

**Ras Al Khaimah National Insurance Company P.S.C.**

Financial statements

*31 December 2013*

# **Ras Al Khaimah National Insurance Company P.S.C.**

## Financial statements

*31 December 2013*

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**KPMG Lower Gulf Limited**  
Level 13, Boulevard Plaza Tower One  
Mohammed Bin Rashid Boulevard  
PO Box 3800  
Downtown Dubai  
United Arab Emirates

Telephone +971 (4) 403 0300  
Fax +971 (4) 330 1515  
Website [www.ae-kpmg.com](http://www.ae-kpmg.com)

## Independent Auditors' Report

The Shareholders  
Ras Al Khaimah National Insurance Company P.S.C.

### Report on the Financial Statements

We have audited the accompanying financial statements of Ras Al Khaimah National Insurance Company P.S.C. ("the Company"), which comprise the statement of financial position as at 31 December 2013, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 at 31 December 2013, 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**

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law No.8 of 1984 (as amended) and the Articles of Association of the Company; that proper financial records have been kept by the Company; and the contents of the Directors' report which relate to these financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2013, which may have had a material adverse effect on the business of the Company or its financial position.

#### **Other matter**

The financial statements as at and for year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on the financial statements on 25 March 2013.

A handwritten signature in blue ink, appearing to read 'Vijendra Nath Malhotra', written over a faint, larger 'KPMG' watermark.

**KPMG Lower Gulf Limited**  
**Vijendra Nath Malhotra**  
**Registration No: 48B**

**2 6 MAR 2014**

**Ras Al Khaimah National Insurance Company P.S.C.**

Statement of financial position

as at 31 December 2013

	Note	2013 AED	2012 AED
<b>ASSETS</b>			
Property and equipment	8	2,418,056	1,119,263
Investment properties	9	7,576,193	6,421,479
Investment in an associate	10	27,848,646	23,366,706
Investments securities	11	26,690,310	11,447,167
Statutory deposits		10,000,000	10,000,000
Reinsurance contract assets	14	91,034,014	96,582,324
Insurance and other receivables	12	120,503,130	110,431,021
Cash and bank balances	13	201,540,770	177,364,593
<b>Total assets</b>		<b>487,611,119</b>	<b>436,732,553</b>
<b>LIABILITIES</b>			
Insurance contract liabilities	14	199,569,300	192,748,802
Insurance and other payables	15	61,387,511	46,834,764
Provision for employees' end of service benefits	16	3,438,451	5,288,580
<b>Total liabilities</b>		<b>264,395,262</b>	<b>244,872,146</b>
<b>EQUITY</b>			
Share capital	17	100,000,000	100,000,000
Statutory reserve	17	36,073,578	32,619,210
Special reserve	17	20,000,000	20,000,000
Cumulative changes in fair value of available-for-sale securities		17,626,610	4,514,836
Retained earnings		49,515,669	34,726,361
<b>Total equity</b>		<b>223,215,857</b>	<b>191,860,407</b>
<b>Total liabilities and equity</b>		<b>487,611,119</b>	<b>436,732,553</b>

The notes on pages 8 to 44 form an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 26 MAR 2014 and signed on their behalf by:



Chairman



Chief Executive Officer

Independent auditors' report is set out on pages 1 - 2.

## Ras Al Khaimah National Insurance Company P.S.C.

### Statement of profit or loss

For the year ended 31 December 2013

	Note	2013 AED	2012 AED
Gross written premiums	24	250,629,675	210,362,900
Reinsurance ceded		(93,821,454)	(89,102,475)
<b>Net premiums</b>		<b>156,808,221</b>	<b>121,260,425</b>
Net change in unearned premium	14.1	(14,461,233)	(10,642,759)
<b>Net earned premiums</b>		<b>142,346,988</b>	<b>110,617,666</b>
Reinsurance commission earned		8,603,317	7,836,650
<b>Total underwriting income</b>		<b>150,950,305</b>	<b>118,454,316</b>
Gross claims paid	14.1	(124,418,932)	(93,099,511)
Reinsurance share of claims paid	14.1	40,176,559	27,293,251
<b>Net claims paid</b>		<b>(84,242,373)</b>	<b>(65,806,260)</b>
Change in outstanding claims provision		2,092,425	4,420,136
<b>Net incurred claims</b>	14.1	<b>(82,149,948)</b>	<b>(61,386,124)</b>
Commission paid		(17,594,063)	(10,349,313)
General and administrative expenses relating to underwriting activities	21	(19,714,390)	(14,833,650)
<b>Net underwriting expenses</b>		<b>(119,458,401)</b>	<b>(86,569,087)</b>
<b>Underwriting profit</b>	24	<b>31,491,904</b>	<b>31,885,229</b>
Net income from investments	20	7,934,311	5,569,028
Share of profit / (loss) from associate	10	1,688,925	(4,385,384)
Unallocated general and administrative expenses	21	(6,571,464)	(4,944,550)
<b>Profit for the year</b>		<b>34,543,676</b>	<b>28,124,323</b>
Earnings per share	25	<b>0.35</b>	<b>0.28</b>

The notes on pages 8 to 44 form an integral part of these financial statements.  
Independent auditors' report is set out on pages 1 - 2.

## Ras Al Khaimah National Insurance Company P.S.C.

### Statement of comprehensive income

For the year ended 31 December 2013

	<b>2013</b>	2012
	<b>AED</b>	AED
<b>Profit for the year</b>	<b>34,543,676</b>	28,124,323
<b>Other comprehensive income</b>		
<i>Items that are or may be reclassified to profit or loss:</i>		
Net change in fair value of available-for-sale securities	<b>10,373,959</b>	1,066,155
Net amount transferred to profit or loss of available-for-sale securities	<b>(55,200)</b>	(533,706)
Share of other comprehensive income of associate	<b>2,793,015</b>	58,591
<b>Total other comprehensive income for the year</b>	<b>13,111,774</b>	591,040
<b>Total comprehensive income for the year</b>	<b>47,655,450</b>	28,715,363

The notes on pages 8 to 44 form an integral part of these financial statements.

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## Ras Al Khaimah National Insurance Company P.S.C.

### Statement of changes in shareholders' equity

For the year ended 31 December 2013

	Attributable to the equity holders of the Company					
	Share capital AED	Statutory reserve AED	Special reserve AED	Fair value reserve AED	Retained earnings AED	Total AED
As at 1 January 2012	100,000,000	29,806,778	20,000,000	3,923,796	25,554,470	179,285,044
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	28,124,323	28,124,323
<b>Other comprehensive income for the year</b>						
Net change in fair value of available-for-sale securities	-	-	-	1,066,155	-	1,066,155
Net amount reclassified to profit or loss of available-for-sale securities	-	-	-	(533,706)	-	(533,706)
Share of other comprehensive income of associate	-	-	-	58,591	-	58,591
<b>Total other comprehensive income for the year</b>	-	-	-	591,040	-	591,040
<b>Total comprehensive income for the year</b>	-	-	-	591,040	28,124,323	28,715,363
<i>Transaction with owners directly recorded in equity</i>						
Directors' remuneration (note 19)	-	-	-	-	(1,140,000)	(1,140,000)
Transfer to legal reserve	-	2,812,432	-	-	(2,812,432)	-
Dividend (note 18)	-	-	-	-	(15,000,000)	(15,000,000)
<b>As at 31 December 2012</b>	<b>100,000,000</b>	<b>32,619,210</b>	<b>20,000,000</b>	<b>4,514,836</b>	<b>34,726,361</b>	<b>191,860,407</b>
Balance at 1 January 2013	100,000,000	32,619,210	20,000,000	4,514,836	34,726,361	191,860,407
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	34,543,676	34,543,676
<b>Other comprehensive income for the year</b>						
Net change in fair value of available-for-sale securities	-	-	-	10,373,959	-	10,373,959
Net amount reclassified to profit or loss of available-for-sale securities	-	-	-	(55,200)	-	(55,200)
Share of other comprehensive income of associate	-	-	-	2,793,015	-	2,793,015
<b>Total other comprehensive income for the year</b>	-	-	-	13,111,774	-	13,111,774
<b>Total comprehensive income for the year</b>	-	-	-	13,111,774	34,543,676	47,655,450
<i>Transaction with owners directly recorded in equity</i>						
Directors' remuneration (note 19)	-	-	-	-	(1,300,000)	(1,300,000)
Transfer to reserve	-	3,454,368	-	-	(3,454,368)	-
Dividend (note 18)	-	-	-	-	(15,000,000)	(15,000,000)
<b>As at 31 December 2013</b>	<b>100,000,000</b>	<b>36,073,578</b>	<b>20,000,000</b>	<b>17,626,610</b>	<b>49,515,669</b>	<b>223,215,857</b>

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# Ras Al Khaimah National Insurance Company P.S.C.

## Statement of cash flows

For the year ended 31 December 2013

	Note	2013 AED	2012 AED
<b>Cash flows from operating activities</b>			
Profit for the year		34,543,676	28,124,323
<i>Adjustments for:</i>			
Share of (profit) / loss of an associate		(1,688,925)	4,385,384
Depreciation of property and equipment		626,940	328,330
Depreciation of investment properties		212,952	194,765
Allowance for doubtful debts		4,440,000	800,000
Provision of employees' end of service benefits		79,358	927,804
Unrealised gain on financial assets at FVTPL		(1,272,384)	(301,589)
Impairment losses on available-for-sale investments		55,200	533,707
Income from investment property		(228,297)	(199,081)
Interest income		(4,395,556)	(4,483,347)
Dividend income		(625,630)	(415,793)
Gain on disposal of property and equipment		(34,015)	-
		<u>31,713,319</u>	<u>29,894,503</u>
Change in re-insurance contract assets		5,548,310	(24,562,743)
Change in insurance contract liabilities		6,820,498	30,785,366
Change in insurance and other receivables		(17,685,164)	(44,216)
Change in insurance and other payables		14,948,591	6,225,904
Employees' end of service benefits paid		(1,929,487)	(47,654)
<b>Net cash generated from operating activities</b>		<u>39,416,067</u>	<u>42,251,160</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(2,110,586)	(804,590)
Purchase of investment property		(1,367,666)	-
Proceeds from disposal of property and equipment		218,868	-
Income from investment property		228,297	199,081
Interest received		3,861,411	3,417,017
Dividend received		625,630	415,793
Decrease / (increase) in fixed deposit with banks with maturity greater than 3 months		68,192,274	(13,946,782)
<b>Net cash generated from / (used in) investing activities</b>		<u>69,648,228</u>	<u>(10,719,481)</u>
<b>Cash flows from financing activities</b>			
Dividend paid		(15,555,844)	(14,030,581)
Directors' remuneration paid		(1,140,000)	(1,140,000)
<b>Net cash used in financing activities</b>		<u>(16,695,844)</u>	<u>(15,170,581)</u>
<b>Net increase in cash and cash equivalents</b>		<b>92,368,451</b>	<b>16,361,098</b>
Cash and cash equivalents at the beginning of the year		<u>49,479,041</u>	<u>33,117,943</u>
<b>Cash and cash equivalents at the end of the year</b>	13	<u><u>141,847,492</u></u>	<u><u>49,479,041</u></u>

The notes on pages 8 to 44 form an integral part of these financial statements.  
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# Ras Al Khaimah National Insurance Company P.S.C.

## Notes

(forming part of the financial statements)

### 1 Reporting entity

Ras Al Khaimah National Insurance Company P.S.C. - Ras Al Khaimah (the "Company") is a public shareholding company, established and incorporated in the Emirate of Ras Al Khaimah by Emiri decree No. 20 dated 15 December 1974 which was amended by Emiri decree No. 10 dated 7 December 1985 and Emiri decree No. 3 dated 5 April 1997 issued by H.H. Sheikh Saqr Bin Mohammed Al Qasimi, the Ruler of the Emirate of Ras Al Khaimah and its dependencies. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations and is registered in the Insurance Companies Register of Insurance Authority of U.A.E., under registration number 7. The address of the Company's registered corporate office is P. O. Box 506, Ras Al Khaimah, United Arab Emirates.

The principal activity of the Company is to undertake all classes of insurance business including life assurance, saving and accumulation of funds. The Company operates through its head office in Ras Al Khaimah and branch offices in Dubai and Abu Dhabi.

### 2 Basis of preparation

#### a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and comply with applicable requirements of UAE Law.

#### b) Changes in accounting policy

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with effect from 1 January 2013.

- i) IFRS 12 - *Disclosure of Interests in Other Entities*.
- ii) IFRS 13 - *Fair Value Measurement*.
- iii) Amendments to IAS 1 - *Presentation of Items of Other Comprehensive Income*.
- iv) Disclosures (Amendments to IFRS 7) - *Offsetting Financial Assets and Financial Liabilities*.
- v) IAS 19 Employee Benefits (2011).

#### **i) IFRS 12 - *Disclosure of Interests in Other Entities***

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates and structured entities.

#### **ii) IFRS 13 - *Fair Value Measurement***

In accordance with the transitional provision of IFRS 13, the Company has applied the new definition of fair value as set out in note 3 (h), prospectively. The change had no significant impact on the measurements of the Company's assets and liabilities, but the Company has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Company has provided the relevant comparative disclosures under those standards.

#### **iii) Amendments to IAS 1 - *Presentation of Items of Other Comprehensive Income***

As a result of the amendments to IAS 1, the Company has modified the presentation of items of Other Comprehensive Income (OCI) in its statement of comprehensive income, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

# Ras Al Khaimah National Insurance Company P.S.C.

Notes (continued)

## 2 Basis of preparation (continued)

### b) Changes in accounting policy (continued)

#### iv) Disclosures (Amendments to IFRS 7) - *Offsetting Financial Assets and Financial Liabilities*

Amendments to IFRS 7, 'Disclosures – Offsetting financial assets and financial liabilities' (the "Amendments to IFRS 7") require additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

The adoption of the new and amended standards and interpretations other than those explained above, did not have an impact on the financial position of the Company.

### c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following which are stated at fair value:

- i) financial instruments at fair value through profit or loss ("FVTPL"); and
- ii) available-for-sale instruments ("AFS").

The methods used to measure fair values are defined in note 3(h).

### d) Functional and presentation currency

These financial statements are presented in U.A.E. Dirhams ("AED"), which is the Company's functional currency. Financial information presented has been rounded to the nearest Dirham.

### e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5.

# Ras Al Khaimah National Insurance Company P.S.C.

## Notes (continued)

### 3 Significant accounting policies

Except for change in accounting policy stated in note 2 (b), the accounting policy set out below have been applied consistently by the Company to all periods presented in these financial statements.

#### a) Insurance contracts

##### *i) Classification*

The Company issues contracts that transfer either insurance risk or both insurance and financial risks.

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Company to pay significant additional benefits due to happening of the insured event compared to its non happening.

Insurance contracts may also transfer some financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts where insurance risk is not significant are classified as investment contracts.

Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

##### *ii) Recognition and measurement*

##### *Premiums*

Gross premiums written reflect business incepted during the year, and exclude any fees and other amounts collected with and calculated based on premiums. These are recognised when underwriting process is complete and policies are issued.

The earned position of premium is recognised as an income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below:

##### *Unearned premium provision*

Unearned premiums are computed using statistical models to spread premium written evenly over period of coverage and are atleast equal to the minimum stipulated by the UAE Insurance Law (also refer note 3(a)(iv)).

##### *iii) Claims*

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

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### a) Insurance contracts (continued)

###### iii) Claims (continued)

Claims outstanding comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expense reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the financial statements of the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. Provision is also made for any claims incurred but not reported ("IBNR") at the date of statement of financial position on the basis of management estimates. The basis of estimating outstanding claims and IBNR are detailed in note 5.

###### iv) Liability adequacy test

At the end of each reporting period, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in profit or loss and an unexpired risk provision is created.

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

###### v) Reinsurance

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

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

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

Profit commission in respect of reinsurance contracts is recognised on an accrual basis and reinsurance commission is recognised on the basis stated in note 3(b).

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### a) Insurance contracts (continued)

###### *vi) Deferred acquisition cost*

For general insurance contracts, the deferred acquisition cost asset represents the position of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the reporting date.

###### *vii) Insurance receivables and payables*

Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

###### *viii) Insurance contract provision and reinsurance assets*

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the statement of financial position date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the statement of financial position date.

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

##### b) Revenue (other than insurance revenue)

Revenue (other than insurance revenue) comprises the following:

###### *i) Fee and commission income*

Fee and commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies.

###### *ii) Net income from investments*

Net income from investments comprises income from investment securities, rental income from investment properties and other income.

Income from investment securities comprises dividend income, net gains/losses on financial assets classified at fair value through profit or loss (FVTPL), and realised gains/losses on other financial assets. Other income comprises interest income on fixed deposits and income from an associate.

Unrealised gains/losses arising on revaluation of investments classified as available-for-sale are included in the statement of comprehensive income in the period in which they arise.

Interest income is recognised on a time proportion basis using effective interest rate method. Dividend income is recognised when the right to receive dividend is established. Usually this is the ex-dividend date for equity securities. Basis of recognition of net gains/losses on financial assets classified at fair value through profit or loss and realised gains on other financial assets is described in note 3 (f).

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### c) Operating leases

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases for office premises equipments are recognised in statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

##### d) Property and equipment

###### *i) Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

###### *ii) Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in statement of profit or loss as incurred.

###### *iii) Depreciation*

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in statement of profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of profit or loss.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### d) Property and equipment (continued)

###### iii) Depreciation (continued)

The estimated useful lives with their comparatives for various categories of property and equipment is as follows:

Furniture and fixtures	4 years
Office equipment	4 years
Motor vehicles	4 years
Computer equipment	4 years

##### e) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, used in providing for services or for administrative purposes. Investment property is measured at cost.

Cost includes expenditure that is directly attributable to the acquisition of the investment property any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in statement of profit or loss on a straight-line basis over the useful life of investment properties, which is estimated at 25 years.

##### f) Financial instruments

The Company classifies financial instruments into the following categories; financial assets at fair value through profit or loss, available-for-sale securities and held to maturity. The Company classifies non-derivative financial liabilities into the other financial liabilities category.

###### i) Non-derivative financial assets

###### *Recognition*

The Company initially recognises loans and receivables issued on the date when they are originated. All other financial assets are initially recognised on the trade date.

###### *Classification*

At inception, a financial asset is classified as measured at amortised cost or fair value.

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

A financial assets is classified at fair value through profit or loss if it is classified as held for trading, or is designated as such on initial recognition. These financial assets are initially recognised at fair value. Directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, financial asset at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend, are recognised in statement of profit or loss.



## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### f) Financial instruments (continued)

###### i) Non-derivative financial assets (continued)

###### *Classification (continued)*

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

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in other comprehensive income and accumulated in the available-for-sale investments reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to statement of profit or loss.

###### *Held-to-maturity investment*

If the Company has the positive intent and ability to hold debt securities to maturity, and these debt securities have not been designated at fair value through profit or loss, then they are classified as held-to-maturity. held-to-maturity are measured at amortised cost using the effective interest method, less any impairment losses.

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

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, balances with the Banks and fixed deposits with original maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

###### ii) Non-derivative financial liabilities

All financial liabilities (including liabilities designated at fair value through statement of comprehensive income) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

###### iii) De-recognition of financial assets and financial liabilities

The Company derecognises a financial asset when the contractual right to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risk and rewards of the ownership are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control over the transferred asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Company is recognised as separate asset or liability in the statement of financial position. On derecognition of financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in the statement of profit or loss.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### f) Financial instruments (continued)

###### iii) De-recognition of financial assets and financial liabilities (continued)

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the financial assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The company derecognises a financial liability when its contractual obligation are discharged or cancelled or expire.

##### g) Impairment

###### *Impairment of financial assets carried at amortised cost*

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost are impaired. A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be estimated reliably. The Company considers evidence of impairment to consider provisions.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of an amount due to the Company on terms that the Company would not otherwise consider, indication that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse change in the payment status of borrowers or issuers, or economic conditions that correlate with defaults in the Company.

###### *Impairment of receivables*

The Company considers evidence of impairment for receivables at a specific asset level. All individually significant receivables are assessed for specific impairment.

At each reporting date, the Company assesses on a case-by-case basis whether there is any objective evidence that a asset is impaired. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

When a receivable is uncollectible, it is written off against the related allowance for impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and/or any event resulting in a reduction in impairment loss, decreases the amount of the provision for impairment in the statement of profit or loss.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### g) Impairment (continued)

###### *Impairment of receivables (continued)*

Impairment losses are recognised in the statement of profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of profit or loss.

###### *Impairment of available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale security subsequently increases and the increase can be related to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through the statement of profit or loss; otherwise, it is reversed through other comprehensive income.

###### *Impairment of non-financial assets*

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

##### h) Fair value measurement principles

###### **Policy applicable from 1 January 2013**

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 in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### h) Fair value measurement principles (continued)

###### Policy applicable from 1 January 2013 (continued)

When available, the Company measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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

###### Policy applicable before 1 January 2013

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arms length basis.

If a market for a financial instrument is not active, the Company establishes fair value using valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, net present value techniques and discounted cash flow methods. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other observable current market data.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### h) Fair value measurement principles (continued)

###### Policy applicable before 1 January 2013 (continued)

Assets and long positions are measured at bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Company believes a third-party market participant would take them into account in pricing a transaction.

##### i) Provisions

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

##### j) Foreign currency transactions

Transactions denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the reporting date. Non monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AED at the foreign exchange rate ruling at the date of the transaction. Realised and unrealised exchange gains and losses have been dealt with in the statement of profit or loss.

##### k) Employee terminal benefits

###### *Defined benefit plan*

Provision is made for employee terminal benefits in accordance with the Company's policy, which meets the requirements of the UAE Federal Labour Law applicable to an employee's accumulated period of service at the reporting date. The management considers that the difference between the liability as calculated using an actuarial method would not be materially different from the provision carried in the financial statements.

###### *Defined contribution plan*

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

##### l) Earnings per share

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

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### m) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's CEO to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters) and head office expenses..

##### n) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or of gains and losses arising from a group of similar transactions such as in the Company's trading activity.

##### o) Directors remuneration

In accordance with the Ministry of Economy and Commerce Interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), directors' remuneration of the Company has been treated as an appropriation from equity and presented under statement of changes in equity.

##### p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013 and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 9	Financial Instruments	(effective 1 January 2015)
IAS 32 (Amendment)	Financial Instruments : Presentation	(effective 1 January 2014)
IFRIC 21	Levies	(effective 1 January 2014)

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the assets contractual terms give rise on specified dates to cash flows that are solely payments of principle and interest on the principle outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-resale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### p) New standards and interpretations not yet adopted (continued)

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirement also establish a more principle-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39. The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, early application of IFRS 9 is permitted.

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted. The Company is evaluating the potential effect of the adoption of the amendments to IAS 32.

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when - and only when - the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect in the Company's financial statements.

#### 4. Risk management

The Company issues contracts that transfer either insurance risk or both insurance and financial risks. The Company does not issue contracts that transfer only financial risks. This section summarises these risk and the way the Company manages them:

##### i) Governance framework

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

##### ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

## **Ras Al Khaimah National Insurance Company P.S.C.**

### Notes (continued)

#### **4 Risk management (continued)**

##### **ii) Risk management framework (continued)**

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Investment Committee identifies investment opportunities and monitors annual investment returns.

##### **iii) Capital management framework**

The primary objective of the Company's capital management is to comply with the regulatory requirements in the country in which it operates and to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Company's Board of Directors identify risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on economic capital.

The Company manage their capital structure and make adjustments to it, in light of changes in economic conditions. The Company fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012.

##### **iv) Regulatory framework**

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

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

##### **v) Asset liability management ("ALM")**

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces due to the nature of its investments and liabilities is interest rate risk and equity price risk. The Company manages these positions within an ALM framework that has been developed by management to achieve long-term investment returns in excess of its obligations under insurance and investment contracts.

The Company's ALM is integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities.

The Company's ALM also forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance.

##### **a) Insurance risks**

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



## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 4 Risk management (continued)

##### v) Asset liability management (“ALM”) (continued)

##### a) Insurance risks (continued)

The Company writes the following types of insurance contracts:

- Accident insurance
- Property insurance
- Motor insurance
- Fire insurance
- Casualty insurance
- Medical insurance
- Marine insurance
- Engineering insurance
- Group life insurance

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Company only issue short term insurance contracts in connection with property, motor, marine and casualty risks.

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

#### ***Underwriting strategy***

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

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

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 4 Risk management (continued)

##### v) Asset liability management (“ALM”) (continued)

##### a) Insurance risks (continued)

###### *Underwriting strategy (continued)*

###### **Frequency and amounts of claims**

The Company has developed their underwriting strategy to diversify the type of insurance risks accepted and within each of the categories to achieve sufficiently large populations of risk to reduce the variability of the expected outcome. The frequency and amounts of claims can be affected by several factors. The Company underwrite mainly property, motor, casualty, medical and marine risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place.

###### *Property*

Property insurance covers a diverse collection of risks and therefore property insurance contracts are subdivided into four risks groups, fire, business interruption, weather damage and theft.

These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured. The cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruptions are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, flood damage or other weather related incidents.

###### *Motor*

Motor insurance contracts are designed to compensate policies holders for damage suffered to vehicles, disability to third parties arising through accidents and fire or theft of their vehicles.

Underwriting limits and guidelines are in place to enforce appropriate risk selection criteria.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

###### *Marine*

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes.

For marine insurance, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered.

###### *Casualty*

For casualty class of business, such as workmen's compensation, personal accident, general third party liability and loss of money, the extent of loss or damage and the potential court awards are the main factors that influence the level of claims.

The Company manage these risks through their underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk. Underwriting limits are in place to enforce appropriate risk selections.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 4 Risk management (continued)

##### v) Asset liability management (“ALM”) (continued)

##### a) Insurance risks (continued)

#### Frequency and amounts of claims (continued)

##### Casualty (continued)

The Company proactively manage and pursue early settlement of claims to reduce their exposure to unpredictable developments.

The Company has adequate reinsurance arrangements to protect their financial viability against such claims for all classes of business.

The Company has obtained adequate non-proportionate reinsurance cover for all classes of business to limit losses to an amount considered appropriate by the management.

##### Medical

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

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

##### Concentration of risk

The insurance risk arising from insurance contracts is concentrated mainly in the United Arab Emirates. The geographical risk profile is similar to last year.

#### Assumptions and sensitivities

##### Process used to determine the assumptions

The method used by the Company for provision of IBNR takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent accident years.

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company’s estimation process. The Company believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims are finally settled.

##### Sensitivity analysis

The sensitivity of the Company’s income and equity to market risks is as follows

	<b>2013</b>	2012
	<b>AED</b>	AED
5% increase in loss ratio	<b>(7,173,403)</b>	(5,530,883)
5% decrease in loss ratio	<b>7,173,403</b>	5,530,883

# Ras Al Khaimah National Insurance Company P.S.C.

## Notes (continued)

### 4 Risk management (continued)

#### a) Insurance risks (continued)

##### *Reinsurance strategy*

The Company reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

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

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

##### *Sensitivity of underwriting profit and losses*

The contribution by the insurance operations in the reported results of the Company amounts to AED 31.3 million profit for the year ended 31 December 2013 (2012: profit of AED 31.8 million). The Company does not foresee any major impact from insurance operations due to the following reason:

The Company has an overall retention level of 63% (2012: 58%) and the same is mainly contributed by motor line of business wherein the retention levels are 88%. However, in this class the risk is adequately covered by excess of loss reinsurance programs to guard against major financial impact.

#### b) Financial risks

The Company has exposure to the following primary risks from its use of financial instruments and operational activities:

- Credit risk;
- Liquidity risk; and
- Market risk.
- Operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

#### i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Compliance with the policy is monitored and exposures and breaches are regularly reviewed for pertinence and for changes in the risk environment.

For all classes of financial assets held by the Company the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the reporting date. Reinsurance is placed with reinsurers' approved by the management, which are generally international reputed companies.

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

Insurance receivables comprise a large number of customers and insurance companies mainly within the U.A.E.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 4 Risk management (continued)

##### b) Financial risks (continued)

##### i) Credit risk (continued)

Substantially all assets and liabilities of the Company are in Middle East region.

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

Financial assets carrying credit risk are as follows:

	2013	2012
	AED	AED
Cash and bank balances	201,455,560	177,348,759
Reinsurers' share of outstanding claims	51,590,165	59,606,137
Insurance and other receivables	126,044,890	111,976,451
Financial assets held-to-maturity	3,707,200	-
Statutory deposits	10,000,000	10,000,000
	<u>392,797,815</u>	<u>358,931,347</u>

The above class of financial instruments provide the best representation for the Company's maximum exposure to credit risk at the end of the year.

The following table provides an age analysis of receivables arising from insurances and reinsurance contracts.

	Gross	Impairment provision	Gross	Impairment provision
	2013		2012	
	AED	AED	AED	AED
0 - 90 days	57,064,010	-	57,879,551	-
91 - 180 days	22,556,750	-	19,267,438	-
181 - 270 days	11,953,285	-	13,900,744	-
271 - 365 days	17,696,391	-	11,043,385	-
Above 365 days	13,820,533	(7,165,000)	6,694,545	(2,725,000)
	<u>123,090,968</u>	<u>(7,165,000)</u>	<u>108,785,663</u>	<u>(2,725,000)</u>

##### ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements are monitored on a daily basis and management ensures that sufficient funds are available to meet any commitments as they arise.

##### Maturity profiles

The table below summarises the maturity profile of the liabilities of the Company based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

## Ras Al Khaimah National Insurance Company P.S.C.

Notes (continued)

### 4 Risk management (continued)

#### b) Financial risks (continued)

#### ii) Liquidity risk (continued)

31 December 2013	Contractual cash flows				
	Less than 6 months AED	6 months to 1 year AED	1 - 5 years AED	Over 5 years AED	Total AED
<b>Liabilities</b>					
Insurance and other payables	(61,387,511)	-	-	-	(61,387,511)
Outstanding claims reserve	-	(92,142,322)	-	-	(92,142,322)
<b>Total liabilities</b>	<b>(61,387,511)</b>	<b>(92,142,322)</b>	<b>-</b>	<b>-</b>	<b>(153,529,833)</b>
31 December 2012	Less than 6 months AED	6 months to 1 year AED	1 - 5 years AED	Over 5 years AED	Total AED
<b>Liabilities</b>					
Insurance and other payables	(46,834,764)	-	-	-	(46,834,764)
Outstanding claims reserve	-	(104,134,522)	-	-	(104,134,522)
<b>Total liabilities</b>	<b>(46,834,764)</b>	<b>(104,134,522)</b>	<b>-</b>	<b>-</b>	<b>(150,969,286)</b>

#### iii) Market risk

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

#### a) Currency risk

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

The Company currency risk to United States Dollars ("USD") is limited as the USD is pegged to UAE Dirham; hence the exposure is limited to that extent since most reinsurance arrangements are denoted in USD.

#### b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to interest rate risk relates to its fixed deposits placed with various commercial banks in the United Arab Emirates. At 31 December 2013, fixed deposits carried interest rates ranging from 1.5% to 3% per annum (2012: 2% to 3.5% per annum).

If interest rates had been 100 basis points lower throughout the year and all other variables were held constant, the Company's net profit for the year ended 31 December 2013 would decrease by approximately AED 1,846,411 (2012: AED 1,631,205). Similarly increase in interest by 100 basis points would result in equal and opposite effect on profit for the year.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 4 Risk management (continued)

##### b) Financial risks (continued)

##### iii) Market risk (continued)

##### c) Equity price risk

Equity price risk is the risk that the fair value of a financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets from the Company's investment portfolio.

##### Sensitivities

The table below shows the results of sensitivity testing on equity as a result of a change in the fair value of equity instruments held as available-for-sale and at fair value through profit or loss at 31 December 2013. The sensitivity analysis indicates the effect of changes in price risk factors due to a possible change in equity indices, with all other variables held constant, as follows:

	Change in equity price %	Effect on statement of profit or loss AED	Effect on OCI AED
<b>31 December 2013</b>			
Financial assets at fair value through profit or loss	10	411,501	-
Available-for-sale securities	10	-	1,886,810
31 December 2012			
Financial assets at fair value through profit or loss	10	284,263	-
Available-for-sale securities	10	-	860,454

##### iv) Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks.

The Company has detailed systems and procedures manuals with effective segregation of duties, access controls, authorisation and reconciliation procedures, staff training and assessment processes etc. with a compliance and internal audit framework. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

#### 5 Use of estimates and judgements

The areas of the Company's business containing key sources of estimation uncertainty include the measurement of insurance contract provisions and the determination of the fair values of financial instruments.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 5 Use of estimates and judgements *(continued)*

##### **Key sources of estimation uncertainty**

##### ***Measurement of insurance contract provisions***

The Company's accounting policy in respect of insurance contract accounting is discussed in more detail in note 3(a). The key assumptions made in respect of insurance contract liabilities are included in note 5.

##### ***Insurance contract classification***

Contracts are classified as insurance contracts where they transfer significant insurance risk from the holder of the contract to the Company.

There are a number of contracts sold where the Company exercises judgement about the level of insurance risk transferred. The level of insurance risk is assessed by considering whether there are any scenarios with commercial substance in which the Company is required to pay significant additional benefits. These benefits are those which exceed the amounts payable if no insured event were to occur. These additional amounts include claims liability and assessment costs, but exclude the loss of the ability to charge the holder of the contract for future services.

##### ***Provision for outstanding claims, whether reported or not***

Considerable judgment by the management is required in the estimation of amounts due to the contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the date of statement of financial position.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims regularly.

##### ***Useful lives of property and equipment***

The management determines the useful lives of property and equipment and the related depreciation charge. The depreciation charge for the year will change significantly if the actual life is different from the estimated useful life of the asset.

The review carried out by management in the current year did not indicate any necessity for changes in the useful lives of property and equipment.

##### ***Impairment of insurance receivables***

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Company evaluating the credit and liquidity position of the policy holders and the insurance and reinsurance companies, historical recovery rates and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the profit or loss at the time of collection.

Details of provision against doubtful accounts are stated in note 12.1.



## **Ras Al Khaimah National Insurance Company P.S.C.**

### Notes (continued)

#### **5 Use of estimates and judgements (continued)**

##### *Liability adequacy test*

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

##### **Critical accounting judgements**

##### *Classification of investments*

Management decides on acquisition of an investment whether it should be classified as held-to-maturity, carried at fair value through profit or loss ("FVTPL") or available-for-sale.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of 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 Group classifies investments as FVTPL if they are acquired primarily for the purpose of making a short term profit.

Classification of investments as FVTPL depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of statement of profit or loss in the management accounts, they are classified as FVTPL.

All other investments are classified as available-for-sale.

##### *Impairment of available-for-sale investments*

The Company treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 6 Accounting classification of financial assets and financial liabilities

The table below shows a reconciliation between line items in the statement of financial position and categories of financial instruments.

At 31 December 2013	Available-for-sale		Amortised cost	Total carrying amount
	FVTPL	Investments		
	AED	AED	AED	AED
<b><u>Financial assets</u></b>				
Insurance and other receivables	-	-	120,503,130	120,503,130
Investment securities	4,115,009	18,868,101	3,707,200	26,690,310
Reinsurer's share of outstanding claims	-	-	51,590,165	51,590,165
Statutory deposits	-	-	10,000,000	10,000,000
Cash and bank balances	-	-	201,540,770	201,540,770
	<b>4,115,009</b>	<b>18,868,101</b>	<b>387,341,265</b>	<b>410,324,375</b>
<b><u>Financial liabilities</u></b>				
Insurance and other payables	-	-	61,387,511	61,387,511
Outstanding claims	-	-	-	-
	<b>-</b>	<b>-</b>	<b>61,387,511</b>	<b>61,387,511</b>
At 31 December 2012	Available-for-sale		Amortised cost	Total carrying amount
	FVTPL	Investments		
	AED	AED	AED	AED
<b><u>Financial assets</u></b>				
Insurance and other receivables	-	-	110,431,021	110,431,021
Investment securities	2,842,625	8,604,542	-	11,447,167
Reinsurer's share of outstanding claims	-	-	59,606,137	59,606,137
Statutory deposits	-	-	10,000,000	10,000,000
Cash and bank balances	-	-	177,364,593	177,364,593
	<b>2,842,625</b>	<b>8,604,542</b>	<b>357,401,751</b>	<b>368,848,918</b>
<b><u>Financial liabilities</u></b>				
Insurance and other payables	-	-	46,834,764	46,834,764
Outstanding claims	-	-	-	-
	<b>-</b>	<b>-</b>	<b>46,834,764</b>	<b>46,834,764</b>

#### 7 Fair value of financial instrument

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 7 Fair value of financial instrument (continued)

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

#### a) Fair value hierarchy of assets/liabilities measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

##### As at 31 December 2013

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
<b>Financial assets</b>				
FVTPL	4,115,009	-	-	4,115,009
Available-for-sale securities	18,868,101	-	-	18,868,101
	<u>22,983,110</u>	<u>-</u>	<u>-</u>	<u>22,983,110</u>

##### As at 31 December 2012

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
<b>Financial assets</b>				
FVTPL	2,842,625	-	-	2,842,625
Available-for-sale securities	8,604,542	-	-	8,604,542
	<u>11,447,167</u>	<u>-</u>	<u>-</u>	<u>11,447,167</u>

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 7 Fair value of financial instrument (continued)

##### b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

##### As at 31 December 2013

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
	AED	AED	AED	AED	AED
<b><u>Financial assets</u></b>					
Cash and bank balances	-	201,540,770	-	201,540,770	201,540,770
Insurance and other receivables	-	118,879,890	-	118,879,890	118,879,890
Reinsurer's share of outstanding claims	-	51,590,165	-	51,590,165	51,590,165
Financial assets held-to-maturity	-	3,799,250	-	3,799,250	3,707,200
Statutory deposits	-	10,000,000	-	10,000,000	10,000,000
Investment properties	-	-	20,256,180	20,256,180	7,576,193
	-	385,810,075	20,256,180	406,066,255	393,294,218
<b><u>Financial liabilities</u></b>					
Insurance and other payables	-	61,387,511	-	61,387,511	61,387,511
Outstanding claims	-	-	-	-	-
	-	61,387,511	-	61,387,511	61,387,511

##### As at 31 December 2012

<b><u>Financial assets</u></b>					
Cash and bank balances	-	177,364,593	-	177,364,593	177,364,593
Insurance and other receivables	-	109,251,451	-	109,251,451	109,251,451
Reinsurer's share of outstanding claims	-	59,606,137	-	59,606,137	59,606,137
Statutory deposits	-	10,000,000	-	10,000,000	10,000,000
Investment properties	-	-	17,200,000	17,200,000	6,421,479
	-	356,222,181	17,200,000	373,422,181	362,643,660
<b><u>Financial liabilities</u></b>					
Insurance and other payables	-	46,834,764	-	46,834,764	46,834,764
Outstanding claims	-	-	-	-	-
	-	46,834,764	-	46,834,764	46,834,764

- a) In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to it's fair value.
- b) Fair values of deposits with banks is estimated using DCF methodology, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is considered to be the amount payable at the reporting date.

## Ras Al Khaimah National Insurance Company P.S.C.

Notes (continued)

### 8 Property and equipment

	Furniture and fixtures AED	Office equipment AED	Motor vehicles AED	Computer equipment AED	Total AED
<i>Cost</i>					
At 1 January 2012	1,390,650	184,401	1,056,760	1,050,803	3,682,614
Additions	688,905	23,500	46,000	46,185	804,590
Disposals	(45,790)	-	-	-	(45,790)
<b>At 31 December 2012</b>	<b>2,033,765</b>	<b>207,901</b>	<b>1,102,760</b>	<b>1,096,988</b>	<b>4,441,414</b>
At 1 January 2013	2,033,765	207,901	1,102,760	1,096,988	4,441,414
Additions	700,235	244,696	361,499	804,156	2,110,586
Transfers	(5,398)	5,398	-	-	-
Disposals / write off	(165,195)	-	(524,760)	(4,100)	(694,055)
<b>At 31 December 2013</b>	<b>2,563,407</b>	<b>457,995</b>	<b>939,499</b>	<b>1,897,044</b>	<b>5,857,945</b>
<i>Depreciation</i>					
At 1 January 2012	1,236,172	134,782	741,487	927,170	3,039,611
Charge for the year	103,460	21,002	125,315	78,553	328,330
On disposals	(45,790)	-	-	-	(45,790)
<b>At 31 December 2012</b>	<b>1,293,842</b>	<b>155,784</b>	<b>866,802</b>	<b>1,005,723</b>	<b>3,322,151</b>
At 1 January 2013	1,293,842	155,784	866,802	1,005,723	3,322,151
Charge for the year	322,029	53,190	93,708	158,013	626,940
Transfers	(1,235)	1,235	-	-	-
On disposals	(164,093)	-	(341,009)	(4,100)	(509,202)
<b>At 31 December 2013</b>	<b>1,450,543</b>	<b>210,209</b>	<b>619,501</b>	<b>1,159,636</b>	<b>3,439,889</b>
<i>Carrying amounts</i>					
At 31 December 2012	739,923	52,117	235,958	91,265	1,119,263
<b>At 31 December 2013</b>	<b>1,112,864</b>	<b>247,786</b>	<b>319,998</b>	<b>737,408</b>	<b>2,418,056</b>

## Ras Al Khaimah National Insurance Company P.S.C.

Notes (continued)

### 9. Investment properties

	Land AED	Buildings AED	Total AED
<i>Cost</i>			
At 1 January 2012	3,500,000	5,332,564	8,832,564
Additions	-	-	-
<b>At 31 December 2012</b>	<b><u>3,500,000</u></b>	<b><u>5,332,564</u></b>	<b><u>8,832,564</u></b>
At 1 January 2013	3,500,000	5,332,564	8,832,564
Additions	-	1,367,666	1,367,666
<b>At 31 December 2013</b>	<b><u>3,500,000</u></b>	<b><u>6,700,230</u></b>	<b><u>10,200,230</u></b>
<i>Accumulated depreciation</i>			
At 1 January 2012	-	2,216,320	2,216,320
Charge for the year	-	194,765	194,765
<b>At 31 December 2012</b>	<b><u>-</u></b>	<b><u>2,411,085</u></b>	<b><u>2,411,085</u></b>
At 1 January 2013	-	2,411,085	2,411,085
Charge for the year	-	212,952	212,952
<b>At 31 December 2013</b>	<b><u>-</u></b>	<b><u>2,624,037</u></b>	<b><u>2,624,037</u></b>
<i>Carrying amounts</i>			
At 31 December 2012	<u>3,500,000</u>	<u>2,921,479</u>	<u>6,421,479</u>
<b>At 31 December 2013</b>	<b><u>3,500,000</u></b>	<b><u>4,076,193</u></b>	<b><u>7,576,193</u></b>

The investment properties are located in United Arab Emirates.

Fair value of investment property at 31 December 2013 amounted to AED 20.3 million as determined by an independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued (2012: AED 17.2 million as estimated by management).

The rental income and operating expenses relating to these properties are as follows:

	2013 AED	2012 AED
Rental income	423,062	396,029
Operating expenses	(194,765)	(196,948)
Income from investment property	<u>228,297</u>	<u>199,081</u>

### 10. Investment in an associate

	2013 AED	2012 AED
Balance at the beginning of the year	23,366,706	27,693,499
Share of profit / (loss) for the year	1,688,925	(4,385,384)
Share of other comprehensive income for the year	2,793,015	58,591
Balance at the end of the year	<u>27,848,646</u>	<u>23,366,706</u>

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 10 Investment in an associate (continued)

Details of the Company's associate at 31 December 2013 are as follows:

Name of associate	Proportion of ownership	Proportion of voting power	Place of incorporation	Principal activity
United Insurance Co. P.S.C.	20%	20%	United Arab Emirates	Insurance

Summarised financial information of the Company's associate is set out below:

	2013 AED	2012 AED
Total assets	315,702,409	267,381,609
Total liabilities	(176,459,181)	(150,548,081)
Net assets	<u>139,243,228</u>	<u>116,833,528</u>
Company's share of associate's net assets	<u>27,848,646</u>	<u>23,366,706</u>
	2013 AED	2012 AED
Profit / (loss) for the year	8,444,624	(21,926,920)
Company's share of associate's profit / (loss) for the year	<u>1,688,925</u>	<u>(4,385,384)</u>

#### 11 Investment securities

	2013 AED	2012 AED
Financial assets at fair value through profit or loss	4,115,009	2,842,625
Available-for-sale securities	18,868,101	8,604,542
Financial assets held-to-maturity	<u>3,707,200</u>	-
At 31 December	<u>26,690,310</u>	<u>11,447,167</u>

##### 11.1 Financial assets at fair value through profit or loss

	2013 AED	2012 AED
Investment in funds - within UAE	4,115,009	2,842,625
At 31 December	<u>4,115,009</u>	<u>2,842,625</u>

Investments classified at fair value through profit or loss are designated in this category upon the initial recognition.

##### 11.2 Available-for-sale securities

	2013 AED	2012 AED
Equity shares - within UAE	18,868,101	8,604,542
	<u>18,868,101</u>	<u>8,604,542</u>

# Ras Al Khaimah National Insurance Company P.S.C.

## Notes (continued)

### 11 Investment securities (continued)

#### 11.3 Financial assets held-to-maturity

	2013	2012
	AED	AED
Fixed income investments - within UAE (refer note 11.4)	<b>3,707,200</b>	-
At 31 December	<b><u>3,707,200</u></b>	<b><u>-</u></b>

**11.4** During the year, a client of the Company has partially settled its overdue amount by transferring a financial asset. The transactions took place at the fair value on an arms length basis. The financial asset has been classified as held-to-maturity and the Company has booked a fair value gain arising on initial recognition of AED 207,200, being fair value based on exit price on the date of transfer.

### 12 Insurance and other receivables

	2013	2012
	AED	AED
Premium receivable	<b>84,469,535</b>	77,102,789
Reinsurance companies	<b>8,988,590</b>	11,199,686
Insurance agents and brokers	<b>2,755,429</b>	1,714,228
Due from related parties (refer note 22)	<b>26,877,414</b>	18,768,960
Accrual of interest and other income	<b>1,189,936</b>	1,736,130
Advances and prepayments	<b>1,623,240</b>	1,179,570
Other receivables	<b>1,763,986</b>	1,454,658
	<b><u>127,668,130</u></b>	<b><u>113,156,021</u></b>
Less: provision for doubtful receivables (refer note 12.1)	<b>(7,165,000)</b>	(2,725,000)
At 31 December	<b><u>120,503,130</u></b>	<b><u>110,431,021</u></b>

#### 12.1 Provision for doubtful receivables

	2013	2012
	AED	AED
Balance 1 January	<b>2,725,000</b>	1,925,000
Charge for the year	<b>4,440,000</b>	800,000
At 31 December	<b><u>7,165,000</u></b>	<b><u>2,725,000</u></b>

For ageing analysis of insurance and other receivables refer note 4 (b) (i).

### 13 Cash and bank balances (within UAE)

	2013	2012
	AED	AED
Cash in hand	<b>85,210</b>	15,834
Cash at bank	<b>31,418,372</b>	14,228,210
Fixed deposits	<b>170,037,188</b>	163,120,549
	<b><u>201,540,770</u></b>	<b><u>177,364,593</u></b>
Less: deposits with maturities of greater than three months	<b>(59,393,278)</b>	(127,585,552)
Less: fixed deposits under lien	<b>(300,000)</b>	(300,000)
Cash and cash equivalents at 31 December	<b><u>141,847,492</u></b>	<b><u>49,479,041</u></b>



## Ras Al Khaimah National Insurance Company P.S.C.

Notes (continued)

### 14 Insurance contract liabilities and reinsurance contract assets

	2013 AED	2012 AED
<b>Insurance contract liabilities</b>		
Claims reported unsettled	92,142,322	104,134,522
Claims incurred but not reported	6,717,231	5,206,727
Unearned premiums	<u>100,709,747</u>	<u>83,407,553</u>
<b>Insurance contract liabilities</b>	<u>199,569,300</u>	<u>192,748,802</u>
<b>Reinsurance contract assets</b>		
Claims reported unsettled	(51,590,165)	(59,606,137)
Claims incurred but not reported	(2,579,508)	(2,952,807)
Deferred reinsurance premiums	<u>(36,864,341)</u>	<u>(34,023,380)</u>
<b>Total insurers' share of reinsurance contracts</b>	<u>(91,034,014)</u>	<u>(96,582,324)</u>
<b>Net</b>		
Claims reported unsettled	40,552,157	44,528,385
Claims incurred but not reported	4,137,723	2,253,920
Unearned premiums	<u>63,845,406</u>	<u>49,384,173</u>
	<u>108,535,286</u>	<u>96,166,478</u>

## Ras Al Khaimah National Insurance Company P.S.C.

Notes (continued)

### 14.1 Insurance contract liabilities and reinsurance contract assets (continued)

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

	2013			2012		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
<b>Claims</b>						
Notified claims	104,134,522	(59,606,137)	44,528,385	87,037,365	(38,273,136)	48,764,229
Incurred but not reported	5,206,727	(2,952,807)	2,253,920	4,351,869	(1,913,657)	2,438,212
<b>Total at the beginning of the year</b>	<b>109,341,249</b>	<b>(62,558,944)</b>	<b>46,782,305</b>	91,389,234	(40,186,793)	51,202,441
Claims settled during the year	(124,418,932)	40,176,559	(84,242,373)	(93,099,511)	27,293,251	(65,806,260)
Increase in liabilities	113,937,236	(31,787,288)	82,149,948	111,051,526	(49,665,402)	61,386,124
<b>Total at the end of the year</b>	<b>98,859,553</b>	<b>(54,169,673)</b>	<b>44,689,880</b>	109,341,249	(62,558,944)	46,782,305
Notified claims	92,142,322	(51,590,165)	40,552,157	104,134,522	(59,606,137)	44,528,385
Incurred but not reported	6,717,231	(2,579,508)	4,137,723	5,206,727	(2,952,807)	2,253,920
<b>Total at the end of the year</b>	<b>98,859,553</b>	<b>(54,169,673)</b>	<b>44,689,880</b>	109,341,249	(62,558,944)	46,782,305
<b>Unearned premium</b>						
<b>Total at the beginning of the year</b>	<b>83,407,553</b>	<b>(34,023,380)</b>	<b>49,384,173</b>	70,574,202	(31,832,788)	38,741,414
Increase during the year	100,709,747	(36,864,341)	63,845,406	66,899,392	(34,023,380)	32,876,012
Release during the year	(83,407,553)	34,023,380	(49,384,173)	(54,066,041)	31,832,788	(22,233,253)
Net change during the year	17,302,194	(2,840,961)	14,461,233	12,833,351	(2,190,592)	10,642,759
<b>Total at the end of the year</b>	<b>100,709,747</b>	<b>(36,864,341)</b>	<b>63,845,406</b>	83,407,553	(34,023,380)	49,384,173

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 15 Insurance and other payables

	2013	2012
	AED	AED
Creditors	3,618,426	2,588,625
Reinsurance companies	35,862,438	21,487,804
Due to related parties (refer note 22)	1,117,671	950,099
Accrued expenses	5,854,535	5,947,534
Employees' benefits	3,108,038	4,681,269
Commission payable	6,900,489	6,078,441
Other payable balances	4,925,914	5,100,992
At 31 December	<u>61,387,511</u>	<u>46,834,764</u>

#### 16 Provision for employees' end of service benefits

Movements in the net liability were as follows:

	2013	2012
	AED	AED
Balance at the beginning of the year	5,288,580	4,408,430
Amounts charged during the year	79,358	927,804
Amounts paid during the year	<u>(1,929,487)</u>	<u>(47,654)</u>
Balance at the end of the year	<u>3,438,451</u>	<u>5,288,580</u>

#### 17 Share capital and reserves

The Company's issued and fully paid share capital comprises 100,000,000 shares of AED 1 each.

	2013		2012	
	No. of Shares	AED	No. of Shares	AED
At 31 December	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>

In accordance with the Company's Articles of Association and United Arab Emirates Federal Companies Law No. 8 of 1984, the Company transfers 10% of annual net profits, if any, to the legal reserve until it equals 50% of the share capital. Also, in accordance with its Articles of Association, 10% of annual net profits, if any, may be transferred to a general reserve until it is suspended by an Ordinary General Meeting upon a proposal by the Board of Directors. The General reserve can be utilised for the purposes determined by the Ordinary General Meeting upon recommendations of the Board of Director. During the year, AED 3.5 million has been transferred to statutory reserve (2012: AED 2.8 million).

The fair value reserve comprises the cumulative net change in fair value of financial assets designated as fair value through other comprehensive income.

#### 18 Proposed cash dividend

Directors proposed a cash dividend of 15% amounting to AED 15,000,000 for 2013 (2012: cash dividend of 15% amounting to AED 15,000,000).

## Ras Al Khaimah National Insurance Company P.S.C.

Notes (continued)

### 19 Proposed directors' fees

In accordance with the Ministry of Economy & Planning interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, the Board of Directors has proposed remuneration of AED 1.3 million (2012: AED 1.14 million).

### 20 Net income from investments

	For the year ended 31 December	
	2013 AED	2012 AED
<i>Income from investment securities</i>		
Dividend income	625,630	415,792
Unrealised gains / (losses) on investments fair value through profit or loss	1,272,384	301,589
Impairment of available-for-sale securities	(55,200)	(533,706)
Unrealised gain on initial recognition of investments (held-to-maturity) (refer note 11.4)	207,200	-
<i>Income from investment properties</i>		
Net rental income from investment properties	228,297	199,081
<i>Other income</i>		
Interest on fixed deposits	4,395,556	4,483,347
Miscellaneous income	1,260,444	702,925
	<u>7,934,311</u>	<u>5,569,028</u>

### 21 General and administrative expenses

	For the year ended 31 December	
	2013 AED	2012 AED
Other operational costs related to underwriting operations	19,714,390	14,833,650
Unallocated general and administrative expenses	6,571,464	4,944,550
Total	<u>26,285,854</u>	<u>19,778,200</u>

The above general and administration expenses include the following costs:

	2013	2012
	AED	AED
Staff costs	15,011,264	16,340,370
Rent	980,574	831,453
Depreciation	839,892	523,095
Others	9,454,124	2,083,282
Total	<u>26,285,854</u>	<u>19,778,200</u>
Average number of employees at 31 December	<u>88</u>	<u>70</u>

## Ras Al Khaimah National Insurance Company P.S.C.

### Notes (continued)

#### 22 Related party transactions

The Company, in the normal course of business, collects premiums, settles claims and enters into transactions with other business enterprises that fall within the definition of a related party as defined by International Accounting Standard 24 (Revised). The Company's management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

a) The following are the details of transactions with related parties

	2013 AED	2012 AED
Premiums written	<u>42,048,704</u>	<u>44,165,128</u>
Claims paid	<u>10,078,763</u>	<u>3,060,725</u>
<i>Directors' and key management personnel</i>		
Remuneration and short term benefits	<u>2,587,353</u>	<u>2,541,986</u>
Dividend paid	<u>9,443,483</u>	<u>9,443,483</u>

b) Due from related parties

	2013 AED	2012 AED
Insurance premium receivable (refer note 12)	<u>26,877,414</u>	<u>18,768,960</u>

c) Due to related parties

Payable to a related party	<u>(1,117,671)</u>	<u>(950,099)</u>
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#### 23 Contingent liabilities and commitments

##### Leases as a lessee

Non cancellable operating lease rentals are payable as follows:

	2013 AED	2012 AED
Less than one year	<u>210,840</u>	<u>210,840</u>
At 31 December	<u>210,840</u>	<u>210,840</u>

The Company leases office premises under operating lease. The leases typically run for a period of one year, with an option to renew the lease on an annual basis after that date.

##### Capital commitments

Capital commitments as at 31 December 2013 amounted to nil (2012: nil).

##### Guarantees

	2013 AED	2012 AED
Letters of guarantees	<u>10,300,000</u>	<u>10,300,000</u>

##### Contingent liabilities

The Company, in common with other insurance companies, is involved as defendant in a number of legal cases in respect of its underwriting activities. A provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Company in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

## Ras Al Khaimah National Insurance Company P.S.C.

Notes (continued)

### 24 Segment information

#### Business segments

For management purposes the Company is organised into two business segments, general insurance and investments. These segments are the basis on which the Company reports its primary segment information.

Underwriting of general insurance business incorporating all classes of general insurance including fire, marine, motor, general accident and miscellaneous.

Investments incorporating investments in U.A.E marketable equity securities, term deposits with banks, investment properties, trading investments and other securities.

	For the year ended 31 December 2013			For the year ended 31 December 2012		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment revenue	<b>250,629,675</b>	-	<b>250,629,675</b>	210,362,900	-	210,362,900
Segment result	<b>31,491,904</b>	<b>9,623,236</b>	<b>41,115,140</b>	31,885,229	1,183,644	33,068,873
Unallocated costs - net	-	-	<b>(6,571,464)</b>			(4,944,550)
Net profit for the period			<b>34,543,676</b>			28,124,323

	31 December 2013			31 December 2012		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment assets	<b>205,179,054</b>	<b>231,852,337</b>	<b>437,031,391</b>	217,313,345	204,055,901	421,369,246
Unallocated assets	-	-	<b>48,525,511</b>			15,363,307
<b>Total assets</b>			<b>485,556,902</b>			436,732,553
Segment liabilities	<b>258,742,594</b>	-	<b>258,742,594</b>	239,583,566	-	239,583,566
Unallocated liabilities			<b>3,438,451</b>			5,288,580
<b>Total liabilities</b>			<b>262,181,045</b>			244,872,146

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

	31 December 2013	31 December 2012
Motor	<b>34,254,375</b>	39,813,656
Marine and aviation	<b>21,983,397</b>	24,363,483
Group life and medical insurance	<b>116,293,492</b>	76,250,020
Engineering, fire, general accidents and others	<b>78,098,411</b>	69,935,741
	<b>250,629,675</b>	210,362,900

### 25 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 set out below:

	2013 AED	2012 AED
Net profit for the year	<b>34,543,676</b>	28,124,323
Weighted average number of shares outstanding during the year (after adjusting for issue of bonus shares)	<b>100,000,000</b>	100,000,000
Basic earnings per share	<b>0.35</b>	0.28

There is no dilution effect to the basic earnings per share.

### 26 Comparative figures

Certain comparatives have been reclassified / regrouped to conform to the presentation adopted in the financial statements.