

**Al Buhaira National Insurance Company P.S.C.**

**Independent auditor's report  
and consolidated financial statements  
for the year ended 31 December 2014**

**Al Buhaira National Insurance Company P.S.C.**

**Independent auditor's report and consolidated financial statements  
for the year ended 31 December 2014**

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## **Independent auditor's report on the consolidated financial statements to the shareholders of Al Buhaira National Insurance Company P.S.C.**

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

We have audited the accompanying consolidated financial statements of Al Buhaira National Insurance Company P.S.C. (the "Company") and its subsidiary (together referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of 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 consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements whether due to fraud or errors.

### **Auditor's responsibility**

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

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

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



**Independent auditor's report on the consolidated financial statements  
to the shareholders of Al Buhaira National Insurance Company P.S.C.  
(continued)**

**Opinion**

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

**Report on Other Legal and Regulatory Requirements**

Further, as required by the UAE Federal Law No. (8) of 1984, as amended, in respect of the company, we report that:

- (i) we have obtained all the information we considered necessary for the purpose of our audit;
- (ii) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended and the Articles of Association of the company;
- (iii) the Company has maintained proper books of account;
- (iv) the financial information included in the Directors' report is consistent with the books of account of the Company; and
- (v) nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as of 31 December 2014.

**Other matter**

The annual consolidated financial statements of the Group for the year ended 31 December 2013, were audited by another auditor who expressed unqualified audit opinion in their report dated 19 March 2014.

PricewaterhouseCoopers  
26 March 2015

Paul Suddaby  
Registered Auditor Number 309  
Sharjah, United Arab Emirates

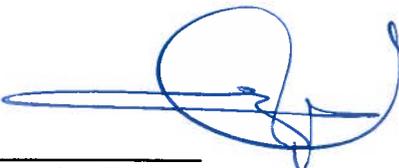


# Al Buhaira National Insurance Company P.S.C.

## Consolidated statement of financial position

|   | Notes | As at 31 December    |                      |
|---|-------|----------------------|----------------------|
|   |       | 2014<br>AED          | 2013<br>AED          |
| <b>ASSETS</b>                                     |       |                      |                      |
| Cash and bank balances                            | 5     | 165,154,749          | 143,732,350          |
| Insurance and other receivables                   | 6     | 376,054,137          | 522,835,098          |
| Reinsurance contract assets                       | 7     | 209,306,188          | 256,365,645          |
| Available-for-sale financial assets               | 8     | 57,129,716           | 53,342,395           |
| Statutory deposit                                 | 5.1   | 6,000,000            | 6,000,000            |
| Investment properties                             | 9     | 948,940,601          | 946,765,054          |
| Property and equipment                            | 10    | 6,199,362            | 6,445,052            |
| <b>Total Assets</b>                               |       | <b>1,768,784,753</b> | <b>1,935,485,594</b> |
| <b>Liabilities and shareholders' equity</b>       |       |                      |                      |
| <b>Liabilities</b>                                |       |                      |                      |
| Insurance and other payables                      | 11    | 221,872,314          | 371,722,844          |
| Insurance contract liabilities                    | 7     | 361,028,478          | 406,063,713          |
| Bank borrowings                                   | 12    | 505,180,696          | 516,970,689          |
| Provision for employees' end of service indemnity | 13    | 29,283,464           | 32,372,934           |
| <b>Total Liabilities</b>                          |       | <b>1,117,364,952</b> | <b>1,327,130,180</b> |
| <b>Shareholders' equity</b>                       |       |                      |                      |
| Share capital                                     | 14    | 250,000,000          | 250,000,000          |
| Statutory reserve                                 | 15.1  | 98,557,807           | 94,736,762           |
| General reserve                                   | 15.2  | 200,000,000          | 200,000,000          |
| Cumulative changes in fair value of securities    | 15.3  | (11,012,049)         | (15,865,987)         |
| Retained earnings                                 |       | 113,874,043          | 79,484,639           |
| <b>Total shareholders' equity</b>                 |       | <b>651,419,801</b>   | <b>608,355,414</b>   |
| <b>Total liabilities and shareholders' equity</b> |       | <b>1,768,784,753</b> | <b>1,935,485,594</b> |

These consolidated financial statements were approved by the Board of Directors on 26 March 2015 and signed on its behalf by:

  
 \_\_\_\_\_  
 Managing Director

  
 \_\_\_\_\_  
 General Manager

# Al Buhaira National Insurance Company P.S.C.

## Consolidated income statement

|   | Notes | Year ended 31 December |                      |
|---|-------|------------------------|----------------------|
|   |       | 2014<br>AED            | 2013<br>AED          |
| Earned premium  | 16    | 540,706,798            | 519,639,630          |
| Reinsurance premium ceded   | 16    | <u>(313,341,647)</u>   | <u>(298,081,678)</u> |
| <b>Net earned premiums</b>  | 16    | <u>227,365,151</u>     | <u>221,557,952</u>   |
| Gross claims incurred   | 7     | (428,301,546)          | (495,596,775)        |
| Insurance claims recovered from re-insurers                             | 7     | <u>183,710,354</u>     | <u>252,473,041</u>   |
| <b>Net claims incurred</b>  | 7     | <u>(244,591,192)</u>   | <u>(243,123,734)</u> |
| Gross commission earned   |       | 102,488,478            | 94,933,817           |
| Less: commission incurred   |       | <u>(17,619,831)</u>    | <u>(14,547,795)</u>  |
| <b>Net commission earned</b>  |       | <u>84,868,647</u>      | <u>80,386,022</u>    |
| <b>Underwriting profit</b>  |       | 67,642,606             | 58,820,240           |
| General and administrative expenses relating to underwriting activities | 17    | <u>(32,528,984)</u>    | <u>(36,944,925)</u>  |
| <b>Net underwriting profit</b>  |       | 35,113,622             | 21,875,315           |
| Net investment income   | 18    | 37,177,099             | 26,905,661           |
| Finance costs   |       | <u>(22,690,916)</u>    | <u>(27,677,866)</u>  |
| Non-operating general and administrative expenses                       | 19    | <u>(11,389,356)</u>    | <u>(10,731,104)</u>  |
| <b>Profit for the year</b>  |       | <u>38,210,449</u>      | <u>10,372,006</u>    |
| <b>Basic and diluted earnings per share</b>                             | 20    | <u>0.15</u>            | <u>0.04</u>          |

## Al Buhaira National Insurance Company P.S.C.

### Consolidated statement of comprehensive income

|   | Note | <u>Year ended 31 December</u> |                          |
|---|------|-------------------------------|--------------------------|
|   |      | <b>2014</b>                   | <b>2013</b>              |
|   |      | <b>AED</b>                    | <b>AED</b>               |
| Profit for the year   |      | <u><b>38,210,449</b></u>      | <u><b>10,372,006</b></u> |
| <b>Other comprehensive income</b>   |      |                               |                          |
| <b>Items that may be reclassified subsequently to profit or loss</b>                                |      |                               |                          |
| Unrealised loss on revaluation of available-for-sale financial assets recognised directly in equity | 8    | <b>(146,062)</b>              | <b>(2,091,241)</b>       |
| <b>Transfer to consolidated income statement</b>  |      |                               |                          |
| Reclassification adjustment relating to available-for-sale investment impaired during the year      | 18   | <b>5,000,000</b>              | <b>4,000,000</b>         |
| <b>Items that may not be reclassified subsequently to profit or loss</b>                            |      |                               |                          |
| Board of directors' remuneration paid   |      | <u><b>-</b></u>               | <u><b>(290,000)</b></u>  |
| <b>Other comprehensive income for the year</b>  |      | <u><b>4,853,938</b></u>       | <u><b>1,618,759</b></u>  |
| <b>Total comprehensive income for the year</b>  |      | <u><b>43,064,387</b></u>      | <u><b>11,990,765</b></u> |

## Al Buhaira National Insurance Company P.S.C.

### Consolidated statement of changes in equity

|   | Share capital      | Statutory reserve | General reserve    | Cumulative changes in fair value of available-for-sale financial assets | Retained earnings  | Total              |
|---|--------------------|-------------------|--------------------|---|--------------------|--------------------|
|   | AED                | AED               | AED                | AED   | AED                | AED                |
| <b>Balance at 1 January 2013</b>          | 250,000,000        | 93,699,561        | 200,000,000        | (17,774,746)  | 82,939,834         | 608,864,649        |
| Profit for the year                       | -                  | -                 | -                  | -   | 10,372,006         | 10,372,006         |
| Other comprehensive income for the year   | -                  | -                 | -                  | 1,908,759   | (290,000)          | 1,618,759          |
| Total comprehensive income for the year   | -                  | -                 | -                  | 1,908,759   | 10,082,006         | 11,990,765         |
| Transfer to statutory reserve (Note 15.1) | -                  | 1,037,201         | -                  | -   | (1,037,201)        | -                  |
| Dividend distribution (Note 27)           | -                  | -                 | -                  | -   | (12,500,000)       | (12,500,000)       |
| <b>Balance at 31 December 2013</b>        | <u>250,000,000</u> | <u>94,736,762</u> | <u>200,000,000</u> | <u>(15,865,987)</u>   | <u>79,484,639</u>  | <u>608,355,414</u> |
| <b>Balance at 1 January 2014</b>          | 250,000,000        | 94,736,762        | 200,000,000        | (15,865,987)  | 79,484,639         | 608,355,414        |
| Profit for the year                       | -                  | -                 | -                  | -   | 38,210,449         | 38,210,449         |
| Other comprehensive loss for the year     | -                  | -                 | -                  | 4,853,938   | -                  | 4,853,938          |
| Total comprehensive income for the year   | -                  | -                 | -                  | 4,853,938   | 38,210,449         | 43,064,387         |
| Transfer to statutory reserve (Note 15.1) | -                  | 3,821,045         | -                  | -   | (3,821,045)        | -                  |
| Dividend distribution (Note 27)           | -                  | -                 | -                  | -   | -                  | -                  |
| <b>Balance at 31 December 2014</b>        | <u>250,000,000</u> | <u>98,557,807</u> | <u>200,000,000</u> | <u>(11,012,049)</u>   | <u>113,874,043</u> | <u>651,419,801</u> |

The notes on pages 8 to 58 form an integral part of this consolidated financial information.

# Al Buhaira National Insurance Company P.S.C.

## Consolidated statement of cash flows

|   | Notes | Year ended 31 December |                      |
|---|-------|------------------------|----------------------|
|   |       | 2014<br>AED            | 2013<br>AED          |
| <b>Cash flows from operating activities</b>   |       |                        |                      |
| Profit for the year   |       | <b>38,210,449</b>      | <b>10,372,006</b>    |
| <b>Adjustments for:</b>   |       |                        |                      |
| Depreciation of property and equipment  | 10    | 1,799,926              | 1,891,980            |
| Write off of property and equipment   | 10    | -                      | 633,857              |
| Allowance for doubtful debts  | 6     | 5,000,000              | 5,000,000            |
| Interest income on deposits   | 18    | (2,449,757)            | (3,382,177)          |
| Dividend from investments   | 18    | (1,438,170)            | (1,364,235)          |
| Loss on disposal of investment in associate   |       | -                      | 166,601              |
| Net rental income from investment properties  | 18    | (47,097,306)           | (37,291,185)         |
| Impairment on Available-for-sale financial assets   | 18    | 5,000,000              | 4,000,000            |
| Impairment of investment properties   | 18    | 5,000,000              | 13,000,000           |
| Loss / (Gain) on sale of Available-for-sale financial assets  | 18    | 4,059,635              | (1,609,962)          |
| (Reversal) / Provision for employees' end of service indemnity  | 13    | (1,112,333)            | 2,190,675            |
| Gain on disposal of property and equipment  |       | -                      | (47,900)             |
| Finance costs   |       | <b>22,690,916</b>      | <b>27,677,866</b>    |
| <b>Operating cash flows before changes in operating assets and liabilities and employees' end of service indemnity paid</b>       |       | <b>29,663,360</b>      | <b>21,237,526</b>    |
| Employees' end of service indemnity paid  | 13    | (1,977,137)            | (1,027,828)          |
| <b>Operating cash flows before changes in operating assets and liabilities and after employees' end of service indemnity paid</b> |       | <b>27,686,223</b>      | <b>20,209,698</b>    |
| Changes in insurance and other receivables  |       | 141,780,961            | (90,033,162)         |
| Changes in reinsurance contract assets  |       | 47,059,457             | (64,120,666)         |
| Changes in insurance and other payables   |       | (149,850,530)          | 48,483,143           |
| Changes in insurance contract liabilities   |       | (45,035,235)           | 69,729,426           |
| <b>Net cash from / (used in) operating activities</b>   |       | <b>21,640,876</b>      | <b>(15,731,561)</b>  |
| <b>Cash flows from investing activities</b>   |       |                        |                      |
| Movement in fixed deposits under lien   | 5     | 14,630,479             | (632,378)            |
| Increase in margin deposits   |       | -                      | (3,000)              |
| Purchase of available-for-sale financial assets   | 8     | (313,987,380)          | (431,866,074)        |
| Proceeds from sale of available-for-sale financial assets   | 8     | 305,994,362            | 451,304,628          |
| Proceeds from sale of shares in investment in associate   |       | -                      | 17,457,970           |
| Purchase of property and equipment  | 10    | (1,554,236)            | (592,111)            |
| Proceeds from disposal of property and equipment  |       | -                      | 47,900               |
| Purchase of investment property   | 9     | (7,175,547)            | (2,103,421)          |
| Movement in fixed deposits of original maturity of more than 3 months   | 5     | (29,999,970)           | 7,239,192            |
| Finance income received   |       | 2,449,757              | 3,382,177            |
| Dividends received  |       | 1,438,170              | 1,364,235            |
| Net rental income from investment properties  |       | <b>47,097,306</b>      | <b>37,291,185</b>    |
| <b>Net cash from investing activities</b>   |       | <b>18,892,941</b>      | <b>82,890,303</b>    |
| <b>Cash flows from financing activities</b>   |       |                        |                      |
| Increase in bank borrowings   |       | 67,294,428             | 24,099,280           |
| Dividends paid  |       | -                      | (12,500,000)         |
| Finance costs paid  |       | (22,690,916)           | (27,677,866)         |
| Board of directors' remuneration paid   |       | -                      | (290,000)            |
| <b>Net cash from / (used in) financing activities</b>   |       | <b>44,603,512</b>      | <b>(16,368,586)</b>  |
| <b>Net increase in cash and cash equivalents</b>  |       | <b>85,137,329</b>      | <b>50,790,156</b>    |
| Cash and cash equivalents at the beginning of the year  |       | (142,827,232)          | (193,617,388)        |
| <b>Cash and cash equivalents at the end of the year</b>   | 5     | <b>(57,689,903)</b>    | <b>(142,827,232)</b> |

## **Al Buhaira National Insurance Company P.S.C.**

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

#### **1. General information**

Al Buhaira National Insurance Company P.S.C. – Sharjah, (the “Company”) is incorporated as a public shareholding company by an Emiri Decree issued by His Highness, The Ruler of Sharjah on May 16, 1978. The Company is subject to the regulations of UAE Federal Law No. 6 of 2007, concerning the formation of Insurance Authority of U.A.E. The Company is registered in the Insurance Companies register of Insurance Authority of UAE under registration number 15. The address of the Company’s registered corporate office is P.O. Box 6000, Sharjah, United Arab Emirates.

The Group consists of Al Buhaira National Insurance Company P.S.C. and its subsidiary (the “Group”) as disclosed in note 3.1 to the consolidated financial statements.

The principal activity of the Company is the writing of insurance of all types - other than savings and accumulation of funds. The Group operates through its Head Office in Sharjah and has branches in Dubai, Abu Dhabi, Al Ain, Khorfakkan, Fujairah and Ajman.

#### **2. Basis of preparation and application of new and revised International Financial Reporting Standards (IFRSs)**

##### **2.1 Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS and applicable requirements of United Arab Emirates (U.A.E.) Federal Law No. 8 of 1984 (as amended), and Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

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

*(a) New standards, amendments to existing standards and IFRIC interpretations effective for the Group’s accounting period beginning on 1 January 2014*

The following applicable new standards, amendments to existing standards and IFRIC interpretation have been published and are effective for the Group’s accounting period beginning on 1 January 2014:

## **Al Buhaira National Insurance Company P.S.C.**

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

#### **2. Basis of preparation and application of new and revised International Financial Reporting Standards (IFRSs)**

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

*(a) New standards, amendments to existing standards and IFRIC interpretations effective for the Group's accounting period beginning on 1 January 2014 (continued)*

- Amendments to IAS 32 'Financial Instruments' (Effective 1 January 2014) which require presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:
  - the meaning of 'currently has a legally enforceable right of set-off';
  - the application of simultaneous realisation and settlement;
  - the offsetting of collateral amounts; and
  - the unit of account for applying the offsetting requirement
- Amendments to IAS 36 'Impairment of Assets' (Effective 1 January 2014) which aims to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' (Effective 1 January 2014) makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.
- IFRIC 21, 'Levies' (Effective 1 January 2014), sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised.

There is no material impact of the above amendments to published standards and IFRIC interpretations on the financial statements of the Group.

*(b) New standards and amendments to existing standards not effective for the Group's accounting period beginning on 1 January 2014 and have not been early adopted by the Group*

The following applicable new standards and amendments to published standards have been issued but are not effective for financial periods beginning on 1 January 2014, and have not been early adopted by the Group in preparing these financial statements:

## **Al Buhaira National Insurance Company P.S.C.**

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

#### **2. Basis of preparation and application of new and revised International Financial Reporting Standards (IFRSs)**

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

*(b) New standards and amendments to existing standards not effective for the Group's accounting period beginning on 1 January 2014 and have not been early adopted by the Group (continued)*

- Amendment to IAS 19 'Employee Benefits' (Effective 1 July 2014) clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service.
- Amendment to IFRS 13 'Fair Value Measurement (Effective 1 July 2014) (a) clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only) (b) clarify the scope of the portfolio exception in paragraph 52.
- Amendment to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' (Effective 1 July 2014) clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
- Amendment to IAS 24 'Related Party Disclosures' (Effective 1 July 2014) clarify how payments to entities providing management services are to be disclosed.
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortization (Effective 1 January 2016). The amendments provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. In this amendment, the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

## **Al Buhaira National Insurance Company P.S.C.**

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

#### **2. Basis of preparation and application of new and revised International Financial Reporting Standards (IFRSs)**

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

*(b) New standards and amendments to existing standards not effective for the Group's accounting period beginning on 1 January 2014 and have not been early adopted by the Group (continued)*

- IFRS 9, 'Financial instruments' (Effective 1 January 2018), addresses the classification, measurement and recognition of financial assets and financial liabilities. (The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments). IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness test. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

- IFRS 15, 'Revenue from contracts with customers' (Effective 1 January 2017) specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides single, principles based five-step model to be applied to all contracts with customers.

Management is assessing the impact of the above new standards and amendments to published standards on the Group's financial statements and does not intend to adopt the above standard and amendments to published standards prior to their respective effective dates.

## **Al Buhaira National Insurance Company P.S.C.**

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

#### **3. Summary of significant accounting policies**

##### **3.1 Basis of consolidation**

The consolidated financial statements of Al Buhaira National Insurance Company P.S.C. and its subsidiary (the "Group") incorporate the financial statements of the Company and the entity controlled by the Company (its subsidiary).

###### *(a) Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Group. They are shown separately in the consolidated statements of financial position, comprehensive income and changes in equity. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary.

The acquisition method of accounting is used to account for business combinations entered into by the Group. The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill.

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings.

## Al Buhaira National Insurance Company P.S.C.

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

#### 3. Summary of significant accounting policies (continued)

##### 3.1 Basis of consolidation (continued)

###### (a) Subsidiaries (continued)

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Details of the Company's subsidiary at 31 December 2014 are as below:

| Name of subsidiary                            | Place of incorporation and operation | Proportion of ownership interest and voting power held | Principal activity              |
|---|--------------------------------------|--|---------------------------------|
| Al Buhaira Economic Investments Establishment | Sharjah, U.A.E.                      | 100%   | Investing in economic projects. |

##### 3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

##### 3.3 Foreign currency

###### (a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Arab Emirates Dirhams' ("AED"), which is the group's functional and presentation currency.

###### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated income statement within 'net investment income'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

## **Al Buhaira National Insurance Company P.S.C.**

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

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

##### **3.3 Foreign currency** (continued)

###### *(b) Transactions and balances* (continued)

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

##### **3.4 Insurance contracts**

###### **3.4.1 Definition**

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

###### **3.4.2 Recognition and measurement**

The Group issue short term insurance contracts. These contracts are motor, group medical, casualty, and property insurance contracts.

Auto insurance contracts allow the Group's customers to mitigate the risk of costs related to getting into a car accident. Auto insurance provides the Group's customers financial protection against physical damage and/or bodily injury resulting from traffic collisions.

Group medical contracts allow the Group's customers to obtain healthcare coverage and protect them against medical expenditures and related costs in accordance with an agreed medical plan. The healthcare coverage pays for medical and surgical expenses that are incurred by the insured customers.

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

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

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

## **Al Buhaira National Insurance Company P.S.C.**

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

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

##### **3.4 Insurance contracts** (continued)

###### **3.4.2 Recognition and measurement** (continued)

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

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

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

###### **3.4.3 Reinsurance contracts**

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Group reduces the carrying amount of the reinsurance contract asset to its recoverable amount and recognises the impairment loss in the consolidated income statement. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

## **Al Buhaira National Insurance Company P.S.C.**

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

#### **2. Summary of significant accounting policies** (continued)

#### **3.4 Insurance contracts** (continued)

##### **3.4.4 Insurance contract liabilities and reinsurance contract assets**

Insurance contract liabilities include the outstanding claims provision, provision for claims incurred but not reported and the provision for unearned premium.

##### *(a) Unearned premiums reserve*

Unearned premiums are those proportions of premiums written in a year that relate to period of risk after the reporting date. Unearned premium is calculated on a daily prorate basis or "1/8" method. The proportion attributable to a subsequent year is deferred as a provision for unearned premium.

##### *(b) Claims reported unsettled*

The claims reported unsettled are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the obligation is discharged or cancelled.

##### *(c) Claims incurred but not reported*

A provision is made for the estimated excess of potential claims over unearned premium and for claims incurred but not reported at the financial position date.

The reserves represent management's best estimates on the basis of:

- i) claims reported during the year
- ii) delay in reporting these claims

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

##### **3.4.5 Policy acquisition costs**

Commissions and other acquisition costs are accounted on an incurred basis.

##### **3.4.6 Salvage and subrogation reimbursements**

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

## **Al Buhaira National Insurance Company P.S.C.**

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

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

##### **3.4 Insurance contracts** (continued)

###### **3.4.7 Liability adequacy test**

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

##### **3.5 Finance income**

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, finance income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Finance income is included in 'net investment income' in the consolidated income statement.

##### **3.6 Dividend income**

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

##### **3.7 Rental income**

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the lease, as all of the Group leases are for a period that does not exceed 12 months.

##### **3.8 Commission income**

Commission income is recognised when the reinsurance premium is ceded based on the terms and percentages agreed with the reinsurers.

##### **3.9 General and administrative expenses**

Direct expenses are charged to the respective departmental revenue accounts. Indirect expenses are allocated to departmental revenue accounts on the basis of gross written premiums of each department. Other administration expenses are charged to profit or loss as non-operating general and administrative expenses.

## **Al Buhaira National Insurance Company P.S.C.**

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

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

##### **3.10 Financial instruments**

###### **3.10.1 Recognition and measurement**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

###### **3.11 Financial assets**

The Group classifies its financial assets in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

###### *a) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise 'cash and bank balances', 'insurance and other receivables' and 'reinsurance receivables-claims reported unsettled' in the consolidated statement of financial position (Notes 5, 6 and 7 respectively).

###### *b) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available for sale financial assets held by the Group comprise equity investments that are quoted and traded in active markets and unquoted shares that are not traded in active markets but management considers that fair value can be reliably measured.

###### **3.11.1 Recognition and measurement**

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets are derecognised when the right to receive cash flows from the investment have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

## **Al Buhaira National Insurance Company P.S.C.**

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

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

##### **3.11 Financial assets (continued)**

###### **3.11.1 Recognition and measurement (continued)**

Loans and receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. After initial measurement, loan and other receivables are measured at amortised cost using the effective interest method, less any impairment.

The carrying value of the 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 consolidated income statement.

Available-for-sale financial assets are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the fair value reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in net investment income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the fair value reserve to the consolidated income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of net investment income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of net investment income when the Group's right to receive payments is established.

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

###### *a) Assets carried at amortised cost*

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

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

## **Al Buhaira National Insurance Company P.S.C.**

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

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

##### **3.11 Financial assets** (continued)

##### **3.11.2 Impairment of financial assets** (continued)

###### *a) Assets carried at amortised cost* (continued)

For loans and receivables category, 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

###### *b) Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

##### **3.12 Financial liabilities**

##### **3.12.1 Recognition and measurement**

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective profit method. Liabilities are recognised for amounts to be paid for services received, whether or not billed to the Group.

##### **3.12.2 Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

## **Al Buhaira National Insurance Company P.S.C.**

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

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

##### **3.12 Financial liabilities** (continued)

###### **3.12.2 Derecognition of financial liabilities** (continued)

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated income statement.

##### **3.13 Fair values of financial instruments**

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties on an arm's length transaction at the measurement date. Difference can therefore arise between the book values under the historical cost method and fair value estimates.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

Fair values of marketable securities are determined by reference to their bid prices at the close of business at the reporting date. In respect of unquoted available for sale financial assets, the fair value is determined based on various valuation techniques, as deemed appropriate. The fair values of the Group's other financial assets and liabilities are not materially different from their carrying value.

##### **3.14 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

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

In the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with banks with original maturities of three months or less and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings.

## **Al Buhaira National Insurance Company P.S.C.**

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

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

##### **3.16 Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation including property under construction for such purposes. Investment property is initially recognised at cost, including transaction expense. Subsequent to initial recognition, investment property is carried at fair value.

Fair value of the investment property is determined on the basis of valuation undertaken by independent valuator who holds a recognised and relevant qualification and has recent experience in the location and category of investment property being valued.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment properties are derecognised either when they have been disposed of (i.e the risks and rewards and title of ownership of the property are transferred outside the Group) or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Gains or losses arising from changes in the fair value of investment property are included in the consolidated income statement.

If an investment property becomes owner-occupied, it is reclassified as property and equipment. Its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

##### **3.17 Property and equipment**

Property and equipment, including owner-occupied properties, are carried at historical cost less accumulated depreciation and accumulated impairment losses. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are charged to the consolidated income statement during the financial period they are incurred.

The asset's residual values, useful lives and method of depreciation applied are reviewed and adjusted, if appropriate, at each financial year end and adjusted prospectively, if appropriate. Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated income statement as an expense.

## **Al Buhaira National Insurance Company P.S.C.**

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

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

##### **3.17 Property and equipment (continued)**

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated income statement in the year the asset is derecognised.

Land is stated at its cost and is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

|                             | Years |
|-----------------------------|-------|
| Furniture and equipment     | 5     |
| Computer equipment          | 5     |
| Office fixture and fittings | 10    |
| Manager's residential villa | 15    |

##### **3.18 Provisions**

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

##### **3.19 Employee benefits**

###### **3.19.1 Defined contribution plan**

UAE national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Group is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the "contribution calculation salary" respectively, to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the consolidated income statement.

## **Al Buhaira National Insurance Company P.S.C.**

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

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

##### **3.19 Employee benefits** (continued)

###### **3.19.2 Annual leaves and leaves passage**

A provision is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by the employees up to the statement of financial position date.

###### **3.19.3 Provision for employees' end of service benefits**

A provision is made using actuarial techniques, for the end of service benefits due to employees in accordance with the UAE Labor Law, for their period of service up to the statement of financial position date. This amount is charged to the statement of comprehensive income.

##### **3.20 Borrowing costs**

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

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

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

##### **3.21 Dividend distribution**

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

# **Al Buhaira National Insurance Company P.S.C.**

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

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

#### **3.22 Earnings per share**

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of Group by the weighted number of ordinary shares outstanding during the year. Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of all dilutive potential shares.

### **4 Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgements and estimates made by management, that have a significant risk of causing a material adjustment to the most significant effect on the amounts recognised in the consolidated financial statements as described below:

#### **4.1.1 Impairment of AFS financial assets**

The Group determines that available-for sale equity investments are impaired when there has been a significant or prolonged decline in their fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement and to record whether impairment occurred, the Group evaluates among other factors, the normal volatility in share price and market, the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

If all of the declines in fair value below cost were considered significant or prolonged, the group would suffer an additional loss of AED 11,012,049 in its 2014 unmodified financial statements, being the transfer of the accumulated fair value adjustments recognised in equity on the impaired available-for-sale financial assets to the income statement.

#### **4.1.2 Classification of properties**

In the process of classifying properties, management has made various judgments. Judgments are needed to determine whether a property qualifies as an investment property, property and equipment, and/or property held for sale. Management develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment, and property held for sale. In making its judgment, management has considered the detailed criteria and related guidance set out in, IAS 16 – Property, Plant and Equipment, and IAS 40 – Investment Property and IFRS 5- Asset held for sale, with regards to the intended use of the property.

# **Al Buhaira National Insurance Company P.S.C.**

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

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

#### **4.1.3 The ultimate liability arising from claims made under insurance contracts**

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

#### **4.1.4 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 Group evaluating, the credit and liquidity position of the policy holders and the insurance companies, historical recovery rates including detailed assessment carried out during 2014 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised as an expense in the consolidated income statement.

Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the consolidated income statement at the time of collection.

#### **4.1.5 Fair value of investment properties and investment properties under construction**

The fair valuation of investment properties is based on estimated value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). The fair value of lands was determined based on the market comparable approach that reflects recent transactions prices for similar properties. The fair value for buildings was determined based on the income approach using investment method. In 2013, the fair value of buildings was determined based on the comparable market prices approach.

The Group adopted a new technique in evaluating its buildings as management determines the income approach provides a better estimate of fair value. The use of the same approach of 2013 will be expected to result in any material changes on fair values. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The capitalization rate used under the income approach valuation at year end ranged between 8% -9%.

Had the capitalization rates been 0.5% lower at year end and all other variables were held constant, the Group's profit for the year ended 31 December 2014 and equity as at 31 December 2014 would increase by approximately AED 19 million and vice versa.

In undertaking the valuation the valuation experts have made a number of assumptions and relied upon various sources of information. Management reviews the assumptions based on their reasonable knowledge and other information available about the property.

## Al Buhaira National Insurance Company P.S.C.

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

#### 5. Cash and bank balances

|  | 2014<br>AED         | 2013<br>AED          |
|--|---------------------|----------------------|
| Cash on hand   | 169,840             | 209,170              |
| Bank balances:   |                     |                      |
| Current accounts   | 20,593,296          | 5,194,706            |
| Call accounts  | 2,741,943           | 1,044,689            |
| Margin deposits  | 573,000             | 573,000              |
| Fixed deposits   | <u>141,076,670</u>  | <u>136,710,785</u>   |
| Cash and bank balances   | <u>165,154,749</u>  | <u>143,732,350</u>   |
| Cash and cash equivalents:   |                     |                      |
| Less: Deposits under lien (note 12)                                    | (111,076,700)       | (125,707,179)        |
| Less: Deposits with original maturity of more than three months        | (29,999,970)        | -                    |
| Less: Margin deposits  | (573,000)           | (573,000)            |
| Less: Bank overdrafts  | <u>(81,194,982)</u> | <u>(160,279,403)</u> |
| Cash and cash equivalents for the consolidated statement of cash flows | <u>(57,689,903)</u> | <u>(142,827,232)</u> |

Fixed deposits amounting to AED 111 million (31 December 2013: AED 126 million) are under lien in respect of bank credit facilities granted to the Group (Note 12).

The interest rates on fixed deposits and call accounts with banks range between 1 % and 3 % (2013: 1% and 3%) per annum. All bank balances are held in local banks in the United Arab Emirates.

#### 5.1 Statutory deposit

At 31 December 2014, the statutory deposit of AED 6 million (2013: AED 6 million) has been placed as a fixed deposit in accordance with Article 42 of the Federal Law No. 6 of 2007, for the purpose of carrying on insurance operations in the United Arab Emirates, and cannot be withdrawn without the approval of the Ministry of Economy.

#### 6. Insurance and other receivables

|   | 2014<br>AED         | 2013<br>AED         |
|---|---------------------|---------------------|
| Receivables arising from insurance and reinsurance contracts: |                     |                     |
| Due from policy holders                                       | 270,414,674         | 410,263,521         |
| Due from reinsurance companies                                | 49,271,293          | 64,562,006          |
| Due from insurance companies                                  | 69,575,906          | 55,023,158          |
| Less: Allowance for doubtful debts                            | <u>(25,000,000)</u> | <u>(20,000,000)</u> |
|   | <u>364,261,873</u>  | <u>509,848,685</u>  |
| Other receivables   |                     |                     |
| Staff receivables   | 2,693,414           | 2,978,420           |
| Rent receivable   | 4,323,291           | 5,254,099           |
| Prepayments and others  | <u>4,775,559</u>    | <u>4,753,894</u>    |
|   | <u>376,054,137</u>  | <u>522,835,098</u>  |

## Al Buhaira National Insurance Company P.S.C.

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

#### 6. Insurance and other receivables (continued)

The average credit period is 120 days. Due from aged policyholders are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

|                               | 2014<br>AED        | 2013<br>AED        |
|-------------------------------|--------------------|--------------------|
| Neither past due nor impaired | 74,464,914         | 207,975,179        |
| Past due but not impaired     | 170,949,760        | 182,288,342        |
| Past due and impaired         | <u>25,000,000</u>  | <u>20,000,000</u>  |
|                               | <u>270,414,674</u> | <u>410,263,521</u> |

The other classes with insurance and other receivables do not contain impaired assets. The Group does not hold any collateral as security. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

Due from policyholders - aging of past due but not impaired:

|                | 2014<br>AED        | 2013<br>AED        |
|----------------|--------------------|--------------------|
| 120 - 270 days | 98,765,812         | 103,081,931        |
| 270 -365 days  | 41,176,888         | 43,611,578         |
| Above 365 days | <u>31,007,060</u>  | <u>35,594,833</u>  |
|                | <u>170,949,760</u> | <u>182,288,342</u> |

Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customer. Of the due from policyholders balance at the end of the year AED 40 million (2013: AED 24 million) is due from the Group's largest customer. There are 5 (2013: 3) other customers who represent more than 25.8% (2013: 5%) of the total balance of due from policy holders.

*Movement in the allowance for doubtful debts:*

|                                  | 2014<br>AED       | 2013<br>AED       |
|----------------------------------|-------------------|-------------------|
| Balance at beginning of the year | 20,000,000        | 15,000,000        |
| Allowance made during the year   | <u>5,000,000</u>  | <u>5,000,000</u>  |
| Balance at end of the year       | <u>25,000,000</u> | <u>20,000,000</u> |

In determining the recoverability of an insurance receivable, the Group considers any change in the credit quality of the insurance receivable from the date credit was initially granted up to the reporting date. Management believes no further allowance is required, as there was no significant change in credit quality of these insurance receivables and the amounts are considered recoverable.

## Al Buhaira National Insurance Company P.S.C.

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

#### 7. Insurance contract liabilities and reinsurance contract assets

|                                  | 2014<br>AED        | 2013<br>AED        |
|----------------------------------|--------------------|--------------------|
| Insurance contract liabilities   |                    |                    |
| Claims reported unsettled        | 123,493,098        | 197,436,270        |
| Claims incurred but not reported | 15,000,000         | 9,000,000          |
| Unearned premium                 | <u>222,535,380</u> | <u>199,627,443</u> |
|                                  | <u>361,028,478</u> | <u>406,063,713</u> |
| Recoverable from reinsurers      |                    |                    |
| Claims reported unsettled        | 85,193,339         | 141,897,485        |
| Unearned premium                 | <u>124,112,849</u> | <u>114,468,160</u> |
|                                  | <u>209,306,188</u> | <u>256,365,645</u> |
| Net                              |                    |                    |
| Claims reported unsettled        | 38,299,759         | 55,538,785         |
| Claims incurred but not reported | 15,000,000         | 9,000,000          |
| Unearned premium                 | <u>98,422,531</u>  | <u>85,159,283</u>  |
|                                  | <u>151,722,290</u> | <u>149,698,068</u> |

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

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

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

|                                      | Year ended 31 December 2014 |                      |                   | Year ended 31 December 2013 |                      |                   |
|--------------------------------------|-----------------------------|----------------------|-------------------|-----------------------------|----------------------|-------------------|
|                                      | Gross AED                   | Reinsurance AED      | Net AED           | Gross AED                   | Reinsurance AED      | Net AED           |
| Claims                               |                             |                      |                   |                             |                      |                   |
| Notified claims                      |                             |                      |                   |                             |                      |                   |
| Incurred but not reported            | 197,436,270                 | (141,897,485)        | 55,538,785        | 120,900,105                 | (82,748,821)         | 38,151,284        |
| Total at the beginning of the year   | 9,000,000                   | -                    | 9,000,000         | 9,000,000                   | -                    | 9,000,000         |
| Claims settled during the year       | 206,436,270                 | (141,897,485)        | 64,538,785        | 129,900,105                 | (82,748,821)         | 47,151,284        |
| Increase in liabilities              | (496,244,718)               | 240,414,500          | (255,830,218)     | (419,060,610)               | 193,324,377          | (225,736,233)     |
|                                      | 428,301,546                 | (183,710,354)        | 244,591,192       | 495,596,775                 | (252,473,041)        | 243,123,734       |
| Total at the end of the year         | <u>138,493,098</u>          | <u>(85,193,339)</u>  | <u>53,299,759</u> | <u>206,436,270</u>          | <u>(141,897,485)</u> | <u>64,538,785</u> |
| Notified claims                      |                             |                      |                   |                             |                      |                   |
| Incurred but not reported            | 123,493,098                 | (85,193,339)         | 38,299,759        | 197,436,270                 | (141,897,485)        | 55,538,785        |
| Total at the end of the year         | <u>15,000,000</u>           | <u>-</u>             | <u>15,000,000</u> | <u>9,000,000</u>            | <u>-</u>             | <u>9,000,000</u>  |
| Unearned premium                     |                             |                      |                   |                             |                      |                   |
| Total at the beginning of the year   | 138,493,098                 | (85,193,339)         | 53,299,759        | 206,436,270                 | (141,897,485)        | 64,538,785        |
| Increase during the year             | 199,627,443                 | (114,468,160)        | 85,159,283        | 206,434,182                 | (109,496,158)        | 96,938,024        |
| Release during the year              | 222,535,380                 | (124,112,849)        | 98,422,531        | 199,627,443                 | (114,468,160)        | 85,159,283        |
| Net change during the year (Note 16) | (199,627,443)               | 114,468,160          | (85,159,283)      | (206,434,182)               | 109,496,158          | (96,938,024)      |
|                                      | 22,907,937                  | (9,644,689)          | 13,263,248        | (6,806,739)                 | (4,972,002)          | (11,778,741)      |
| Total at the end of the year         | <u>222,535,380</u>          | <u>(124,112,849)</u> | <u>98,422,531</u> | <u>199,627,443</u>          | <u>(114,468,160)</u> | <u>85,159,283</u> |

## Al Buhaira National Insurance Company P.S.C.

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

#### 8. Available-for-sale financial assets

Available for sale investments comprise the following:

|                | 2014<br>AED       | 2013<br>AED       |
|----------------|-------------------|-------------------|
| Within U.A.E.  | 48,205,576        | 44,753,027        |
| Outside U.A.E. | 8,924,140         | 8,589,368         |
|                | <u>57,129,716</u> | <u>53,342,395</u> |

Movement during the year is as follows:

|   |                   |                   |
|---|-------------------|-------------------|
| Fair value at the beginning of the year | 53,342,395        | 73,262,228        |
| Purchases during the year               | 313,987,380       | 431,866,074       |
| Disposals during the year               | (310,053,997)     | (449,694,666)     |
| Decrease in fair value                  | (146,062)         | (2,091,241)       |
| Fair value at the end of the year       | <u>57,129,716</u> | <u>53,342,395</u> |

|            | Within U.A.E      |                   | Outside U.A.E    |                  | Total             |                   |
|------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
|            | 2014<br>AED       | 2013<br>AED       | 2014<br>AED      | 2013<br>AED      | 2014<br>AED       | 2013<br>AED       |
| - Quoted   | 34,768,076        | 31,315,527        | 4,781,524        | 4,446,752        | 39,549,600        | 35,762,279        |
| - Unquoted | 13,437,500        | 13,437,500        | 4,142,616        | 4,142,616        | 17,580,116        | 17,580,116        |
|            | <u>48,205,576</u> | <u>44,753,027</u> | <u>8,924,140</u> | <u>8,589,368</u> | <u>57,129,716</u> | <u>53,342,395</u> |

Available-for-sale financial assets with a fair value of AED 11.7 million (at 31 December 2013: AED 12 million), are under lien in respect of bank credit facilities granted to the Group (Note 12).

#### 9. Investment property

Investment property comprises the following at fair value:

|               | 2014<br>AED        | 2013<br>AED        |
|---------------|--------------------|--------------------|
| Plots of land | 126,288,000        | 126,288,000        |
| Buildings     | 822,652,601        | 820,477,054        |
|               | <u>948,940,601</u> | <u>946,765,054</u> |

Movement during the year is as follows:

|  |                    |                    |
|--|--------------------|--------------------|
| Fair value at the beginning of the year        | 946,765,054        | 957,661,633        |
| Additions during the year                      | 7,175,547          | 2,103,421          |
| Change in fair value during the year (Note 18) | (5,000,000)        | (13,000,000)       |
| Fair value at the end of the year              | <u>948,940,601</u> | <u>946,765,054</u> |

## Al Buhaira National Insurance Company P.S.C.

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

#### 9. Investment property (continued)

The fair value of the Group's investment properties as at 31 December 2014 and 2013 has been arrived at on the basis of valuations carried on the respective dates by independent valuers who are not related to the Group, and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

The fair value of land was determined based on the market comparable approach that reflects recent transactions prices for similar properties. The fair value for buildings was determined based on the income approach using investment method. In 2013, the fair value of buildings was determined based on the comparable market prices approach. The Group adopted a new technique in evaluating its buildings as management determines the income approach provides a better estimate of fair value. The use of the same approach of 2013 is not expected to result in any material changes on fair values. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The capitalization rate used under the income approach valuation at year end ranged between 8% -9%.

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

#### 31 December 2014

|               | Level 1<br>AED | Level 2<br>AED | Level 3<br>AED | Fair value as at<br>AED |
|---------------|----------------|----------------|----------------|-------------------------|
| Plots of land | -              | 126,288,000    | -              | 126,288,000             |
| Buildings     | -              | 822,652,601    | -              | 822,652,601             |
|               | -              | 948,940,601    | -              | 948,940,601             |

#### 31 December 2013

|               |   |             |   |             |
|---------------|---|-------------|---|-------------|
| Plots of land | - | 126,288,000 | - | 126,288,000 |
| Buildings     | - | 820,477,054 | - | 820,477,054 |
|               | - | 946,765,054 | - | 946,765,054 |

There were no transfers between the levels during the year.

Investment property with cost of AED 818 million (2013 investment property with cost: AED 816 million) is mortgaged to a bank towards credit facilities granted to the Group (Note 12).

Had the capitalization rates been 0.5% lower at year end and all other variables were held constant, the Group's profit for the year ended 31 December 2014 and equity as at 31 December 2014 would increase by approximately AED 19 million and vice versa.

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

|                           | 2014<br>AED  | 2013<br>AED  |
|---------------------------|--------------|--------------|
| Rental income             | 61,412,218   | 51,489,201   |
| Direct operating expenses | (14,314,912) | (14,198,016) |
|                           | 47,097,306   | 37,291,185   |

## Al Buhaira National Insurance Company P.S.C.

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

#### 10. Property and equipment

| Cost                            | Land<br>AED    | Furniture<br>and<br>equipment<br>AED | Computer<br>equipment<br>AED | Office<br>fixture<br>and fittings<br>AED | Manager's<br>residential<br>villa<br>AED | Capital<br>work in<br>progress<br>AED | Total<br>AED      |
|---------------------------------|----------------|--------------------------------------|------------------------------|--|--|---------------------------------------|-------------------|
| At 1 January 2013               | 649,000        | 4,512,189                            | 9,902,473                    | 5,354,440                                | 1,057,827                                | 633,857                               | 22,109,786        |
| Additions                       | -              | 222,793                              | 369,318                      | -  | -  | -                                     | 592,111           |
| Disposals                       | -              | (420,709)                            | -                            | -  | -  | -                                     | (420,709)         |
| Write off                       | -              | -                                    | -                            | -  | -  | (633,857)                             | (633,857)         |
| 31 December 2013                | <b>649,000</b> | <b>4,314,273</b>                     | <b>10,271,791</b>            | <b>5,354,440</b>                         | <b>1,057,827</b>                         | -                                     | <b>21,647,331</b> |
| Additions                       | -              | 1,359,619                            | 194,617                      | -  | -  | -                                     | 1,554,236         |
| Disposals                       | -              | (9,000)                              | -                            | (2,200)                                  | -  | -                                     | (11,200)          |
| 31 December 2014                | <b>649,000</b> | <b>5,664,892</b>                     | <b>10,466,408</b>            | <b>5,352,240</b>                         | <b>1,057,827</b>                         | -                                     | <b>23,190,367</b> |
| <b>Accumulated depreciation</b> |                |                                      |                              |  |  |                                       |                   |
| At 1 January 2013               | -              | 4,033,672                            | 5,026,977                    | 3,612,532                                | 1,057,827                                | -                                     | 13,731,008        |
| Charge for the year             | -              | 257,146                              | 1,183,665                    | 451,169                                  | -  | -                                     | 1,891,980         |
| Disposals                       | -              | (420,709)                            | -                            | -  | -  | -                                     | (420,709)         |
| 31 December 2013                | -              | <b>3,870,109</b>                     | <b>6,210,642</b>             | <b>4,063,701</b>                         | <b>1,057,827</b>                         | -                                     | <b>15,202,279</b> |
| Charge for the year             | -              | 349,424                              | 1,164,511                    | 285,991                                  | -  | -                                     | 1,799,926         |
| Disposals                       | -              | (9,000)                              | -                            | (2,200)                                  | -  | -                                     | (11,200)          |
| 31 December 2014                | -              | <b>4,210,533</b>                     | <b>7,375,153</b>             | <b>4,347,492</b>                         | <b>1,057,827</b>                         | -                                     | <b>16,991,005</b> |
| Carrying amount                 |                |                                      |                              |  |  |                                       |                   |
| 31 December 2014                | <b>649,000</b> | <b>1,454,359</b>                     | <b>3,091,255</b>             | <b>1,004,748</b>                         | -  | -                                     | <b>6,199,362</b>  |
| 31 December 2013                | 649,000        | 444,164                              | 4,061,149                    | 1,290,739                                | -  | -                                     | 6,445,052         |

At 31 December 2014, the cost of fully depreciated property and equipment that was still in use amounted to AED 11.1 million (31 December 2013: AED 10.2 million).

## Al Buhaira National Insurance Company P.S.C.

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

#### 11. Insurance and other payables

|   | 2014<br>AED        | 2013<br>AED        |
|---|--------------------|--------------------|
| Payables arising from insurance and reinsurance contracts |                    |                    |
| Claims payables   | 85,624,864         | 212,526,603        |
| Due to insurance companies                                | 12,315,151         | 25,548,193         |
| Due to reinsurance companies                              | 62,016,929         | 70,198,571         |
| Portfolio withdrawal                                      | 8,541,956          | 15,638,004         |
| Premium received in advance                               | 12,580,300         | 8,232,532          |
| Other payables  |                    |                    |
| Rental income received in advance                         | 6,129,046          | 5,245,010          |
| Accrued expenses and other payable                        | 19,729,876         | 16,444,147         |
| Due to employees  | 9,537,922          | 9,705,432          |
| Retention payable   | 5,396,270          | 8,184,352          |
|   | <u>221,872,314</u> | <u>371,722,844</u> |

Due to employees include AED 9.04 million (2013: AED 9.14 million) being the employees' contribution to the Provident Fund and interest thereon. The Group's contribution amounting to AED 9.07 million (2013: AED 9.14 million) is included under provision for employees' end of service indemnity and provident fund in these consolidated financial statements.

#### 12. Bank borrowings

|  | 2014<br>AED          | 2013<br>AED          |
|--|----------------------|----------------------|
| Bank overdraft                                   | 81,194,982           | 160,279,403          |
| Term loans                                       | 423,985,714          | 356,691,286          |
|  | <u>505,180,696</u>   | <u>516,970,689</u>   |
| The bank borrowings are repayable as follows:    |                      |                      |
| On demand or within one year                     | 145,254,562          | 214,880,825          |
| In the second year                               | 59,059,582           | 54,601,422           |
| In the third and subsequent years                | 300,866,552          | 247,488,442          |
|  | <u>505,180,696</u>   | <u>516,970,689</u>   |
| Less: Amount due for settlement within 12 months | <u>(145,254,562)</u> | <u>(214,880,825)</u> |
| Amount due for settlement after 12 months        | <u>359,926,134</u>   | <u>302,089,864</u>   |

Bank overdrafts are repayable on demand and carry interest at rates ranging from 1% to 4% plus 3 months EIBOR, with a cap up to 4.5% (2013: 1% to 4% +3 months EIBOR with a cap up to 6.5%) per annum.

## Al Buhaira National Insurance Company P.S.C.

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

#### 12. Bank borrowings (continued)

Main features of bank borrowings:

- Bank loans were obtained to finance the construction of investment property.
- Bank overdraft is payable on demand.

The term loans description, maturity dates, and classification are set in the table below:

|        | Note  | Maturity   | 2014<br>AED        | 2013<br>AED        |
|--------|-------|------------|--------------------|--------------------|
| Loan 1 | (i)   | 31/5/2016  | 14,166,667         | 24,166,667         |
| Loan 2 | (ii)  | 31/12/2020 | 70,974,127         | 70,000,000         |
| Loan 3 | (iii) | 1/05/2018  | 26,830,796         | 33,230,796         |
| Loan 4 | (iv)  | 30/06/2023 | 272,654,503        | 184,309,402        |
| Loan 5 | (v)   | 1/10/2021  | 39,359,621         | 44,984,421         |
|        |       |            | <u>423,985,714</u> | <u>356,691,286</u> |

- (i) Bank Loan for the amount of 30,000,000 AED from United Arab Bank was obtained in 2013 to be repaid on monthly instalments of AED 833,333 till May 2016 with interest rate of 3% plus 3 months EIBOR with a minimum 4% (2013: 3% plus 3 months EIBOR with a minimum of 6.5%).
- (ii) Bank Loan for the amount of AED 70,000,000 from United Arab Bank was obtained in December 2013 of a total facility limit of AED 80,000,000. The Group utilized the additional AED 10,000,000 during January 2014. The loan to be repaid on monthly instalments of AED 833,333 till December 2020 with interest rate of 3% plus 3 months EIBOR with a minimum of 4% (2013: 3% plus 3 months EIBOR with a minimum up to 6.5%).
- (iii) Bank Loan for the amount of AED 46,000,000 from Abu Dhabi Commercial Bank during 2011 which is repaid on quarterly instalment of AED 1,600,000 till May 2018 with interest rate of 2.35% in addition to EIBOR rate paid every three months (2013: 3% plus 3 months EIBOR).
- (iv) Bank Loan for the amount of AED 276,000,000 from Abu Dhabi Commercial Bank during November 2014 to refinance original facility and expend additional borrowing which is repaid on quarterly instalment of AED 8,625,600 till June 2023 with interest rate of 2.35% in addition to EIBOR rate paid every three months.
- (v) Bank Loan for the amount of AED 45,000,000 from Sharjah Islamic Bank during October 2013 which is repaid on semi-annual instalment of AED 2,812,500 till October 2021 with profit rate of 3% plus 6 months EIBOR with a minimum of 4% (2013: 3% plus 6 months EIBOR with a minimum of 4%)

## Al Buhaira National Insurance Company P.S.C.

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

#### 12. Bank borrowings (continued)

At 31 December 2014, bank borrowings were secured by pledge of Available-for-sale financial assets with a fair value of AED 11.7 million (at 31 December 2013: AED 12 million), lien on fixed deposits amounting to AED 111 million (at 31 December 2013: AED 126 million), and mortgage of investment properties with fair value of AED 818 million (at 31 December 2013: AED 816 million).

#### 13. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

|   | 2014<br>AED        | 2013<br>AED        |
|---|--------------------|--------------------|
| Balance at the beginning of the year  | 32,372,934         | 31,210,087         |
| (Reversal) /charged during the year for additional end of service benefits granted to general manager | (3,953,208)        | (310,368)          |
| Charged during the year   | 2,840,875          | 2,501,043          |
| Amounts paid during the year  | <u>(1,977,137)</u> | <u>(1,027,828)</u> |
| Balance at the end of the year  | <u>29,283,464</u>  | <u>32,372,934</u>  |

The employees' end of service indemnity contains additional end of service benefits granted to key management personnel who directly affect the business of the Group which is in accordance with the terms of employment contracts and agreements in place. The additional end of service is calculated based on monthly average of 5% of annual underwriting profit multiplied by years of service up to a cap of 24 months as stated by the U.A.E labour law.

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 December 2014 and 2013, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. Under this method, an assessment has been made of an employee's expected service life with the company and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 3.5% (2013: 3.5%). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 4.27% (2013: 4.48 %).

#### 14. Share capital

|   | 2014<br>AED        | 2013<br>AED        |
|---|--------------------|--------------------|
| Authorised, Issued and fully paid:<br>250,000,000 ordinary shares of AED 1 each<br>(31 December 2013: AED 250,000,000<br>ordinary shares of AED 1 each) | <u>250,000,000</u> | <u>250,000,000</u> |

## Al Buhaira National Insurance Company P.S.C.

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

#### 15. Reserves

##### 15.1 Statutory reserve

In accordance with the Commercial Companies Law and the Company's Articles of Association, 10% of net profit for the year is required to be transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the statutory reserve is equal to 50% of the paid up share capital. The reserve is not available for distribution except in the circumstances stipulated by the law. During the year, an amount of AED 3,821,045 (2013: AED 1,037,201) has been transferred to the legal reserve.

##### 15.2 General reserve

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

##### 15.3 Cumulative changes in fair value of securities

This reserve represents accumulated gains and losses arising on the revaluation of the available-for-sale financial assets.

#### 16. Net insurance premium

|                                     | 2014<br>AED          | 2013<br>AED          |
|-------------------------------------|----------------------|----------------------|
| Earned premium                      |                      |                      |
| Gross premium written               | 563,614,735          | 512,832,891          |
| Change in unearned premium (Note 7) | <u>(22,907,937)</u>  | <u>6,806,739</u>     |
|                                     | <u>540,706,798</u>   | <u>519,639,630</u>   |
| Reinsurance premium ceded           |                      |                      |
| Reinsurance premium ceded           | (322,986,336)        | (303,053,680)        |
| Change in unearned premium (Note 7) | <u>9,644,689</u>     | <u>4,972,002</u>     |
|                                     | <u>(313,341,647)</u> | <u>(298,081,678)</u> |
| Net insurance premium               | <u>227,365,151</u>   | <u>221,557,952</u>   |

#### 17. General and administrative expenses relating to underwriting activities

|                                  |                   |                   |
|----------------------------------|-------------------|-------------------|
| Staff costs and related benefits | 16,006,807        | 20,092,179        |
| Rent                             | 4,824,013         | 5,235,582         |
| Fees                             | 2,345,336         | 2,007,828         |
| Depreciation                     | 1,799,926         | 1,891,981         |
| Insurance                        | 1,779,374         | 1,986,393         |
| Telecommunication                | 1,285,285         | 1,112,433         |
| Printing and stationary          | 1,113,931         | 1,062,125         |
| Repair and maintenance           | 1,079,502         | 1,522,481         |
| Other expense                    | <u>2,294,810</u>  | <u>2,033,923</u>  |
|                                  | <u>32,528,984</u> | <u>36,944,925</u> |

## Al Buhaira National Insurance Company P.S.C.

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

#### 18. Net investment income

|  | 2014<br>AED       | 2013<br>AED       |
|--|-------------------|-------------------|
| Interest income on deposits                                  | 2,449,757         | 3,382,177         |
| Dividend from investments                                    | 1,438,170         | 1,364,235         |
| (Loss) / Gain on sale of available-for-sale financial assets | (4,059,635)       | 1,609,962         |
| Loss from disposal of investment in an associate             | -                 | (166,601)         |
| Impairment loss on available-for-sale financial assets       | (5,000,000)       | (4,000,000)       |
| Impairment of investment properties (Note 9)                 | (5,000,000)       | (13,000,000)      |
| Rental income (Note 9)                                       | 47,097,306        | 37,291,185        |
| Other income   | 251,501           | 424,703           |
|  | <u>37,177,099</u> | <u>26,905,661</u> |

#### 19. Non-operating general and administrative expenses

|                                  | 2014<br>AED       | 2013<br>AED       |
|----------------------------------|-------------------|-------------------|
| Staff costs and related benefits | 2,953,314         | 2,252,554         |
| Insurance authority fees         | 2,277,683         | 2,319,205         |
| Provision for doubtful debts     | 5,000,000         | 5,000,000         |
| Other expense                    | 1,158,359         | 1,159,345         |
|                                  | <u>11,389,356</u> | <u>10,731,104</u> |

#### 20. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributed to shareholders of the parent by the weighted average number of shares outstanding during the year

|   | 2014<br>AED        | 2013<br>AED        |
|---|--------------------|--------------------|
| Profit for the year (in AED)                  | <u>38,210,449</u>  | <u>10,372,006</u>  |
| Number of shares                              | <u>250,000,000</u> | <u>250,000,000</u> |
| Basic and diluted earnings per share (in AED) | <u>0.15</u>        | <u>0.04</u>        |

There were no potentially dilutive shares outstanding at any time during the year. Therefore, the diluted earnings per share are equal to the basic earnings per share.

#### 21. Related party transactions

Related parties include the Group's major shareholders, directors and businesses controlled by them and their families or over which they exercise significant management influence as well as key management personnel.

## Al Buhaira National Insurance Company P.S.C.

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

#### 21. Related party transactions

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

|                          | 2014<br>AED      | 2013<br>AED       |
|--------------------------|------------------|-------------------|
| Due from policy holders  | <u>4,300,748</u> | <u>26,786,949</u> |
| Gross outstanding claims | <u>1,266,256</u> | <u>825,991</u>    |

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

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

|               | 2014<br>AED       | 2013<br>AED       |
|---------------|-------------------|-------------------|
| Gross premium | <u>4,850,969</u>  | <u>9,199,286</u>  |
| Claims paid   | <u>25,468,111</u> | <u>16,882,446</u> |

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

#### 21.3 Compensation of key management personnel

|  | 2014<br>AED        | 2013<br>AED      |
|--|--------------------|------------------|
| Short-term benefits                                | <u>3,067,700</u>   | <u>2,981,505</u> |
| Long-term benefits                                 | <u>216,566</u>     | <u>200,844</u>   |
| General manager additional end of service benefits | <u>(3,953,208)</u> | <u>(310,368)</u> |
| Board of directors' remuneration                   | <u>-</u>           | <u>290,000</u>   |

The remuneration of directors is subject to approval by the Shareholders and as per limits set by the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended.

#### 22. Contingent liabilities

|                      | 2014<br>AED       | 2013<br>AED       |
|----------------------|-------------------|-------------------|
| Letters of guarantee | <u>15,782,646</u> | <u>13,622,712</u> |

## **Al Buhaira National Insurance Company P.S.C.**

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

#### **22. Contingent liabilities (continued)**

##### **22.1 Legal proceedings (continued)**

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial statements if settled unfavourably.

#### **23 Business segment information**

For management purposes, the Group is organised into two business segments; underwriting and investments.

##### **Underwriting:**

- marine segment;
- fire segment;
- accident and liabilities segment which includes motor insurance; and
- general and other segment which includes group life insurance and group medical.

##### **Investments:**

- investment in securities; and
- investment properties.

These segments are the basis on which the Group reports its primary segment information to the chief operating decision maker.

The segment reporting as of and for the year ended 31 December 2014 and 31 December 2013 are as follows:

# Al Buhaira National Insurance P.S.C.

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

### 23 Segment information (continued)

#### a) Segment consolidated statement of income for the year ended 31 December 2014

|  | Marine<br>AED       | Fire<br>AED         | Accident and<br>liabilities<br>AED | General and<br>others<br>AED | Total<br>insurance<br>AED | Total<br>AED         |
|--|---------------------|---------------------|------------------------------------|------------------------------|---------------------------|----------------------|
| Gross written premium                              | 36,943,008          | 39,657,127          | 275,167,395                        | 211,847,205                  | 563,614,735               | 563,614,735          |
| Change in unearned premium                         | 2,228,175           | 1,026,108           | (6,696,415)                        | (19,465,805)                 | (22,907,937)              | (22,907,937)         |
|  | <u>39,171,183</u>   | <u>40,683,235</u>   | <u>268,470,980</u>                 | <u>192,381,400</u>           | <u>540,706,798</u>        | <u>540,706,798</u>   |
| Premiums ceded to reinsurance                      | (33,877,903)        | (38,003,388)        | (141,102,155)                      | (110,002,890)                | (322,986,336)             | (322,986,336)        |
| Change in unearned premium                         | (2,786,044)         | (1,079,863)         | (28,474)                           | 13,539,070                   | 9,644,689                 | 9,644,689            |
|  | <u>(36,663,947)</u> | <u>(39,083,251)</u> | <u>(141,130,629)</u>               | <u>(96,463,820)</u>          | <u>(313,341,647)</u>      | <u>(313,341,647)</u> |
| Net earned premiums                                | <u>2,507,236</u>    | <u>1,599,984</u>    | <u>127,340,351</u>                 | <u>95,917,580</u>            | <u>227,365,151</u>        | <u>227,365,151</u>   |
| Gross claims paid                                  | (36,953,168)        | (55,070,081)        | (219,672,188)                      | (184,549,281)                | (496,244,718)             | (496,244,718)        |
| Gross outstanding claims and<br>IBNR - 1 Jan 2014  | 17,643,113          | 55,649,114          | 89,610,568                         | 43,533,475                   | 206,436,270               | 206,436,270          |
| Gross outstanding claims and<br>IBNR - 31 Dec 2014 | <u>(13,341,114)</u> | <u>(10,087,653)</u> | <u>(76,435,488)</u>                | <u>(38,628,843)</u>          | <u>(138,493,098)</u>      | <u>(138,493,098)</u> |
|  | <u>(32,651,169)</u> | <u>(9,508,620)</u>  | <u>(206,497,108)</u>               | <u>(179,644,649)</u>         | <u>(428,301,546)</u>      | <u>(428,301,546)</u> |

## Al Buhaira National Insurance P.S.C.

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

#### 23 Segment information (continued)

##### a) Segment consolidated statement of income for the year ended 31 December 2014 (continued)

|   | Marine<br>AED      | Fire<br>AED        | Accident and<br>liabilities<br>AED | General and<br>others<br>AED | Total<br>insurance<br>AED | Investment<br>AED   | Total<br>AED         |
|---|--------------------|--------------------|------------------------------------|------------------------------|---------------------------|---------------------|----------------------|
| Reinsurance recoveries  | 34,737,714         | 49,315,235         | 66,613,997                         | 89,747,554                   | 240,414,500               | -                   | 240,414,500          |
| Reinsurance outstanding claims<br>- 1 Jan 2014                      | (15,238,085)       | (50,568,543)       | (56,976,269)                       | (19,114,588)                 | (141,897,485)             | -                   | (141,897,485)        |
| Reinsurance outstanding claims<br>- 31 Dec 2014                     | 10,795,404         | 7,846,232          | 48,341,550                         | 18,210,153                   | 85,193,339                | -                   | 85,193,339           |
|   | 30,295,033         | 6,592,924          | 57,979,278                         | 88,843,119                   | 183,710,354               | -                   | 183,710,354          |
| Net incurred claims   | <u>(2,356,136)</u> | <u>(2,915,696)</u> | <u>(148,517,830)</u>               | <u>(90,801,530)</u>          | <u>(244,591,192)</u>      | -                   | <u>(244,591,192)</u> |
| Net commissions   | 9,584,018          | 5,810,558          | 54,145,583                         | 15,328,488                   | 84,868,647                | -                   | 84,868,647           |
| Net underwriting results  | 9,735,118          | 4,494,846          | 32,968,104                         | 20,444,538                   | 67,642,606                | -                   | 67,642,606           |
| Investment properties income  | -                  | -                  | -                                  | -                            | -                         | 42,097,306          | 42,097,306           |
| Net (loss) on investment in<br>securities and others<br>investments | -                  | -                  | -                                  | -                            | -                         | (4,920,207)         | (4,920,207)          |
| Net income before operating and<br>administrative expenses          | 9,735,118          | 4,494,846          | 32,968,104                         | 20,444,538                   | 67,642,606                | 37,177,099          | 104,819,705          |
| Operating and administrative<br>expenses                            | <u>(2,024,126)</u> | <u>(2,122,393)</u> | <u>(17,494,168)</u>                | <u>(10,888,297)</u>          | <u>(32,528,984)</u>       | <u>(34,080,272)</u> | <u>(66,609,256)</u>  |
| Net operating results   | <u>7,710,992</u>   | <u>2,372,453</u>   | <u>15,473,936</u>                  | <u>9,556,241</u>             | <u>35,113,622</u>         | <u>3,096,827</u>    | <u>38,210,449</u>    |

**Al Buhaira National Insurance P.S.C.**

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

**23 Segment information (continued)**

*b) Segment consolidated statement of Income for the year ended 31 December 2013*

|   | Marine<br>AED       | Fire<br>AED         | Accident and<br>liabilities<br>AED | General and<br>others<br>AED | Total<br>insurance<br>AED | Total<br>AED         |
|---|---------------------|---------------------|------------------------------------|------------------------------|---------------------------|----------------------|
| Gross written premium                             | 46,410,222          | 42,782,467          | 260,793,918                        | 162,846,284                  | 512,832,891               | 512,832,891          |
| Change in unearned premium                        | 2,488,874           | (1,578,047)         | 8,318,585                          | (2,422,673)                  | 6,806,739                 | 6,806,739            |
|   | <u>48,899,096</u>   | <u>41,204,420</u>   | <u>269,112,503</u>                 | <u>160,423,611</u>           | <u>519,639,630</u>        | <u>519,639,630</u>   |
| Premiums ceded to reinsurance                     | (45,022,081)        | (40,703,045)        | (141,173,338)                      | (76,155,216)                 | (303,053,680)             | (303,053,680)        |
| Change in unearned premium                        | (2,065,896)         | 1,325,669           | (3,647,504)                        | 9,359,733                    | 4,972,002                 | 4,972,002            |
|   | <u>(47,087,977)</u> | <u>(39,377,376)</u> | <u>(144,820,842)</u>               | <u>(66,795,483)</u>          | <u>(298,081,678)</u>      | <u>(298,081,678)</u> |
| Net earned premiums                               | <u>1,811,119</u>    | <u>1,827,044</u>    | <u>124,291,661</u>                 | <u>93,628,128</u>            | <u>221,557,952</u>        | <u>221,557,952</u>   |
| Gross claims paid                                 | (28,983,462)        | (5,339,699)         | (255,611,775)                      | (129,125,674)                | (419,060,610)             | (419,060,610)        |
| Gross outstanding claims and<br>IBNR - 1 Jan 2013 | 21,003,901          | 10,737,613          | 74,794,314                         | 23,364,277                   | 129,900,105               | 129,900,105          |
| Gross outstanding claims and<br>IBNR- 31 Dec 2013 | <u>(17,643,113)</u> | <u>(55,649,114)</u> | <u>(89,610,568)</u>                | <u>(43,533,475)</u>          | <u>(206,436,270)</u>      | <u>(206,436,270)</u> |
|   | <u>(25,622,674)</u> | <u>(50,251,200)</u> | <u>(270,428,029)</u>               | <u>(149,294,872)</u>         | <u>(495,596,775)</u>      | <u>(495,596,775)</u> |

# Al Buhaira National Insurance P.S.C.

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

### 23 Segment information (continued)

#### b) Segment consolidated statement of Income for the year ended 31 December 2013 (continued)

|  | Marine<br>AED      | Fire<br>AED        | Accident and<br>liabilities<br>AED | General and<br>others<br>AED | Total<br>insurance<br>AED | Investment<br>AED   | Total<br>AED         |
|--|--------------------|--------------------|------------------------------------|------------------------------|---------------------------|---------------------|----------------------|
| Reinsurance recoveries   | 26,263,443         | 4,178,102          | 107,294,124                        | 55,588,708                   | 193,324,377               | -                   | 193,324,377          |
| Reinsurance outstanding claims<br>- 1 Jan 2013                   | (18,948,763)       | (7,613,693)        | (49,445,609)                       | (6,740,756)                  | (82,748,821)              | -                   | (82,748,821)         |
| Reinsurance outstanding claims<br>- 31 Dec 2013                  | 15,238,085         | 50,568,543         | 56,976,269                         | 19,114,588                   | 141,897,485               | -                   | 141,897,485          |
|  | 22,552,765         | 47,132,952         | 114,824,784                        | 67,962,540                   | 252,473,041               | -                   | 252,473,041          |
| Net incurred claims  | <u>(3,069,909)</u> | <u>(3,118,248)</u> | <u>(155,603,245)</u>               | <u>(81,332,332)</u>          | <u>(243,123,734)</u>      | -                   | <u>(243,123,734)</u> |
| Net commissions  | 10,768,789         | 4,921,799          | 56,508,921                         | 8,186,513                    | 80,386,022                | -                   | 80,386,022           |
| Net underwriting results   | 9,509,999          | 3,630,595          | 25,197,337                         | 20,482,309                   | 58,820,240                | -                   | 58,820,240           |
| Investment properties income                                     | -                  | -                  | -                                  | -                            | -                         | 24,291,185          | 24,291,185           |
| Net income on investment in<br>securities and others investments | -                  | -                  | -                                  | -                            | -                         | 2,614,476           | 2,614,476            |
| Net income before operating and<br>administrative expenses       | 9,509,999          | 3,630,595          | 25,197,337                         | 20,482,309                   | 58,820,240                | 26,905,661          | 85,725,901           |
| Operating and administrative<br>expenses                         | <u>(3,186,848)</u> | <u>(2,871,160)</u> | <u>(19,641,466)</u>                | <u>(11,245,451)</u>          | <u>(36,944,925)</u>       | <u>(38,408,970)</u> | <u>(75,353,895)</u>  |
| Net operating results  | <u>6,323,151</u>   | <u>759,435</u>     | <u>5,555,871</u>                   | <u>9,236,858</u>             | <u>21,875,315</u>         | <u>(11,503,309)</u> | <u>10,372,006</u>    |

## Al Buhaira National Insurance P.S.C.

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

#### 23 Segment information (continued)

c) *Segment consolidated statement of financial position is as follows:*

|                         | As at 31 December 2014 |                      |                      | As at 31 December 2013 |                      |                      |
|-------------------------|------------------------|----------------------|----------------------|------------------------|----------------------|----------------------|
|                         | Underwriting<br>AED    | Investments<br>AED   | Total<br>AED         | Underwriting<br>AED    | Investments<br>AED   | Total<br>AED         |
| Segment assets          | 682,589,668            | 1,011,913,480        | 1,694,503,148        | 791,872,679            | 1,000,107,449        | 1,791,980,128        |
| Unallocated assets      | -                      | -                    | 74,281,604           | -                      | -                    | 143,505,466          |
|                         | <u>682,589,668</u>     | <u>1,011,913,480</u> | <u>1,768,784,752</u> | <u>791,872,679</u>     | <u>1,000,107,449</u> | <u>1,935,485,594</u> |
| Segment liabilities     | 655,086,602            | 439,521,530          | 1,094,608,132        | 778,572,887            | 525,155,041          | 1,303,727,928        |
| Unallocated liabilities | -                      | -                    | 22,756,820           | -                      | -                    | 23,402,252           |
|                         | <u>655,086,602</u>     | <u>439,521,530</u>   | <u>1,117,364,952</u> | <u>778,572,887</u>     | <u>525,155,041</u>   | <u>1,327,130,180</u> |

There are no transactions between the business segments.

## **Al Buhaira National Insurance P.S.C.**

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

#### **24. Insurance risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

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

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

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

##### **24.1 Frequency and severity of claims**

The Group has the right not to renew individual policies, to re-price the risk, to impose deductibles and to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Group's strategy limits the total exposure to any one territory and the exposure to any one industry.

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

## **Al Buhaira National Insurance P.S.C.**

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

#### **24. Insurance risk (continued)**

##### **24.2 Sources of uncertainty in the estimation of future claim payments**

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

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

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

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

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

## **Al Buhaira National Insurance P.S.C.**

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

#### **24. Insurance risk (continued)**

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

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

| Type of risk | 2014       | 2013        |
|--------------|------------|-------------|
| Motor        | <u>99%</u> | <u>103%</u> |
| Non-Motor    | <u>87%</u> | <u>86%</u>  |

##### **24.3 Process used to decide on assumptions**

The risks associated with the insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Group's quarterly claims reports and screening of the actual insurance contracts carried out at the reporting date to derive data for the contracts held. The Group uses assumptions based on a mixture of internal and market data to measure its claims liabilities. The Group has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims.

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

##### **24.4 Concentration of Insurance risk**

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

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

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

## Al Buhaira National Insurance P.S.C.

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

#### 24. Insurance risk (continued)

##### 24.5 Sensitivity of underwriting profit and losses

The contribution by the insurance operations in the profit of the Group amounts to AED 35 million for the year ended 31 December 2014 (2013: AED 22 million). The Group does not foresee any major impact from insurance operations due to the following reasons:

- The Group has an overall risk retention level in the region of 42 % (2013: 42 %) and the same is mainly contributed by motor and medical class of business. The Group tries to arrange appropriate excess of loss reinsurance cover to guard against major financial impact.
- The Group has gross commission earnings in 2014 of 33% (2013: 32%) of insurance premium . These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

#### 25. Capital risk management

The Group's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007 on the Establishment of Insurance Authority and Organization of its Operations. The Group manages its capital based on its minimum regulatory capital position presented in the table below.
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

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

|                            | 2014<br>AED        | 2013<br>AED        |
|----------------------------|--------------------|--------------------|
| Total paid up capital      | <u>250,000,000</u> | <u>250,000,000</u> |
| Minimum regulatory capital | <u>100,000,000</u> | <u>100,000,000</u> |

The UAE Insurance Authority has issued resolution no. 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing insurance firms and AED 250 million for re-insurance firms. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies. The Company is in compliance with the minimum capital requirements.

## Al Buhaira National Insurance P.S.C.

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

#### 25. Capital risk management (continued)

##### 25.1 Gearing ratio

The Group reviews the capital structure on a semi-annual basis. As part of this review, the Group considers the cost of capital and the risks associated with capital.

The gearing ratio at the year-end was as follows:

|                                     | 2014<br>AED          | 2013<br>AED          |
|-------------------------------------|----------------------|----------------------|
| Debt (i)                            | 505,180,696          | 516,970,689          |
| Bank balances and cash (see Note 5) | <u>(171,154,749)</u> | <u>(149,732,350)</u> |
|                                     | <u>334,025,947</u>   | <u>367,238,339</u>   |
| Equity (ii)                         | <u>651,419,801</u>   | <u>608,355,414</u>   |
| Net debt to equity ratio            | <u>0.51</u>          | <u>0.60</u>          |

(i) Debt is defined as bank borrowings (see Note 12).

(ii) Equity comprises of capital, reserves and retained earnings.

#### 26. Financial instruments

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

##### 26.1 Significant accounting policies

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

## Al Buhaira National Insurance P.S.C.

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

#### 26. Financial instruments (continued)

##### 26.2 Categories of financial instruments

##### 31 December 2014

|  | Loans and<br>receivables<br>AED | Available-<br>for-sale<br>AED | Total<br>AED                         |
|--|---------------------------------|-------------------------------|--------------------------------------|
| Financial assets   |                                 |                               |                                      |
| Available-for-sale financial assets  | -                               | 57,129,716                    | 57,129,716                           |
| Insurance and other receivables (excluding prepayments)  | 371,278,578                     | -                             | 371,278,578                          |
| Recoverable from reinsurers -Claims reported unsettled   | 85,193,339                      | -                             | 85,193,339                           |
| Bank balances and cash   | 171,154,749                     | -                             | 171,154,749                          |
| Total financial assets   | <u>627,626,666</u>              | <u>57,129,716</u>             | <u>684,756,382</u>                   |
|  |                                 |                               | <b>At amortised<br/>cost<br/>AED</b> |
| Financial liabilities  |                                 |                               |                                      |
| Bank borrowings  |                                 |                               | 505,180,696                          |
| Insurance and other payables excluding rental income received in advance and premium received in advance |                                 |                               | <u>203,162,967</u>                   |
| Total financial liabilities  |                                 |                               | <u>708,343,663</u>                   |

##### 31 December 2013

|  | Loans and<br>Receivables<br>AED | Available-<br>for-sale<br>AED | Total<br>AED                         |
|--|---------------------------------|-------------------------------|--------------------------------------|
| Financial assets   |                                 |                               |                                      |
| Available-for-sale financial assets  | -                               | 53,342,395                    | 53,342,395                           |
| Insurance and other receivables (excluding prepayments)  | 518,081,204                     | -                             | 518,081,204                          |
| Recoverable from reinsurers -Claims reported unsettled   | 141,897,485                     | -                             | 141,897,485                          |
| Bank balances and cash   | 149,732,350                     | -                             | 149,732,350                          |
| Total financial assets   | <u>809,711,039</u>              | <u>53,342,395</u>             | <u>863,053,434</u>                   |
|  |                                 |                               | <b>At amortised<br/>cost<br/>AED</b> |
| Financial liabilities  |                                 |                               |                                      |
| Bank borrowings  |                                 |                               | 516,970,689                          |
| Insurance and other payables excluding rental income received in advance and premium received in advance |                                 |                               | <u>358,245,302</u>                   |
| Total financial liabilities  |                                 |                               | <u>875,215,991</u>                   |

## Al Buhaira National Insurance P.S.C.

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

#### 26. Financial instruments (continued)

##### 26.3 Fair value measurement

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the reporting date.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

##### Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

##### 31 December 2014

|                                     | Level 1<br>AED    | Level 2<br>AED     | Level 3<br>AED | Total<br>AED         |
|-------------------------------------|-------------------|--------------------|----------------|----------------------|
| Available-for-sale financial assets |                   |                    |                |                      |
| Quoted equities                     | 39,549,600        | -                  | -              | 39,549,600           |
| Unquoted equities                   | -                 | 17,580,116         | -              | 17,580,116           |
| Investment properties               | -                 | 948,940,601        | -              | 948,940,601          |
|                                     | <u>34,122,632</u> | <u>966,520,717</u> | <u>-</u>       | <u>1,006,070,317</u> |

##### 31 December 2013

|                                     |                   |                    |          |                      |
|-------------------------------------|-------------------|--------------------|----------|----------------------|
| Available-for-sale financial assets |                   |                    |          |                      |
| Quoted equities                     | 35,762,279        | -                  | -        | 35,762,279           |
| Unquoted equities                   | -                 | 17,580,116         | -        | 17,580,116           |
| Investment properties               | -                 | 946,765,054        | -        | 946,765,054          |
|                                     | <u>35,762,279</u> | <u>964,345,170</u> | <u>-</u> | <u>1,000,107,449</u> |

## **Al Buhaira National Insurance P.S.C.**

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

#### **26. Financial instruments (continued)**

##### **26.3 Fair value measurement (continued)**

###### **Fair value measurements recognised in the statement of financial position**

There were no transfers between each of the levels during the year. There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table.

The management considers that the carrying amounts of financial assets and financial liabilities in the financial statements approximate their fair values.

There were no movements during the year in the level 3 financial assets measured at fair values.

##### **26.4 Market risk management**

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

###### **26.4.1 Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Group. The Group is exposed to interest rate risk on its deposits and bank borrowings that carry both fixed and floating interest rates.

The Group generally manages to minimise the interest rate risk by closely monitoring the market interest rates and investing in those financial assets in which such risk is expected to be minimal.

###### **26.4.1.1 Interest rate sensitivity analysis**

The Group's exposure to interest rate risk relates to its bank deposits and bank borrowings. During the year, bank deposits carried an interest rate in the range of 1% to 3 % per annum (2013: 1% to 3% per annum) and bank loan carried an interest rate in the range of 3% to 3.5% plus three months EIBOR per annum (2013: 3% to 3.5% plus three months EIBOR per annum).

If interest rates had been 50 basis points lower throughout the year and all other variables were held constant, the Group's profit for the year ended 31 December 2014 and equity as at 31 December 2014 would increase by approximately AED 2,523,914 (2013: increase by AED 2,584,853) and vice versa.

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

## **Al Buhaira National Insurance P.S.C.**

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

#### **26 Financial instruments (continued)**

##### **26.4 Market risk management (continued)**

###### **26.4.2 Foreign currency risk management**

There are no significant exchange rate risks as substantially all monetary assets and monetary liabilities of the Group are denominated in the UAE Dirhams or US Dollars to which UAE Dirham is pegged.

Management believes that there is a minimal risk of significant losses due to exchange rate fluctuations and consequently the Group has not hedged their foreign currency exposure.

###### **26.4.3 Market price risk**

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

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Group's other comprehensive income would have increased/decreased by AED 4 million (2013: AED 3.6 million) in the case of the available-for-sale financial assets.

###### *Method and assumptions for sensitivity analysis;*

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

##### **26.5 Credit risk**

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

## **Al Buhaira National Insurance P.S.C.**

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

#### **26. Financial instruments (continued)**

##### **26.5 Credit risk (continued)**

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

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

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

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Group maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition.

The credit risk on liquid funds is limited because the counterparties are reputable banks in UAE. Credit risk quality of insurance and other receivables is included in note 6 of the financial statements.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

##### **26.6 Liquidity risk**

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities at maturity date. The Group manages the liquidity risk through a risk management framework for the Group's short, medium and long-term funding and liquidity management requirements by maintaining adequate reserves, sufficient cash and cash equivalent and bank facilities, to ensure that funds are available to meet their commitments for liabilities as they fall due.

## Al Buhaira National Insurance Company P.S.C.

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

#### 26. Financial instruments (continued)

##### 26.6 Liquidity risk (continued)

The maturity profile is monitored by management to ensure adequate liquidity is maintained. The table below summarises the maturity profile of the Group's financial assets and liabilities based on remaining undiscounted contractual obligations including interest receivable and payable.

| 31 December 2014  | Carrying amount<br>AED | Up to 3 months     |                    | 1 year to 5 years  |                    | More than 5 years  | Total<br>AED       |
|---|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|   |                        | months<br>AED      | 1 year<br>AED      | 5 years<br>AED     | years              |                    |                    |
| Financial assets  |                        |                    |                    |                    |                    |                    |                    |
| Available-for-sale financial assets   | 57,129,716             | -                  | -                  | -                  | -                  | -                  | 57,129,716         |
| Insurance and other receivables excluding prepayments                         | 74,464,914             | 125,863,904        | 139,942,700        | 31,007,060         | -                  | -                  | 371,278,578        |
| Bank balances and cash  | 71,138,990             | -                  | 94,015,759         | -                  | -                  | -                  | 165,154,749        |
| Statutory deposit   | -                      | -                  | -                  | -                  | 6,000,000          | -                  | 6,000,000          |
|   | <u>202,733,620</u>     | <u>125,863,904</u> | <u>233,958,459</u> | <u>31,007,060</u>  | <u>6,000,000</u>   | <u>6,000,000</u>   | <u>599,563,043</u> |
| Financial liabilities   |                        |                    |                    |                    |                    |                    |                    |
| Bank borrowing  | 3,157,666              | 11,450,979         | 130,645,917        | 184,721,460        | 175,204,674        | -                  | 505,180,696        |
| Insurance and other payables excluding premium and rental received in advance | -                      | 27,071,489         | 176,091,478        | -                  | -                  | -                  | 203,162,967        |
|   | <u>3,157,666</u>       | <u>38,522,468</u>  | <u>306,737,395</u> | <u>184,721,460</u> | <u>175,204,674</u> | <u>175,204,674</u> | <u>708,343,663</u> |

**Al Buhaira National Insurance Company P.S.C.**

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

**26. Financial instruments (continued)**

**26.6 Liquidity risk (continued)**

**31 December 2013**

|   | Carrying amount<br>AED | Up to 3 months<br>AED | 3 months to 1 year<br>AED | 1 year to 5 years<br>AED | More than 5 years | Total<br>AED       |
|---|------------------------|-----------------------|---------------------------|--------------------------|-------------------|--------------------|
| Financial assets                                      |                        |                       |                           |                          |                   |                    |
| Available-for-sale financial assets                   | 53,342,395             | -                     | -                         | -                        | -                 | 53,342,395         |
| Insurance and other receivables excluding prepayments | 207,975,179            | 127,817,683           | 146,693,509               | 35,594,833               | -                 | 518,081,204        |
| Bank balances and cash                                | 27,609,803             | 5,679,108             | 110,443,439               | -                        | -                 | 143,732,350        |
| Statutory deposit                                     | -                      | -                     | -                         | -                        | 6,000,000         | 6,000,000          |
|   | <u>288,927,377</u>     | <u>133,496,791</u>    | <u>257,136,948</u>        | <u>35,594,833</u>        | <u>6,000,000</u>  | <u>721,155,949</u> |

Financial liabilities

Bank borrowing  
Insurance and other payables excluding premium and rental  
received in advance

|  |                  |                   |                    |                    |                    |                    |
|--|------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
|  | 1,666,666        | 3,333,333         | 49,601,424         | 218,405,688        | 243,963,579        | 516,970,689        |
|  | -                | 27,605,881        | 330,639,422        | -                  | -                  | 358,245,302        |
|  | <u>1,666,666</u> | <u>30,939,214</u> | <u>380,240,846</u> | <u>218,405,688</u> | <u>243,963,579</u> | <u>875,215,991</u> |

## **Al Buhaira National Insurance Company P.S.C.**

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

#### **27 Dividends**

At the annual general meeting held on 14 April 2014, the shareholders did not declare any cash dividend for 2013 or Board of Directors' remuneration (2013: Approved 5 fils per share for 2012 amounting to AED 12.5 million and Board of Directors' remuneration of AED 290,000).

#### **28 Reclassifications**

Certain corresponding figures have been reclassified, where necessary, to conform with the current period presentation. Management believe that the current period presentation provides more meaningful information to the readers of the consolidated financial statements.

Notes receivable – post-dated cheques AED 20,778,951, previously shown as a separate line item within insurance and other receivables, have been reclassified as part of due from policy holder (Note 6).

Rent receivable AED 17,425,825, previously shown as a separate line item within insurance and other receivables (Note 6) has been netted off against rent received in advance previously shown as part of insurance and other payables. The effect was also incorporated in the consolidated statement of cash flows.

#### **29 Approval of financial statements**

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 26 March 2015.