SHARJAH INSURANCE COMPANY P.S.C.

Financial statements and
independent auditor's report
for the year ended 31 December 2016

SHARJAH INSURANCE COMPANY P.S.C.

Contents | **Pages**

DIRECTORS' REPORT

On behalf of the Directors, I am pleased to present the audited financial statements of Sharjah insurance Company P.S.C. for the year ended 31 December 2016.

Financial results

Sharjah insurance Company P.S.C. has reported profit of AED 19.3 million for the year ended 31 December 2016 compared to a loss of AED 13.2 million for the previous year. Net underwriting loss for the year is AED 1.8 million compared to a net loss of AED 11.5 million in the previous year.

Auditors

Messrs Deloitte & Touche (M.E.) were the auditors of the Company for the year ended 31 December 2016, and Management proposes their re-appointment for the year ending 31 December 2017.

Directors and management

The directors and management who served during the year are:

Mr. Sheik Mohamed Bin Saoud Al Qasmi	Chairman
Mr. Salem Abdullah Salem	Vice Chairman
Mr. Ayman Khamis	General Manager

Outlook for 2017

Faced with global market downturn, **Sharjah Insurance Company P.S.C.** remains cautious in its outlook. Competition in the insurance business is keen, but the Company counts on its long-term partnerships with key customers to maintain a reasonable workload.

On behalf of the Directors:

Chairman

شركة الشارقة للتأمين ش.م.ع.
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Sharjah Insurance Co. P.S.C.

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INDEPENDENT AUDITOR'S REPORT

The Shareholders of
Sharjah Insurance Company P.S.C.
Sharjah, United Arab Emirates

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Sharjah Insurance Company P.S.C. (the "Company"), Sharjah, United Arab Emirates** which comprise the statement of financial position as at 31 December 2016, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Sharjah Insurance Company P.S.C., Sharjah, United Arab Emirates**, as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for 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 Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of Company's financial statements in United Arab Emirates, and we have fulfilled our other ethical responsibilities. 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 financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities and reinsurance contract assets As at 31 December 2016, insurance contract liabilities and reinsurance contract assets amounted to AED 118 million and AED 65 million respectively, as detailed in note 9 to these financial statements. As set out in notes 3 and 4, valuation of these liabilities requires professional judgment and also involve number of assumptions made by management. Reinsurance contract assets includes amounts that the Company is entitled to receive under the reinsurance contracts and, more specifically, the share of the reinsurer in the insurance contract liabilities recorded by the Company. This is particularly the case for those liabilities that are based on the best-estimate of technical reserves that includes ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and related technical reserves. A range of methods are used by management and the independent external actuary 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. Changes in these assumptions can result in material impacts to the valuation of these liabilities. As a result of all the above factors, we consider the valuation of insurance contract liabilities and reinsurance contract assets as key audit matter.	Our audit procedures included: • Testing the underlying Company data to source documentation. • Evaluating and testing the claims handling and case reserve setting processes of the Company including allocation of reinsurance portion of the claims. • Evaluating and testing the integrity of the data used in the actuarial reserving process. • Checking samples of claims case reserves through comparing the estimated amount of the case reserve to appropriate documentation, such as reports from loss adjusters, confirmations obtained from lawyers', reinsurance contracts etc. • Re-performing reconciliations between the claims data recorded in the Company's systems and the data used in the actuarial reserving calculations. • Checking samples of unearned premium with appropriate documentation. In addition, with the assistance of our actuarial specialists, we: •performed necessary reviews to ascertain whether the results are appropriate for financial disclosure. •reviewed the actuarial report compiled by the independent external actuaries of the Company and calculations underlying these provisions, particularly the following areas; • Appropriateness of the calculation methods and approach (actuarial best practice) • Review of assumptions • Sensitivities to key assumptions • Risk profiles • Consistency between valuation periods • General application of financial and mathematical rules

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
Under fair value model, investment properties is remeasured at fair value, which is the amount for which the properties could be exchanged between knowledgeable, willing parties in an arm's length transaction. Gains or losses arising from changes in the fair value of investment properties are included in net profit or loss for the year in which they arise. The valuation of investment properties, as detailed in note 6, requires significant judgement and estimates by management and the independent external valuers. The existence of significant estimation and judgement, coupled with change in valuation assumption used could result in material misstatement. We consider the valuation of investment properties a key audit matter, given the significant assumptions and judgements involved.	The Company has involved independent external valuer in order to value the investment properties for the purpose of determining the fair value for inclusion in the financial statements. As part of our audit procedures, we assessed the competence, capabilities, objectivity and verified the qualifications of the independent external valuer. In addition to above, we made use of our internal experts to review the reasonableness of the valuation:- • Methodologies used and the appropriateness of the key assumptions, and • Accuracy and relevance of the input data used for deriving fair values.

Other information

Management is responsible for the other information. The other information comprises the annual report of the Company. We obtained the Directors' report, prior to the date of this auditors' report and the remaining information of the annual report expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

When we read the remaining information of the annual report of the Company, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

INDEPENDENT AUDITOR'S REPORT (continued)

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, 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 omission, misrepresentations, or the override of internal control.

- 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 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 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 financial statements or, if such disclosure 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law and regulations preclude 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.

Report on other Legal and Regulatory Requirements

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

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

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

iii) the Company has maintained proper books of account;

iv) the financial information included in the Directors' report is consistent with the books of account of the Company;

v) as disclosed in Note 7 to the financial statements, the Company has investment in securities as at 31 December 2016;

vi) Note 22 to the financial statements discloses material related party transactions and balances, and the terms under which they were conducted; and

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, during the financial year ended 31 December 2016, contravened any of the applicable provisions of the UAE Federal Law No. (2) of 2015, or its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2016.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on other Legal and Regulatory Requirements (continued)

Further, as required by the U.A.E. Federal Law No. 6 of 2007 and the related Financial Regulations for Insurance Companies, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit. As discussed in note 3.1 to the financial statements, the Company is in the process of complying with the requirements of the Financial Regulations for Insurance Companies issued by the Insurance Authority especially pertaining to Article (1) of Section (7) and Appendix (1) relating to presentation of financial statements and disclosures. The Company also is in the process of aligning the operations with the requirement of the regulations relating to investment operations.

Deloitte & Touche (M.E.)

Signed by:
Musa Ramahi
Registration No. 872
6 March 2017
Sharjah, United Arab Emirates

Statement of financial position
At 31 December 2016

	Notes	2016 AED	2015 AED
ASSETS			
Non-current assets			
Property and equipment	5	742,371	936,391
Investment properties	6	55,730,000	35,953,090
Investments designated at fair value through other comprehensive income (FVTOCI)	7.1	141,650,335	211,260,278
Statutory deposit	8	2,500,000	2,500,000
Total non-current assets		200,622,706	250,649,759
Current assets			
Reinsurance contract assets	9	65,026,316	40,839,937
Insurance and other receivables	10	63,194,996	56,624,059
Investments at fair value through profit or loss (FVTPL)	7.2	38,766,369	40,126,088
Bank balances and cash	11	4,932,627	7,259,110
Total current assets		171,920,308	144,849,194
Total assets		372,543,014	395,498,953
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	137,500,000	137,500,000
Statutory reserve	13.1	42,455,173	40,524,342
Voluntary reserve	13.2	30,000,000	30,000,000
Cumulative change in fair value of financial investments designated at FVTOCI		(120,218,704)	(67,256,177)
Retained earnings		113,968,124	106,180,129
Total equity		203,704,593	246,948,294
Non-current liabilities			
Provision for employees' end of service indemnity	14	1,545,624	2,457,364
Current liabilities			
Insurance contract liabilities	9	118,357,433	92,976,469
Insurance and other payables	15	44,216,903	53,116,826
Bank overdrafts	16	4,718,461	-
Total current liabilities		167,292,797	146,093,295
Total liabilities		168,838,421	148,550,659
Total equity and liabilities		372,543,014	395,498,953

For **Chairman**

General Manager

The accompanying notes form an integral part of these financial statements.

Statement of income
For the year ended 31 December 2016

	Notes	2016 AED	2015 AED
Insurance premium revenue	17	**67,821,179**	73,559,432
Insurance premium ceded to reinsurers	17	**(32,756,216)**	(37,341,665)
Net insurance premium revenue	17	**35,064,963**	36,217,767
Gross claims incurred	9	**(68,907,884)**	(77,667,498)
Reinsurance share of claims incurred	9	**35,795,108**	31,179,277
Net claims incurred	9	**(33,112,776)**	(46,488,221)
Net commission earned		**7,515,453**	8,269,401
Underwriting profit/(loss)		**9,467,640**	(2,001,053)
General and administrative expenses relating to underwriting activities		**(11,258,527)**	(9,465,806)
Net underwriting loss		**(1,790,887)**	(11,466,859)
Investment and other income	18	**13,416,815**	3,418,765
Change in fair value of investment properties	6	**19,776,910**	-
Liabilities no longer required written back		**4,179,965**	-
Finance costs		**(94,403)**	(303,402)
Unallocated general and administrative expenses		**(1,980,093)**	(2,063,025)
Allowance for doubtful debts	10	**(14,200,000)**	(2,800,000)
Profit/(loss) for the year	19	**19,308,307**	(13,214,521)
Basic earnings/(loss) per share	20	**0.14**	(0.10)

The accompanying notes form an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2016

	2016 AED	2015 AED
Profit/(loss) for the year	**19,308,307**	(13,214,521)
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to profit or loss		
Net fair value loss on investments designated at FVTOCI	**(55,854,498)**	(27,708,456)
Gain on sale of investments designated at FVTOCI	**178,440**	1,942,249
Total other comprehensive loss for the year	**(55,676,058)**	(25,766,207)
Total comprehensive loss for the year	**(36,367,751)**	(38,980,728)

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2016

	Share capital AED	Statutory reserve AED	Voluntary reserve AED	Cumulative change in fair value of financial investments designated at FVTOCI AED	Retained earnings AED	Total AED
Balance at 31 December 2014 – (as restated)	137,500,000	40,524,342	30,000,000	(20,562,257)	112,216,937	299,679,022
Loss for the year	-	-	-	-	(13,214,521)	(13,214,521)
Other comprehensive loss	-	-	-	(27,708,456)	1,942,249	(25,766,207)
Total comprehensive loss for the year	-	-	-	(27,708,456)	(11,272,272)	(38,980,728)
Transfer to retained earnings on disposal of investments designated at FVTOCI	-	-	-	(18,985,464)	18,985,464	-
Dividend (Note 28)	-	-	-	-	(13,750,000)	(13,750,000)
Balance at 31 December 2015	137,500,000	40,524,342	30,000,000	(67,256,177)	106,180,129	246,948,294
Profit for the year	-	-	-	-	19,308,307	19,308,307
Other comprehensive loss	-	-	-	(55,854,498)	178,440	(55,676,058)
Total comprehensive loss for the year	-	-	-	(55,854,498)	19,486,747	(36,367,751)
Transfer to retained earnings on disposal of investments designated at FVTOCI	-	-	-	2,891,971	(2,891,971)	-
Transfer to statutory reserve	-	1,930,831	-	-	(1,930,831)	-
Dividend (Note 28)	-	-	-	-	(6,875,950)	(6,875,950)
Balance at 31 December 2016	**137,500,000**	**42,455,173**	**30,000,000**	**(120,218,704)**	**113,968,124**	**203,704,593**

The accompanying notes form an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2016

	2016 AED	2015 AED
Cash flows from operating activities		
Profit/(loss) for the year	**19,308,307**	(13,214,521)
Adjustments for:		
Depreciation of property and equipment	**531,434**	508,474
Allowance for doubtful debts	**14,200,000**	2,800,000
Provision for employees' end of service indemnity	**130,766**	172,486
Liabilities no longer required written back	**(4,179,965)**	-
Fair value adjustments on investment properties	**(19,776,910)**	-
Investment income	**(13,567,148)**	(3,467,468)
Gain on disposal of property and equipment	**(25,349)**	-
Finance costs	**94,403**	303,402
Operating cash flows before changes in operating assets and liabilities	**(3,284,462)**	(12,897,627)
Increase in reinsurance contract assets	**(24,186,379)**	(15,464,000)
Increase in insurance contract liabilities	**25,380,964**	22,627,358
(Increase)/decrease in insurance and other receivables	**(20,770,937)**	11,041,054
Decrease in insurance and other payables	**(4,725,230)**	(6,716,449)
Cash used in operations	**(27,586,044)**	(1,409,664)
Employees' end of service indemnity paid	**(1,042,506)**	(92,767)
Interest paid	**(94,403)**	(303,402)
Net cash used in operating activities	**(28,722,953)**	(1,805,833)
Cash flows from investing activities		
Purchase of property and equipment	**(337,415)**	(122,370)
Purchase of investments designated at FVTOCI	**(25,559,043)**	(1,886,785)
Purchase of investments at FVTPL	-	(36,993,798)
Proceeds from disposal of investments designated at FVTOCI	**39,492,928**	39,681,994
Proceeds from disposal of investments at FVTPL	**3,420,069**	18,999,279
Proceeds from disposal of property and equipment	**25,350**	-
Interest received	**87,046**	62,282
Dividend received	**8,590,832**	9,845,490
Income from investment properties - net	**2,828,920**	2,614,535
Net cash generated from investing activities	**28,548,687**	32,200,627
Cash flows from financing activities		
Increase/(decrease) in bank overdrafts	**4,718,461**	(25,041,237)
Dividend paid	**(6,870,678)**	(13,417,162)
Net cash used in financing activities	**(2,152,217)**	(38,458,399)
Net decrease in cash and cash equivalents	**(2,326,483)**	(8,063,605)
Cash and cash equivalents at the beginning of the year	**4,759,110**	12,822,715
Cash and cash equivalents at the end of the year (Note 21)	**2,432,627**	4,759,110

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2016

1. General information

Sharjah Insurance Company P.S.C. - Sharjah (the "Company") is incorporated as a public shareholding company by an Amiri Decree issued by His Highness, The Ruler of Sharjah on 8 March 1970. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its Operations and is registered in the Insurance Companies register of Insurance Authority of U.A.E. under registration No.12. The Company operates through its head office in Sharjah and has branches in Dubai and Ajman. The address of the Company's registered office is P.O. Box 792, Sharjah, United Arab Emirates.

The principal activity of the Company is dealing in all types of insurance including life assurance. The Company mainly carries out general insurance business.

2. Application of new and revised International Financial Reporting Standards (IFRS)

2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 Intangible Assets relating to clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27 Separate Financial Statements relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in *Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017
Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	**Effective for annual periods beginning on or after**
Finalised version of IFRS 9 (IFRS 9 Financial Instruments (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets. A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.	1 January 2018
Amendments to IFRS 4: Insurance Contracts which introduces the overlay approach and deferral approach towards implementing IFRS 9 before implementing the replacement standard that the IASB Board is developing for IFRS 4	When IFRS 9 is first applied or 1 January 2021 under deferral approach.
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	**Effective for annual periods beginning on or after**
IFRS 15 *Revenue from Contracts with Customers (continued)*	
Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
IFRS 16 *Leases*	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.	
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these new and revised standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for finalised version of IFRS 9, may have no material impact on the financial statements of the Company in the period of initial application.

The application of finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of their standard as the Company is in the process of performing a detailed review.

3. Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are summarised below. These policies have been consistently applied to each of the years presented.

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates (U.A.E.) Federal Law No. (2) of 2015 and United Arab Emirates (U.A.E.) Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations.

On 28 December 2014, the United Arab Emirates (UAE) Insurance Authority issued Financial Regulations for insurance companies and were then subsequently published in the UAE Official Gazette No. 575 on 28 January 2015 and came into force on 29 January 2015. The insurers are given a grace period of between one to three years to comply with the Financial Regulations, depending on the section involved.

The Company is in the process of aligning the operations with the requirement of the regulations relating to investment operations. The Company is also in the process of complying with the requirements of the Financial Regulations for Insurance Companies issued by the Insurance Authority especially pertaining to Article (1) of Section (7) and Appendix (1) relating to presentation of financial statements and disclosures.

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for investment properties and financial instruments that have been measured at revalued amounts, amortised cost or fair value as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1,2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
  Level 3 inputs are unobservable inputs for the assets or liability.

The principal accounting policies are set out below.

3. Significant accounting policies (continued)

3.3 Insurance contracts

3.3.1 Definition, recognition and measurement

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

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

3.3.2 Short-term insurance contracts

These contracts are casualty, property and short-duration life insurance contracts.

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

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

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

For all these insurance contracts, premiums are recognised as revenue (earned premiums) on time-proportion basis wherein revenue from an insurance contract is recognised over the effective period of the policy with the exception of marine, where the UPR is recognised as fixed proportion of the written premiums as required in the financial regulation issued by Insurance Authority. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability.

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct claims settlement costs and arise from events that have occurred up to the reporting date even if even they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Unallocated loss adjustment expense reserves correspond to the provision representing future claim expenses and related handling costs that are not case specific. It represents all other expenses and costs that are related to the adjudication of claims but cannot be assigned to a specific claim and is calculated based on recommendation of Company's external actuarial valuation report.

3. Significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.3 Reinsurance contracts

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Company reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

3.3.4 Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the end of the reporting period, in addition for claims incurred but not reported.

The reinsurers' portion of the above outstanding claims and unearned premium is classified as reinsurance contract assets in the financial statements.

3.3.5 Salvage and subrogation reimbursements

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

3.3.6 Liability adequacy test

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

3.3.7 Receivables and payables related to insurance contracts

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

3. Significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.8 Commission earned and incurred

Commissions and other acquisition costs that are related to securing new contracts and renewing existing contracts are charged to profit or loss when incurred. The Company recognise commissions received from reinsurance premium ceded as commission income in the period in which premium was ceded to the reinsurers.

3.4 Revenue recognition

3.4.1 Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements (Note 3.3).

3.4.2 Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

3.4.3 Dividend income

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

3.4.4 Rental income

Rental income from investment property which are leased under operating leases are recognised on a straight-line basis over the term of the relevant lease.

3.5 General and administrative expenses

85% of general and administrative expenses for the year are allocated to insurance departments in proportion to each department's share of written premium.

3.6 Foreign currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in Arab Emirates Dirhams ("AED"), which is the functional currency of the Company and the presentation currency for the financial statements.

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the year in which they arise.

3. Significant accounting policies (continued)

3.7 Employee benefits

3.7.1 Defined contribution plan

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

3.7.2 Annual leave and leave passage

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

3.7.3 Provision for employees' end of service indemnity

Provision is also made for the full amount of end of service indemnity due to non-U.A.E. national employees in accordance with the U.A.E. Labour Law and is based on current remuneration and their period of service at the end of the reporting period.

The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service indemnity is disclosed as a non-current liability.

3.8 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

The useful lives considered in the calculation of depreciation for all the assets are 4 - 5 years.

3.9 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise.

3. Significant accounting policies (continued)

3.9 Investment properties (continued)

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

Fair value is determined by open market values based on valuations performed by external independent consultants.

3.10 Impairment of tangible assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

3.11 Provisions

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

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

3. Significant accounting policies (continued)

3.11 Provisions (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.12 Borrowing costs

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

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

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

3.13 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Company has no finance leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

3.14 Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

Financial assets of the Company are classified into the following specified categories: cash and cash equivalents, 'financial assets measured at fair value through other comprehensive income (FVTOCI)', financial assets at fair value through profit and loss (FVTPL) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Notes to the financial statements
For the year ended 31 December 2016 (continued)

3. Significant accounting policies (continued)

3.14 Financial assets (continued)

3.14.1 Bank balances and cash

Bank balances and cash comprise cash on hand and fixed deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3.14.2 Financial investments designated at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value of securities in equity. Fair value is determined in the manner described in Note 26. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the cumulative changes in fair value of securities in equity is not reclassified to profit or loss, but is reclassified to retained earnings.

Dividend on these investments in equity instruments are recognised in profit or loss when the Company's right to receive the dividend is established in accordance with IAS 18 Revenue, unless the dividend clearly represent a recovery of part of the cost of the investment.

3.14.3 Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Company designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see above).

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 26.3.

Dividend income on investments in equity instruments at FVTPL is recognised in profit or loss when the Company's right to receive the dividend is established in accordance with IAS 18 Revenue, unless the dividend clearly represent a recovery of part of the cost of the investment.

3. Significant accounting policies (continued)

3.14 Financial assets (continued)

3.14.4 Loans and receivables

Insurance and other receivables (excluding prepayments) that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are initially measured at fair value, plus transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.14.5 Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as insurance receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of insurance receivables, where the carrying amount is reduced through the use of an allowance account. When an insurance receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3.14.6 Derecognition of financial assets

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

3. Significant accounting policies (continued)

3.15 Financial liabilities and equity instruments issued by the Company

3.15.1 Classification as debt or equity

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

3.15.2 Equity instruments

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

3.15.3 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Company does not have any financial liabilities measured at FVTPL.

3.15.4 Other financial liabilities

Insurance and other payables are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except for short term payable when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

3.15.5 Derecognition of financial liabilities

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

3.15.6 Dividend distribution

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

4.1 Critical accounting judgements

The following are the critical judgements, apart from those involving estimations (see 4.2 below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

4.1.1 Classification of investments

Management decides on acquisition of an investment whether it should be classified as FVTPL or FVTOCI. The Company classifies investments at FVTPL if they are acquired primarily for the purpose of making a short term profit by the dealers.

Equity instruments are classified as financial assets measured at FVTOCI when they are considered by management to be strategic equity investments that are not held to benefit from changes in their fair value and are not held for trading.

Management is satisfied that the Company's investments in securities are appropriately classified.

4.1.2 Classification of properties

In the process of classifying properties, management has made various judgments. Judgments are needed to determine whether a property qualifies as an investment property, property and equipment, property under development and/or property held for sale. Management develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment, property under development and property held for sale. In making its judgment, management has considered the detailed criteria and related guidance set out in IAS 2 – Inventories, IAS 16 – Property, Plant and Equipment, and IAS 40 – Investment Property, with regards to the intended use of the property.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of each reporting period. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on external actuarial assessment, taking into account the historical data of the claims reported and settlement pattern. Such method takes into account the best estimates of the future contractual cash flows estimated based on the historical data. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

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

4.2 Key sources of estimation uncertainty (continued)

4.2.2 Impairment of insurance receivables

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Company evaluating, the credit and liquidity position of the policyholders and the insurance companies, historical recovery rates including detailed investigations carried out during 2016 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the profit or loss at the time of collection.

4.2.3 Liability adequacy test

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

4.2.4 Valuation of unquoted equity instruments

Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models. In the absence of an active market for these investments or any recent transactions that could provide evidence of the current fair value, management estimates the fair value of these instruments using expected cash flows discounted at current rates for similar instruments or other valuation models.

4.2.5 Depreciation of property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. Management has not considered any residual value as it is deemed immaterial.

Notes to the financial statements
For the year ended 31 December 2016 (continued)

5. Property and equipment

	Decoration and office improvements AED	Furniture and office equipments AED	Total AED
Cost			
At 31 December 2014	1,720,475	1,945,265	3,665,740
Additions during the year	-	122,370	122,370
At 31 December 2015	1,720,475	2,067,635	3,788,110
Additions during the year	-	337,415	337,415
Disposals	-	(26,000)	(26,000)
At 31 December 2016	**1,720,475**	**2,379,050**	**4,099,525**
Accumulated depreciation			
At 31 December 2014	744,855	1,598,390	2,343,245
Charge for the year	328,150	180,324	508,474
At 31 December 2015	1,073,005	1,778,714	2,851,719
Charge for the year	329,049	202,385	531,434
Written off during the year	-	(25,999)	(25,999)
At 31 December 2016	**1,402,054**	**1,955,100**	**3,357,154**
Carrying amount			
At 31 December 2016	**318,421**	**423,950**	**742,371**
At 31 December 2015	647,470	288,921	936,391

At 31 December 2016, the cost of fully depreciated property and equipment that was still in use amounted to AED 1,482,428 (2015: AED 1,406,602).

6. Investment properties

	2016 AED	2015 AED
Fair value at the beginning of the year	**35,953,090**	35,953,090
Changes in fair value	**19,776,910**	-
Fair value at the end of the year	**55,730,000**	35,953,090

6. Investment properties (continued)

The fair value of the Company's investments properties as at 31 December 2016 has been arrived at on the basis of valuations carried by independent external valuers who have appropriate market experience in the valuation of properties in the United Arab Emirates.

The fair value was determined based on the acceptable approach that reflects recent transactions prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Investment properties includes properties mortgaged to Insurance Authority of U.A.E. amounting to AED 22.95 million (2015: AED 16.3 million) in accordance with the requirements of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its operations (Note 8).

The Company's investment properties are classified as Level 3 in the fair value hierarchy as at 31 December 2016 (2015: Level 3).

The property rental income earned by the Company from its investment properties and the direct operating expenses related to the investment properties are as follows:

	2016 AED	2015 AED
Rental income	**2,856,264**	2,664,546
Direct operating expenses	**(27,344)**	(50,011)
Income from investment properties (Note 18)	**2,828,920**	2,614,535

Details of the Company's investment properties and their fair values are as follows:

	2016 AED	2015 AED
Plots of land located in Sharjah, U.A.E	**6,000,000**	2,953,090
Shops located in Sharjah, U.A.E	**44,540,000**	28,000,000
Villas located in Sharjah, U.A.E	**2,690,000**	2,900,000
Building located in Sharjah, U.A.E.	**2,500,000**	2,100,000
	55,730,000	35,953,090

Notes to the financial statements
For the year ended 31 December 2016 (continued)

7. Financial investments

The Company's financial investments at the end of reporting period are detailed below:

7.1 Financial investments designated at FVTOCI

	2016 AED	2015 AED
Quoted securities	**136,124,363**	205,710,044
Unquoted securities	**5,525,972**	5,550,234
	141,650,335	211,260,278

Financial investments at FVTOCI with fair value of AED 11.55 million (2015 AED 36.1 million) are pledged to the bank against credit facility granted to the Company (see Note 16).

The geographical classification of the investments is as follows:

	2016 AED	2015 AED
Within U.A.E.	**113,613,066**	155,972,418
In other GCC countries	**28,037,269**	55,287,860
	141,650,335	211,260,278

7.2 Financial investments at FVTPL

	2016 AED	2015 AED
Quoted securities in U.A.E.	**38,766,369**	40,126,088

The movements in financial investments are as follows:

	At fair value through other comprehensive income		At fair value through profit or loss	
	2016 AED	2015 AED	2016 AED	2015 AED
Fair value, at the beginning of the year	**211,260,278**	274,821,694	**40,126,088**	31,186,408
Purchased during the year	**25,559,043**	1,886,785	-	36,993,798
Disposals during the year	**(39,314,488)**	(37,739,745)	**(3,133,550)**	(15,577,158)
Change in fair value	**(55,854,498)**	(27,708,456)	**1,773,831**	(12,476,960)
Fair value, at the end of the year	**141,650,335**	211,260,278	**38,766,369**	40,126,088

8. Statutory deposit

In accordance with the requirements of Federal Law No. 6 of 2007, on Establishment of Insurance Authority of U.A.E. and Organisation of its operations, the Company maintains a bank deposit of AED 2,500,000 (31 December 2015: AED 2,500,000) as a statutory deposit. In addition to the aforementioned fixed deposit there are investment properties with a fair value amounting to AED 22.95 million (2015: AED 16.3 million) pledged to Insurance Authority (see note 6).

9. Insurance contract liabilities and reinsurance contract assets

	2016 AED	2015 AED
Gross		
Insurance contract liabilities		
Claims reported unsettled	**71,820,327**	45,212,920
Unallocated loss adjustment exposure reserve	**2,079,434**	2,166,926
Unexpired risk reserve	**2,647,184**	3,291,224
Claims incurred but not reported	**17,137,301**	15,950,451
Unearned premium	**24,673,187**	26,354,948
Total insurance contract liabilities, gross	**118,357,433**	92,976,469
Recoverable from reinsurers		
Re-insurance contract assets		
Claims reported unsettled	**51,089,533**	28,104,216
Claims incurred but not reported	**7,698,698**	6,002,638
Unearned premium	**6,238,085**	6,733,083
Total reinsurers' share of insurance liabilities	**65,026,316**	40,839,937
Net		
Claims reported unsettled	**20,730,794**	17,108,704
Unallocated loss adjustment exposure reserve	**2,079,434**	2,166,926
Unexpired risk reserve	**2,647,184**	3,291,224
Claims incurred but not reported	**9,438,603**	9,947,813
Unearned premium	**18,435,102**	19,621,865
	53,331,117	52,136,532

Notes to the financial statements
For the year ended 31 December 2016 (continued)

9. Insurance contract liabilities and reinsurance contract assets (continued)

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

	2016 Gross AED	2016 Reinsurance AED	2016 Net AED	2015 Gross AED	2015 Reinsurance AED	2015 Net AED
Claims						
Notified claims	**45,212,920**	**(28,104,216)**	**17,108,704**	33,933,870	(19,153,642)	14,780,228
Unallocated loss adjustment expense reserve	**2,166,926**	**-**	**2,166,926**	2,026,275	-	2,026,275
Unexpired risk reserve	**3,291,224**	**-**	**3,291,224**	2,605,021	-	2,605,021
Incurred but not reported	**15,950,451**	**(6,002,638)**	**9,947,813**	3,543,268	-	3,543,268
Total at the beginning of the year	**66,621,521**	**(34,106,854)**	**32,514,667**	42,108,434	(19,153,642)	22,954,792
Claims settled in the year	**(41,845,159)**	**11,113,731**	**(30,731,428)**	(53,154,411)	16,226,065	(36,928,346)
Increase in liabilities	**68,907,884**	**(35,795,108)**	**33,112,776**	77,667,498	(31,179,277)	46,488,221
Total at the end of the year	**93,684,246**	**(58,788,231)**	**34,896,015**	66,621,521	(34,106,854)	32,514,667
Notified claims	**71,820,327**	**(51,089,533)**	**20,730,794**	45,212,920	(28,104,216)	17,108,704
Unallocated loss adjustment expense reserve	**2,079,434**	**-**	**2,079,434**	2,166,926	-	2,166,926
Unexpired risk reserve	**2,647,184**	**-**	**2,647,184**	3,291,224	-	3,291,224
Incurred but not reported	**17,137,301**	**(7,698,698)**	**9,438,603**	15,950,451	(6,002,638)	9,947,813
Total at the end of the year	**93,684,246**	**(58,788,231)**	**34,896,015**	66,621,521	(34,106,854)	32,514,667
Unearned premium						
Total at the beginning of the year	**26,354,948**	**(6,733,083)**	**19,621,865**	28,240,677	(6,222,295)	22,018,382
Increase during the year	**24,086,597**	**(4,913,269)**	**19,173,328**	26,354,948	(6,733,083)	19,621,865
Release during the year	**(25,768,358)**	**5,408,267**	**(20,360,091)**	(28,240,677)	6,222,295	(22,018,382)
Net (decrease)/increase during the year (Note 17)	**(1,681,761)**	**494,998**	**(1,186,763)**	(1,885,729)	(510,788)	(2,396,517)
Total at the end of the year	**24,673,187**	**(6,238,085)**	**18,435,102**	26,354,948	(6,733,083)	19,621,865

10. Insurance and other receivables

	2016 AED	2015 AED
Receivables arising from insurance and reinsurance contracts		
Due from policyholders	**32,041,844**	25,962,963
Allowance for doubtful debts	**(5,561,786)**	(1,341,252)
	26,480,058	24,621,711
Due from local insurance companies	**37,625,268**	22,597,846
Due from foreign insurance companies	**11,220,445**	12,160,448
Due from brokers	**715,048**	827,022
Allowance for doubtful debts	**(14,676,183)**	(4,696,717)
	34,884,578	30,888,599
Other receivables		
Prepayments and others	**1,830,360**	1,113,749
	63,194,996	56,624,059

The average credit period is 120 days. Due from policyholders outstanding between 180 days and 365 days are provided for (other than for government related entities) based on estimated irrecoverable amounts determined by reference to past default experience.

Before accepting any new customer, the Company assesses the potential customers' credit quality and defines credit limits by customer. Of the due from policyholders balance at the end of year, AED 10.1 million (2015: AED 10.3 million) is due from the Company's largest customer.

Included in the Company's due from policyholders balance is receivable balances with a carrying amount of AED 17.3 million (2015: AED 16.7 million) which are past due at the reporting date for which the Company has not considered provision for impairment as there has not been a significant change in credit quality and the amounts are still considered recoverable.

10. Insurance and other receivables (continued)

Ageing of insurance receivables:

	2016 AED	2015 AED
Neither past due nor impaired	**23,049,756**	15,220,763
Past due but not impaired:		
180 to 365 days	**25,715,546**	19,520,022
More than 365 days	**12,599,334**	20,769,525
	38,314,880	40,289,547
Past due and impaired – policyholders and insurance companies	**20,237,969**	6,037,969
Total	**81,602,605**	61,548,279
Due from government related entities included in above	**16,866,849**	11,682,354

Movements in allowance for doubtful debts:

	2016 AED	2015 AED
Balance at the beginning of the year	**6,037,969**	3,237,969
Allowance made during the year	**14,200,000**	2,800,000
Balance at the end of the year	**20,237,969**	6,037,969

In determining the recoverability of an insurance receivable, the Company considers any change in the credit quality of the insurance receivable from the date credit was initially granted up to the reporting date.

The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the available allowance for doubtful debts.

Notes to the financial statements
For the year ended 31 December 2016 (continued)

11. Bank balances and cash

	2016 AED	2015 AED
Fixed deposits under lien	**2,500,000**	2,500,000
Call accounts	**288,205**	230,910
Current accounts and cash	**2,144,422**	4,528,200
	4,932,627	7,259,110

Fixed deposits are under lien against credit facilities granted to the Company (Note 16).

The interest rate on fixed deposits with banks is 2% to 2.2% (2015: 1% to 1.2%) per annum. All fixed deposits are held in local banks in the United Arab Emirates.

Bank balances are held:

	2016 AED	2015 AED
Within U.A.E.	**4,279,680**	5,478,803
Outside U.A.E	**652,947**	1,780,307
	4,932,627	7,259,110

12. Share capital

	2016 AED	2015 AED
Authorised, issued and fully paid: 137.5 million ordinary shares of AED 1 each (2015: 137.5 million ordinary shares of AED 1 each)	**137,500,000**	137,500,000

13. Reserves

13.1 Statutory reserve

In accordance with UAE Federal Law No. (2) of 2015, the Company has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law.

Notes to the financial statements
For the year ended 31 December 2016 (continued)

13. Reserves (continued)

13.2 Voluntary reserve

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

During 2016, the Company had amended its Articles of Association and the clause related to voluntary reserve states that a voluntary purpose reserve can be created upon a recommendation of the Board of Directors and this reserve cannot be utilized for any other purpose unless approved by the Ordinarily General meeting.

No transfer to voluntary reserve is made during 2016.

14. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2016 AED	2015 AED
Balance at the beginning of the year	**2,457,364**	2,377,645
Amounts charged to income during the year	**130,766**	172,486
Amounts paid during the year	**(1,042,506)**	(92,767)
	1,545,624	2,457,364

15. Insurance and other payables

	2016 AED	2015 AED
Payables arising from insurance and reinsurance contracts:		
Trade payables	**23,719,047**	23,018,708
Due to local insurance companies	**5,870,259**	7,281,386
Due to foreign insurance companies	**5,996,630**	14,413,467
Due to brokers	**140,409**	142,366
Premium reserve withheld	**4,716,450**	(15,875)
	40,442,795	44,840,052
Other payables		
Accrued expenses and provisions	**1,168,727**	4,215,829
Unclaimed dividend	**2,562,898**	2,557,626
Other payables	**42,483**	1,503,319
	44,216,903	53,116,826

Notes to the financial statements
For the year ended 31 December 2016 (continued)

16. Bank overdrafts

The bank overdraft facility is secured by lien over fixed deposit of AED 2.5 million (Note 11) and pledge over investments designated at FVTOCI having a fair value of AED 11.55 million (2015: AED 36.1 million) (Note 7).

17. Net insurance premium revenue

	2016 AED	2015 AED
Gross premium written		
Gross premium written	**66,139,418**	71,673,703
Change in unearned premium (Note 9)	**1,681,761**	1,885,729
	67,821,179	73,559,432
Reinsurance premium ceded		
Reinsurance premium ceded	**(32,261,218)**	(37,852,453)
Change in unearned premium (Note 9)	**(494,998)**	510,788
	(32,756,216)	(37,341,665)
Net insurance premium revenue	**35,064,963**	36,217,767

18. Investment and other income

	2016 AED	2015 AED
Profit from disposal of financial investments at FVTPL	**286,519**	3,422,121
Unrealised gain/(loss) on financial investments at FVTPL	**1,773,831**	(12,476,960)
Dividend from financial investments at FVTPL	**2,711,301**	1,150,698
Dividend from financial investments at FVTOCI	**5,879,531**	8,694,792
Income from investment properties (Note 6)	**2,828,920**	2,614,535
Interest on bank deposits	**87,046**	62,282
	13,567,148	3,467,468
Other expenses - net	**(150,333)**	(48,703)
	13,416,815	3,418,765

Notes to the financial statements
For the year ended 31 December 2016 (continued)

19. Profit/(loss) for the year

Profit/(loss) for the year has been arrived at after charging the following expenses:

	2016 AED	2015 AED
Staff costs	**6,859,342**	5,647,563
Depreciation of property and equipment	**531,434**	508,474

20. Basic earnings/(loss) per share

	2016	2015
Profit/(loss) for the year (in AED)	**19,308,307**	(13,214,521)
Number of shares	**137,500,000**	137,500,000
Basic earnings/(loss) per share (in AED)	**0.14**	(0.10)

Basic earnings/(loss) per share has been calculated by dividing the profit/(loss) for the year by the number of shares outstanding at the end of the reporting period.

21. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks net of fixed deposits in banks with maturity over three months. Cash and cash equivalents at the end of the year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2016 AED	2015 AED
Bank balances and cash (see Note 11)	**4,932,627**	7,259,110
Fixed deposit under lien (see Note 11)	**(2,500,000)**	(2,500,000)
Cash and cash equivalents	**2,432,627**	4,759,110

22. Related party transactions

Related parties include the Company's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

22. Related party transactions (continued)

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

	2016 **AED**	2015 AED
Due from policyholders	**1,364,893**	1,184,108
Due to policyholders	**669,743**	1,032,537

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

Transactions:

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

	2016 **AED**	2015 AED
Gross premium written	**1,718,677**	1,531,797
Claims paid	**348,960**	1,530,280
Rent paid	**745,000**	745,000

The Company has entered into above transactions with related parties which were made on substantially the same terms, as those prevailing at the same time for comparable transactions with third parties.

Compensation of board of directors/key management personnel

	2016 **AED**	2015 AED
Short-term benefits	**600,000**	600,000
Long-term benefits	**25,000**	25,000
Compensation to executive committee	**300,000**	400,000

23. Contingent liabilities and capital commitments

	2016 **AED**	2015 AED
Letters of guarantee	**131,313**	132,000
Capital commitments towards intangible assets	**1,000,000**	-

24. Insurance risk

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

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

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

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

24.1 Frequency and severity of claims

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

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set limit of AED 200,000 in any one motor policy. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

Notes to the financial statements
For the year ended 31 December 2016 (continued)

24. Insurance risk (continued)

24.2 Sources of uncertainty in the estimation of future claim payments

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

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

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

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

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

	2016	2015
Type of risk		
Motor	**90-93%**	100 – 110%
Non-motor	**115-120%**	50 – 55%

24. Insurance risk (continued)

24.3 Process used to decide on assumptions

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

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

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

24.4 Reinsurance risk

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

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

24.5 Sensitivity of underwriting profit and losses

The contribution by the insurance operations is a loss of AED 1.8 million for the year ended 31 December 2016 (2015: loss of AED 11.5 million). The Company does not foresee any major impact from insurance operations to the Company's results and expects to increase the contribution by insurance operations to the profitability due to the following reasons:

The Company has an overall retention level of 48% (2015: 51%) and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 100%. However, in this class, the risk is adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Company earns a net commission income of AED 7.5 million (2015: AED 8.3 million). These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

Notes to the financial statements
For the year ended 31 December 2016 (continued)

25. Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its Operations.
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

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

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

	2016 AED	2015 AED
Total capital held	**137,500,000**	137,500,000
Minimum regulatory capital	**100,000,000**	100,000,000

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

As disclosed in note 3.1 to the financial statements, the United Arab Emirates (UAE) Insurance Authority issued Financial Regulations for insurance companies; and were then subsequently published in the UAE Official Gazette No. 575 on 28 January 2015 and came into force on 29 January 2015. The minimum capital requirements remain at AED 100 million for insurers and AED 250 million for reinsurers.

As per Article (8) of section (2) of financial regulations issued for insurance companies in U.A.E., the Company shall at times comply with the requirements of solvency margin. As of 31 December 2016, the Company had a solvency deficit compared to minimum capital requirement of AED 100 million. The Company has alignment period of one year till December 2017 to comply with the requirement of solvency margin.

26. Financial instruments

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, foreign currency risk and credit risk.

26. Financial instruments (continued)

26.1 Significant accounting policies

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

26.2 Categories of financial instruments

	2016 AED	2015 AED
Financial assets		
Financial investments designated at FVTOCI	**141,650,335**	211,260,278
Financial investments at FVTPL	**38,766,369**	40,126,088
Statutory deposit	**2,500,000**	2,500,000
Insurance and other receivables (excluding prepayments)	**62,335,735**	55,879,480
Bank balances and cash	**4,932,627**	7,259,110
Total	**250,185,066**	317,024,956
Financial liabilities		
Insurance and other payables	**44,216,903**	53,116,826
Bank overdrafts	**4,718,461**	-
Total	**48,935,364**	53,116,826

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

26.3 Fair value measurements

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the reporting date.

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Notes to the financial statements
For the year ended 31 December 2016 (continued)

26. Financial instruments (continued)

26.3 Fair value measurements (continued)

	Fair value as at 31 December 2016 AED	31 December 2015 AED	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Investment designated at FVTOCI						
Quoted equity securities	**136,124,363**	205,710,044	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	**5,525,972**	5,550,234	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets were determined based on the latest available audited/historical financial information.	Net asset value	Higher the net assets, value of the investees, higher the fair value.
Investment at FVTPL						
Quoted equity securities	**38,766,369**	40,126,088	Level 1	Quoted bid prices in an active market.	None	N/A

There were no transfers between each of level during the year.

Movement in unquoted equity securities represents foreign exchange variation.

26.4 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Market risk exposures are measured using sensitivity analysis. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

26.5 Foreign currency risk

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams, other G.C.C. currencies or US Dollars to which the Dirham is fixed.

26. Financial instruments (continued)

26.6 Credit risk

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

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- amounts due from insurance intermediaries;

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

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

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company.

Insurance receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of insurance receivable.

At the end of the reporting period, the Company's maximum exposure to credit risk, from insurance receivables situated outside the U.A.E. were as follows:

	2016	2015
	AED	AED
Europe	**520,966**	694,191
Other Arab countries	**10,013,443**	10,170,488

26. Financial instruments (continued)

26.6 Credit risk (continued)

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Company defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

26.7 Liquidity risk

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

The table below summarises the maturity profile of the Company's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the financial assets and financial liabilities at the reporting date based on contractual repayment arrangements was as follows:

	Less than 30 days AED	31-90 days AED	91-180 days AED	181 - 365 days AED	Above 365 days AED	Total AED
31 December 2016						
Financial assets						
Investments designated at FVTOCI	-	-	-	-	141,650,335	141,650,335
Financial investment at FVTPL	38,766,369	-	-	-	-	38,766,369
Statutory deposit	-	-	-	-	2,500,000	2,500,000
Insurance and other receivables	12,130,673	8,432,677	14,014,547	15,138,903	12,618,935	62,335,735
Bank balances and cash – non interest bearing	2,432,627	-	-	-	-	2,432,627
Bank balances and cash – interest bearing	-	-	-	-	2,500,000	2,500,000
	53,329,669	8,432,677	14,014,547	15,138,903	159,269,270	250,185,066
Financial liabilities						
Insurance and other payables	6,798,314	6,382,100	14,576,183	11,960,234	4,500,072	44,216,903
Bank overdrafts	4,718,461	-	-	-	-	4,718,461
	11,516,775	6,382,100	14,576,183	11,960,234	4,500,072	48,935,364

Notes to the financial statements
For the year ended 31 December 2016 (continued)

26. Financial instruments (continued)

26.7 Liquidity risk (continued)

	Less than 30 days AED	31-90 days AED	91-180 days AED	181 - 365 days AED	Above 365 days AED	Total AED
31 December 2015						
Financial assets						
Investments designated at FVTOCI	-	-	-	-	211,260,278	211,260,278
Financial investment at FVTPL	40,126,088	-	-	-	-	40,126,088
Statutory deposit	-	-	-	-	2,500,000	2,500,000
Insurance and other receivables	13,156,429	6,057,991	8,743,691	18,533,139	9,388,230	55,879,480
Bank balances and cash – non interest bearing	4,528,200	-	-	-	-	4,528,200
Bank balances and cash – interest bearing	230,910	–	–	–	2,500,000	2,730,910
	58,041,627	6,057,991	8,743,691	18,533,139	225,648,508	317,024,956
Financial liabilities						
Insurance and other payables	10,623,365	8,498,692	9,561,029	6,905,187	17,528,553	53,116,826

26.8 Interest risk

The Company's exposure to interest rate risk relates to its bank deposits and overdrafts. At 31 December 2016, bank deposits carried interest at the range of 2.0% to 2.2% per annum (2015: 1.0% to 1.2% per annum) and bank overdraft carried interest rate at the range of 5% to 6% per annum (2015: Nil).

If interest rates had been 50 basis points higher/lower throughout the year and all other variables were held constant, the Company's (loss)/profit for the year ended 31 December 2016 and equity as at 31 December 2016 would increase/decrease by approximately AED 25,000 (2015: AED 12,500).

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

26. Financial instruments (continued)

26.9 Equity price risk

26.9.1 Sensitivity analysis

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Company's:

- loss for the year would have decreased/increased by AED 3.8 million (2015: AED 4 million).
- other comprehensive (loss)/income and equity would have increased/decreased by AED 14.2 million (2015: AED 21.1 million).

26.9.2 Method and assumptions for sensitivity analysis

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

27. Segment information

The Company is organised into four main business segments, accident and liabilities insurance, fire insurance, marine insurance and other classes of insurance.

These segments are the basis on which the Company reports its primary segment information to the Managing Director.

Insurance premium represents the total income arising from insurance contracts. The Company does not conduct any business outside U.A.E. There are no transactions between the business segments.

Segmental information is presented below:

Notes to the financial statements
For the year ended 31 December 2016 (continued)

27. Segment information (continued)

31 December 2016	Underwriting (AED)					Investments	Total
	Accident and liabilities	Fire	Marine	Others	Total	AED	AED
Segment revenue – gross	50,210,011	12,694,676	2,085,245	1,149,486	66,139,418	-	66,139,418
Segment result (net)	(4,920,524)	1,355,700	1,321,378	452,559	(1,790,887)	33,099,322	31,308,435
Liabilities no longer required written back							4,179,965
Unallocated costs - net							(16,180,093)
Profit for the year							19,308,307
Segment assets					130,721,312	238,646,704	369,368,016
Unallocated assets							3,174,998
Total assets							372,543,014
Segment liabilities					164,729,899	-	164,729,899
Unallocated liabilities							4,108,522
Total liabilities							168,838,421

There are no transactions between the business segments.

Notes to the financial statements
For the year ended 31 December 2016 (continued)

27. Segment information (continued)

	Underwriting (AED)					Investments	Total
31 December 2015	Accident and liabilities	Fire	Marine	Others	Total	AED	AED
Segment revenue – gross	47,880,593	19,981,418	2,250,538	1,561,154	71,673,703	-	71,673,703
Segment result (net)	(11,279,024)	(176,989)	(510,020)	499,174	(11,466,859)	3,115,363	(8,351,496)
Unallocated costs							(4,863,025)
Loss for the year							(13,214,521)
Segment assets					99,963,996	289,839,456	389,803,452
Unallocated assets							5,695,501
Total assets							395,498,953
Segment liabilities					143,535,669	-	143,535,669
Unallocated liabilities							5,014,990
Total liabilities							148,550,659

There are no transactions between the business segments.

28. Dividend

During the year, cash dividend of AED 6.88 million (AED 5 fils per share) was paid to the shareholders for the year 2015 (2015: AED 13.75 million, AED 10 fils per share for 2014).

The Board of Directors propose that a dividend of AED 7 fils per share amounting to AED 9.63 million to be paid to the shareholders in 2017. Further, the Board of Directors' purpose remuneration of AED 0.5 million (2015: Nil) for 2016. These are subject to approval by the shareholders at the Annual General Meeting and have not been included as a liability in these financial statements.

29. Reclassification

The following balances in the statement of financial position for the prior period have been reclassified to conform to the current period presentation.

	As previously reported at 31 December 2015 AED	Reclassification AED	As reclassified at 31 December 2015 AED
Reinsurance contract assets	34,837,299	6,002,638	40,839,937
Insurance contract liabilities	86,973,831	6,002,638	92,976,469

30. Approval of the financial statements

The financial statements were approved by the Board of Directors and authorized for issue on 6 March 2017.