Dubai Insurance Company
and its subsidiary
(Public Shareholding Company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

EY
Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DUBAI INSURANCE COMPANY (P.S.C.)

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the accompanying consolidated financial statements of Dubai Insurance Company (P.S.C.) (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis of Opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DUBAI INSURANCE COMPANY (P.S.C.) (continued)

Key Audit Matters (continued)

a) **Valuation of insurance contract liabilities and reinsurance assets**

The estimation of insurance contract liabilities and reinsurance assets involves a significant degree of judgement. The liabilities are based on a best-estimate of the ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

Reinsurance assets are recognised when the related gross insurance liability is recognised according to the terms of the relevant reinsurance contracts and their recoverability is subject to the probability of default and probable losses in the event of default by respective reinsurance counterparties.

We assessed management's calculation of insurance liabilities and reinsurance assets by performing the following procedures:

- The evaluation and testing of key controls around the claims handling and reserve setting processes of the Group along with the recognition and release of reinsurance assets. We examined evidence of the operation of controls over the valuation of individual claims reserves, such as large loss review controls and internal peer reviews (whereby reviewers examine documentation supporting claims reserves and consider if the amount recorded in the consolidated financial statements is valued appropriately).
- We checked a sample of claims reserves and the respective share of reinsurance assets, through comparing the estimated amount of the reserve to appropriate documentation, such as reports from loss adjusters and where relevant inspection of the Company's correspondence with lawyers and reinsurers where the claims are under investigation.
- We reviewed management's reconciliation of the underlying company data recorded in the policy administration systems with the data used in the actuarial reserving calculations.
- We tied the insurance contract liabilities and reinsurance assets as recommended by the Group's actuary to the liabilities and assets in the consolidated financial statements.
- We assessed the experience and competency of the Group's actuary to perform the year end valuation.
- We involved our actuarial specialist team members, to apply industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices.
- We obtained the reinsurance treaty summary for the year and verified the details in the summary to the respective agreements.
- We reviewed the ratios of reinsurance assets to related insurance contact liabilities to identify any variance from reinsurance treaty arrangements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DUBAI INSURANCE COMPANY (P.S.C.) (continued)

Key Audit Matters (continued)

b) Revenue recognition

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period, and are recognised on the date on which the policy commences. At the end of each year, a proportion of net retained premiums of the general insurance, medical and group life business is provided for to cover portions of risk which have not expired at the reporting date. The reserves are required to be calculated in accordance with the requirements of the Insurance Law relating to insurance companies.

Risk outlined above was addressed by us as follows:

We assessed whether the Group's revenue recognition policies complied with IFRS and tested the implementation of those policies. Specifically, we considered whether the premiums on insurance policies are accounted for on the date of inception of policies, with the exception of premium income on marine cargo policies which is accounted for on the expected date of voyage, by testing a sample of revenue items to insurance contracts, with a specific focus on transactions which occurred near 31 December 2016.

- We evaluated the relevant IT systems and tested the operating effectiveness of the internal controls over the recording of revenue in the correct period.
- We compared the unearned premiums reserve balance as per the consolidated financial statements to the reserve balance computed by the Group's actuary.
- We recalculated the unearned premium reserve based on the earning period of insurance contracts existing as of 31 December 2016.
- We also tested a risk based sample of journal entries posted to revenue accounts to identify any unusual or irregular items, and we tested the reconciliations between the policy master file and its financial ledgers.

c) Insurance receivables

The Group has amounts of trade receivables that are overdue and not impaired (as disclosed in note 27B to the consolidated financial statements). The key associated risk is the recoverability of receivables. Management's related provision is subjective and is influenced by assumptions concerning the probability of default and probable losses in the event of default.

Risk outlined above was addressed by us as follows:

- We compared the historical provision for bad debts to the actual amounts written off, to determine whether the management's estimation techniques were reasonable.
- We also considered the adequacy of provisions for bad debts for significant customers, taking into account specific credit risk assessments for each customer based on time past due, the existence of any disputes over the balance outstanding, the history of settlement of receivables and the existence of any liabilities with the same counterparties which reduce the net exposure.
- We discussed with management and reviewed correspondence, where relevant, to identify any disputes and assessed whether appropriately considered in the bad debt provision.

Key Audit Matters (continued)

d) Valuation of unquoted investments

Given the ongoing market volatility and macroeconomic uncertainty, investment valuation continues to be an area of inherent risk. The risk is not uniform for all investment types, and is greatest where the investments are hard to value because quoted prices are not readily available.

Risk outlined above was addressed by us as follows:

- For unquoted investments, we assessed both the methodology and assumptions used by management in the calculation of the year end values.
- The testing included performing the following procedures:
- Evaluated the methodology, assumptions and discounted cash flows used within the valuation models. Where the value of unquoted investments is supported by investee Company's insurance of underlying assets, we considered the recoverability of relevant insurance contracts.
- We compared the valuation to the latest available audited financial statements, where appropriate.

e) Classification of freehold land

Included in property and equipment is the amount of AED 44,173 thousand paid for the purchase of land. The Board of Directors of the Group has passed resolutions to construct the Group's head-office on the land in the foreseeable future. The amount paid for the purchase of land is carried at cost, but is subject to consideration for impairment when indicators of impairment exist. As a consequence, for impairment consideration on this asset, the Company is the lowest level of cash generating unit and hence the asset is not assessed for impairment as a standalone asset. We discussed with management the status of the proposed construction and noted that construction activities have not been started yet.

Risk outlined above was addressed by us as follows:

- We inspected the resolution for Board approval for the property to be used as the Group's head-office.
- We reviewed the Company's business performance and forecasts for existence of indicators of impairment at the Company level.

Other information

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of Group's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2016 Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Other information (continued)
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and in compliance with the applicable provisions of the Company's Articles of Association and of the UAE Federal Law No. (2) of 2015 and the UAE Federal Law No. (6) of 2007 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DUBAI INSURANCE COMPANY (P.S.C.) (continued)

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

i) the Company has maintained proper books of account;

ii) we have obtained all the information we considered necessary for the purposes of our audit;

iii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the the Articles of Association of the Company and the UAE Federal Law No. (2) of 2015;

iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;

v) investments in shares and stocks during the year ended 31 December 2016, are disclosed in note 12 to the consolidated financial statements;

vi) note 25 and 26 reflect material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or its Articles of Association which would have a material impact on its activities or its consolidated financial position; and

viii) note 7 to the consolidated financial statements reflects the social contributions made during the year.

For Ernst & Young

Anthony O' Sullivan
Partner
Registration No. 687

Dubai, United Arab Emirates

8 February 2017

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2016

	Notes	*2016* *AED'000*	*2015* *AED'000*
UNDERWRITING INCOME			
Gross premium	3	**400,172**	362,963
Movement in provision for unearned premium	3	**(22,330)**	(7,622)
Insurance premium revenue	3	**377,842**	355,341
Reinsurance share of premium	3	**(306,396)**	(263,912)
Movement in provision for reinsurance share of unearned premium	3	**22,699**	18,545
	3	**(283,697)**	(245,367)
Net insurance premium revenue	3	**94,145**	109,974
Reinsurance commission income		**33,906**	31,275
Other income		**1,397**	320
Total underwriting income		**129,448**	141,569
UNDERWRITING EXPENSES			
Claims incurred	4	**558,119**	278,313
Reinsurers' share of claims incurred	4	**(509,535)**	(224,649)
Net claims incurred	4	**48,584**	53,664
Commission expenses		**27,742**	42,220
Excess of loss reinsurance premium		**735**	604
Other direct expenses		**8,906**	5,548
General and administration expenses relating to underwriting activities		**19,558**	16,125
Total underwriting expenses		**105,525**	118,161
NET UNDERWRITING INCOME		**23,923**	23,408
INVESTMENT INCOME			
Realised gain / (loss) on disposal of investments		**219**	(230)
Fair value gain / (loss) on financial assets at fair value through profit or loss		**37**	(267)
Other investment income	6	**20,441**	18,634
Other investment costs		**(1,053)**	(641)
		19,644	17,496
OTHER INCOME AND EXPENSES			
General and administration expenses not allocated		**(6,897)**	(5,862)
Other (expenses) / income		**(58)**	50
		(6,955)	(5,812)
PROFIT FOR THE YEAR	7	**36,612**	35,092
Basic and diluted earnings per share (AED)	8	**0.35**	0.33

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	*2016* *AED'000*	*2015* *AED'000*
Profit for the year		**36,612**	35,092
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that could not be reclassified to profit or loss in subsequent periods			
Net unrealised loss on financial assets at fair value through other comprehensive income	12 (b)	**(5,100)**	(5,285)
Other comprehensive income for the year		**(5,100)**	(5,285)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**31,512**	29,807

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	2016 AED'000	2015 AED'000
ASSETS			
Property and equipment	9	**47,042**	47,238
Investment property	10	**1,670**	1,670
Advance for investment property	11	**7,562**	3,888
Financial instruments	12	**495,296**	477,452
Reinsurance assets	23	**412,120**	210,146
Insurance receivables	14	**139,954**	140,395
Prepayments and other receivables	15	**9,349**	6,453
Statutory deposits	16	**10,000**	10,000
Cash and cash equivalents	17	**32,311**	40,805
TOTAL ASSETS		**1,155,304**	938,047
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**100,000**	100,000
Statutory reserve	19	**50,000**	50,000
General reserve	19	**13,000**	13,000
Retained earnings		**130,811**	120,963
Cumulative changes in fair value of investments	19	**190,796**	195,896
Total equity		**484,607**	479,859
Liabilities			
Bank loan	21	**43,161**	46,232
Employees' end of service benefits	22	**2,987**	2,700
Insurance contract liabilities	23	**475,956**	270,589
Amounts held under reinsurance treaties		**31,320**	29,448
Reinsurance balances payable		**63,583**	67,371
Insurance and other payables	24	**53,690**	41,848
Total liabilities		**670,697**	458,188
TOTAL EQUITY AND LIABILITIES		**1,155,304**	938,047

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 8 February 2017.

Buti Obaid Almulla
Chairman

Marwan Abdulla Al Rostamani
Vice Chairman

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital AED'000	*Statutory reserve AED'000*	*General reserve AED'000*	*Retained earnings AED'000*	*Proposed dividends AED'000*	*Cumulative changes in fair value of investments AED'000*	*Total AED'000*
Balance at 1 January 2016	100,000	50,000	13,000	120,963	-	195,896	479,859
Profit for the year	-	-	-	36,612	-	-	36,612
Other comprehensive income	-	-	-	-	-	(5,100)	(5,100)
Total comprehensive income for the year	-	-	-	36,612	-	(5,100)	31,512
Directors' fees (note 26)	-	-	-	(1,764)	-	-	(1,764)
Cash dividend paid (note 20)	-	-	-	(25,000)	-	-	(25,000)
Balance at 31 December 2016	**100,000**	**50,000**	**13,000**	**130,811**	-	**190,796**	**484,607**
Balance at 1 January 2015	100,000	50,000	13,000	112,629	-	201,181	476,810
Profit for the year	-	-	-	35,092	-	-	35,092
Other comprehensive income	-	-	-	-	-	(5,285)	(5,285)
Total comprehensive income for the year	-	-	-	35,092	-	(5,285)	29,807
Directors' fees (note 26)	-	-	-	(1,758)	-	-	(1,758)
Cash dividend paid (note 20)	-	-	-	(25,000)	-	-	(25,000)
Balance at 31 December 2015	100,000	50,000	13,000	120,963	-	195,896	479,859

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Notes	2016 AED'000	2015 AED'000
OPERATING ACTIVITIES			
Profit for the year		**36,612**	35,092
Adjustments for:			
Depreciation on property and equipment	9	**1,641**	1,634
Provision for employees' end of service benefits	22	**715**	433
Loss on sale of investments in debt instruments at amortised cost		**(219)**	230
		38,749	37,389
Changes in operating assets and liabilities:			
Reinsurance assets		**(201,974)**	(79,175)
Insurance receivables		**441**	(27,256)
Prepayments and other assets		**(2,896)**	502
Insurance contract liabilities		**205,367**	75,386
Amounts held under reinsurance treaties		**1,872**	18,784
Reinsurance balances payable		**(3,788)**	3,908
Insurance and other payables		**11,842**	11,120
Cash generated from operations		**49,613**	40,658
Employees' end of service benefits paid	22	**(428)**	(82)
Net cash generated from operating activities		**49,185**	40,576
INVESTING ACTIVITIES			
Investments held at amortised cost		**6,300**	(52,810)
Financial instruments at fair value through other comprehensive income		**(1,837)**	(7,202)
Financial instruments at fair value through profit or loss		**(27,188)**	(5,021)
Advance for investment property		**(3,674)**	(3,888)
Purchase of property and equipment		**(1,445)**	(1,323)
Net cash used in investing activities		**(27,844)**	(70,244)
FINANCING ACTIVITIES			
Dividends paid		**(25,000)**	(25,000)
Bank loan		**(3,071)**	27,815
Directors' fees		**(1,764)**	(1,758)
Net cash (used in) / from financing activities		**(29,835)**	1,057
DECREASE IN CASH AND CASH EQUIVALENTS		**(8,494)**	(28,611)
Cash and cash equivalents at 1 January		**40,805**	69,416
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	17	**32,311**	40,805

1 CORPORATE INFORMATION

Dubai Insurance Company (P.S.C.) (the "Company") is a public shareholding Company registered under the UAE Federal Law No. (2) of 2015 and the UAE Federal Law No. (6) of 2007 relating to commercial companies in the UAE. The Company is subject to the regulations of the UAE Federal Law No. 2 of 2015 which has come into effect from 28 June 2015, replacing the existing Federal Law No.8 of 1984. The Company is currently assessing the impact of the new law and expects to be fully compliant on or before the end of the grace period on 30 June 2017. The Company mainly issues short term insurance contracts in connection with motor, marine, fire, engineering and general accident (collectively known as general insurance) and group life and medical risks (collectively referred to as medical and life assurance). The Company also invests its funds in investment securities and properties. The registered address of the Company is P.O. Box 3027, Dubai, United Arab Emirates. The Company operates in the United Arab Emirates and most of the insurance policies are issued in the United Arab Emirates. The shares of the Company are listed on the Dubai Financial Market.

During 2011, the Company established a new subsidiary for investment purposes. These consolidated financial statements incorporate the financial statements of the Company and its subsidiary (collectively referred to as the "Group").

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

Accounting convention
The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets carried at fair value. The consolidated financial statements have been presented in UAE Dirhams and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

The Group presents its consolidated statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current), presented in the notes.

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and applicable requirements of United Arab Emirates Laws.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise those of Dubai Insurance Company (P.S.C.) ("parent company") and its subsidiary (collectively the "Group"). The consolidated financial statements incorporate the financial statements of the Company and its subsidiary for the year ended 31 December each year.

A subsidiary is an entity over which the Group has all of the following:
(a) power over the investee - the Group has existing rights that give it the current ability to direct the activities that significantly affect the investee's returns;
(b) exposure, or rights, to variable returns from its involvement with the subsidiary; and,
(c) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

2.2 BASIS OF CONSOLIDATION (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and

The extent of Group's shareholding in and the principal activities of the subsidiary is as follows:

Subsidiary	*Principal activity*	*Country of incorporation*	*Ownership*
Vattaun Limited	Investment	British Virgin Island	100%

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Changes in accounting estimates
As per Federal Law No.6 of 2007, relating to the Establishment of Insurance Authority and regulation of Insurance operations, a new financial regulation for insurance companies was issued on 28 January 2015. The financial regulation provided an alignment period to the insurance companies between one to three years from the publication of financial regulation in Public Gazette from 29 January 2015 to align the operations to the covenants of the regulations therein.

With effect from 1 January 2016, to comply with the new regulations introduced by the Insurance authority of United Arab Emirates, unearned premium reserve for all the classes of insurances is calculated on a time proportion basis except Marine class of business which is calculated at 25%.

Unearned premium reserve
At the end of each reporting period a proportion of net retained premiums of the general insurance, medical and group life business is provided to cover portions of risks which have not expired at the reporting date. Until 31 December 2015, the reserves were calculated in accordance with the requirements of the Insurance Law relating to insurance companies at 40% of annual premiums earned net of reinsurance for all classes of insurance, except marine which was calculated at 25% and unearned premium reserves for medical and group life business were calculated on a time proportion basis.

As a result of the change, profit for the year ended 31 December 2016 is lower by AED 760 thousand and unearned premium reserve at 31 December 2016 is higher by AED 760 thousand.

New standards and interpretations effective after 1 January 2016
The following new and revised relevant IFRSs have been applied in the current year in these consolidated financial statements. Their adoption had no significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective
The relevant standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

The nature and the impact of the new standards and amendments applicable to the Group are described below:

IFRS 9 Financial Instruments
In July 2015, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2016.

The Group has early applied the new standard from 1 January 2010 and reclassified, with effect from 1 January 2010, all available for sale securities that were still held as at fair value through OCI. Application of the other phases of the standard had no impact on the consolidated financial statements or results for the year.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

The Group has early applied the IFRS 9 from 1 January 2010 and reclassified, with effect from 1 January 2010, all available for sale securities that were still held as at fair value through OCI. Hence this amendment would not apply to the Group.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group expects to apply IFRS 15 fully retrospective. Given insurance contracts are scoped out of IFRS 15, the Group expects the main impact of the new standard to be on the accounting for income from investments. The Group does not expect the impact to be significant.

IFRS 16 Leases
IFRS 16 was issued in January 2016 replacing IAS 17 and applies to annual reporting periods beginning on or after 1 January 2019. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

There are other amendments to IASB Standards and Interpretations which have been issued as of the date of the reporting but are effective from future dates have not yet been adopted by the Group. Future adoption of these Standards and Interpretations is not expected to have an impact on the consolidated financial statements of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

Gross premiums
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences. Gross premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written. Premiums on general insurance policies are accounted for on the date of writing of policies except premium income on marine cargo policies which is accounted for on the expected date of voyage. Premiums are adjusted for unearned premium.

Reinsurance premiums
Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into during the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

Gross reinsurance premiums on life are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

Commissions earned
Commissions earned are recognised at the time policies are written.

Other investment income
(i) Interest income is recognised on a time proportion basis.
(ii) Dividend income is accounted for when the right to receive payment is established.
(iii) Rental income is recognised as income over the period to which it relates.

Claims and expenses recognition
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Provision for incurred but not reported claims is included within additional reserve.

The Group generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the underwriting account for that year.

Reinsurance claims
Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

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

Policy acquisition costs
Commissions and other costs directly related to the acquisition and renewal of insurance contracts are charged to the consolidated statement of income when incurred.

General and administration expenses
Direct expenses of general insurance business are charged to respective departmental revenue accounts. Indirect expenses of the general insurance business are allocated to departmental revenue accounts on the basis of gross retained premiums of each department. Other administration expenses are charged to the consolidated statement of income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases
The Group has no finance leases. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Liability adequacy test
At each consolidated statement of financial position date the Group assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision is created.

The Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the consolidated statement of financial position date.

Foreign currency translation
The presentation currency is UAE Dirhams (AED). This is also the functional currency of the Group. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the consolidated statement of income, except when it relates to items when gains or losses are recognised directly in equity, the gain or loss is then recognised net of the exchange component in the consolidated statement of comprehensive income.

Segment reporting
For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

a) The medical and life insurance segment offers short term group life insurance and medical. Revenue from this segment is derived primarily from insurance premium, fees and commission income, investment income and fair value gains and losses on investments.
b) The non-life insurance segment comprises both general insurance and health insurance to individuals and businesses. General insurance products offered include motor, marine, fire, engineering, general accident and medical. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of policyholder's accident, e.g., employee liability claims and asbestos. Non-life healthcare contracts provide medical cover to policyholders. Revenue in this segment is derived primarily from insurance premiums, investment income and fair value gains and losses on investments.
c) The investment segment includes investment in equity, fixed income securities such as bonds and fixed deposits and net rental income from investment properties.

No operating segments have been aggregated to form the above reportable operating segments. Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the consolidated financial statements. Unallocated administrative expenses are managed on a group basis and are not allocated to individual operating segments.

No inter-segment transactions occurred in 2016 and 2015. If any transaction were to occur, transfer prices between operating segments would be set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation.

Product classification
Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Product classification (continued)
Investment contracts are those contracts that transfer significant 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 price or rates, a credit rating or credit index or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception, if insurance risk becomes significant.

The Group does not have any investment contracts or any insurance contracts with Discretionary Participation Features (DPF).

Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives of property and equipment as follows:

Furniture and equipment	4 years
Motor vehicles	4 years

No depreciation charged on freehold land.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their value less costs to sell and their value in use.

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

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of comprehensive income as the expense is incurred.

Capital work in progress
Capital work in progress is stated at the lower of cost or net realisable value. The cost includes the cost of construction and other related expenditure which are capitalised as and when activities that are necessary to get the assets ready for use are in progress. Net realisable value represents the estimated recoverable value based on expected future usage.

Management reviews the carrying values of the capital work in progress on an annual basis.

Capital work in progress are considered to be completed when all related activities, for the entire assets have been completed. Upon completion, those are transferred to property and equipment.

Investment properties
The Group has elected to adopt the cost model for investment properties. Accordingly, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

Building	25 years

No depreciation is charged on freehold land.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and settlement date accounting
All "regular way" purchases and sales of financial assets are recognised on the "trade date", i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Fair value measurement
The Group measures financial instruments, such as, equity instruments, and non-financial assets such as investment properties (for disclosure purposes), at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 12.

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Financial assets
At initial recognition, all financial assets are measured at fair value.

Equity investments
For subsequent measurements, all financial assets that are equity investments are measured at fair value either through Other Comprehensive Income (OCI) or through profit or loss. This is an irrevocable choice that the Group has made on early adoption of IFRS 9 or will make on subsequent acquisition of equity investments unless the equity investments are held for trading, in which case, they must be measured at fair value through profit or loss. Gain or loss on disposal of equity investments at fair value through Other Comprehensive Income (OCI) are not recycled. Dividend income for all equity investments at fair value through Other Comprehensive Income (OCI) are recorded through profit or loss.

Debt instruments
Debt instruments are also measured at fair value through profit or loss unless they are classified at amortised cost. They are classified at amortised cost only if:

i. the asset is held within a business model whose objective is to hold the asset to collect the contractual cash flows; and
ii. the contractual terms of the debt instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial instruments
A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement
- The Group has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay

Impairment and uncollectibility of financial assets
An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

(a) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
(b) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Impairment of non-financial assets (excluding goodwill)
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses are recognised in the statement of profit or loss.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

Reinsurance contracts held
The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance contracts held (continued)
Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the consolidated statement of income. Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for life insurance and general insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party. Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the consolidated statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured.

Insurance receivables
Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of income.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the consolidated statement of financial position.

Insurance contract liabilities

(i) Unearned premium reserve
At the end of each year a proportion of net retained premiums of the general insurance, medical and group life business is provided to cover portions of risks which have not expired at the reporting date. The reserves are calculated in accordance with the requirements of the Insurance Law relating to insurance companies at 40% of annual premiums earned net of reinsurance for all classes of insurance, except marine which is calculated at 25%. Unearned premium reserves for medical and group life business are calculated on a time proportion basis.

(ii) Additional reserve
A provision is made for the estimated excess of potential claims over unearned premiums and for claims incurred but not reported at the financial position date.

The reserves represent the management's best estimates on the basis of:
a) claims reported during the year
b) delay in reporting these claims
c) claim handling provision

(iii) Outstanding claims
Insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the contract expires, is discharged or is cancelled.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Contingencies
Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of properties
Management decides whether a property under construction will be used upon completion as owner-occupied property or for renting out to third parties. If used as owner-occupied property, the value in use of the property is determined as part of the cash generating unit to which it belongs. Otherwise, the asset is classified as investment property and its fair value is determined on an individual asset basis.

Classification of investments
Management decides on acquisition of an investment whether it should be classified as of fair value through profit or loss, at fair value through OCI or at amortised cost.

Operating lease commitments
The Group has entered into commercial property leases on its investment property. The Group, as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgments (continued)

Additional reserve (continued)
The reserves represent the management's best estimates on the basis of:

a) claims reported during the year
b) delay in reporting these claims
c) claim handling provision

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

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same ;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or other valuation models.

Provision for outstanding claims, whether reported or not
Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement 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 reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claim settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

Impairment losses on insurance receivables
The Group reviews its insurance receivables on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

In addition to specific provisions against individually significant insurance receivables, the Group also makes a collective impairment provision against insurance receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for insurance receivables within each grade and is adjusted to reflect current economic changes.

Reinsurance
The Group is exposed to disputes with, and possibility of defaults by, its reinsurers. The Group monitors on a regular basis the evolution of disputes with and the strength of its reinsurers.

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

3 INSURANCE PREMIUM REVENUE

Year 2016	*General Insurance*			*Life Insurance*			*Total*		
	Gross AED'000	***Reinsurers' share AED'000***	***Net AED'000***	***Gross AED'000***	***Reinsurers' share AED'000***	***Net AED'000***	***Gross AED'000***	***Reinsurers' share AED'000***	***Net AED'000***
Gross premium	393,105	(301,383)	91,722	7,067	(5,013)	2,054	400,172	(306,396)	93,776
Movement in provision for unearned premium	(22,706)	23,060	354	376	(361)	15	(22,330)	22,699	369
Insurance premium revenue	**370,399**	**(278,323)**	**92,076**	**7,443**	**(5,374)**	**2,069**	**377,842**	**(283,697)**	**94,145**
Unearned premium as of 31 December (Note 23)	**143,659**	**(121,445)**	**22,214**	**1,710**	**(1,586)**	**124**	**145,369**	**(123,031)**	**22,338**

Year 2015	*General Insurance*			*Life Insurance*			*Total*		
	Gross AED'000	*Reinsurers' share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurers' share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurers' share AED'000*	*Net AED'000*
Gross premium	348,828	(252,361)	96,467	14,135	(11,551)	2,584	362,963	(263,912)	99,051
Movement in provision for unearned premium	(8,012)	18,906	10,894	390	(361)	29	(7,622)	18,545	10,923
Insurance premium revenue	340,816	(233,455)	107,361	14,525	(11,912)	2,613	355,341	(245,367)	109,974
Unearned premium as of 31 December (Note 23)	120,953	(98,385)	22,568	2,086	(1,947)	139	123,039	(100,332)	22,707

Insurance contracts premium includes AED 30,144 thousand (2015: AED 33,522 thousand) of reinsurance premium accepted.

4 CLAIMS INCURRED

Year 2016	*General Insurance*			*Life Insurance*			*Total*		
	Gross AED'000	***Reinsurers' share AED'000***	***Net AED'000***	***Gross AED'000***	***Reinsurers' share AED'000***	***Net AED'000***	***Gross AED'000***	***Reinsurers' share AED'000***	***Net AED'000***
Claims paid	372,733	(328,112)	44,621	2,349	(2,148)	201	375,082	(330,260)	44,822
Changes in provision for outstanding claim (note 23(c))	155,346	(149,020)	6,326	1,281	(1,153)	128	156,627	(150,173)	6,454
Movement in additional reserves (note 23(a))	24,196	(28,926)	(4,730)	192	(176)	16	24,388	(29,102)	(4,714)
Movement in loss adjustment expense reserve	1,995	-	1,995	27	-	27	2,022	-	2,022
	554,270	**(506,058)**	**48,212**	**3,849**	**(3,477)**	**372**	**558,119**	**(509,535)**	**48,584**

Year 2015	*General Insurance*			*Life Insurance*			*Total*		
	Gross AED'000	*Reinsurers' share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurers' share AED'000*	*Net AED'000*	*Gross AED'000*	*Reinsurers' share AED'000*	*Net AED'000*
Claims paid	209,260	(162,858)	46,402	1,289	(1,161)	128	210,549	(164,019)	46,530
Changes in provision for outstanding claim (note 23(c))	60,566	(57,011)	3,555	(925)	879	(46)	59,641	(56,132)	3,509
Movement in additional reserves (note 23(a))	8,017	(4,403)	3,614	106	(95)	11	8,123	(4,498)	3,625
	277,843	(224,272)	53,571	470	(377)	93	278,313	(224,649)	53,664

For details of the movement in the reserves, refer note 23.

5 SEGMENTAL INFORMATION

Identification of reportable segments

Primary segment information
For management purposes, the Group is organised into business units based on its products and services and has three reportable operating segments as follows:

- The general insurance segment, comprises motor, marine, fire, engineering and general accident.
- The medical and life segment, includes group life and medical.
- Investment comprises investment and cash management for the Group's own account.

Transactions between operating segments are conducted at estimated market rates on an arm's length basis.

Operating segment information is presented below:

	General Insurance		*Medical and Life Assurance*		*Total*	
	2016 AED'000	*2015 AED'000*	***2016 AED'000***	*2015 AED'000*	***2016 AED'000***	*2015 AED'000*
UNDERWRITING INCOME						
Insurance premium revenue	**159,631**	160,664	**218,211**	194,677	**377,842**	355,341
Reinsurers' share of premium	**(121,009)**	(117,159)	**(162,688)**	(128,208)	**(283,697)**	(245,367)
Net insurance premium revenue	**38,622**	43,505	**55,523**	66,469	**94,145**	109,974
Reinsurance commission income	**31,804**	29,719	**2,102**	1,556	**33,906**	31,275
Other income	**112**	59	**1,285**	261	**1,397**	320
	70,538	73,283	**58,910**	68,286	**129,448**	141,569
UNDERWRITING EXPENSES						
Claims incurred	**397,991**	172,968	**160,128**	105,345	**558,119**	278,313
Reinsurers' share of claims incurred	**(373,347)**	(146,201)	**(136,188)**	(78,448)	**(509,535)**	(224,649)
Net claims incurred	**24,644**	26,767	**23,940**	26,897	**48,584**	53,664
Commission expenses	**16,104**	17,579	**11,638**	24,641	**27,742**	42,220
Excess of loss reinsurance premium	**735**	604	**-**	-	**735**	604
Other direct expenses	**320**	-	**8,586**	5,548	**8,906**	5,548
General and administration expenses relating to underwriting activities	**9,706**	7,556	**9,852**	8,569	**19,558**	16,125
	51,509	52,506	**54,016**	65,655	**105,525**	118,161
NET UNDERWRITING INCOME	**19,029**	20,777	**4,894**	2,631	**23,923**	23,408
TOTAL INVESTMENT INCOME					**19,644**	17,496
Unallocated other expenses					**(6,955)**	(5,812)
PROFIT FOR THE YEAR					**36,612**	35,092

For operational and management reporting purposes, the Group is organised as one geographical segment.

5 SEGMENTAL INFORMATION (continued)

OTHER INFORMATION

	General insurance		*Medical and Life Assurance*		*Investment*		*Total*	
	2016 AED'000	*2015 AED'000*	***2016 AED'000***	*2015 AED'000*	***2016 AED'000***	*2015 AED'000*	***2016 AED'000***	*2015 AED'000*
Segment assets	**529,007**	337,534	**121,769**	117,503	**504,528**	483,010	**1,155,304**	938,047
Segment liabilities	**497,990**	265,313	**129,546**	146,643	**43,161**	46,232	**670,697**	458,188
Capital expenditure	**1,445**	1,323	**-**	-	**-**	-	**1,445**	1,323
Depreciation	**1,641**	1,634	**-**	-	**-**	-	**1,641**	1,634

The Group's operations are primarily conducted in the United Arab Emirates. General Insurance figures reported above include certain assets and liabilities that are common for all three reportable segments. These amounts are not significant and are not reported separately to the chief decision maker.

6 OTHER INVESTMENT INCOME

	2016 AED'000	*2015 AED'000*
Rental income from investment properties	**1,314**	1,458
Investment property expenses	**(812)**	(720)
	502	738
Dividend income - Financial assets at fair value through other comprehensive income	**15,037**	12,645
Interest income from bonds	**3,059**	2,672
Cash and cash equivalents and statutory deposits interest income	**1,843**	2,579
	20,441	18,634

7 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2016 AED'000	*2015 AED'000*
Staff costs	**17,097**	14,595
Rental costs – operating leases	**312**	275
Social contributions**	**4**	4

** During the year social contributions were paid to Zayed & the Emirates and Abilities Development Centre for Handicapped and in the previous year social contributions were paid to Emirates Business Women Council.

8 BASIC AND DILUTED EARNINGS PER SHARE

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

	2016	*2015*
Profit for the year (AED'000)	**36,612**	35,092
Directors' fees (AED'000)	**(1,764)**	(1,758)
Net (AED'000)	**34,848**	33,334
Weighted average number of shares outstanding during the year ('000)	**100,000**	100,000
Earnings per share (AED)	**0.35**	0.33

No figures for diluted earnings per share are presented as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

9 PROPERTY AND EQUIPMENT

	Land AED'000	*Furniture and equipment AED'000*	*Motor vehicles AED'000*	*Total AED'000*
Cost:				
At 1 January 2016	44,173	10,315	681	55,169
Additions during the year	-	1,427	18	1,445
At 31 December 2016	**44,173**	**11,742**	**699**	**56,614**
Depreciation:				
At 1 January 2016	-	7,387	544	7,931
Charge for the year	-	1,513	128	1,641
At 31 December 2016	-	**8,900**	**672**	**9,572**
Net carrying amount:				
At 31 December 2016	**44,173**	**2,842**	**27**	**47,042**

	Land AED'000	*Furniture and equipment AED'000*	*Motor vehicles AED'000*	*Capital Work in Progress AED'000*	*Total AED'000*
Cost:					
At 1 January 2015	44,173	8,745	681	247	53,846
Additions during the year	-	1,570	-	-	1,570
Capitalised during the year	-	-	-	(247)	(247)
At 31 December 2015	44,173	10,315	681	-	55,169
Depreciation:					
At 1 January 2015	-	5,883	414	-	6,297
Charge for the year	-	1,504	130	-	1,634
At 31 December 2015	-	7,387	544	-	7,931
Net carrying amount:					
At 31 December 2015	44,173	2,928	137	-	47,238

9 PROPERTY AND EQUIPMENT (continued)

The depreciation charge for the year of AED 1,641 thousand (2015: AED 1,634 thousand) has been allocated as follows:

	2016 ***AED'000***	*2015* *AED'000*
Underwriting expenses	**1,231**	1,226
Other expenses	**410**	408
	1,641	1,634

Included in property and equipment is land situated in the Emirate of Dubai, United Arab Emirates with a carrying value of AED 44,173 thousand (2015: AED 44,173). The Group's Board of Directors has resolved to construct the Group's head office on the land in the foreseeable future.

10 INVESTMENT PROPERTY

	Freehold land AED'000	*Building AED'000*	*Total AED'000*
Cost:			
At 1 January 2016	1,670	18,392	20,062
At 31 December 2016	**1,670**	**18,392**	**20,062**
Depreciation:			
At 1 January 2016	-	18,392	18,392
At 31 December 2016	-	**18,392**	**18,392**
Net carrying amount:			
At 31 December 2016	**1,670**	-	**1,670**

	Freehold land AED'000	*Building AED'000*	*Total AED'000*
Cost:			
At 1 January 2015	1,670	18,392	20,062
At 31 December 2015	1,670	18,392	20,062
Depreciation:			
At 1 January 2015	-	18,392	18,392
At 31 December 2015	-	18,392	18,392
Net carrying amount:			
At 31 December 2015	1,670	-	1,670

Land and Building at Deira, Dubai
Investment property is carried at cost and the fair value of the investment property as of 31 December 2016, based on a valuation undertaken by an independent qualified valuer, amounted to AED 34,500 thousand (2015: AED 66,500 thousand).

The fair value of investment properties has been determined using level 2 fair value hierarchy.

11 ADVANCE FOR INVESTMENT PROPERTY

This represents advance given for an investment property within United Arab Emirates, which is 42% of the total cost of the property and the remaining 58% of the total cost is capital commitment as mentioned in Note 28.

12 FINANCIAL INSTRUMENTS

	Carrying value		*Fair value*	
	2016 AED'000	*2015 AED'000*	***2016 AED'000***	*2015 AED'000*
Financial instruments				
At fair value through profit or loss (Note 12(a))	**85,239**	58,051	**85,239**	58,051
At fair value through other comprehensive income (Note 12(b))	**326,177**	329,440	**326,177**	329,440
Investments held at amortised cost (Note 12 (c))	**83,880**	89,961	**84,663**	89,389
	495,296	477,452	**496,079**	476,880

12(a) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

		2016 AED'000	*2015 AED'000*
a)	***Shares - quoted***	**4,167**	4,130
b)	***Designated upon initial recognition***		
	Bank deposits with maturity over three months - unquoted	**81,072**	53,921
		85,239	58,051

The entire shares and bank deposits are within the United Arab Emirates.

12(b) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (OCI)

	2016 AED'000	*2015 AED'000*
Shares – quoted (within UAE)	**306,395**	312,155
Shares – unquoted (Outside UAE)	**9,582**	7,085
Shares – unquoted (within UAE)	**10,200**	10,200
	326,177	329,440

The fair value loss amounting to AED 5,100 thousand (2015: loss of AED 5,285 thousand) has been recognised in the consolidated statement of comprehensive income.

12(c) DEBT INSTRUMENTS AT AMORTISED COST

	2016 AED'000	*2015 AED'000*
Amortised cost		
Debt securities (within UAE)	**11,479**	11,896
Debt securities (outside UAE)	**72,401**	78,065
	83,880	89,961

12(c) DEBT INSTRUMENTS AT AMORTISED COST (continued)

Debt securities amounting to AED 83,880 thousand (2015: AED 86,286 thousand) are pledged against bank loans (Note 21). The investments carry interest at an effective rate of 4.60% per annum (2015: 4.03% per annum). The maturity profile of these debt instruments is shown below:

	31 December 2016		
	Less than 5 years AED'000	***More than 5 years AED'000***	***Total AED'000***
Debt securities (within UAE)	**5,850**	**5,629**	**11,479**
Debt securities (outside UAE)	**40,198**	**32,203**	**72,401**
	46,048	**37,832**	**83,880**

	31 December 2015		
	Less than 5 years AED'000	*More than 5 years AED'000*	*Total AED'000*
Debt securities (within UAE)	7,762	4,134	11,896
Debt securities (outside UAE)	39,637	38,428	78,065
	47,399	42,562	89,961

13 FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair values hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

13 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair values hierarchy (continued)
The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 *AED'000*	*Level 2* *AED'000*	*Level 3* *AED'000*	*Total* *Fair value* *AED'000*
At 31 December 2016				
Financial instruments				
At fair value through profit or loss:				
Bank deposits	-	**81,072**	-	**81,072**
Quoted equity securities	**4,167**	-	-	**4,167**
	4,167	**81,072**	-	**85,239**
At fair value through other comprehensive income:				
Quoted equity investments	**306,395**	-	-	**306,395**
Unquoted equity investments	-	-	**19,782**	**19,782**
	306,395	-	**19,782**	**326,177**
	310,562	**81,072**	**19,782**	**411,416**

	Level 1 *AED'000*	*Level 2* *AED'000*	*Level 3* *AED'000*	*Total* *Fair value* *AED'000*
At 31 December 2015				
Financial instruments				
At fair value through profit or loss:				
Bank deposits	-	53,921	-	53,921
Quoted equity securities	4,130	-	-	4,130
	4,130	53,921	-	58,051
At fair value through other comprehensive income:				
Quoted equity investments	312,155	-	-	312,155
Unquoted equity investments	-	-	17,285	17,285
	312,155	-	17,285	329,440
	316,285	53,921	17,285	387,491

Financial instruments recorded at fair value
Included in the Level 1 category are financial assets that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

13 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments recorded at fair value (continued)

Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments in limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data.

Movements in level 3 financial instruments measured at fair value

31 December 2016

	At 1 January 2016 AED'000	***Total gain or loss recorded in profit and loss AED'000***	***Purchases AED'000***	***Sales AED'000***	***Total gain or loss recorded in OCI AED'000***	***Transfers AED'000***	***At 31 December 2016 AED'000***
Financial instruments							
At fair value through other comprehensive income:							
Unquoted investments	**17,285**	-	**1,837**	-	**660**	-	**19,782**
Total level 3 financial assets	**17,285**	-	**1,837**	-	**660**	-	**19,782**

31 December 2015

	At 1 January 2015 AED'000	*Total gain or loss recorded in profit and loss AED'000*	*Purchases AED'000*	*Sales AED'000*	*Total gain or loss recorded in OCI AED'000*	*Transfers AED'000*	*At 31 December 2015 AED'000*
Financial assets							
At fair value through other comprehensive income:							
Unquoted investments	10,200	-	7,202	-	(117)	-	17,285
Total level 3 financial assets	10,200	-	7,202	-	(117)	-	17,285

Gains or losses on level 3 financial instruments included in the profit or loss for the year:

No gains or losses on level 3 financial instruments were included in the profit or loss for the year.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

For equity securities, the Group does not have a material exposure as at 31 December 2016 and, accordingly no sensitivity analysis has been done.

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements:

13 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturities (less than three months) it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to insurance receivables, reinsurance payables, demand deposits and savings accounts without specific maturity. Fair value of quoted bonds is based on price quotations at the reporting date. Long term bank loan is evaluated by Group based on parameters such as interest rates.

14 INSURANCE RECEIVABLES

	2016 ***AED'000***	*2015* *AED'000*
Due from policyholders	**59,587**	50,791
Due from insurance companies	**29,855**	26,095
Due from insurance brokers	**11,378**	13,591
Other insurance receivables	**40,254**	46,113
Due from re-insurance companies in respect of settled claims	**3,790**	8,215
Less : Provision for doubtful accounts	**(4,910)**	(4,410)
	139,954	140,395

All of the above amounts are due within twelve months of the reporting date. The amounts due from reinsurers are normally settled on a quarterly basis. As at 31 December 2016, premiums and insurance companies' balances receivable at nominal value of AED 4,910 thousand (2015: AED 4,410 thousand) were impaired. Movements in the allowance for impairment of receivables were as follows:

	2016 ***AED'000***	*2015* *AED'000*
At 1 January	**4,410**	3,910
Charge for the year	**500**	500
At 31 December	**4,910**	4,410

The following table shows analysis of insurance receivables by class of business:

	General		*Life*	
	2016 ***AED'000***	*2015* *AED'000*	***2016*** ***AED'000***	*2015* *AED'000*
Due from policyholders	**58,389**	50,590	**1,198**	201
Less : Provision for doubtful accounts	**(4,910)**	(1,997)	**-**	-
Due from insurance companies	**29,750**	26,095	**105**	-
Due from insurance brokers	**11,071**	12,782	**307**	809
Other insurance receivables	**40,254**	46,113	**-**	-
Due from re-insurance companies in respect of settled claims	**3,790**	8,215	**-**	-
Less : Provision for doubtful accounts	**-**	(2,413)	**-**	-
	138,344	139,385	**1,610**	1,010

14 INSURANCE RECEIVABLES (continued)

Inside UAE:

	General		Life	
	2016 AED'000	*2015 AED'000*	**2016 AED'000**	*2015 AED'000*
Due from policyholders	**56,447**	47,577	**1,156**	201
Less : Provision for doubtful accounts	**(4,910)**	(1,997)	**-**	-
Due from insurance companies	**29,750**	26,095	**105**	-
Due from insurance brokers	**10,112**	11,827	**307**	-
Other insurance receivables	**40,254**	46,113	**-**	-
Due from re-insurance companies in respect of settled claims	**812**	448	**-**	-
Less : Provision for doubtful accounts	**-**	(1,776)	**-**	-
	132,465	128,287	**1,568**	201

The following table provides an ageing analysis of receivables:

31 December 2016

	Less than30 days AED'000	*30-90 days AED'000*	*91 to 180 days AED'000*	*181 to 270 days AED'000*	*271 to 365 days AED'000*	*> 365 days AED'000*	*Total AED'000*
Inside UAE:							
Due from:							
Policyholders	9,190	2,509	14,371	17,110	6,289	3,224	52,693
Insurance companies	2,182	11,015	10,246	4,962	770	680	29,855
Insurance brokers	2,399	2,905	2,545	1,415	81	1,075	10,420
Re-insurance companies	373	6	236	-	-	197	812
Other receivables	9,354	6,447	5,934	4,137	2,240	12,141	40,253
Total	**23,498**	**22,882**	**33,332**	**27,624**	**9,380**	**17,317**	**134,033**
Outside UAE:							
Due from:							
Policyholders	83	224	52	105	933	587	1,984
Insurance brokers	-	4	27	12	151	764	958
Re-insurance companies	2,745	147	3	-	-	84	2,979
Total	**2,828**	**375**	**82**	**117**	**1,084**	**1,435**	**5,921**

14 INSURANCE RECEIVABLES (continued)

Ageing analysis of receivables (continued)

31 December 2015

	Less than30 days AED'000	*30-90 days AED'000*	*91 to 180 days AED'000*	*181 to 270 days AED'000*	*271 to 365 days AED'000*	*> 365 days AED'000*	*Total AED'000*
Inside UAE:							
Due from:							
Policyholders	1,438	17,197	8,713	6,282	6,734	5,417	45,781
Insurance companies	11,257	5,725	3,841	2,831	1,375	1,066	26,095
Insurance brokers	447	4,588	2,531	2,285	391	1,585	11,827
Re-insurance companies	-	277	9	-	-	162	448
Other receivables	7,879	13,599	6,150	3,316	2,296	11,097	44,337
Total	21,021	41,386	21,244	14,714	10,796	19,327	128,488
Outside UAE:							
Due from:							
Policyholders	49	626	537	381	3	1,417	3,013
Insurance brokers	-	38	674	25	841	186	1,764
Re-insurance companies	3,410	3,642	4	-	3	71	7,130
Total	3,459	4,306	1,215	406	847	1,674	11,907

15 PREPAYMENTS AND OTHER RECEIVABLES

	2016 AED'000	*2015 AED'000*
Accrued income	**1,965**	1,420
Prepayments	**3,687**	1,416
Staff debtors and advances	**402**	515
Other receivables	**3,295**	3,102
	9,349	6,453

16 STATUTORY DEPOSITS

	2016 AED'000	*2015 AED'000*
Bank deposits:		
Amounts that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 42 of Federal Law No. 6 of 2007	**10,000**	10,000

The bank deposit expires after one year and is renewable every year and earns an interest of 2.25% (2015: 2.10%) per annum.

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	2016 AED'000	2015 AED'000
Bank balances and cash	**32,311**	40,805
	32,311	40,805

The entire cash and cash equivalents are within United Arab Emirates.

18 SHARE CAPITAL

	2016 AED'000	2015 AED'000
Issued and fully paid 100,000,000 shares of AED1 each (2015: 100,000,000 shares of AED1 each)	**100,000**	100,000

19 RESERVES

NATURE AND PURPOSE OF RESERVES

Statutory reserve
In accordance with UAE Commercial Companies Law and the Group's Articles of Association, the Group has resolved to discontinue the annual transfer of 10% of the profit for the year since the statutory reserve reached 50% of the paid up share capital. The reserve is not available for distribution, except in the circumstances stipulated by the UAE Commercial Companies Law.

General reserve
Transfers to the general reserve are made on the recommendation of the Board of Directors. During the year, the Board of Directors has recommended to transfer Nil (2015: AED Nil) to the general reserve. This reserve may be used for such purposes as deemed appropriate by the Board of Directors.

Cumulative changes in fair value of investments
This reserve records fair value changes on financial instruments held at fair value through other comprehensive income.

20 DIVIDENDS

For the year ended 31 December 2015, the Shareholders at the annual general meeting dated 3 March 2016 approved a cash dividend of 25% (AED 0.25 per share) totalling AED 25,000 thousand.

21 BANK LOAN

	2016 AED'000	2015 AED'000
Loan I	**18,443**	18,421
Loan II	**15,212**	18,363
Loan III	**9,506**	9,448
	43,161	46,232

21 BANK LOAN (continued)

Loan I

In 2011, the Group entered into a credit facility agreement for the loan I with an international bank for USD 5,000 thousand (equivalent AED 18,443 thousand). The loan facility is secured against investments in debt instruments held at amortised cost amounting to AED 32,247 thousand (31 December 2015: AED 33,294 thousand) (Note 12.c)) used for the Group's investment operations. The loan carries interest at 3 months USD LIBOR plus 1% per annum and the tenure of the loan is directly linked to the maturity period of the debt instruments which are financed by the loan. The debt instruments have maturity periods of 2 to 10 years.

Loan II

During previous year, the Group entered into credit facility agreements with an international bank for AED 15,212 thousand. The loan facilities are secured against investments in debt instruments held at amortised cost amounting to AED 24,223 thousand (31 December 2015: AED 27,208 thousand) (Note 12.c) used for the Group's investment operations and carries interest at 1 month USD LIBOR plus 0.5% per annum. The tenure of the loans are directly linked to the maturity period of the debt instruments which are financed by the loan. The debt instruments have maturity periods of 1 to 33 years.

Loan III

During previous year, the Group entered into credit facility agreements with a local bank for AED 9,506 thousand. The loan facilities are secured against investments in debt instruments held at amortised cost amounting to AED 27,410 thousand (31 December 2015: AED 25,784 thousand) (Note 12.c) used for the Group's investment operations and carries interest at 3 months USD LIBOR plus 1.1% per annum. The tenure of the loans are directly linked to the maturity period of the debt instruments which are financed by the loan. The debt instruments have maturity periods of 3 to 17 years.

22 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the consolidated statement of financial position are as follows:

	2016 AED'000	*2015 AED'000*
Provision as at 1 January	**2,700**	2,349
Provided during the year	**715**	433
End of service benefits paid	**(428)**	(82)
Provision as at 31 December	**2,987**	2,700

23 INSURANCE CONTRACT ASSETS AND LIABILITIES

	Gross		*Reinsurers' share*		*Net*	
	2016 AED'000	*2015 AED'000*	***2016 AED'000***	*2015 AED'000*	***2016 AED'000***	*2015 AED'000*
Unearned premium reserve (Note 3)	**145,369**	123,039	**(123,031)**	(100,332)	**22,338**	22,707
Additional reserve (Note 23(a))	**51,189**	26,801	**(38,678)**	(9,576)	**12,511**	17,225
Unallocated loss adjustment expense reserve (Note 23(b))	**2,022**	-	**-**	-	**2,022**	-
Outstanding claims (Note 23(c))	**277,376**	120,749	**(250,411)**	(100,238)	**26,965**	20,511
	475,956	270,589	**(412,120)**	(210,146)	**63,836**	60,443

23 INSURANCE CONTRACT ASSETS AND LIABILITIES (continued)

23(a) Additional reserve

	General Insurance AED'000	*Life Assurance AED'000*	*Total AED'000*
1 January 2015:			
Gross	18,678	-	18,678
Reinsurers' share	(5,078)	-	(5,078)
	13,600	-	13,600
Net increase (Note 4)	3,614	11	3,625
31 December 2015:			
Gross	26,695	106	26,801
Reinsurers' share	(9,481)	(95)	(9,576)
	17,214	11	17,225
Net (decrease)/increase (Note 4)	(4,730)	16	(4,714)
31 December 2016:			
Gross	50,891	298	51,189
Reinsurers' share	(38,407)	(271)	(38,678)
	12,484	**27**	**12,511**

23 (b) Unallocated loss adjustment expense reserve

	General Insurance AED'000	*Life Assurance AED'000*	*Total AED'000*
Charge during the year	1,995	27	2,022
At 31 December 2016:	**1,995**	**27**	**2,022**

23 (c) Outstanding claims

	General Insurance AED'000	*Life Assurance AED'000*	*Total AED'000*
At 1 January 2015:			
Outstanding claims	58,814	2,294	61,108
Due from reinsurers	(41,995)	(2,111)	(44,106)
	16,819	183	17,002
Net increase / (decrease) (Note 4)	3,555	(46)	3,509
At 31 December 2015:			
Outstanding claims	119,380	1,369	120,749
Due from reinsurers	(99,006)	(1,232)	(100,238)
	20,374	137	20,511
Net increase (Note 4)	6,326	128	6,454
At 31 December 2016:			
Outstanding claims	274,726	2,650	277,376
Due from reinsurers	(248,026)	(2,385)	(250,411)
	26,700	**265**	**26,965**

23 INSURANCE CONTRACT ASSETS AND LIABILITIES (continued)

23 (c) Outstanding claims (continued)

Claims development table for gross general insurance claims (excluding Medical and life):
The following table reflects the cumulative incurred claims, including both claims notified and claims incurred but not reported (IBNR) for each successive accident year at each statement of financial position date, together with cumulative payments to date:

Year 2016 *Accident year*	***2010 AED' 000***	***2011 AED' 000***	***2012 AED' 000***	***2013 AED' 000***	***2014 AED' 000***	***2015 AED' 000***	***2016 AED' 000***	*Total AED' 000*
At the end of accident year	75,812	83,577	81,630	91,453	108,488	169,288	224,778	
One year later	81,811	90,327	85,993	98,734	114,658	324,572	-	
Two years later	80,321	86,141	82,538	98,973	113,497	-	-	
Three years later	79,964	84,795	80,583	98,260	-	-	-	
Four years later	79,330	84,551	78,114	-	-	-	-	
Five years later	78,888	84,270	-	-	-	-	-	
Six years later	78,858	-	-	-	-	-	-	
Seven years later	-	-	-	-	-	-	-	
Current estimate of cumulative claims	**78,858**	**84,270**	**78,114**	**98,260**	**113,497**	**324,572**	**224,778**	**1,002,349**
At the end of accident year	(50,011)	(55,967)	(50,270)	(62,991)	(84,771)	(94,966)	(177,215)	
One year later	(73,533)	(78,766)	(68,666)	(91,287)	(108,004)	(125,589)	-	
Two years later	(76,130)	(81,641)	(74,987)	(92,273)	(110,160)	-	-	
Three years later	(76,730)	(82,839)	(75,941)	(93,087)	-	-	-	
Four years later	(77,471)	(82,977)	(76,070)	-	-	-	-	
Five years later	(78,818)	(83,014)	-	-	-	-	-	
Six years later	(78,848)	-	-	-	-	-	-	
Seven years later	-	-	-	-	-	-	-	
Cumulative claims paid	**(78,848)**	**(83,014)**	**(76,070)**	**(93,087)**	**(110,160)**	**(125,589)**	**(177,215)**	**(743,983)**
Total gross Outstanding claims	**10**	**1,256**	**2,044**	**5,173**	**3,337**	**198,983**	**47,563**	**258,366**

23 INSURANCE CONTRACT ASSETS AND LIABILITIES (continued)

23 (d) Summary of Group's Actuary's report on the technical provisions

31 December 2016

	Carrying value		*As per Group's Actuary's report*		*Differences*	
	Gross AED'000	***Net AED'000***	***Gross AED'000***	***Net AED'000***	***Gross AED'000***	***Net AED'000***
Unearned premium reserve	**145,369**	**22,338**	**145,740**	**22,351**	**(371)**	**(13)**
Claims reported unsettled	**277,376**	**26,965**	**277,376**	**26,965**	**-**	**-**
Claims incurred but not reported	**51,189**	**12,511**	**43,164**	**4,510**	**8,025**	**8,001**
Unallocated loss adjustment expense reserve	**2,022**	**2,022**	**2,022**	**2,022**	**-**	**-**
	475,956	**63,836**	**468,302**	**55,848**	**7,654**	**7,988**

31 December 2015

	As per the consolidated financial Statements		*As per actuary certificate*		*Differences*	
	Gross AED'000	*Net AED'000*	*Gross AED'000*	*Net AED'000*	*Gross AED'000*	*Net AED'000*
Unearned premium reserve	123,039	22,707	122,240	23,735	799	(1,028)
Claims reported unsettled	120,749	20,349	120,749	20,349	-	-
Claims incurred but not reported	26,801	17,225	29,195	5,094	(2,394)	12,131
	270,589	60,281	272,184	49,178	(1,595)	11,103

24 INSURANCE AND OTHER PAYABLES

	2016 AED'000	*2015 AED'000*
Provision for staff costs	**2,097**	1,800
Other creditors and accruals	**51,593**	40,048
	53,690	41,848

The following table shows analysis of payables by class of business:

	General		*Life*	
	2016 AED'000	*2015 AED'000*	***2016 AED'000***	*2015 AED'000*
Provision for staff costs	**2,097**	1,800	**-**	-
Other creditors and accruals	**51,294**	38,611	**299**	1,437
	53,391	40,411	**299**	1,437
Payables-Inside UAE	**47,749**	32,375	**258**	1,437
Payables-Outside UAE	**5,642**	8,036	**41**	-
	53,391	40,411	**299**	1,437

24 INSURANCE AND OTHER PAYABLES (continued)

Inside UAE:

	General		*Life*	
	2016 AED'000	*2015 AED'000*	***2016 AED'000***	*2015 AED'000*
Payable to insurance companies	**4,054**	856	**-**	1,404
Payable to brokers	**4,803**	2,387	**220**	-
Payable to employees	**2,097**	1,800	**-**	-
Other payables	**36,795**	27,332	**38**	33
	47,749	32,375	**258**	1,437

Outside UAE:

	General		*Life*	
	2016 AED'000	*2015 AED'000*	***2016 AED'000***	*2015 AED'000*
Payable to insurance companies	**64**	1,266	**-**	-
Payable to re-insurance companies	**-**	-	**-**	-
Payable to brokers	**-**	9	**-**	-
Payable to employees	**-**	-	**-**	-
Other payables	**5,578**	6,761	**41**	-
	5,642	8,036	**41**	-

25 RELATED PARTY TRANSACTIONS

Related parties represent, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. The pricing policies and terms of these transactions are approved by the Group's management.

The significant balances outstanding at 31 December in respect of related parties included in the consolidated financial statements are as follows:

	2016 AED'000	*2015 AED'000*
Affiliates of major shareholders:		
Due from policyholders	**5,033**	7,842
Outstanding claims	**21,841**	17,583

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2016 AED'000	*2015 AED'000*
Affiliates of major shareholders:		
Premiums	**39,877**	47,674
Claims	**85,301**	24,760
Commission expenses	**9,358**	7,814
Rent received	**155**	130
Rent paid	**891**	875

25 RELATED PARTY TRANSACTIONS (continued)

Compensation of the key management personnel is as follows:

	2016 *AED'000*	*2015* *AED'000*
Short term employee benefits	**4,255**	4,024
End of service benefits	**312**	144
	4,567	4,168

Outstanding balances at the year-end arise in the normal course of business. For the years ended 31 December 2016 and 31 December 2015, the Group has not recorded any impairment of amounts owed by related parties.

26 DIRECTORS' FEES

Directors' fees have been included as an appropriation of net profit for the year consistent with prior years as agreed by the Group's management.

27 RISK MANAGEMENT

(a) Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Group's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the Chief Executive Officer and senior managers.

The board of directors meets regularly to approve any commercial, regulatory and organisational decisions. The Chief Executive Officer under the authority delegated from the board of directors defines the Group's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

The Group's current enterprise risk management framework is formally documented and divided into three phases. The Group's enterprise risk management framework is established to identify and analyse the key risks faced by the Group to set appropriate controls and manage those risks. As part of the risks identification process, the Group uses risk based capital model to assess the capital requirement and uses stress analysis to apply changes to capital. The Group's risk appetite is derived from the changes to capital.

(b) Capital management framework

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group 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 2016 and 31 December 2015.

27 RISK MANAGEMENT (continued)

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

The operations of the Group are also subject to regulatory requirements within the jurisdiction where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

(d) Asset liability management (ALM) framework
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 Group manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The Chief Executive Officer actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts.

The Chief Executive Officer regularly monitors the financial risks associated with the Group's other financial assets and liabilities not directly associated with insurance liabilities.

(e) Disclosure as per the circular no.33 of 2016 of UAE Insurance Authority
For the purpose of disclosure as per the circular no.33 of 2016 of UAE Insurance Authority, the Group's financial information is grouped into business units based on its products and services as follows:

- The general insurance segment, comprises motor, marine, fire, engineering, medical and general accident.
- The life class includes group life.

The table below summarises the operating activities of the general insurance class of business of the Group.

	Notes	*2016 AED'000*	*2015 AED'000*
UNDERWRITING INCOME			
Insurance premium revenue	3	**370,399**	340,816
Reinsurers' share of premium	3	**(278,323)**	(233,455)
Net insurance premium revenue	3	**92,076**	107,361
Reinsurance commission income		**33,446**	31,205
Other income		**1,394**	109
		126,916	138,675
UNDERWRITING EXPENSES			
Claims incurred	4	**554,270**	277,843
Reinsurers' share of claims incurred	4	**(506,058)**	(224,272)
Net claims incurred		**48,212**	53,571
Commission expenses		**26,863**	40,677
Excess of loss reinsurance premium		**735**	604
Other direct expenses		**8,846**	5,495
General and administration expenses relating to underwriting activities		**19,219**	15,499
		103,875	115,846

27 RISK MANAGEMENT (continued)

27A Insurance risk (continued)

(e) Disclosure as per the circular no.33 of 2016 of UAE Insurance Authority (continued)

	2016 AED'000	*2015 AED'000*
NET UNDERWRITING INCOME	**23,041**	22,829
TOTAL INVESTMENT INCOME	**19,644**	17,496
Other operating expenses	**(6,955)**	(5,812)
PROFIT FOR THE YEAR	**35,730**	34,513
Net loss on revaluation of investments through other comprehensive income	**(5,100)**	(5,285)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**30,630**	29,228

The table below summarises the assets and liabilities of the general insurance class of business of the Group.

	Notes	*2016 AED'000*	*2015 AED'000*
ASSETS			
Property and equipment		**47,042**	47,238
Investment property		**1,670**	1,670
Advance for investment property		**7,562**	3,888
Financial instruments		**495,296**	477,452
Reinsurance assets		**407,878**	206,872
Insurance receivables	14	**138,344**	139,385
Prepayments and other receivables		**9,349**	6,453
Receivable from Life segment		**4,526**	1,956
Statutory deposits		**6,000**	6,000
Cash and cash equivalents		**32,311**	40,805
TOTAL ASSETS		**1,149,978**	931,719
EQUITY AND LIABILITIES			
Equity			
Share capital		**100,000**	100,000
Statutory reserve		**50,000**	50,000
General reserve		**13,000**	13,000
Retained earnings		**130,811**	120,963
Cumulative changes in fair value of investments		**190,796**	195,896
Total equity		**484,607**	479,859
Liabilities			
Bank loan		**43,161**	46,232
Employees' end of service benefits		**2,965**	2,687
Insurance contract liabilities	23	**471,271**	267,028
Amounts held under reinsurance treaties		**31,320**	29,448
Reinsurance balances payable		**63,263**	66,054
Insurance and other payables	24	**53,391**	40,411
Total liabilities		**665,371**	451,860
TOTAL EQUITY AND LIABILITIES		**1,149,978**	931,719

27 RISK MANAGEMENT (continued)

27A Insurance risk (continued)

(e) Disclosure as per the circular no.33 of 2016 of UAE Insurance Authority (continued)

The table below summarises the operating activities of the life insurance class of business of the Group

	Notes	2016 AED'000	2015 AED'000
UNDERWRITING INCOME			
Insurance premium revenue	3	**7,443**	14,525
Reinsurers' share of premium	3	**(5,374)**	(11,912)
Net insurance premium revenue	3	**2,069**	2,613
Reinsurance commission income		**460**	70
Other income		**3**	211
		2,532	2,894
UNDERWRITING EXPENSES			
Claims incurred	4	**3,849**	470
Reinsurers' share of claims incurred	4	**(3,477)**	(377)
Net claims incurred	4	**372**	93
Commission expenses		**879**	1,543
Other direct expenses		**60**	53
General and administration expenses relating to underwriting activities***		**339**	626
		1,650	2,315
PROFIT FOR THE YEAR		**882**	579
Other comprehensive income for the year		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**882**	579

*** General and administration expenses are allocated between both classes of business in proportion with the gross written premiums in respective classes of business as agreed by the management.

27 RISK MANAGEMENT (continued)

27A Insurance risk (continued)

(e) Disclosure as per the circular no.33 of 2016 of UAE Insurance Authority (continued)

The table below summarises the assets and liabilities of the life insurance class of business of the Group.

	Notes	***2016 AED'000***	*2015 AED'000*
ASSETS			
Reinsurance assets		**4,242**	3,274
Insurance receivables	14	**1,610**	1,010
Statutory deposits		**4,000**	4,000
TOTAL ASSETS		**9,852**	8,284
Liabilities			
Employees' end of service benefits		**22**	13
Insurance contract liabilities	23	**4,685**	3,561
Reinsurance balances payable		**320**	1,317
Insurance and other payables	24	**299**	1,437
Payable to General segment		**4,526**	1,956
TOTAL LIABILITIES		**9,852**	8,284

The risks faced by the Group and the way these risks are mitigated by management are summarised below.

27A Insurance risk

The principal risk the Group 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 Group 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 Group has a small portfolio of life assurance contracts.

Frequency and amounts of claims
The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly property, motor, marine, medical, group life and personal accident 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. This helps to mitigate insurance risk.

Property
Property insurance is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the loss of earnings caused by the inability to use the insured properties. For property insurance contracts the main risks are fire and business interruption. In recent years the Group has only underwritten policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Group has reinsurance cover for such damage to limit losses for any individual claim to AED 1,000 thousand (2015: AED 1,000 thousand).

27 RISK MANAGEMENT (continued)

27A Insurance risk (continued)

Frequency and amounts of claims (continued)

Motor
Motor insurance is designed to compensate contract holders for damage suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for the fire or theft of their vehicles.

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Group has reinsurance cover for such claims to limit losses for any individual claim to AED 200 thousand (2015: AED 200 thousand). 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. The Group has reinsurance to limit losses for any individual claim to AED 125 thousand (2015: AED 125 thousand).

Medical, group life and personal accident
Medical insurance is designed to compensate the contract holders for medical costs. Group life and personal accident insurance entitles the contract holders or their beneficiaries to specified amounts in case of death or permanent or partial disability.

For medical insurance, the main risks are illness and related healthcare costs. For group life and personal accident the main risks are claims from death and permanent or partial disability. The Group generally does not offer medical insurance to walk-in customers. Medical, group life and personal accident insurance are generally offered to corporate customers with large population to be covered under the policy.

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

To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers. The Group deals with reinsurers approved by the Board of Directors.

The five largest reinsurers account for 88% of amounts due from reinsurance companies at 31 December 2016 (2015: 97%). The maximum theoretical credit risk exposure in this connection is mainly in Europe.

27B Financial risk

The Group's principal financial instruments include financial assets and financial liabilities which comprise financial investments (at fair value through profit or loss and / or other comprehensive income), receivables arising from insurance and reinsurance contracts, statutory deposits, cash and cash equivalents, trade and other payables, and re-insurance balance payables.

The Group does not enter into derivative transactions.

The main risks arising from the Group's financial instruments are credit risk, geographical risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk. The board reviews and agrees policies for managing each of these risks and they are summarised below:

27 RISK MANAGEMENT (continued)

27B Financial risk (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Group, the maximum exposure to credit risk to the Group is the carrying value as disclosed in the consolidated statement of financial position.

The following policies and procedures are in place to mitigate the Group's exposure to credit risk:

- The Group only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Group's exposure to bad debts.
- The Group seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Group's investments at fair value through profit or loss or OCI are managed by the Chief Executive Officer in accordance with the guidance of the Chairman and the supervision of the Board of Directors.
- The Group's bank balances are maintained with a range of international and local banks in accordance with limits set by the management.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position:

	Notes	***2016 AED'000***	*2015 AED'000*
Financial instruments		**164,953**	143,882
Reinsurance assets	23	**412,120**	210,146
Insurance receivables	14	**139,954**	140,395
Other receivables (excluding prepayments)	15	**5,662**	5,037
Statutory deposits	16	**10,000**	10,000
Cash and cash equivalents		**32,298**	40,799
Total credit risk exposure		**764,987**	550,259

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in value.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes.

Insurance receivables comprise a large number of customers and insurance companies mainly within the United Arab Emirates. Reinsurance assets are from reinsurance companies based mainly in Europe and the Middle East.

The Group's financial position can be analysed by the following geographical regions:

	2016			*2015*		
	Assets AED'000	***Liabilities and equity AED'000***	***Contingent liabilities and commitments AED'000***	*Assets AED'000*	*Liabilities and equity AED'000*	*Contingent liabilities and commitments AED'000*
United Arab Emirates	**667,444**	**1,044,307**	**10,396**	643,968	813,761	10,320
Europe	**313,994**	**83,324**	**-**	218,872	76,913	-
Rest of the world	**173,866**	**27,673**	**-**	75,207	47,373	-
Total	**1,155,304**	**1,155,304**	**10,396**	938,047	938,047	10,320

27 RISK MANAGEMENT (continued)

27B Financial risk (continued)

Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Group by classifying assets according to the Group's credit rating of counterparties.

31 December 2016

	Neither past due nor impaired				
	High grade AED'000	***Standard grade AED'000***	***Sub-standard grade AED'000***	***Past due and impaired AED'000***	***Total AED'000***
Financial instruments	-	**153,953**	**11,000**	-	**164,953**
Reinsurance assets	-	**412,120**	-	-	**412,120**
Insurance receivables	-	**139,954**	-	**4,910**	**144,864**
Other receivables (excluding prepayments)	**5,662**	-	-	-	**5,662**
Statutory deposits	**10,000**	-	-	-	**10,000**
Cash and cash equivalents	**32,298**	-	-	-	**32,298**
	47,960	**706,027**	**11,000**	**4,910**	**769,897**
Less: Impairment provision					**(4,910)**
					764,987

31 December 2015

	Neither past due nor impaired				
	High grade AED'000	*Standard grade AED'000*	*Sub-standard grade AED'000*	*Past due and impaired AED'000*	*Total AED'000*
Financial instruments	3,825	140,057	-	-	143,882
Reinsurance assets	-	210,146	-	-	210,146
Insurance receivables	-	140,395	-	4,410	144,805
Other receivables (excluding prepayments)	5,037	-	-	-	5,037
Statutory deposits	10,000	-	-	-	10,000
Cash and cash equivalents	40,799	-	-	-	40,799
	59,661	490,598	-	4,410	554,669
Less: Impairment provision					(4,410)
					550,259

27 RISK MANAGEMENT (continued)

27B Financial risk (continued)

Credit risk (continued)

The following table provides an ageing analysis of receivables arising from insurance and reinsurance contracts past due but not impaired:

	Past due but not impaired							
	90 days AED'000	*91 to 180 days AED'000*	*181 to 270 days AED'000*	*271 to 365 days AED'000*	*> 365 days AED'000*	*Total AED'000*	*Past due and impaired AED'000*	*Total AED'000*
2016	**49,579**	**33,415**	**27,741**	**10,466**	**23,663**	**144,864**	**(4,910)**	**139,954**
2015	70,142	22,460	15,120	11,643	25,440	144,805	(4,410)	140,395

For assets to be classified as 'past due and impaired' the contractual payments in arrears are more than 180 days and an impairment adjustment is recorded in the consolidated statement of income for this. When the credit exposure is adequately secured or when management is confident of settlement, arrears more than 180 days might still be classified as 'past due but not impaired", with no impairment adjustment recorded.

Geographical risk

The Group has geographical risk exposure. Such exposure arises from investments, cash and cash equivalents and insurance contracts concentrated within certain geographical areas. The investments and cash and cash equivalents are primarily with local companies and financial institutions. The risk arising from insurance contracts is concentrated mainly in the United Arab Emirates. The geographical concentration of risks is similar to previous year.

In accordance with the requirement of the Securities and Commodities Authority (Circular dated 12-10-2011) following are the details of the geographical concentration of assets in the Group's consolidated financial statements as of 31 December 2016:

(a) Investment property

Investment property represents the Group's investment in a freehold land and building situated in the Emirate of Dubai, United Arab Emirates.

(b) Financial instruments – investments

Investments in financial assets represent investments in quoted and unquoted shares of companies incorporated in the United Arab Emirates and investments in bonds issued locally and outside United Arab Emirates.

(c) Cash and cash equivalents

Cash and cash equivalents of the Group are with banks registered and operating in the United Arab Emirates and in Europe.

Currency risk

The Group also has transactional currency exposures. Such exposure arises from investments in securities and reinsurance transactions in currencies other that the Group's functional currency.

At 31 December, the Group's exposure to foreign currency risk was as follows:

		2016 AED'000	*2015 AED'000*
Debt instruments at amortised cost	*- US Dollars*	**83,880**	89,961
Insurance receivables	*- US Dollars*	**4,749**	8,526
	- Euro	**973**	183
	GBP	**613**	403
	- Others	**253**	477

27 RISK MANAGEMENT (continued)

27B Financial risk (continued)

Currency risk (continued)

		2016 AED'000	*2015 AED'000*
Other receivables	*- US Dollars*	**891**	2,015
Cash and cash equivalents	*- US Dollars*	**9,010**	9,600
	- Euro	**1,639**	539
	- GBP	**339**	521
	- Others	**2**	4
Reinsurance balances payable	*- US Dollars*	**2,688**	8,258
	- Euro	**2,162**	933
	- GBP	**218**	(103)
	- Others	**(30)**	99
Other creditors and accruals	*- US Dollars*	**10,211**	5,991
	- Euro	**2,331**	1,136
	- GBP	**464**	767
	- Others	**(295)**	(167)

The following table demonstrates the sensitivity to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit. The effect of decreases in exchange rates is expected to be equal and opposite to the effect of the increases shown. There is no effect on equity.

	Increase in exchange rate	***Effect on profit AED'000***
31 December 2016		
Assets		
US Dollars	**+5%**	**4,927**
Euro	**+5%**	**131**
GBP	**+5%**	**48**
Others	**+5%**	**13**
Liabilities		
US Dollars	**+5%**	**645**
Euro	**+5%**	**225**
GBP	**+5%**	**34**
Others	**+5%**	**(16)**

	Increase in exchange rate	*Effect on profit AED'000*
31 December 2015		
Assets		
US Dollars	+5%	5,505
Euro	+5%	36
GBP	+5%	46
Others	+5%	24
Liabilities		
US Dollars	+5%	712
Euro	+5%	103
GBP	+5%	33
Others	+5%	(3)

27 RISK MANAGEMENT (continued)

27B Financial risk (continued)

Liquidity risk (continued)
Liquidity risk is the risk that the Group will not be able to meet its commitments associated with insurance contracts and financial liabilities when they fall due. Liquidity requirements are monitored on a monthly.

The table below summarises the maturity of the assets and liabilities of the Group based on remaining contractual settlement dates.

	31 December 2016				*31 December 2015*			
	Less than one year AED'000	***More than one year AED'000***	***No Term AED'000***	***Total AED'000***	*Less than one year AED'000*	*More than one year AED'000*	*No Term AED'000*	*Total AED'000*
ASSETS								
Property and equipment	**-**	**-**	**47,042**	**47,042**	-	-	47,238	47,238
Investment property	**-**	**-**	**1,670**	**1,670**	-	-	1,670	1,670
Advance for investment property	**-**	**-**	**7,562**	**7,562**	-	-	3,888	3,888
Financial instruments	**85,239**	**83,880**	**326,177**	**495,296**	58,051	89,961	329,440	477,452
Reinsurance assets	**412,120**	**-**	**-**	**412,120**	210,146	-	-	210,146
Insurance receivables	**139,954**	**-**	**-**	**139,954**	140,395	-	-	140,395
Prepayments and other assets	**9,349**	**-**	**-**	**9,349**	6,453	-	-	6,453
Statutory deposits	**-**	**-**	**10,000**	**10,000**	-	-	10,000	10,000
Cash and cash equivalents	**32,311**	**-**	**-**	**32,311**	40,805	-	-	40,805
TOTAL ASSETS	**678,973**	**83,880**	**392,451**	**1,155,304**	455,850	89,961	392,236	938,047

27 RISK MANAGEMENT (continued)

27B Financial risk (continued)

Liquidity risk (continued)

	31 December 2016				*31 December 2015*			
	Less than one year AED'000	***More than one year AED'000***	***No Term AED'000***	***Total AED'000***	*Less than one year AED'000*	*More than one year AED'000*	*No Term AED'000*	*Total AED'000*
EQUITY AND LIABILITIES								
Equity								
Share capital	**-**	**-**	**100,000**	**100,000**	-	-	100,000	100,000
Statutory reserve	**-**	**-**	**50,000**	**50,000**	-	-	50,000	50,000
General reserve	**-**	**-**	**13,000**	**13,000**	-	-	13,000	13,000
Retained earnings	**-**	**-**	**130,811**	**130,811**	-	-	120,963	120,963
Cumulative change in fair value reserve	**-**	**-**	**190,796**	**190,796**	-	-	195,896	195,896
Total equity	**-**	**-**	**484,607**	**484,607**	-	-	479,859	479,859
Liabilities								
Bank loan (excluding future interest)	**-**	**43,161**	**-**	**43,161**	-	46,232	-	46,232
Employees' end of service benefits	**-**	**2,987**	**-**	**2,987**	-	2,700	-	2,700
Insurance contract liabilities	**475,956**	**-**	**-**	**475,956**	270,589	-	-	270,589
Amounts held under reinsurance treaties	**31,320**	**-**	**-**	**31,320**	29,448	-	-	29,448
Reinsurance balances payable	**63,583**	**-**	**-**	**63,583**	67,371	-	-	67,371
Trade and other payables	**53,690**	**-**	**-**	**53,690**	41,848	-	-	41,848
Total liabilities	**624,549**	**46,148**	**-**	**670,697**	409,256	48,932	-	458,188
TOTAL EQUITY AND LIABILITIES	**624,549**	**46,148**	**484,607**	**1,155,304**	409,256	48,932	479,859	938,047

27 RISK MANAGEMENT (continued)

27B Financial risk (continued)

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. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group is exposed to interest rate risk on certain of its investment in financial instruments held at fair value though profit or loss, designated upon initial recognition, statutory deposits and bank loan. The Group limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and interest bearing investments and borrowings are denominated.

Interest rate sensitivity

The effective interest rates for all major classes of interest bearing financial instruments as at 31 December, are as follows:

31 December 2016

	Total AED'000	***Effective interest rate %***
Time deposits	**81,072**	**2 % to 13%**
Bank loan	**(43,161)**	**3 months USD Libor plus 1.1%**
	37,911	

31 December 2015

	Total AED'000	*Effective interest rate %*
Time deposits	53,921	2.1% to 13%
Bank loan	(46,232)	3 months USD Libor plus 1.1%
	7,689	

There is no significant difference between contractual reprising or maturity dates.

The following table demonstrates the sensitivity of consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the Group's profit for the year, based on the floating rate financial assets and financial liabilities held at 31 December 2016.

	Increase/ decrease in basis points	*Effect on profit for the year AED'000*
2016	**5**	**133**
	-10	**266**
2015	5	27
	-10	(54)

27 RISK MANAGEMENT (continued)

27B Financial risk (continued)

Equity price risk
Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as financial assets at fair value through others comprehensive income at 31 December 2016) and on consolidated statement of income (as a result of changes in value of financial assets through profit or loss) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2016			*2015*		
	Change in equity price %	***Effect on equity AED'000***	***Effect on income statement AED'000***	*Change in equity price %*	*Effect on equity AED'000*	*Effect on income statement AED'000*
All investments – (Mainly Dubai Financial Market and Abu Dhabi Stock Market)	**10**	**30,640**	**417**	10	31,924	413

27C Operational risk

Operational risk is the risk of loss arising from systems 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 lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

28 CONTINGENCIES

Contingent liabilities
At 31 December 2016 the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 10,396 thousand (2015: AED 10,320 thousand).

Legal claims
The Group, in common with the significant majority of insurers, is subject to litigation in the normal course of its business. The Group, based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Group's income or financial condition.

Capital commitments
At 31 December, the Group's capital commitment on investment property is payable as follows:

	2016 AED'000	*2015 AED'000*
Less than 1 year	**7,200**	2,880
Between one and two years	**3,600**	8,642
	10,800	11,522