

**Abu Dhabi National Takaful
Company PSC**

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

31 DECEMBER 2014

**Abu Dhabi National Takaful
Company PSC**

REPORT OF THE BOARD OF DIRECTORS'

31 DECEMBER 2014

Abu Dhabi National Takaful Company PSC

Board of Directors

Chairman

Mr. Khamis Buharoon

Vice Chairman

Mr. Khalid Deemas Al Suwaidi

Directors

Mr. Khalifa A. Khamis Al Rumaithi

Mr. Khalid Al Mansouri

Mr. Andrew Douglas Moir

Mr. Dhafer Farooq Luqman

Mr. Nasser Al Mur Al Zaabi

Chief Executive Officer

Mr. Osama Abdeen

Sharia'a Supervisory Board

Dr. Abdul Sattar Abu Ghuddah

Sheikh Nizam Yaqubi

Dr. Osaid Kailani

Auditors

Ernst & Young

Abu Dhabi National Takaful Company PSC

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

Year ended 31 December 2014

Dear Shareholders

Peace be upon you.....

It gives us pleasure to present to you the eleventh annual report on the company activities and its audited financial statements for the year ended 31 December 2014, along with the Fatwa & Sharia'a Supervisory Board, Independent Auditor Reports and a detailed corporate governance report complying with the corporate governance code of UAE Securities and Commodities Authority.

Company performance

The company continues its strategy by concentrating on risk assessment and accepting only the more profitable underwriting contracts while avoiding those prone to greater risks despite the current circumstances experienced by the insurance industry as a result of severe competition in the market.

The audited financial statements supported with notes demonstrate the development made by the company. The company recorded another year of growth with net profit of AED 35.8 million during the financial year ending 31 December 2014. The following highlights the company results in comparison with the same period last year:

- The total gross contributions reached AED 295.4 million as comparing AED 271.8 million for the period ending 31 December 2013, achieving 9% growth.
- Net claims incurred for year 2014 reached AED 46.1 million comparing to AED 33.0 million for year 2013. The net loss ratio is 38.1% comparing to 33.4% for the prior year.
- Technical results reached AED 54.8 million as comparing AED 59.8 million for the prior year.
- Net investment income and other income reached AED 11.7 million comparing to AED 7.5 million for the prior year.
- Total assets size reached AED 632.4 million and has risen by about 16% comparing to the prior year.
- Total cash, bank balances and deposits reached AED 208.3 million comparing to AED 187.6 million at the end of prior year, all of which are deposited with UAE banks.
- Net profit for the year ending 31 December 2014 is AED 35.8 million comparing to AED 35.2 million for the prior year. Basic and diluted earning per share is AED 0.36 comparing to AED 0.35 for the prior year.
- Shareholder's equity at 31 December 2014 reached AED 212.5 million comparing to AED 193.4 million prior year.

Abu Dhabi National Takaful Company PSC

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

Year ended 31 December 2014

Our existing portfolio consists of well balanced and diversified products which enable the company to explore many opportunities for profitable growth going forward. The company will continue its efforts to enhance products, customer services as well as widening of distribution channels to gain a competition advantage in the market place. This will lead to growth of takaful written contributions and achieve higher returns for our shareholders and policyholders.

Distribution of Profits

The net profits achieved by the company during the year ended 31 December 2014 amounted to AED 35,755,627. In accordance with article (58) of articles of association of the company, we propose to the general assembly to distribute AED 16,000,000 which represents 16% of the paid up capital as 16% cash dividend to shareholders.

Board of Directors Recommendations

The Board of Directors shall present the general assembly of **Abu Dhabi National Takaful Co. PSC** the recommendations below for approval:

- 1) The Annual Report of the Board of Directors, Fatwa & Sharia'a Supervisory Board report and the External Auditor's report for the year ending 31st December, 2014.
- 2) The statement of financial position and income statement for the year ending 31st December, 2014.
- 3) The profit distribution for the year ended 31st December 2014 amounting to AED 35,755,627 is as follows:

| | <i>AED</i> |
|--|-------------------|
| Proposed cash dividend of 16% of the paid up capital | 16,000,000 |
| Transfer to legal reserve | 3,575,563 |
| Board of Directors remunerations | 2,600,000 |
| Retained earnings, carried forward | <u>13,580,064</u> |
| | <u>35,755,627</u> |

- 4) Release of the Directors, External Auditors and members of the Fatwa & Sharia'a Supervisory Board for their works during the year ending 31st of December, 2014.
- 5) Appoint or reappoint the External Auditors for the year ending 31st of December, 2015 and agree on the fees.

Abu Dhabi National Takaful Company PSC

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

Year ended 31 December 2014

Valued Shareholders,

On this occasion, and on your behalf we extend profound gratitude and great appreciation to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of UAE and His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, the Deputy Supreme Commander of the UAE Armed Forces. May Allah, the Almighty preserve them for their kind patronage to the Islamic insurance industry.

We would like also to express our sincere thanks and appreciation to the Fatwa & Sharia'a Supervisory Board members for their guidance to ensure that we fully abide by the glorious principles of Islamic Sharia'a, Insurance Authority as well as other concerned parties for their support and cooperation provided to us.

We also seize this opportunity to laud the efforts made by company staff members for their dedication and commitment for the sake of the company success and servicing our policyholders.

Furthermore, we extend our heartfelt thanks to our valued shareholders and other stakeholders inside and outside the UAE for their unlimited support to **Abu Dhabi National Takaful Co. PSC**.

Finally, we ask the Almighty Allah, to bless our activities and guide us to the right path.

Khamis Buharoon
Chairman of Board of Directors



**Abu Dhabi National Takaful
Company PSC**

FINANCIAL STATEMENTS

31 DECEMBER 2014



Ernst & Young
P.O. Box: 136
27th Floor, Nation Tower 2
Abu Dhabi Corniche
Abu Dhabi, United Arab Emirates

Tel: +971 2 417 4400
Fax: +971 2 627 3383
abudhabi@ae.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABU DHABI NATIONAL TAKAFUL COMPANY PSC

Report on the Financial Statements

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2014 and 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

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

Ernst & Young

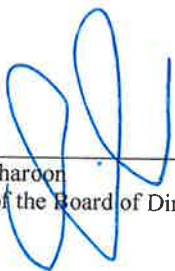
Signed by
Andre Kasparian
Partner
Ernst & Young
Registration No. 365

19 February 2015
Abu Dhabi

Abu Dhabi National Takaful Company PSC

STATEMENT OF FINANCIAL POSITION As at 31 December 2014

| | Notes | 2014 AED | 2013 AED |
|--|-------|---------------------------|---------------------------|
| ASSETS | | | |
| Cash and bank balances | 5 | 208,332,281 | 187,640,751 |
| Statutory deposit | 6 | 10,000,000 | 10,000,000 |
| Investments | 7 | 99,229,855 | 85,062,270 |
| Retakaful contract assets | 8 | 231,028,059 | 198,097,462 |
| Takaful and other receivables | 10 | 39,519,865 | 27,694,506 |
| Advances and other assets | 30 | 3,946,748 | 10,343,698 |
| Property and equipment | 11 | 19,608,212 | 20,973,980 |
| Investment properties | 12 | <u>20,704,286</u> | <u>3,582,810</u> |
| TOTAL ASSETS | | <u>632,369,306</u> | <u>543,395,477</u> |
| EQUITY AND LIABILITIES | | | |
| Shareholders' equity | | | |
| Share capital | | | |
| Legal reserve | 13 | 100,000,000 | 100,000,000 |
| General reserve | 14 | 20,050,427 | 16,474,864 |
| Investment revaluation reserve | 15 | 42,500,000 | 42,500,000 |
| Retained earnings | | <u>4,220,432</u> | <u>8,068,898</u> |
| Total shareholders' equity | | <u>212,463,091</u> | <u>193,374,768</u> |
| Policyholders' fund | | | |
| Deficit of policyholders' fund | 17 | (21,013,736) | (24,253,434) |
| Loan from shareholders | 17 | <u>21,013,736</u> | <u>24,253,434</u> |
| Total policyholders' fund | | <u>-</u> | <u>-</u> |
| Liabilities | | | |
| Provision for end of service benefits | 18 | 5,208,315 | 4,510,392 |
| Takaful contract liabilities | 8 | 316,150,847 | 273,189,720 |
| Retakaful and other liabilities | 19 | 74,352,051 | 51,769,155 |
| Retakaful deposits retained | | <u>24,195,002</u> | <u>20,551,442</u> |
| Total liabilities | | <u>419,906,215</u> | <u>350,020,709</u> |
| TOTAL SHAREHOLDERS' EQUITY, POLICYHOLDERS' FUND AND LIABILITIES | | <u>632,369,306</u> | <u>543,395,477</u> |


 Khamis Buharoon
 Chairman of the Board of Directors


 Osama Abdeen
 Chief Executive Officer

The attached notes 1 to 30 form part of these financial statements.

Abu Dhabi National Takaful Company PSC

STATEMENT OF INCOME

For the year ended 31 December 2014

| | <i>Notes</i> | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|---|--------------|----------------------------|---------------------------|
| Attributable to policyholders | | | |
| Gross takaful contributions revenue | 20 | 265,676,459 | 235,124,382 |
| Retakaful contributions | 20 | (144,673,442) | (136,392,978) |
| Net earned contributions | 20 | <u>121,003,017</u> | <u>98,731,404</u> |
| Gross claims incurred | | (130,436,895) | (92,443,614) |
| Retakaful share of claims incurred | | <u>84,367,757</u> | <u>59,463,382</u> |
| Net claims incurred | | <u>(46,069,138)</u> | <u>(32,980,232)</u> |
| Takaful income | | 74,933,879 | 65,751,172 |
| Takaful expenses | | (30,813,136) | (25,717,352) |
| Retakaful and other income | | <u>10,722,015</u> | <u>19,767,724</u> |
| Takaful operating profit | | 54,842,758 | 59,801,544 |
| Policyholders' investment income | 21 | 1,723,887 | 1,580,093 |
| Mudareb share | 22 | (517,166) | (474,028) |
| Wakalah fees | 22 | <u>(52,809,781)</u> | <u>(81,280,321)</u> |
| Surplus (Deficit) of takaful result for the year | 17 | <u>3,239,698</u> | <u>(20,372,712)</u> |
| Attributable to shareholders | | | |
| Shareholders' investment and other income, net | 23 | 9,940,695 | 5,936,492 |
| Mudareb share from policyholders | 22 | 517,166 | 474,028 |
| Wakalah fees from policyholders | 22 | 52,809,781 | 81,280,321 |
| General and administrative expenses | 24 | (32,514,035) | (32,259,527) |
| Movement in provision for impairment of advances | | 1,762,322 | 115,079 |
| Decrease (Increase) in provision of loan to policyholders' fund | 17 | <u>3,239,698</u> | <u>(20,372,712)</u> |
| Net profit for the year | | <u>35,755,627</u> | <u>35,173,681</u> |
| Basic and diluted earnings per share | 25 | <u>0.36</u> | <u>0.35</u> |

The attached notes 1 to 30 form part of these financial statements.

Abu Dhabi National Takaful Company PSC

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | <i>Notes</i> | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|--|--------------|---------------------------|---------------------------|
| Net profit for the year | | <u>35,755,627</u> | <u>35,173,681</u> |
| Other comprehensive (loss) income | | | |
| Items that will not be reclassified subsequently to statement of income: | | | |
| Increase in fair value of investments at fair value through other comprehensive income, net | | 1,932,696 | 8,320,476 |
| Board of directors remuneration | | <u>(2,600,000)</u> | <u>(2,600,000)</u> |
| | | (667,304) | 5,720,476 |
| Items that may be reclassified subsequently to statement of income | | <u>-</u> | <u>-</u> |
| Other comprehensive (loss) income for the year | | (667,304) | 5,720,476 |
| Total comprehensive income for the year | | <u>35,088,323</u> | <u>40,894,157</u> |

The attached notes 1 to 30 form part of these financial statements.

Abu Dhabi National Takaful Company PSC

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

| | <i>Share capital AED</i> | <i>Legal reserve AED</i> | <i>General reserve AED</i> | <i>Investment revaluation reserve AED</i> | <i>Retained earnings AED</i> | <i>Total AED</i> |
|---|----------------------------------|----------------------------------|------------------------------------|---|--------------------------------------|----------------------|
| Balance at 1 January 2013 | 100,000,000 | 12,957,496 | 35,000,000 | (251,578) | 17,774,693 | 165,480,611 |
| Net profit for the year | - | - | - | - | 35,173,681 | 35,173,681 |
| Other comprehensive income | - | - | - | 8,320,476 | (2,600,000) | 5,720,476 |
| Total comprehensive income for the year | - | - | - | 8,320,476 | 32,573,681 | 40,894,157 |
| Transfer to legal reserve | - | 3,517,368 | - | - | (3,517,368) | - |
| Transfer to general reserve | - | - | 7,500,000 | - | (7,500,000) | - |
| Dividends paid (note 16) | - | - | - | - | (13,000,000) | (13,000,000) |
| Balance at 31 December 2013 | <u>100,000,000</u> | <u>16,474,864</u> | <u>42,500,000</u> | <u>8,068,898</u> | <u>26,331,006</u> | <u>193,374,768</u> |
| Balance at 1 January 2014 | 100,000,000 | 16,474,864 | 42,500,000 | 8,068,898 | 26,331,006 | 193,374,768 |
| Gain on disposal of investments at fair value through other comprehensive income | - | - | - | (5,781,162) | 5,781,162 | - |
| Net profit for the year | - | - | - | - | 35,755,627 | 35,755,627 |
| Other comprehensive loss | - | - | - | 1,932,696 | (2,600,000) | (667,304) |
| Total comprehensive income for the year | - | - | - | 1,932,696 | 33,155,627 | 35,088,323 |
| Transfer to legal reserve | - | 3,575,563 | - | - | (3,575,563) | - |
| Dividends paid (note 16) | - | - | - | - | (16,000,000) | (16,000,000) |
| Balance at 31 December 2014 | <u>100,000,000</u> | <u>20,050,427</u> | <u>42,500,000</u> | <u>4,220,432</u> | <u>45,692,232</u> | <u>212,463,091</u> |

The attached notes 1 to 30 form part of these financial statements.

Abu Dhabi National Takaful Company PSC

STATEMENT OF CASH FLOWS

Year ended 31 December 2014

| | <i>Notes</i> | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|--|--------------|---------------------------|---------------------------|
| OPERATING ACTIVITIES | | | |
| Net profit for the year | | 35,755,627 | 35,173,681 |
| Adjustments for: | | | |
| Depreciation of property and equipment | 11 | 1,419,256 | 1,058,125 |
| Movement of unearned contributions | | 6,237,198 | 10,785,127 |
| Fixed deposits and investment income | | (8,339,947) | (6,435,763) |
| Net movement in provision for end of service benefits | | 697,923 | 920,442 |
| Movement in provision for doubtful debts | | - | (2,700,000) |
| Movement in provision for impairment of advances | | (1,762,322) | (115,079) |
| Increase in fair value of impairment of properties | 12, 23 | (3,324,634) | (825,348) |
| Decrease in fair value of investments at fair value through profit or loss | | 88,796 | - |
| Gain on disposal of property and equipment | | - | (42,781) |
| | | 30,771,897 | 37,818,404 |
| Working capital adjustments: | | | |
| Takaful and other receivables | | (11,825,359) | 552,990 |
| Advances and other assets | | (2,155,720) | 740,179 |
| Movement of outstanding claims | | 3,793,332 | 5,360,205 |
| Retakaful and other liabilities | | 22,582,896 | 1,593,689 |
| Retakaful deposits retained | | 3,643,560 | 1,605,731 |
| Cash from operations | | 46,810,606 | 47,671,198 |
| Directors' remuneration paid | | (2,600,000) | (1,750,000) |
| Net cash from operating activities | | 44,210,606 | 45,921,198 |
| INVESTING ACTIVITIES | | | |
| Movement in investments | | (12,323,686) | (7,137,641) |
| Purchase of property and equipment | 11 | (53,488) | (20,854,916) |
| Proceeds from disposal of property and equipment | | - | 67,000 |
| Payments related to investment properties | 12 | (3,481,849) | (814,494) |
| Fixed deposits and investment income received | | 8,339,947 | 6,435,763 |
| Movement in term deposits | | (2,060,153) | (14,577,810) |
| Net cash used in investing activities | | (9,579,229) | (36,882,098) |
| FINANCING ACTIVITIES | | | |
| Dividends paid | 16 | (16,000,000) | (13,000,000) |
| Net cash used in financing activities | | (16,000,000) | (13,000,000) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 18,631,377 | (3,960,900) |
| Cash and cash equivalents at 1 January | 5 | 51,069,812 | 55,030,712 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 5 | 69,701,189 | 51,069,812 |

The attached notes 1 to 30 form part of these financial statements.

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

1 CORPORATE INFORMATION

Abu Dhabi National Takaful Company PSC (the “Company”) is a public shareholding company which was incorporated in Abu Dhabi, United Arab Emirates (“UAE”) on 16 November 2003. The Company is registered in accordance with the UAE Federal Law No. (8) of 1984 (as amended).

The Company carries out takaful and retakaful activities of all classes in accordance with the provisions of the UAE Federal Law No. (6) of 2007 regarding the Establishment of the Insurance Authority and Insurance Operations. The Company is domiciled and operates in the UAE and its registered address is P.O. Box 35335, Abu Dhabi, UAE.

The financial statements of Abu Dhabi National Takaful Company PSC for the year ended 31 December 2014 have been authorised for issue in accordance with a resolution of the Board of Directors on 19 February 2015.

2.1 BASIS OF PREPARATION

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

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

The adoption of the standards or interpretations is described below:

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES continued

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

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

IAS 36: Impairment of Assets (Amendment) requires the disclosure of information about the recoverable amount of impaired non-financial assets, if that amount is based on fair value less costs of disposal. They also require the disclosure of additional information about that fair value measurement. In addition, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using the present value technique, the amendments also require the disclosure of the discount rates that have been used in the current and previous measurements.

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

IAS 39: Financial Instruments: Recognition and Measurement (Amendment) provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

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

IFRIC 21: Levies clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

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

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations issued but not yet effective up to the date of the issuance of the Company’s financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become applicable.

- IFRS 14: Regulatory Deferral Accounts
- IFRS 9: Financial Instruments - hedge accounting (Amendments to IFRS 9, IFRS 7 and IAS 39)
- IFRS 9: Financial Instruments - impairment
- IFRS 15: Revenue from Contracts with Customers
- IFRS 11: Joint Arrangements (Amendment)
- IAS 16 and IAS 38: (Amendment)
- IAS 16 and IAS 41: (Amendment)
- IAS 27: Separate Financial Statements (Amendment)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Takaful contracts

Definition

Takaful contracts are those contracts when the Company (the operator) has accepted takaful risk on behalf of takaful funds from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

Recognition and measurement

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

These contracts are casualty and property takaful contracts.

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

Recognition and measurement continued

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

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

Claims and loss adjustment expenses are charged to the statement of income (attributable to the policyholders) as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

Retakaful contract assets

Contracts entered into by the Company for retakaful under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements of takaful contracts are classified as retakaful contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Takaful contracts entered into by the Company under which the contract holder is involved in takaful activities are included with takaful contracts. The benefits to which the Company is entitled under its retakaful contracts held are recognised as retakaful contract assets. The Company assesses its retakaful contract assets for impairment on a regular basis. If there is objective evidence that the retakaful contract asset is impaired, the Company reduces the carrying amount of the retakaful contract assets to its recoverable amount and recognises that impairment loss in the statement of income. Amounts recoverable from or due to retakaful holders are measured consistently with the amounts associated with the retakaful contracts and in accordance with the terms of each retakaful contract.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Takaful contracts continued

Takaful contract liabilities

Takaful contract liabilities towards outstanding claims are made based on claims intimated to the Company and still unpaid at the end of the reporting period, in addition to claims incurred but not reported. The unearned contribution considered in the takaful contract liabilities comprise the estimated proportion of the gross contributions written which relates to the periods of takaful subsequent to the end of the reporting period. This provision is made based on the higher of the amount required on the basis of time apportionment and the minimum rates prescribed by the UAE Insurance Companies Law which are 25% of the net contribution written on marine and 40% of the net contribution written on all other classes of general takaful.

The retakaful portion towards the above outstanding claims, claims incurred but not reported and unearned contributions is classified as retakaful contracts assets in the financial statements.

Salvage and subrogation reimbursements

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

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the takaful contract liabilities net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the statement of income initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Receivables and payables related to takaful contracts

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

If there is objective evidence that the takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivable accordingly and recognises that impairment loss in the statement of income.

Revenue recognition

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

Dividend income

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

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the income statement.

Other income

Other income is accrued on a time basis, by reference to the principal outstanding and at the effective rate of return applicable.

Retakaful income and expenses

Retakaful income is recognised when retakaful is entered into and retakaful expenses are recognised when the policies are issued.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currencies

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

Exchange differences are recognised in the statement of income in the period in which they arise.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairment losses, if any. The cost of property and equipment is their purchase cost, together with any incidental expenses of acquisition.

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

Depreciation is calculated so as to write off the cost of property and equipment on a straight-line basis over their expected useful economic lives.

The principal annual rates used for this purpose are:

| | |
|--|-------------|
| Building | 3.33% |
| Furniture, fixtures and office equipment | 20% |
| Computer equipment and accessories | 25 - 33.33% |
| Vehicles | 25% |

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

Investment properties

Investment properties are held for the generation of income or capital appreciation and are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of tangible assets

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

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

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

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

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

Employee benefits

An accrual is made for estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the reporting period.

Provision is also made for end of service benefits due to non-UAE national employees in accordance with the Company's policy, which is at least equal to the benefits payable in accordance with UAE Labour Law, for their period of service up to the end of the reporting period.

Pension contributions are made in respect of UAE national employees to the Abu Dhabi Pension Authority, calculated in accordance with Government regulations. Such contributions are charged to the statement of income during the employees' period of service.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets

The Company has the following financial assets: cash and cash equivalents, takaful and other receivables, investments at fair value through other comprehensive income and investments at fair value through profit or loss. The classification depends on the nature of the financial asset and is determined at the time of initial recognition.

Cash and cash equivalents

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

Takaful and other receivables

Takaful and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective rate or return method, less any impairment. Return income is recognised by applying the effective rate of return, except for short term receivables when the recognition of return income would be immaterial.

Investments at fair value through other comprehensive income

Investments at fair value through other comprehensive income are initially recorded at cost and subsequently measured at fair value. Subsequent changes in fair value and gains or losses arising on disposal are recognised in other comprehensive income and dividend income is credited to statement of income when the right to receive the dividend is established.

Investments at fair value through profit or loss

Investments at fair value through profit or loss are initially recorded at cost and subsequently measured at fair value. Subsequent changes in fair value and gains or losses arising on disposal are recognised in statement of income, profit from debt securities is recognized in statement of income and dividend income is credited to statement of income when the right to receive the dividend is established.

Derecognition of financial assets

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Trade payables and accruals

Trade payables and accruals are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective rate of return, with the expense recognised on an effective yield basis.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial liabilities and equity instruments continued

Derecognition of financial liabilities

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

Deficit in policyholders' fund

Deficit in the policyholders' fund is financed by the shareholders through a profit free loan "Qard – Hasan". The Company maintains a full provision against such loans.

Dividends distribution

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Classification of investments

Management decides on acquisition of an equity investment whether it should be classified as carried at fair value through profit or loss or through other comprehensive income.

Fair value measurement

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Fair value measurement continued

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and investment properties is provided in note 29.

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

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

Fair valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments, net asset base of investee or other valuation models.

Impairment of takaful and other receivables

An estimate of the collectible amount of takaful and other receivables is made when collection of the full amount is no longer probable. This determination of whether the takaful and other receivables are impaired entails the Company in evaluating the credit and liquidity position of the policyholders and the takaful companies, historical recovery rates including detailed investigations carried out and feedback received from the legal department. Impairment of takaful and other receivables as at 31 December 2014 amounted to AED 1,420,000 (2013: AED 1,420,000).

The ultimate liability arising from claims made under takaful contracts

The estimation of ultimate liability arising from the claims made under takaful contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of the reporting period. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Provision for IBNR as at 31 December 2014 amounted to AED 24,382,943 (2013: AED 17,216,633) as detailed in note 8.

Liability adequacy test

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

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

5 CASH AND CASH EQUIVALENTS

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|--|---------------------------|---------------------------|
| Cash and bank accounts | 45,603,325 | 20,623,816 |
| Term deposits (note 9) | <u>162,728,956</u> | <u>167,016,935</u> |
| Cash and bank balances | 208,332,281 | 187,640,751 |
| Less: term deposits with original maturity of more than three months | (138,631,092) | (136,570,939) |
| Cash and cash equivalents | <u>69,701,189</u> | <u>51,069,812</u> |

Term deposits represent deposits held with financial institutions in UAE, are denominated in UAE Dirhams and carry profit at the prevailing market rates ranging from 0.25% to 2.00% per annum (2013: 0.3% to 2.25%).

6 STATUTORY DEPOSIT

In accordance with the requirements of UAE Federal Law No. (6) of 2007 regarding the Establishment of the Insurance Authority and Insurance Operations, the Company maintains a bank deposit of AED 10,000,000 which cannot be utilised without the consent of the UAE Insurance Authority. The statutory deposit is held with a commercial bank in UAE, a related party (note 9).

7 INVESTMENTS

7(a) Investments at fair value through other comprehensive income

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|---------------------|---------------------------|---------------------------|
| Quoted securities | 26,621,668 | 37,683,343 |
| Unquoted securities | <u>12,946,374</u> | <u>11,339,655</u> |
| | <u>39,568,042</u> | <u>49,022,998</u> |

The geographical concentration of investments is as follows:

| | | |
|-------------|--------------------------|-------------------|
| Within UAE | 25,390,447 | 25,306,303 |
| Outside UAE | <u>14,177,595</u> | <u>23,716,695</u> |
| | <u>39,568,042</u> | <u>49,022,998</u> |

Unquoted equity securities are valued primarily based on net assets of the investees where there are no recent transactions that could provide evidence of the current fair value.

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

7 INVESTMENTS continued

7(b) Investments at fair value through profit or loss

| | <i>2014</i> | <i>2013</i> |
|--|-------------------|-------------------|
| | <i>AED</i> | <i>AED</i> |
| Unquoted securities | <u>59,661,813</u> | <u>36,039,272</u> |
| The geographical concentration of investments is as follows: | | |
| Within UAE | <u>38,908,013</u> | 18,819,138 |
| Outside UAE | <u>20,753,800</u> | <u>17,220,134</u> |
| | <u>59,661,813</u> | <u>36,039,272</u> |
| Total investments | <u>99,229,855</u> | <u>85,062,270</u> |

8 RETAKAFUL CONTRACT ASSETS AND TAKAFUL CONTRACT LIABILITIES

| | <i>2014</i> | <i>2013</i> |
|-----------------------------------|--------------------|--------------------|
| | <i>AED</i> | <i>AED</i> |
| Gross | | |
| Takaful contract liabilities | | |
| Reported claims | 135,032,310 | 128,946,745 |
| Claims incurred but not reported | 24,382,943 | 17,216,633 |
| Unearned contributions | <u>156,735,594</u> | <u>127,026,342</u> |
| | <u>316,150,847</u> | 273,189,720 |
| Recoverable from retakaful | | |
| Reported claims | 108,300,493 | 104,596,832 |
| Claims incurred but not reported | 16,414,352 | 10,659,470 |
| Unearned contributions | <u>106,313,214</u> | <u>82,841,160</u> |
| | <u>231,028,059</u> | 198,097,462 |
| Takaful liabilities - net | | |
| Reported claims | 26,731,817 | 24,349,913 |
| Claims incurred but not reported | 7,968,591 | 6,557,163 |
| Unearned contributions | <u>50,422,380</u> | <u>44,185,182</u> |
| | <u>85,122,788</u> | <u>75,092,258</u> |

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

8 RETAKAFUL CONTRACT ASSETS AND TAKAFUL CONTRACT LIABILITIES continued

The movement in the retakaful contract assets and takaful contract liabilities during the year is as follows:

| | Year ended 31 December 2014 | | | Year ended 31 December 2013 | | |
|------------------------------|-----------------------------|--------------------|-------------------|-----------------------------|--------------------|-------------------|
| | Gross AED | Retakaful AED | Net AED | Gross AED | Retakaful AED | Net AED |
| CLAIMS | | | | | | |
| Reported claims | 128,946,745 | 104,596,832 | 24,349,913 | 121,030,407 | 100,586,335 | 20,444,072 |
| Incurred but not reported | <u>17,216,633</u> | <u>10,659,470</u> | <u>6,557,163</u> | <u>13,280,050</u> | <u>8,177,251</u> | <u>5,102,799</u> |
| Total at 1 January | 146,163,378 | 115,256,302 | 30,907,076 | 134,310,457 | 108,763,586 | 25,546,871 |
| Claims settled | (117,185,020) | (74,909,214) | (42,275,806) | (80,590,693) | (52,970,666) | (27,620,027) |
| Net claims incurred | <u>130,436,895</u> | <u>84,367,757</u> | <u>46,069,138</u> | <u>92,443,614</u> | <u>59,463,382</u> | <u>32,980,232</u> |
| Total at 31 December | <u>159,415,253</u> | <u>124,714,845</u> | <u>34,700,408</u> | <u>146,163,378</u> | <u>115,256,302</u> | <u>30,907,076</u> |
| Reported claims | 135,032,310 | 108,300,493 | 26,731,817 | 128,946,745 | 104,596,832 | 24,349,913 |
| Incurred but not reported | <u>24,382,943</u> | <u>16,414,352</u> | <u>7,968,591</u> | <u>17,216,633</u> | <u>10,659,470</u> | <u>6,557,163</u> |
| Total at 31 December | <u>159,415,253</u> | <u>124,714,845</u> | <u>34,700,408</u> | <u>146,163,378</u> | <u>115,256,302</u> | <u>30,907,076</u> |
| UNEARNED CONTRIBUTION | | | | | | |
| Total at 1 January | 127,026,342 | 82,841,160 | 44,185,182 | 90,396,437 | 56,996,382 | 33,400,055 |
| Increase during the year | 156,735,594 | 106,313,214 | 50,422,380 | 127,026,342 | 82,841,160 | 44,185,182 |
| Release during the year | (127,026,342) | (82,841,160) | (44,185,182) | (90,396,437) | (56,996,382) | (33,400,055) |
| Net increase during the year | <u>29,709,252</u> | <u>23,472,054</u> | <u>6,237,198</u> | <u>36,629,905</u> | <u>25,844,778</u> | <u>10,785,127</u> |
| Total at 31 December | <u>156,735,594</u> | <u>106,313,214</u> | <u>50,422,380</u> | <u>127,026,342</u> | <u>82,841,160</u> | <u>44,185,182</u> |

9 RELATED PARTIES

Related parties comprise the shareholders, Directors and key management personnel of the Company and those entities in which they have a significant interest and the ability to control or exercise significant influence in financial and operational decisions. Details of significant transactions with a related party in the normal course of business are as follows:

| | 2014 AED | 2013 AED |
|------------------------------|-------------------|-------------------|
| Gross contributions written | <u>47,129,842</u> | <u>35,417,975</u> |
| Takaful expenses | <u>15,195,530</u> | <u>12,575,945</u> |
| Profit on term deposits | <u>110,361</u> | <u>119,582</u> |
| Term deposits at 31 December | <u>10,032,035</u> | <u>18,281,866</u> |

The term deposits are held with a related party, a commercial bank in UAE, are denominated in AED, with original maturity of 30 days (2013: 30 days) and carry profit at 0.25% per annum (2013: 0.3% to 0.5%).

Information on the statutory deposit is disclosed in note 6.

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

9 RELATED PARTIES continued

The remuneration of key management personnel during the year was as follows:

| | 2014 | 2013 |
|---------------------|------------------|------------------|
| | AED | AED |
| Short-term benefits | <u>4,946,929</u> | <u>4,901,194</u> |
| Long-term benefits | <u>216,421</u> | <u>226,684</u> |

The remuneration of Directors is accrued and paid as an appropriation out of the net profits for the year in accordance with the Federal Law No. (8) of 1984 (as amended) applicable to Commercial Companies operating in UAE.

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

Directors' remuneration in relation to the year ended 31 December 2014 of AED 2,600,000 which is subject to the approval of the shareholders at the forthcoming Annual General Meeting, was proposed and reflected in other comprehensive income in the statement of comprehensive income.

Directors' remuneration for the year ended 31 December 2013 amounted to AED 2,600,000 and was reflected in other comprehensive income in the statement of comprehensive income for the year ended 31 December 2013. This remuneration was approved by the shareholders at the Annual General Meeting held on 30 March 2014 and was paid later in April 2014.

10 TAKAFUL AND OTHER RECEIVABLES

| | 2014 | 2013 |
|--|--------------------------|-------------------|
| | AED | AED |
| Due from policyholders, net of provision | 25,932,780 | 16,222,234 |
| Due from insurance and reinsurance companies | 8,169,702 | 4,946,987 |
| Notes receivable - post dated cheques | 1,106,909 | 441,874 |
| Accrued income | 456,603 | 402,202 |
| Other receivables | <u>3,853,871</u> | <u>5,681,209</u> |
| | <u>39,519,865</u> | <u>27,694,506</u> |

Amounts due from policyholders and insurance and reinsurance companies balances consist of a large number of policyholders and insurance and reinsurance companies. The Company's terms of business require amounts to be paid in accordance with arrangements reached with the policyholders and insurance and reinsurance companies and no interest is charged on takaful and other receivables.

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

10 TAKAFUL AND OTHER RECEIVABLES continued

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

As at 31 December 2014, balances due from policyholders, insurance and reinsurance companies at a nominal value of AED 1,420,000 (2013: AED 1,420,000) were impaired and fully provided for.

Movement in provisions for doubtful debts is as follows:

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|----------------|---------------------------|---------------------------|
| At 1 January | 1,420,000 | 4,120,000 |
| Additions | 954,528 | 1,252,903 |
| Reversals | <u>(954,528)</u> | <u>(3,952,903)</u> |
| At 31 December | <u>1,420,000</u> | <u>1,420,000</u> |

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

| | <i>Past due but not impaired</i> | | | | <i>Total</i> <i>AED</i> |
|-------------|---|--|---|---|----------------------------|
| | <i>Not past</i> <i>due</i> <i>AED</i> | <i>91 - 180</i> <i>days</i> <i>AED</i> | <i>181 - 360</i> <i>days</i> <i>AED</i> | <i>More than</i> <i>360 days</i> <i>AED</i> | |
| 2014 | 22,668,418 | 8,223,582 | 3,210,482 | - | 34,102,482 |
| 2013 | 15,254,221 | 2,987,528 | 2,927,472 | - | 21,169,221 |

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

11 PROPERTY AND EQUIPMENT

| | <i>Building AED</i> | <i>Furniture, fixtures and office equipment AED</i> | <i>Computer equipment and accessories AED</i> | <i>Motor vehicles AED</i> | <i>Total AED</i> |
|--|--------------------------|---|---|-----------------------------------|--------------------------|
| 2014 | | | | | |
| Cost: | | | | | |
| At 1 January 2014 | 18,982,731 | 5,035,946 | 3,602,717 | 943,950 | 28,565,344 |
| Additions | <u>-</u> | <u>4,783</u> | <u>48,705</u> | <u>-</u> | <u>53,488</u> |
| At 31 December 2014 | <u>18,982,731</u> | <u>5,040,729</u> | <u>3,651,422</u> | <u>943,950</u> | <u>28,618,832</u> |
| Depreciation: | | | | | |
| At 1 January 2014 | 318,776 | 4,331,326 | 2,426,336 | 514,926 | 7,591,364 |
| Charge for the year | <u>632,353</u> | <u>213,606</u> | <u>434,054</u> | <u>139,243</u> | <u>1,419,256</u> |
| At 31 December 2014 | <u>951,129</u> | <u>4,544,932</u> | <u>2,860,390</u> | <u>654,169</u> | <u>9,010,620</u> |
| Net carrying amount: 31 December 2014 | <u>18,031,602</u> | <u>495,797</u> | <u>791,032</u> | <u>289,781</u> | <u>19,608,212</u> |
| 2013 | | | | | |
| Cost: | | | | | |
| At 1 January 2013 | - | 5,001,066 | 2,277,771 | 576,675 | 7,855,512 |
| Additions | 18,982,731 | 40,739 | 1,324,946 | 506,500 | 20,854,916 |
| Disposals | <u>-</u> | <u>(5,859)</u> | <u>-</u> | <u>(139,225)</u> | <u>(145,084)</u> |
| At 31 December 2013 | <u>18,982,731</u> | <u>5,035,946</u> | <u>3,602,717</u> | <u>943,950</u> | <u>28,565,344</u> |
| Depreciation: | | | | | |
| At 1 January 2013 | - | 4,069,567 | 2,157,122 | 427,415 | 6,654,104 |
| Charge for the year | 318,776 | 267,605 | 269,214 | 202,530 | 1,058,125 |
| Relating to disposals | <u>-</u> | <u>(5,846)</u> | <u>-</u> | <u>(115,019)</u> | <u>(120,865)</u> |
| At 31 December 2013 | <u>318,776</u> | <u>4,331,326</u> | <u>2,426,336</u> | <u>514,926</u> | <u>7,591,364</u> |
| Net carrying amount: 31 December 2013 | <u>18,663,955</u> | <u>704,620</u> | <u>1,176,381</u> | <u>429,024</u> | <u>20,973,980</u> |

Included in property and equipment in the year ended 31 December 2014 is a building costing AED 18,982,731 (2013: AED 18,982,731) which represent the purchase of floor 25, building 12, Marina Square, Reem Island, Abu Dhabi which will be utilised as office premises. Handover of the floor took place in August 2013.

12 INVESTMENT PROPERTIES

| | <i>2014 AED</i> | <i>2013 AED</i> |
|------------------------|--------------------------|-------------------------|
| At 1 January | 3,582,810 | - |
| Transfer from advances | 10,314,993 | 1,942,968 |
| Additional payments | 3,481,850 | 814,494 |
| Increase in fair value | <u>3,324,633</u> | <u>825,348</u> |
| At 31 December | <u>20,704,286</u> | <u>3,582,810</u> |

Investment properties are stated at fair value which represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The investment properties were valued as at 31 December 2014 by an independent valuer which valued the properties at AED 20,704,286 using the sales comparison method utilizing the evidence of transactions and/or current asking prices of similar sites and applying some adjustments based on market research.

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

13 SHARE CAPITAL

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|--|---------------------------|---------------------------|
| <i>Authorized, issued and fully paid</i> 100,000,000 shares of AED 1 each | <u>100,000,000</u> | <u>100,000,000</u> |

At 31 December 2014, 41,664,219 shares or 41.66% of total share capital (2013: 39,646,537 shares or 39.65% of total share capital) were held by Abu Dhabi Islamic Bank PJSC and 58,335,781 shares or 58.34% of total share capital (2013: 60,353,463 shares or 60.35% of total share capital) were held by UAE nationals and other institutions.

14 LEGAL RESERVE

In accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984, (as amended), and the Company's articles of association, the Company is required to transfer annually to a legal reserve account an amount equivalent to 10% of its annual net profit, until such reserve reaches 50% of the paid up capital of the Company. This reserve is not available for distribution.

15 GENERAL RESERVE

Transfers to and from the general reserve are made at the discretion of the Board of Directors and are subject to the shareholders approval. This reserve may be used for such purposes as they deem fit.

16 DIVIDENDS

For the year ended 31 December 2014, the Board of Directors proposed a cash dividend of AED 16,000,000 at a rate of AED 0.16 per share. The 2014 proposed cash dividend is subject to approval of the shareholders at the forthcoming Annual General Meeting.

For the year ended 31 December 2013, cash dividend of AED 16,000,000 at a rate of AED 0.16 per share was approved by shareholders on 30 March 2014 and it was paid in April 2014.

For the year ended 31 December 2012, cash dividend of AED 13,000,000 at a rate of AED 0.13 per share was approved by shareholders on 26 March 2013 and it was paid in April 2013.

17 POLICYHOLDERS' FUND

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|------------------------------------|---------------------------|---------------------------|
| At 1 January | (24,253,434) | (3,880,722) |
| Net surplus (deficit) for the year | <u>3,239,698</u> | <u>(20,372,712)</u> |
| At 31 December | <u>(21,013,736)</u> | <u>(24,253,434)</u> |

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

18 PROVISION FOR END OF SERVICE BENEFITS

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|-------------------------|---------------------------|---------------------------|
| At 1 January | 4,510,392 | 3,589,950 |
| Charged during the year | 951,863 | 1,015,074 |
| Paid during the year | <u>(253,940)</u> | <u>(94,632)</u> |
| At 31 December | <u>5,208,315</u> | <u>4,510,392</u> |

19 RETAKAFUL AND OTHER LIABILITIES

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|----------------------------|---------------------------|---------------------------|
| Due to policy-holders | 798,113 | 1,688,617 |
| Due to takaful companies | 1,994,872 | 2,782,877 |
| Due to retakaful companies | 49,574,077 | 28,095,730 |
| Accrued liabilities | 4,688,861 | 4,484,117 |
| Other payables | <u>17,296,128</u> | <u>14,717,814</u> |
| | <u>74,352,051</u> | <u>51,769,155</u> |

The average credit period is 60 to 90 days terms. The Company has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

20 NET EARNED CONTRIBUTIONS

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|--|---------------------------|---------------------------|
| Gross takaful contributions revenue | | |
| Gross contributions written | 295,385,711 | 271,754,287 |
| Change in unearned contributions provision | <u>(29,709,252)</u> | <u>(36,629,905)</u> |
| | <u>265,676,459</u> | <u>235,124,382</u> |
| Retakaful contributions | | |
| Retakaful contributions | 168,145,496 | 162,237,756 |
| Change in unearned contributions provision | <u>(23,472,054)</u> | <u>(25,844,778)</u> |
| | <u>144,673,442</u> | <u>136,392,978</u> |
| Net earned contributions | <u>121,003,017</u> | <u>98,731,404</u> |

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

21 POLICYHOLDERS' INVESTMENT INCOME

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|--|---------------------------|---------------------------|
| Return on short-term investment accounts and deposits | 1,812,682 | 1,580,093 |
| Decrease in fair value of investments at fair value through profit or loss | <u>(88,796)</u> | <u>-</u> |
| | <u>1,723,886</u> | <u>1,580,093</u> |

22 MUDAREB SHARE AND WAKALAH FEES

The shareholders manage the policyholder's investment fund and charge 30% (2013: 30%) of investment income earned by policyholders' investment fund as mudareb share.

The shareholders manage the takaful operations for the policyholders and charge the following percentage of gross takaful contributions as wakalah fees.

- Marine hull, aviation and energy 10% (2013: 30%)
- All other takaful classes 15% (2013: 30%)

23 SHAREHOLDERS' INVESTMENT AND OTHER INCOME, NET

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|---|---------------------------|---------------------------|
| Return on short-term investment accounts and deposits | 954,425 | 955,866 |
| Dividend income and profit from Sukuk | 5,515,527 | 3,899,804 |
| Increase in fair value of investment properties (note 12) | 3,324,633 | 825,348 |
| Rental income | 146,110 | - |
| Gain on disposal of property and equipment | - | 42,781 |
| Others | <u>-</u> | <u>212,693</u> |
| | <u>9,940,695</u> | <u>5,936,492</u> |

24 GENERAL AND ADMINISTRATIVE EXPENSES

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|--|---------------------------|---------------------------|
| Staff costs | 24,676,090 | 24,669,024 |
| Rental expenses | 2,856,617 | 2,822,327 |
| Depreciation of property and equipment | 1,419,256 | 1,058,125 |
| Other expenses | <u>3,562,072</u> | <u>3,710,051</u> |
| | <u>32,514,035</u> | <u>32,259,527</u> |

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

25 BASIC AND DILUTED EARNINGS PER SHARE

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

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|--|---------------------------|---------------------------|
| Net profit for year (AED) | <u>35,755,627</u> | <u>35,173,681</u> |
| Ordinary shares in issue throughout the year | <u>100,000,000</u> | <u>100,000,000</u> |
| Basic and diluted earnings per share (AED) | <u>0.36</u> | <u>0.35</u> |

26 SEGMENT INFORMATION

Primary segment information

The Company has adopted IFRS 8 Operating Segments with effect from 1 January 2009 ("IFRS 8"). IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and reward approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. This has not resulted in any significant change to the reportable segments presented by the Company as the segments reported by the Company were consistent with the internal reports provided to the chief operating decision maker.

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

- Underwriting of takaful business incorporating all classes of takaful including fire, marine, motor, general accident, engineering, energy and family takaful. This business is conducted fully within the UAE.
- Investments incorporating investments in UAE marketable equity securities, short-term investments with banks and other securities.

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

Segment revenue and results

| | <i>2014</i> | | | <i>2013</i> | | |
|--------------------------------|-----------------------------------|----------------------------------|----------------------------|-----------------------------------|----------------------------------|----------------------------|
| | <i>Underwriting</i> <i>AED</i> | <i>Investments</i> <i>AED</i> | <i>Total</i> <i>AED</i> | <i>Underwriting</i> <i>AED</i> | <i>Investments</i> <i>AED</i> | <i>Total</i> <i>AED</i> |
| Direct revenue | 276,398,474 | 13,426,904 | 289,825,378 | 254,892,106 | 7,631,664 | 262,523,770 |
| Direct costs | (190,742,580) | - | (190,742,580) | (169,373,210) | - | (169,373,210) |
| Takaful expenses | <u>(30,813,136)</u> | - | <u>(30,813,136)</u> | <u>(25,717,352)</u> | - | <u>(25,717,352)</u> |
| Segment results | 54,842,758 | 13,426,904 | 68,269,662 | 59,801,544 | 7,631,664 | 67,433,208 |
| Unallocated costs | | | <u>(32,514,035)</u> | | | <u>(32,259,527)</u> |
| Net profit for the year | | | <u>35,755,627</u> | | | <u>35,173,681</u> |

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues in the year (2013: AED nil).

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

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

26 SEGMENT INFORMATION continued

Segment assets and liabilities

| | 2014 | | | 2013 | | |
|----------------------------|-----------------------------|----------------------------|----------------------|-----------------------------|----------------------------|----------------------|
| | <i>Underwriting AED</i> | <i>Investments AED</i> | <i>Total AED</i> | <i>Underwriting AED</i> | <i>Investments AED</i> | <i>Total AED</i> |
| Segment assets | 415,162,293 | 193,111,364 | 608,273,657 | 341,236,303 | 180,657,584 | 521,893,887 |
| Unallocated assets | | | <u>24,095,649</u> | | | <u>21,501,590</u> |
| Total assets | | | <u>632,369,306</u> | | | <u>543,395,477</u> |
| Segment liabilities | 398,936,345 | | 398,936,345 | 330,963,707 | | 330,963,707 |
| Unallocated liabilities | | | <u>20,969,870</u> | | | <u>19,057,002</u> |
| Total liabilities | | | <u>419,906,215</u> | | | <u>350,020,709</u> |
| Capital expenditure | | 53,488 | 53,488 | | 20,854,916 | 20,854,916 |

Gross takaful contributions revenue from underwriting departments

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

| | <i>2014 AED</i> | <i>2013 AED</i> |
|--|---------------------------|---------------------|
| Motor | 69,502,886 | 42,423,230 |
| Medical | 68,364,125 | 58,710,987 |
| Energy | 11,312,049 | 26,506,276 |
| Workmen's compensation and miscellaneous accidents | 28,894,463 | 31,222,090 |
| Fire | 21,261,680 | 20,778,737 |
| Engineering | 6,838,839 | 5,795,258 |
| Marine and aviation | 1,843,136 | 4,092,361 |
| Family takaful | <u>57,659,281</u> | <u>45,595,443</u> |
| | <u>265,676,459</u> | <u>235,124,382</u> |

27 TAKAFUL RISK

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

For a portfolio of takaful contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its takaful contracts is that the actual claims and benefit payments exceed the estimated amount of the takaful liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Takaful 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 takaful contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its takaful underwriting strategy to diversify the type of takaful risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

27 TAKAFUL RISK continued

Frequency and severity of claims

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

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

The retakaful arrangements include excess and catastrophe coverage. The effect of such retakaful arrangements is that the Company should not suffer net takaful losses of a set limit of AED 250,000 in any one motor policy and AED 1,000,000 for any one non-motor policy. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlement of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments

Claims on takaful contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and an element of the claims provision includes incurred but not reported claims. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some takaful contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Company considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

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

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

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projection 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.

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

27 TAKAFUL RISK continued

Sources of uncertainty in the estimation of future claim payments continued

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

Process used to decide on assumptions

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

The choice of selected results for each accident year of each class of business depends on an assessment of the techniques 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.

Claims development process

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

Motor - Gross

Accident year

| | <i>2010 and earlier AED'000</i> | <i>2011 AED'000</i> | <i>2012 AED'000</i> | <i>2013 AED'000</i> | <i>2014 AED'000</i> | <i>Total AED'000</i> |
|---|---|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| At the end of the accident year | 35,617 | 23,824 | 17,341 | 38,148 | 75,875 | - |
| One year later | 30,194 | 17,581 | 13,495 | 26,688 | - | - |
| Two years later | 28,855 | 17,398 | 12,201 | - | - | - |
| Three years later | 28,211 | 16,451 | - | - | - | - |
| Four years later | 27,671 | - | - | - | - | - |
| Current estimate of cumulative claims | 27,671 | 16,451 | 12,201 | 26,688 | 75,875 | 158,886 |
| Cumulative payments to date | (27,669) | (16,363) | (11,785) | (23,786) | (40,086) | (119,689) |
| Liability recognised in the statement of financial position | 2 | 88 | 416 | 2,902 | 35,789 | 39,197 |

Non Motor - Gross

Underwriting year

| | | | | | | |
|---|----------|----------|----------|----------|-----------------|-----------|
| At the end of the underwriting year | 69,063 | 115,098 | 118,567 | 129,233 | 142,193 | - |
| One year later | 44,773 | 91,126 | 63,393 | 66,406 | - | - |
| Two years later | 42,300 | 83,137 | 50,715 | - | - | - |
| Three years later | 45,252 | 87,292 | - | - | - | - |
| Four years later | 44,807 | - | - | - | - | - |
| Current estimate of cumulative claims | 44,807 | 87,292 | 50,715 | 66,406 | 142,193 | 391,413 |
| Cumulative payments to date | (44,733) | (85,908) | (45,012) | (53,577) | (41,965) | (271,195) |
| Liability recognised in the statement of financial position | 74 | 1,384 | 5,703 | 12,829 | 100,228 | 120,218 |

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

27 TAKAFUL RISK continued

Concentration of takaful risk

Substantially all of the Company's underwriting activities are carried out in the UAE.

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

To minimise its exposure to significant losses from retakaful insolvencies, the Company evaluates the financial condition of its retakaful and monitors concentration of credit risk arising from similar geographic regions, activities or economic characteristics of the retakaful companies. The Company remains liable to its policyholders for the portion covered by retakaful to the extent that any retakaful does not meet the obligations assumed under the retakaful agreements.

Sensitivity of underwriting profit and losses

The contribution by the takaful operations to the profit of the Company for the year ended 31 December 2014 amounts to AED 24.1 million (2013: AED 27.7 million). The Company does not foresee any adverse change in the contribution of takaful profit due to the following reasons:

The Company has an overall risk retention level of 43.1% (2013: 40.3%) and the same is mainly contributed by one class of business i.e., Motor wherein the retention level is 54%. However, in this line the liabilities are adequately covered by excess of loss retakaful program to guard against major financial impact.

The Company has net commission earning of 19.6% (2013: 33.1%) of the takaful operating profit predominantly from retakaful placement which remains as a comfortable source of income.

Because of low risk retention of 81% (2013: 76%) volume of the business and limited exposure in high retention areas like Motor, the Company is comfortable to maintain a net loss ratio in the region of 45% to 75% and does not foresee any serious financial impact in the takaful net profit.

28 FINANCIAL INSTRUMENTS

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, retakaful assets and takaful 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 takaful and investment contracts. The risks that the Company primarily faces due to the nature of its investments and underwriting business are market price risk, credit risk and liquidity risk.

Fair value of financial instruments

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

An analysis of financial instruments that are measured subsequent to initial recognition at fair value into levels 1 to 3 is provided in note 29.

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

28 FINANCIAL INSTRUMENTS continued

Capital risk management

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

The Company's objectives when managing capital are:

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

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

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

| | <i>2014</i> | <i>2013</i> |
|----------------------------|--------------------|--------------------|
| | <i>AED</i> | <i>AED</i> |
| Total shareholders' equity | <u>212,463,091</u> | <u>193,374,768</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 an insurance firm and AED 250 million for a reinsurance firm. 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 Gulf Cooperation Council national individuals or corporate bodies. The Company is complying with the above requirements.

Significant accounting policies

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

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

28 FINANCIAL INSTRUMENTS continued

Categories of financial instruments

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|---------------------------------|---------------------------|---------------------------|
| Financial assets | | |
| Statutory deposit | 10,000,000 | 10,000,000 |
| Investments | 99,229,855 | 85,062,270 |
| Retakaful contract assets | 231,028,059 | 198,097,462 |
| Takaful and other receivables | 39,519,865 | 27,694,506 |
| Cash and bank balances | <u>208,332,281</u> | <u>187,640,751</u> |
| Total | <u>588,110,060</u> | <u>508,494,989</u> |
| Takaful | | |
| Takaful contract liabilities | 316,150,847 | 273,189,720 |
| Retakaful and other liabilities | 74,352,051 | 51,769,155 |
| Retakaful deposits retained | <u>24,195,002</u> | <u>20,551,442</u> |
| Total | <u>414,697,900</u> | <u>345,510,317</u> |

Profit return rate risk management

The Company is not exposed to significant profit return rate risks as its profit return-sensitivity assets are repriced frequently.

The Company's rate of return risk is mainly attributable to its bank deposits.

The Company generally tries to minimise the rate of return risk by closely monitoring the market rates and investing in those financial assets in which such risk is expected to be minimal.

Foreign currency risk

The Company is not exposed to significant foreign currency risk as substantially all financial assets and financial liabilities are denominated in AED or US Dollars to which the AED is pegged.

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 Company is exposed to market price risk with respect to its quoted investments. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market; in addition, the Company actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

28 FINANCIAL INSTRUMENTS continued

Credit risk management

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

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

- Retakafuls' share of takaful liabilities;
- Amounts due from retakaful in respects of claims already paid;
- Amounts due from takaful contract holders;
- Amounts due from takaful intermediaries; and
- Amounts due from banks for its bank balances and fixed deposits.

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

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

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company.

Management information reported to the Company includes details of provisions for impairment on takaful receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for retakaful is carried out by the Company. Details on concentration of amounts due from policyholders is disclosed in note 10. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policy holders.

The credit risk on liquid funds maintained with banks is limited because the counterparties are reputable local banks closely monitored by the regulatory body.

At 31 December 2014, all of the deposits were placed with 6 banks (2013: 5 banks). Management is confident that this concentration at year end does not result in any credit risk to the Company as these banks are major banks operating in the UAE and are highly regulated by the Central Bank.

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

Liquidity risk management

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. Bank facilities, the policy holders and the retakaful, are the major sources of funding for the Company and the liquidity risk for the Company is assessed to be low.

The table below summarises the maturity profile of the Company's financial liabilities with maturities determined on the basis of the remaining period from the end of the reporting period to the contractual maturity / repayment date.

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

28 FINANCIAL INSTRUMENTS continued

Liquidity risk management continued

The maturity profile is monitored by management to ensure adequate liquidity is maintained.

| | <i>Carrying amount AED</i> | <i>0 - 180 days AED</i> | <i>181 - 365 days AED</i> |
|--|------------------------------------|---------------------------------|-----------------------------------|
| Financial liabilities at 31 December 2014 | | | |
| Takaful contract liabilities | 316,150,847 | - | 316,150,847 |
| Retakaful and other liabilities | 74,352,051 | 59,457,726 | 14,894,325 |
| Retakaful deposits retained | <u>24,195,002</u> | <u>-</u> | <u>24,195,002</u> |
| Total | <u>414,697,900</u> | <u>59,457,726</u> | <u>355,240,174</u> |
| Financial liabilities at 31 December 2013 | | | |
| Takaful contract liabilities | 273,189,720 | - | 273,189,720 |
| Retakaful and other liabilities | 51,769,155 | 39,019,153 | 12,750,002 |
| Retakaful deposits retained | <u>20,551,442</u> | <u>-</u> | <u>20,551,442</u> |
| Total | <u>345,510,317</u> | <u>39,019,153</u> | <u>306,491,164</u> |

Fair value of financial assets and liabilities

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

29 FAIR VALUE MEASUREMENTS

The following table provides fair value hierarchy of the Company's assets measured at fair value.

| | <i>Level 1 AED</i> | <i>Level 2 AED</i> | <i>Level 3 AED</i> | <i>Total AED</i> |
|--|--------------------------|--------------------------|--------------------------|---------------------------|
| 31 December 2014 | | | | |
| Investments at fair value through other comprehensive income | | | | |
| Equities | 26,621,668 | - | 12,946,374 | 39,568,042 |
| Investments at fair value through profit or loss | | | | |
| Investment in sukuk | - | 59,661,813 | - | 59,661,813 |
| Investment properties | <u>-</u> | <u>-</u> | <u>20,704,286</u> | <u>20,704,286</u> |
| Total | <u>26,621,668</u> | <u>59,661,813</u> | <u>33,650,660</u> | <u>119,934,141</u> |
| 31 December 2013 | | | | |
| Investments at fair value through other comprehensive income | | | | |
| Equities | 37,683,343 | - | 11,339,655 | 49,022,998 |
| Investments at fair value through profit or loss | | | | |
| Investment in sukuk | - | 36,039,272 | - | 36,039,272 |
| Investment properties | <u>-</u> | <u>-</u> | <u>3,582,810</u> | <u>3,582,810</u> |
| Total | <u>37,683,343</u> | <u>36,039,272</u> | <u>14,922,465</u> | <u>88,645,080</u> |

There were no transfers between levels 1, 2 and 3 in 2014 and 2013.

Abu Dhabi National Takaful Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

30 CONTINGENT LIABILITIES AND COMMITMENTS

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|--|---------------------------|---------------------------|
| Bank guarantees | <u>110,479</u> | <u>49,144</u> |
| Commitments in respect of acquisition of investment properties | <u>-</u> | <u>3,481,849</u> |

Bank guarantees were issued in the normal course of business.

The commitments of AED 3,481,849 at 31 December 2013 were paid during the year upon handover of investment properties. Out of the total advance payments amounting to AED 16,680,559 made in 2008, AED 13,553,962) was outstanding at 31 December 2013 and included under advances and other assets in the statement of financial position. There we no outstanding advances at 31 December 2014 as all the investment properties were handed over in 2014. The Company maintained a provision of AED 5,001,292 for impairment of these advance payments at 31 December 2013 . Movement in provision for these advances and other assets is as follows:

| | <i>2014</i> <i>AED</i> | <i>2013</i> <i>AED</i> |
|--|---------------------------|---------------------------|
| At 1 January | 5,001,292 | 6,300,000 |
| Reversal to the income statement during the year | (1,762,322) | (115,080) |
| Reversal upon handover of investment properties | (3,238,970) | (1,183,628) |
| At 31 December | <u>-</u> | <u>5,001,292</u> |