
Total liability recognized in the statement of financial position	8,743	4,948	34,705	103,259	459,553	**969,752**	**1,580,960**
Consumer (gross)							
At the end of the reporting year		564,240	754,009	863,730	930,423	**1,137,407**	**4,249,809**
One year later		617,188	828,090	903,379	1,001,198	**–**	**3,349,855**
Two years later		631,963	834,376	913,183	–	**–**	**2,379,522**
Three years later		633,646	835,782	–	–	**–**	**1,469,428**
Four years later		637,184	–	–	–	**–**	**637,184**
Current estimate of cumulative claims		637,184	835,782	913,183	1,001,198	**1,137,407**	**4,524,754**
Payments to date		636,675	836,981	907,992	987,498	**848,931**	**4,218,077**
Liability recognized in the statement of financial position	33						**33**
Total liability recognized in the statement of financial position	33	509	(1,199)	5,191	13,700	**288,476**	**306,710**

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

4. Risk management *(continued)*

4.2. Insurance risk *(continued)*

Sensitivity of underwriting profit and losses

The underlying risk of any agreed insurance contract is the possibility that the insured event occurs and the level of certainty the Insurer can project on any resulting claim. By the nature of an insurance contract, this risk is often random and the amount of payable claim even more unpredictable. Therefore, ADNIC applies the principle of probability across all pricing and provisioning. Despite this principle the risk that actual claims payments exceed the estimated amount of the insurance liabilities is still ever present due to the uncertainty of the frequency or severity of claims being greater than estimated. Whilst ADNIC applies the portfolio approach to understand its projected claims, events leading to actual claims vary and therefore profitability is impacted, either positively or negatively on an annual basis.

The Company has an overall risk retention level in the region of 54% (2013: 58%) and this is mainly due to overall low retention levels in commercial lines. Despite these low retention levels on commercial lines, due to the unpredictability in events and their extreme volatility, large events stress the performance of the Company despite transferring risks to other parties. For all lines of business, the Company is adequately covered by excess of loss reinsurance programs to guard against any major financial impact.

Concentration of insurance risk

In common with other insurance companies, in order to minimize financial exposure arising from large insurance claims, the Company, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. ADNIC manages its risks through its prudent underwriting strategy, reinsurance arrangements aligned with the Company's risk appetite, and thorough claims handling.

Underwriting limits are in place to enforce appropriate risk selection criteria for the type of risk being underwritten based on our historical data and market analysis.

As part of our strategy to decrease volatility due to concentration of exposure, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements.

4. Risk management *(continued)*

4.2. Insurance risk *(continued)*

Concentration of insurance risk (continued)

The concentration of insurance risk as at 31 December 2014 was as follows:

	Commercial		***Consumer***		***Total exposure***	
	Gross AED'000	***Net AED'000***	***Gross AED'000***	***Net AED'000***	***Gross AED'000***	***Net AED'000***
UAE	**818,490,881**	**61,863,723**	**63,213,867**	**25,451,790**	**881,704,748**	**87,315,513**
GCC countries	**61,483,642**	**2,550,992**	**52,953,236**	**42,300,964**	**114,436,878**	**44,851,956**
Others	**56,567,762**	**1,243,691**	**3,883,332**	**1,482,153**	**60,451,094**	**2,725,844**
	936,542,285	**65,658,406**	**120,050,435**	**69,234,907**	**1,056,592,720**	**134,893,313**

The concentration of insurance risk as at 31 December 2013 was as follows:

	Commercial		*Consumer*		*Total exposure*	
	Gross AED'000	*Net AED'000*	*Gross AED'000*	*Net AED'000*	*Gross AED'000*	*Net AED'000*
UAE	647,817,312	72,959,186	14,080,925	13,050,801	661,898,237	86,009,987
GCC countries	49,161,598	4,390,206	32,547,143	22,036,523	81,708,741	26,426,729
Others	69,788,764	2,807,371	3,880,500	1,316,870	73,669,264	4,124,241
	766,767,674	80,156,763	50,508,568	36,404,194	817,276,242	116,560,957

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

4. Risk management *(continued)*

4.3. Financial risk

The Company has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company has been established and policies and procedures are in place to mitigate the Company's exposure to credit risk:

	2014 ***AED'000***	*2013* *AED'000*
Maximum exposure		
Investments at amortized cost	**543,076**	352,678
Reinsurance contract assets	**886,671**	394,406
Trade and other receivables	**767,806**	890,105
Cash and bank	**559,143**	854,310
Total	**2,756,696**	2,491,499

Compliance with the policy is monitored and exposures and breaches are regularly reviewed for changes in the risk environment.

For all classes of financial assets held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the statement of financial position date.

Reinsurance is placed with reinsurers approved by the management, which are generally international reputed companies.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers.

4. Risk management *(continued)*

4.3. Financial risk *(continued)*

Credit risk *(continued)*

Management of credit risk

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

The credit risk on liquid funds maintained with banks is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies or reputable local banks closely monitored by the regulatory body.

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

At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment if required.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities.

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

Management of liquidity risk

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

Details of the Company's financial liabilities are summarized in the table below by the maturity profile of the Company's assets and liabilities based on the contractual repayment arrangements. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

		Contractual cash outflows	
	Carrying amount AED'000	*Up to 180 days AED'000*	*181 to 365 days AED'000*
Financial liabilities at 31 December 2014			
Insurance contract liabilities	**1,887,670**	–	**(1,887,670)**
Loans from a financial institution	**20,777**	–	**(20,777)**
Trade and other payables	**563,348**	**(563,348)**	–
Total	**2,471,795**	**(563,348)**	**(1,908,447)**
Financial liabilities at 31 December 2013			
Insurance contract liabilities	730,735	–	(730,735)
Loans from a financial institution	20,777	–	(20,777)
Trade and other payables	529,052	(529,052)	–
Total	1,280,564	(529,052)	(751,512)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

4. Risk management *(continued)*

4.3. Financial risk *(continued)*

Market risk

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

Management of market risk

The Company separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Company actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees and properties.

Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Company manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

The substantial portion of the Company's assets and liabilities are re-priced within one year. Accordingly, interest rate risk is limited to that extent.

The effective interest rate of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating instrument or an instrument carried at fair value.

At the statement of financial position date if the interest rates are 1% (100 basis point) higher/lower and all the other variables were held constant the Company's net profit would have increased/decreased by AED 5,384 thousand (2013: AED 8,335 thousand).

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Company's functional currency is the UAE Dirham.

The Company has considerable exposures denominated in US Dollar. As the AED Dirham is pegged to the US Dollar since November 1980, accordingly, the Company's exposure to currency risk is limited to that extent.

Equity price risk

Equity price risk arises from the change in fair value of equity investments. The Company manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

4. Risk management *(continued)*

4.3. Financial risk *(continued)*

Market risk *(continued)*

Equity price risk (continued)

At the statement of financial position date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant:

For investments held at fair value through profit or loss

(Loss)/profit would have increased/decreased by AED 17,436 thousand (2013: AED 14,925 thousand).

For investments held at fair value through other comprehensive income

Changes in revaluation reserves of shares would increase/decrease by AED 67,300 thousand (2013: AED 63,732 thousand) as a result of the changes in fair value of quoted shares.

Operational risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, human error, technology, and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Board has oversight responsibilities for operational risk management in the Company. These responsibilities are exercised through the Risk Management Committee with an established framework of policies and procedures to identify, assess, monitor, control, manage, and report risks. The Risk Management Committee employs clear internal policies and procedures to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance. The framework also provides the interrelation with other risk categories.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Audit and Compliance Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

4.4. Capital risk management

The Company's objectives when managing capital is to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007 concerning Insurance Companies and Agents.

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

	2014 AED'000	*2013 AED'000*
Total capital held	**375,000**	375,000
Minimum regulatory capital	**100,000**	100,000

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5. Use of estimates and judgments

Judgments

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

Insurance contract classification

Contracts are classified as insurance contracts where they transfer significant insurance risk from the holder of the contract to the Company. The Company's accounting policy for the classification of insurance is discussed in more detail in note 2.3. There are a number of contracts sold where the Company exercises judgment about the level of insurance risk transferred. The level of insurance risk is assessed by considering whether there are any scenarios with commercial substance in which the Company is required to pay significant additional benefits. These benefits are those which exceed the amounts payable if no insured event were to occur. These additional amounts include claims liability and assessment costs, but exclude the loss of the ability to charge the holder of the contract for future services.

Classification of investments

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

Fair value of financial instruments

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

Estimation uncertainty

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

Provision for incurred but not reported claims (IBNR) and Premium Deficiency Reserve (PDR)

Estimates are made for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR) and premium deficiency reserve (PDR) using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The carrying value at the statement of financial position date of IBNR and PDR (net of related reinsurance receivable) is AED 311.6 million (2013: AED 73.3 million).

Provision for outstanding claims

Considerable judgment by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company generally estimates its claims based on previous experience and/or loss adjustor reports. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters along with the Company's internal legal counsel normally estimate such claims. The carrying value at the statement of financial position date of provision for outstanding claims (net of related reinsurance receivables) is AED 442 million (2013: AED 220 million).

5. Use of estimates and judgments *(continued)*

Estimation uncertainty *(continued)*

Contingent liabilities

Due to the nature of its operations, the Company may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with any reasonable assurance. The Company has made a provision of AED 44.6 million (2013: AED 12.2 million) in respect of claims requiring court or arbitration decisions.

Reinsurance

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

Impairment of insurance receivables

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Company evaluating the credit and liquidity position of the policyholders and the insurance and reinsurance companies, historical recovery rates including detailed investigations carried out during 2014, and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognized as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognized in the profit or loss at the time of collection. Provision for the doubtful debts on insurance receivables at 31 December 2014 was AED 112,693 thousand (2013: AED 97,071 thousand).

Impairment of investments at amortized cost

The Company evaluates impairment on investments at amortized cost on an ongoing basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognized in the income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgments about counterparty's financial situation and other means of settlement and the net realizable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

Estimation of fair value of investment properties

The fair value of investment properties is determined by independent real estate valuation consultants based on Comparative Method of Valuation method or using a valuation method. Under the Comparative Method of Valuation, the fair value is determined by considering recent prices of similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location, or economic conditions since the date of the transactions that occurred at those prices.

Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual values realized. There were no changes in fair value recognized in the income statement for the year (2013: Increase in fair value of AED 28.2 million).

Valuation of private equities

The valuation of private equity investments is based on net asset value determined by external fund managers.

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6. Fair values of financial instruments

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as 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. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

In accordance with the transitional provisions of IFRS 13, the Company has applied the new fair value measurement guidance prospectively. The change had no significant impact on the measurements of the Company's assets and liabilities.

The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

If the inputs used to measure the fair value of an asset or a liability might be categorized in the different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Assets measured at fair value – fair value hierarchy

The table below analyzes assets at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1 AED'000	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
31 December 2014				
Investments at fair value through profit or loss	**18,294**	–	**156,061**	**174,355**
Investment at fair value through OCI	**529,610**	–	**143,385**	**672,995**
	547,904	–	**299,446**	**847,350**
31 December 2013				
Investments at fair value through profit or loss	65,670	7,801	75,775	149,246
Investment at fair value through OCI	517,235	–	120,083	637,318
	582,905	7,801	195,858	786,564

6. Fair values of financial instruments *(continued)*

Fair value of financial instruments measured at amortized cost
Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

	Carrying amount AED'000	*Fair value AED'000*
31 December 2014		
Investments at amortized cost	**543,076**	**562,596**
31 December 2013		
Investments at amortized cost	352,678	364,625

The above disclosed fair value primarily falls under level 1 of fair value hierarchy.

7. Trade and other receivables

	2014 AED'000	*2013 AED'000 (Restated)*	*2012 AED'000 (Restated)*
Trade receivables	**859,064**	967,260	862,238
Less: Impairment provision of receivables	**(112,693)**	(97,071)	(89,502)
Net trade receivables	**746,371**	870,189	772,736
Deferred commission expense	**98,158**	86,293	67,641
Interest receivable	**7,481**	6,254	6,105
Other receivables	**45,189**	42,478	37,897
	897,199	1,005,214	884,379

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7. Trade and other receivables *(continued)*

The average credit period on sale of services is 120 days. No interest is charged on trade and other receivables. Trade receivables are provided for, after considering claims payable to policyholders (debtors are provided for based on the net exposure to the Company).

Before accepting any new customer, the Company assesses the potential customer's credit quality and defines credit limits by customer. In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

As at 31 December, the ageing analysis of unimpaired trade receivables and amounts due from related parties is as follows:

			Past due but not impaired	
	Total AED '000	*Neither past due nor impaired AED '000*	*121-365 days AED '000*	*Above 365 days AED '000*
31 December 2014				
Trade receivables	**526,181**	**491,369**	**33,854**	**958**
31 December 2013				
Trade receivables	555,335	473,035	72,036	10,264

Unimpaired receivables are expected on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are therefore, unsecured.

Movements in the provision for impairment of trade receivables were as follows:

	2014 AED'000	*2013 AED'000*
At 1 January	**97,071**	89,502
Charge for the year	**16,214**	8,876
Amounts written-off	**(592)**	(1,307)
At 31 December	**112,693**	97,071

8. Insurance contract liabilities and reinsurance contract assets

	2014 AED'000	2013 AED'000 (Restated)	2012 AED'000 (Restated)
Insurance contract liabilities			
Outstanding claims	**1,328,687**	614,387	359,593
Claims incurred but not reported	**558,983**	116,348	70,859
Unearned premium reserve	**1,338,445**	1,237,347	1,135,798
	3,226,115	1,968,082	1,566,250
Reinsurance contract assets			
Outstanding claims	**886,671**	394,406	175,221
Claims incurred but not reported	**290,400**	43,034	19,285
Unearned premium reserve	**670,208**	518,915	471,638
	1,847,279	956,355	666,144
Insurance liabilities – net			
Outstanding claims	**442,016**	219,981	184,372
Claims incurred but not reported	**268,583**	73,314	51,574
Unearned premium reserve	**668,237**	718,432	664,160
	1,378,836	1,011,727	900,106

Unearned premium reserve includes premium deficiency reserve of gross AED 153,519 thousand and net AED 43,053 thousand (2013: AED nil).

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8. Insurance contract liabilities and reinsurance contract assets *(continued)*

Actuarial valuation for incurred but not reported (IBNR) and Premium Deficiency Reserve (PDR) and related assumptions

Incurred but not reported (IBNR) reserves, along with reserves for incurred but not enough reported (IBNER), are calculated by local and/or external actuaries using a selection of actuarial methods. The analysis is segmented by line of business to provide enough credible and homogeneous claims data and different (selection of) methods are used to take into account different claim development trends for each line of business. IBNR (and IBNER) are calculated both gross and net of reinsurance using actual reinsurance data to ensure the correct impact of reinsurance is reflected in the reserves.

Premium Deficiency Reserve (PDR) is calculated by internal and/or external actuaries using a selection of actuarial methods on those lines of business where the unearned premiums is not adequate to meet the expected future liabilities from claims, commissions, and expenses. Actuaries analyzed the expected losses on the in-force policies separately for each of these lines of business using a selection of actuarial method. Actual commission payouts and expected expenses on the in-force portfolio were used to calculate premium deficiency reserves.

Movement in the insurance contract liabilities and reinsurance contract assets during the year was as follows:

	31 December 2014			*31 December 2013*		
	Gross AED'000	*Reinsurance AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurance AED'000*	*Net AED'000*
Claims						
Outstanding claims	**614,387**	**394,406**	**219,981**	359,593	175,221	184,372
Incurred but not reported	**116,348**	**43,034**	**73,314**	70,859	19,285	51,574
Total at 1 January	**730,735**	**437,440**	**293,295**	430,452	194,506	235,946
Claims settled	**(1,549,624)**	**(404,189)**	**(1,145,435)**	(1,274,794)	(282,726)	(992,068)
Increase in liabilities	**2,706,559**	**1,143,820**	**1,562,739**	1,575,077	525,660	1,049,417
Total at 31 December	**1,887,670**	**1,177,071**	**710,599**	730,735	437,440	293,295
Outstanding claims	**1,328,687**	**886,671**	**442,016**	614,387	394,406	219,981
Incurred but not reported	**558,983**	**290,400**	**268,583**	116,348	43,034	73,314
Total at 31 December	**1,887,670**	**1,177,071**	**710,599**	730,735	437,440	293,295
Unearned premium						
Total at 1 January	**1,237,347**	**518,915**	**718,432**	1,135,798	471,638	664,160
Increase during the year	**1,338,445**	**670,208**	**668,237**	1,237,347	518,915	718,432
Release during the year	**(1,237,347)**	**(518,915)**	**(718,432)**	(1,135,798)	(471,638)	(664,160)
Net increase during the year	**101,098**	**151,293**	**(50,195)**	101,549	47,277	54,272
Total at 31 December	**1,338,445**	**670,208**	**668,237**	1,237,347	518,915	718,432

9. Statutory deposit

In accordance with the requirements of Federal Law No. 6 of 2007 (as amended), covering insurance companies and agencies, the Company maintains a bank deposit of AED 10,000,000 (2013: AED 10,000,000) which cannot be utilized without the consent of the UAE Ministry of Economy and Commerce.

10. Investments

	2014 AED'000	*2013 AED'000*
Investments at fair value through other comprehensive income	**672,995**	637,318
Investments at amortized cost	**543,076**	352,678
Investment at fair value through profit or loss	**174,355**	149,246
	1,390,426	1,139,242
Investments at fair value through other comprehensive income		
Fair value at 1 January	**637,318**	528,331
Additions during the year	**439,693**	508,738
Disposals during the year	**(380,371)**	(518,307)
Net change in fair value	**(23,645)**	118,556
	672,995	637,318
Investment at amortized cost		
Opening balance at 1 January	**352,678**	218,674
Additions during the year	**246,381**	146,478
Disposals during the year	**(53,278)**	(9,535)
Amortization income	**(2,705)**	(2,939)
	543,076	352,678
Investments at fair value through profit and loss		
Fair value at 1 January	**149,246**	22,004
Additions during the year	**209,798**	151,924
Disposals during the year	**(190,377)**	(27,476)
Net increase in fair value	**5,688**	2,794
	174,355	149,246

Geographical concentration of investments is as follows:

	2014 AED'000	*2013 AED'000*
Within UAE	**641,914**	575,435
Outside UAE	**748,512**	563,807
	1,390,426	1,139,242

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11. Investment properties

	Abu Dhabi Head Office Land and Building (i) AED '000	*Al Ain Land and Building (ii) AED '000*	*Sharjah Land and Building (iii) AED '000*	*Al Raha Beach (Plot 406) and Building (iv) AED '000*	*Al Raha Beach (Plot 408) and Building (v) AED '000*	*Total AED '000*
At 1 January 2013	158,400	11,000	30,000	290,773	99,125	589,298
Additions to properties under development	–	–	–	48,145	41,243	89,388
Increase in fair value during the year	8,860	500	2,000	16,882	–	28,242
At 31 December 2013	167,260	11,500	32,000	355,800	140,368	706,928
At 1 January 2014	**167,260**	**11,500**	**32,000**	**355,800**	**140,368**	**706,928**
Additions/(deletions)	**1,560**	–	–	**(799)**	**73,413**	**74,174**
Increase in fair value during the year	–	–	–	–	–	–
At 31 December 2014	**168,820**	**11,500**	**32,000**	**355,001**	**213,781**	**781,102**

(i) The construction of this building which comprises14 floors was completed in 1980.

(ii) The construction of this 6-story building was completed in 2003. The entire building is available for letting to third parties.

(iii) This 16-story building was purchased during 1993. The entire building is available for letting to third parties.

(iv) In 2007, the Company purchased land at Al Raha Beach in Abu Dhabi City (Plot 406). The construction in plot no. 406 was completed in 2013.

(v) In 2007, the Company purchased land at Al Raha Beach in Abu Dhabi City (Plot 408). Additions during the year represent construction costs.

11. Investment properties *(continued)*

Measurement of fair value

The fair value of investment properties is determined using market based approach and discounted cash flow (DCF) model (2013: DCF). The fair values of the Company's investment properties are categorized into level 3 of the fair value hierarchy. The fair value of the investment properties were determined either (a) By an external, independent property valuer having appropriate recognized professional qualifications and recent experience in the locations and categories of the properties being valued (for DCF valuations) or (b) Based on an offer received (for market based valuations).

Market based approach considers recent market transactions for similar assets or quotes/bid prices for same or similar assets.

DCF considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods, and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms.

The estimated fair value would increase/(decrease) if:

- Expected market rental growth were higher/(lower);
- Void periods were shorter/(longer);
- The occupancy rate were higher/(lower);
- Rent-free periods were shorter/(longer); or
- The risk-adjusted discount rate were lower/(higher).

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12. Property and equipment

Property and equipment consist of the Company's building, furniture and fixtures, office equipment, motor vehicles, and capital work in progress. Cost and accumulated depreciation accounts are aggregated as follows:

	Building AED'000	*Furniture, fixtures and leasehold improvements AED'000*	*Office equipment AED'000*	*Motor vehicles AED'000*	*Capital work in progress AED'000*	*Total AED'000*
2014:						
Cost:						
At 1 January 2014	**24,547**	**41,006**	**31,656**	**216**	**20,680**	**118,105**
Additions	–	**970**	**2,938**	**35**	**7,916**	**11,859**
Disposals	–	**(603)**	**(133)**	**(90)**	–	**(826)**
At 31 December 2014	**24,547**	**41,373**	**34,461**	**161**	**28,596**	**129,138**
Depreciation:						
At 1 January 2014	**3,037**	**20,777**	**13,814**	**199**	–	**37,827**
Charge for the year	**1,292**	**5,711**	**4,476**	**16**	–	**11,495**
Disposal for the year	–	**(601)**	**(73)**	**(90)**	–	**(764)**
At 31 December 2014	**4,329**	**25,887**	**18,217**	**125**	–	**48,558**
Carrying amounts:						
At 31 December 2014	**20,218**	**15,486**	**16,244**	**36**	**28,596**	**80,580**
2013:						
Cost:						
At 1 January 2013	24,095	39,280	18,351	216	23,576	105,518
Additions	452	2,296	13,305	–	(2,896)	13,157
Disposals	–	(570)	–	–	–	(570)
At 31 December 2013	24,547	41,006	31,656	216	20,680	118,105
Depreciation:						
At 1 January 2013	1,745	15,554	9,665	182	–	27,146
Charge for the year	1,292	5,748	4,149	17	–	11,206
Disposal for the year	–	(525)	–	–	–	(525)
At 31 December 2013	3,037	20,777	13,814	199	–	37,827
Carrying amounts:						
At 31 December 2013	21,510	20,229	17,842	17	20,680	80,278

13. Share capital

	2014 AED'000	2013 AED'000
Authorized		
375,000,000 ordinary shares of AED 1 each (2012 – 375,000,000 ordinary shares of AED 1 each)	**375,000**	375,000
Issued and fully paid		
375,000,000 ordinary shares of AED 1 each (2012 – 375,000,000 ordinary shares of AED 1 each)	**375,000**	375,000

14. Legal reserve

In accordance with the UAE Federal Law No. (8) of 1984 (as amended) concerning Commercial Companies and the Company's Articles of Association, 10% of net 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. Since the Company reached the 50% limit, no transfer has been made during this year.

15. General reserve

Transfers to and from the general reserve are made at the discretion of the Board of Directors and the approval of the General Assembly. This reserve may be used for such purposes as the Directors deem fit. The Board of Directors propose, subject to the approval of the Annual General Assembly, the transfer of AED 300,000 thousand from general reserve to retained earnings.

16. Retained earnings

The Annual General Assembly held on 20 April 2014 approved a cash dividend of AED 0.5 per share at 50% of par value for the year ended 31 December 2013 which was paid during the year.

17. Provision for staff end of service benefits

	2014 AED'000	2013 AED'000
Balance at the beginning of the year	**25,736**	27,545
Charge for the year	**3,411**	2,849
Paid during the year	**(3,501)**	(4,658)
Balance at the end of the year	**25,646**	25,736

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18. Trade and other payables

	2014 AED'000	2013 AED'000 (Restated)	2012 AED'000 (Restated)
Trade accounts payable	**524,245**	465,130	413,366
Accrued expenses	**24,082**	17,581	16,929
Deferred commission income	**68,225**	71,588	61,967
Deferred income	**17,236**	12,516	2,640
Other accounts payable	**15,021**	46,340	76,981
	648,809	613,155	571,883

19. Loans from a financial institution

	2014 AED'000	2013 AED'000
Loans from a financial institution	**20,777**	20,777

The loan carries an interest rate of 1.47 % to 1.60% per annum.

20. Net investment and other income

	2014 AED'000	2013 AED'000
Increase in fair value of investment properties	–	28,242
Dividend income	**39,457**	27,406
Net rental income	**21,124**	9,441
Net interest income on bank deposits and bonds	**35,709**	35,136
Unrealized gain on revaluation of investment at fair value through profit and loss account	**5,688**	2,794
Realized gain on disposal of investments at fair value through profit and loss account	**10,166**	601
Others	**(5,708)**	(4,020)
	106,436	99,600

21. General and administrative expenses

	2014 AED'000	2013 AED'000
Salaries and other benefits	**161,141**	149,540
Impairment of receivables	**16,214**	8,876
Depreciation charge	**11,495**	11,206
Advertisement	**4,426**	6,142
Rent	**5,501**	5,198
Communication and office supplies	**5,638**	5,460
Others	**25,826**	22,803
	230,241	209,225

22. Basic and diluted (loss) earnings per ordinary share

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

	2014 AED'000	2013 AED'000
(Loss)/profit for the year	**(280,426)**	156,012
Ordinary shares in issue throughout the year	**375,000**	375,000
Basic and diluted earnings per share (AED)	**(0.75)**	0.42

The Company has not issued any instrument which would have a diluted impact on earnings per share when exercised.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

23. Related parties

Identity of related parties

Related parties comprise major shareholders, associated companies, directors and key management personnel of the Company and entities controled, jointly controled or significantly influenced by such parties. Government of Abu Dhabi holds 24 per cent shareholding in the Company through Abu Dhabi Investment Council.

Pricing policies and terms of these transactions are approved by the management. The Company maintains significant balances with these related parties which arise from commercial transactions as follows:

Balances

Balances with related parties at the reporting date are shown below:

	Directors and key management 31 December 2014 AED'000	*Major shareholder 31 December 2014 AED'000*	*Others 31 December 2014 AED'000*	*Total 31 December 2014 AED'000*	*Total 31 December 2013 AED'000*
Trade and other receivables	**176**	**7**	**199,916**	**200,099**	190,487
Trade and other payables	**6**	–	**5,501**	**5,507**	5,036
Cash and bank balances	–	–	**184,936**	**184,936**	385,943
Investments	–	–	**109,115**	**109,115**	117,893
Statutory deposits	–	–	**10,000**	**10,000**	10,000
Insurance contract liabilities	**206**	**1,726**	**223,313**	**225,245**	116,363

Others comprise companies controled by the Directors and other key management personnel.

23. Related parties *(continued)*

Transactions

Transactions carried out during the reporting period with related parties are shown below:

	Directors and key management 31 December 2014 AED'000	*Major shareholder 31 December 2014 AED'000*	*Others 31 December 2014 AED'000*	*Total 31 December 2014 AED'000*	*Total 31 December 2013 AED'000*
Premium written	**418**	**3,848**	**268,635**	**272,901**	202,352
Claims incurred	**71**	**2,513**	**94,375**	**96,959**	187,039
Dividend income	–	–	**2,235**	**2,235**	2,400
Interest income	–	–	**3,815**	**3,815**	4,314
Directors remuneration	**5,800**	–	–	**5,800**	5,800

An amount of AED 125 thousand have been recognized as allowances for impairment against trade and other receivables extended to related parties (year ended 31 December 2013: AED 7 thousand). Contingent liabilities were issued in favor of related parties during the year 2014 amounting to AED 21,771 thousand (2013: AED 40,875).

Transactions with key management personnel

Key management compensation is as shown below:

	2014 AED'000	*2013 AED'000*
Salaries and short term benefits	**18,647**	21,957
Staff end of service benefits	**1,170**	1,796
	19,817	23,753

NOTES TO THE FINANCIAL STATEMENTS

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24. Cash and cash equivalents

Cash and cash equivalents at the end of the year as shown in the cash flow statement can be reconciled to the related items in the statement of financial position as follows:

	2014 AED'000	*2013 AED'000*
Cash in hand	**87**	88
Statutory deposit	**10,000**	10,000
Deposits/call/current accounts at local UAE banks	**549,143**	844,310
	559,230	854,398
Less: Deposits with original maturities of greater than three months	**(166,972)**	(313,751)
Cash and cash equivalents	**392,258**	540,647

Fixed deposits and call accounts with banks carry interest rates of 0.15% – 1.25% (2013: 0.5% – 3.25%) per annum.

25. Segment information

The Company is organized into two main business segments:

Underwriting of commercial lines of business – incorporating all classes of general insurance including marine cargo, marine hull, aviation, energy, property, and engineering.

Underwriting of consumer line of business – incorporating all classes of insurance including accident, motor, and medical.

Assets and liabilities of the Company are commonly used across the segments. There were no transactions between the segments.

25. Segment information *(continued)*

	Commercial		Consumer		Total	
	2014 AED'000	2013 AED'000	**2014 AED'000**	2013 AED'000	**2014 AED'000**	2013 AED'000
Gross written premium	**1,609,980**	1,295,928	**1,021,165**	1,110,448	**2,631,145**	2,406,376
Less: Reinsurance premium ceded	**(1,108,546)**	(909,979)	**(91,097)**	(93,626)	**(1,199,643)**	(1,003,605)
Net written premium	**501,434**	385,949	**930,068**	1,016,822	**1,431,502**	1,402,771
Net change in unearned premium reserves	**(63,924)**	(47,980)	**114,119**	(6,292)	**50,195**	(54,272)
Net premium earned	**437,510**	337,969	**1,044,187**	1,010,530	**1,481,697**	1,348,499
Gross claims paid	**(449,139)**	(257,705)	**(1,100,485)**	(1,017,089)	**(1,549,624)**	(1,274,794)
Less: Reinsurance share of claims paid	**323,542**	173,564	**80,647**	109,162	**404,189**	282,726
Net claims paid	**(125,597)**	(84,141)	**(1,019,838)**	(907,927)	**(1,145,435)**	(992,068)
Net change in outstanding claims and IBNR	**(298,094)**	(74,635)	**(119,210)**	17,286	**(417,304)**	(57,349)
Net claims incurred	**(423,691)**	(158,776)	**(1,139,048)**	(890,641)	**(1,562,739)**	(1,049,417)
Gross commission income	**97,863**	104,824	**586**	382	**98,449**	105,206
Less: Commission expenses incurred	**(91,863)**	(76,283)	**(52,665)**	(45,695)	**(144,528)**	(121,978)
Net commissions expenses	**6,000**	28,541	**(52,079)**	(45,313)	**(46,079)**	(16,772)
Other underwriting income	**5,598**	6,943	**5,012**	5,254	**10,610**	12,197
Less: Other underwriting expenses	**(18,049)**	(12,356)	**(22,061)**	(16,514)	**(40,110)**	(28,870)
Net other underwriting expenses	**(12,451)**	(5,413)	**(17,049)**	(11,260)	**(29,500)**	(16,673)
Net underwriting (expenses)/income	**7,368**	202,321	**(163,989)**	63,316	**(156,621)**	265,637
Net investment and other income					**106,436**	99,600
General and administrative expenses					**(230,241)**	(209,225)
(Loss)/profit for the year					**(280,426)**	156,012

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26. Contingent liabilities and commitments

	2014 AED'000	2013 AED'000
Bank guarantees	**100,907**	96,032
Letters of credit	**41**	41

The above bank guarantees and letters of credit were issued in the normal course of business.

27. Effects of changes in accounting policies

As disclosed in note 2.2, the Company has voluntarily changed its accounting policy for recognizing unearned premium reserve, commission expenses and other expenses, and commission income and other income related to underwriting activities.

(a) Impact of change in accounting policies on the statement of financial position as at 31 December 2012

	At 31 December 2012 as previously reported AED'000	*Restatements AED'000*	*At 31 December 2012 restated AED'000*
Retained earnings	295,784	(143,971)	151,813
Reinsurance contract assets	664,323	1,821	666,144
Insurance contract liabilities	1,481,380	84,870	1,566,250
Trade and other receivables (for deferred commission expenses and other underwriting expenses)	883,335	1,044	884,379
Trade and other payables (for unearned commission and other underwriting income)	509,917	61,966	571,883

27. Effects of changes in accounting policies *(continued)*

(b) Impact of change in accounting policies on the statement of financial position as at 31 December 2013

	At 31 December 2013 as previously reported AED'000	*Restatements AED'000*	*At 31 December 2013 restated AED'000*
Retained earnings	371,222	(168,903)	202,319
Reinsurance contract assets	962,485	(6,130)	956,355
Insurance contract liabilities	1,880,766	87,316	1,968,082
Trade and other receivables (for deferred commission expenses and other underwriting expenses)	1,009,083	(3,869)	1,005,214
Trade and other payables (for unearned commission and other underwriting income)	541,567	71,588	613,155

Change in accounting policy resulted in decrease in profit for the year ended 31 December 2013 by AED 24,932 thousand.

OUR
LOCATIONS

Head Office and Main Branches

Head Office
ADNIC Corporate Headquarters
P.O. Box: 839 – Abu Dhabi
Tel: 02 4080100
Fax: 02 4080604
Email: adnic@adnic.ae

Mussafah Branch
The Village Mall
Workers Village
Mussafah M24
Shops (GF-A11 and A07)
P.O. Box: 92572 – Abu Dhabi
Tel: 02 4080696
Fax: 02 4080690

Al Ain Branch
H.E. Khalaf Bin Ahmad Al-Otaibah Building
Main Street (Sheikh Zayed Road)
P.O. Box: 1407 – Al Ain
Tel: 03 7641834
Fax: 03 7663147

Dubai Branch
Al Muraikhi Tower, Al Maktoum Street
P.O. Box: 11236 – Deira
Tel: 04 5154850/1/2/3/4
Fax: 04 5154910

Sharjah Branch
Al Hosn Tower,
Showroom No. 2, Building No. 617/A
Al Ittihad Street
P.O. Box: 3674 – Sharjah
Tel: 06 5683743
Fax: 06 5682713

Sales and Services Centers

Motor Claims Department and Salam Street Sales Center
Al Zubara Tower, Ground Floor, Al Salam Street
P.O. Box: 3275 – Abu Dhabi
Tel: 02 4080400
Fax: 02 4080699

Abu Dhabi Office
Abu Dhabi Traffic Police – Vehicle Test Section
Tel: 02 4448611
Fax: 02 4447872

Mussafah Office
No. M42, Mussafah Industrial Area
Heavy Vehicle Registration Office, Abu Dhabi
Traffic Department
Tel: 02 5511382
Fax: 02 5511382

Samha Traffic Office
Samha ADNOC Station
Tel: 02 5620162
Fax: 02 5620162

Madinat Zayed Office
Abu Dhabi Traffic Police – Heavy Vehicle
Tel: 02 8841577
Fax: 02 8841577

Ruwais Office
Ruwais City – Main ADNOC Station
Tel: 02 8772123
Fax: 02 8772123

Al Ain Office
Al Ain Traffic Police Dept. – Zakher
Tel: 03 7828666
Fax: 03 7663147

Mizyad Office
Abu Dhabi Traffic Police Dept.
Tel: 03 7824250
Fax: 03 7663147

Ghuwaifat Border Office
Tel: 02 8723080
Fax: 02 8723080

Khalifa City Office
C9, Ground Floor, Etihad Plaza Complex
Tel: 02 4080547/02 5568048
Fax: 02 5567697