AL KHAZNA INSURANCE COMPANY P.S.C.

Reports and consolidated financial statements for the year ended 31 December 2016

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Report of the Board of Directors
for the year ended 31 December 2016

The Board of Directors of Al Khazna Insurance Company PSC has the pleasure to present the Annual Board of Directors report and the audited consolidated financial statements for the year ended 31 December 2016.

Presented below are the technical and financial results of the Group:

1. Insurance activities:

The Group achieved a premium growth of 38% as compared to the year 2015. The gross written premium increased from AED 172.1 million in 2015 to AED 236.8 million in 2016.

The gross claims paid have increased from AED 100.8 million in 2015 to AED 202.5 million in 2016.

Due to the above facts, the Group registered a net underwriting loss of AED 65.7 million in 2016 as compared to AED 36.3 million in 2015.

2. Investment activities:

There was no change in the investment portfolio in 2016. The portfolio is comprised of long term investments in properties and investments in the securities including listed shares and unlisted shares.

The investment portfolio is consistent with the prior year. The investment activities decreased investment loss from AED 9.8 million in 2015 to AED 7.5 million in 2016.

3. Expenses from operations:

Operating expenses allocated to underwriting increased from AED 24.2 million in 2015 to AED 38.2 million in 2016. This is mainly due to the provision for doubtful debts AED 5.9 million recovered in 2015 while in 2016, there is provision for bad debts of AED 1.3 million and impairment of capital work in progress of AED 5.1 million.

4. Loss for the year:

The Group's loss has increased from AED 60 million in 2015 to AED 77.7 million in 2016 mainly due to losses incurred from operating and investing activities.

Report of the Board of Directors
for the year ended 31 December 2016 (continued)

Finally, the Board of Directors would like to extend its sincere thanks and gratitude to H.H. Sheikh Khalifa Bin Zayed Al Nahyan, the President of the United Arab Emirates and Ruler of the Emirate of Abu Dhabi H.H Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai, H.H. Sheikh Mohammed Bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi and the Rulers of all the other Emirates for their wise leadership and support. We would like to also thank the Securities and Commodities Authority, the Abu Dhabi Stock Market and the Insurance Authority for their continuous support.

The Board would like also to express its high appreciation to the Company's shareholders, corporate and individual customers, reinsurers, brokers and the Company's external auditors for their constant trust and continuous support in addition to the Company's management team and staff for their sincere efforts and dedication.

Khalifa Mohammed Rubaya Al Muhairi
Chairman
27 March 2017

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Al Khazna Insurance Company P.S.C.
Abu Dhabi
United Arab Emirates

Report on the audit of the consolidated financial statements

Qualified opinion

We have audited the consolidated financial statements of **Al Khazna Insurance Company P.S.C.** ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section in our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for qualified opinion

As disclosed in Note 7 to the consolidated financial statements, the Group's investments include:

- An investment classified at fair value through profit or loss (FVTPL) for which trading at the stock exchange has been suspended in September 2014. This investment is measured at its fair value at the date of suspension amounting to AED 44.5 million.
- Investments classified as available-for-sale (AFS) and fair value through profit or loss (FVTPL) which are measured at the previous year's fair value of AED 20.5 million AED 0.6 million respectively due to absent current information.

We were unable to obtain sufficient appropriate audit evidence supporting the fair value of these investments as at 31 December 2016. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Material uncertainty related to going concern

We draw attention to the note 3.2 to the consolidated financial statements, which states that these consolidated financial statements have been prepared on a going concern basis. The Group incurred a loss for the year ended 31 December 2016 of AED 77.7 million and its accumulated losses exceeded 50% of its share capital as of 31 December 2016. As stated in note 3.2, these events or conditions, together with other matters as set forth in note 3.2, indicate that a material uncertainty exists that may cast a significant doubt on the Group's ability to continue as a going concern. Our qualified opinion is not further modified in respect of this matter.

Emphasis of matter

We draw attention to note 6 to the consolidated financial statements, which discloses that the Group's investment properties include two plots of land with a carrying value of AED 87.3 million for which the master developer did not transfer the title to the name of the Company, pending the settlement of the last instalments which are linked to the completion of the Group's development works. The master developer has filed a legal case against the Group, claiming the last instalments, compensation for certain utilities work, interest on delays in settlement and penalties due to the delay in completion of the development works. An accrual related to the last instalment payments is recognised in the Group's consolidated financial statements. As the case remain in its early stage, Management concluded that it cannot determine a reliable estimate of any additional liability that might result from this case. Accordingly, no further liability has been recorded as at 31 December 2016. Our qualified opinion is not further modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters	**How our audit addressed the key audit matters**
Revenue recognition Refer to recognition and measurement section in note 3.10 (accounting policy)	
The Group underwrites in various classes of business which have different risk patterns and tails of business. The application of appropriate earnings patterns is therefore necessary in order to earn revenue in line with the risk of claims occurring for a policy. There is a risk that revenue recorded in the consolidated financial statements has not occurred or the flow of premium information from the underwriting systems to the financial reporting ledger is not complete and accurate due to the large number of policies underwritten by the Group.	We have tested the design, implementation and operating effectiveness of the relevant controls over revenue recognition, assisted by our internal IT specialists, focusing on the flow of information from the underwriting systems to the financial reporting ledger. We have performed substantive testing on the policies underwritten by the Group during the year by testing these polices to the original supporting documentations. In addition, we performed substantive analytical testing procedures on the gross and unearned premium balances.

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Key audit matters (continued)

<table>
<tr><th>Key audit matters</th><th>How our audit addressed the key audit matters</th></tr>
<tr><td colspan="2">Valuation of technical provisions

At 31 December 2016, the Group had the following technical provisions reserve as required by the UAE Insurance Authority as per the Financial Regulations for Insurance Companies:
▪ Unearned premium reserve – AED 101 million (gross), AED 81 million (net)
▪ Outstanding claims reserve – AED 122 million (gross), AED 37 million (net)
▪ Claims incurred but not reported reserve (IBNR) – AED 34 million (gross), AED 21 million (net)
▪ Unallocated loss adjustment expense reserve – AED 3 million (gross), AED 3 million (net)
▪ Unexpired risk reserve – AED 12 million (gross), AED 8 million (net)

Refer to note 3.10 (accounting policy), note 4.3 (key sources of estimation uncertainty) and note 9 (financial disclosures)</td></tr>
<tr><td>The technical provisions are a material balance within the consolidated financial statements. Valuation of these technical provisions is highly judgmental, and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those provisions that are recognised in respect of claims that have occurred, but have not yet been reported to the Group. Certain lines of business also contain greater inherent uncertainty, for example, those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts.

The key assumptions that drive the reserving calculations include loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business by territory and line of business.

The valuation of technical provisions depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating technical provisions, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of technical provisions may arise.</td><td>Our audit procedures were as follows:

▪ Understanding, assessing and testing the design and implementation of the relevant controls in the Group's reserving process, including review and approval of reserves, and controls over extraction of data from the underwriting systems.
▪ Verifying samples of claims reserves through comparing the estimated amount of the specific case reserve to appropriate documentation, such as reports from loss adjusters.
▪ Evaluation and testing of relevant controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data).
▪ Re-performing reconciliations between the claims data recorded in the Group's systems and the data used in the actuarial reserving calculations.
▪ Considering the results of the third-party actuarial valuation of the technical provisions as at the reporting date, to identify and understand any significant differences in the reserves as compared to management estimates and prior period amounts.
▪ Evaluating the competence, capabilities and objectivity of the external actuaries used by the Group, based on our knowledge of the actuaries' qualifications and the professional standards that their work is subject to, and by challenging their analysis.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

<table>
<tr><th>Key audit matters</th><th>How our audit addressed the key audit matters</th></tr>
<tr><td colspan="2">Valuation of technical provisions (continued)</td></tr>
<tr><td> The calculation of technical provisions involves complex and subjective judgments about future events, both internal and external to the business. Any small change in the assumptions used can lead to material impacts on the valuation of the technical provisions. In addition, the valuation of re-insurers' share of claims outstanding is dependent on, but not directly correlated to, the valuation of the underlying claims outstanding. There is judgement involved in ascertaining the level of reinsurance share of IBNR held, which depends on the specific terms of the reinsurance contracts in place. </td><td> In addition, with the assistance of our internal actuarial specialists, we conducted a review of the actuarial report prepared by the actuaries and calculations underlying these provisions, paying particular attention to the following areas: Appropriateness of the calculation methods and approach;
Review of key assumptions;
Consistency of methodologies and assumptions between valuation periods; and
General application of financial and mathematical rules. Finally, we also assessed the Group's disclosures in relation to the technical provisions. </td></tr>
</table>

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

<table>
<tr><th>Key audit matters</th><th>How our audit addressed the key audit matters</th></tr>
<tr><td colspan="2">Valuation of investment properties

Investment properties represent the fair value of plots of land with a total value of AED 154.9 million (2015: AED 160.3 million) and buildings with a value of AED 167.9 million (2015: AED 174.4 million) owned by the Group in Abu Dhabi, Al Ain and Mussaffah.

Refer to note 3.7 (accounting policy), note 4.7 (key sources of estimation uncertainty) and note 6 (financial disclosures)</td></tr>
<tr><td>Under the fair value model of accounting, investment property is remeasured to fair value at the reporting date, which is the amount for which the property 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 property must be included in profit or loss for the period in which it arises.

The valuation of investment properties requires significant judgement and estimates by management and the independent external valuers.

We consider this as key audit matter because of the existence of significant estimation and judgement uncertainty, coupled with the fact that only a small change in underlying parameters and assumptions could result in a material misstatement of the statements of profit or loss and financial position.</td><td>As part of our audit procedures we have:
Perused the valuation reports for all properties and confirmed that the valuation approach for each property was in accordance with IFRS and RICS and suitable for use in determining the carrying value to be disclosed in the consolidated financial statements.
Assessed the external valuers' competence, capabilities and objectivity by assessing their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed any scope limitations in their work;
Gained an understanding of the external valuers' valuation methodologies (e.g., income capitalisation approach, residual value method) and their assumptions applied such as rental yields, discount rates etc. by comparing yields on a sample of similar properties and by evaluating the extent to which the movements in valuations were consistent with our industry knowledge and comparable market transactions;
Compared a sample of key inputs used in the valuation model, such as rental income, occupancy and current tenancy contracts to lease contracts to ensure the accuracy of the information supplied to the external valuers by management; and
Assessed the adequacy of the Group's disclosures in accordance with the requirements of IFRS 13 for fair value measurements, valuation techniques, changes in estimates during the period, significant unobservable inputs and sensitivities to key assumptions.</td></tr>
</table>

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INDEPENDENT AUDITOR'S REPORT (continued)

Other information

The Board of Directors and management is responsible for the other information. The other information comprises the Board of Directors' report, which we obtained prior to the date of this auditor's report and the Corporate Governance Report 2016 and the Annual Report 2016, which are expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about the fair value of certain of the Group's investments classified as FVTPL and AFS as at 31 December 2016. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

When we will read the Corporate Governance Report 2016 and the Annual Report 2016, if we conclude that there is a material misstatement therein, we will be required to communicate the matter to those charged with governance and consider whether a reportable irregularity exists in terms of the auditing standards, which must be reported.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015 and UAE Federal Law No.6 of 2007, 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 consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and the Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

As part of an audit in accordance with ISAs, we exercise professional judgement 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 the 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's use of the going concern basis of accounting and based on the audit evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on other legal and regulatory requirements

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

- except for the matters described in the Basis for Qualified Opinion above, we have obtained all the information we considered necessary for the purposes of our audit;
- except for the matters described in the Basis for Qualified Opinion above, the consolidated financial statements of the Group have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Company has maintained proper books of account;
- the financial information included in the Board of Directors' annual report is consistent with the books of account of the Group;
- as disclosed in note 1 to the consolidated financial statements, the Group did not purchase or invest in any shares during the financial year ended 31 December 2016;
- note 20 to the consolidated financial statements discloses material related party transactions and balances, the terms under which they were conducted and principles of managing conflict of interests; and
- as at 31 December 2016, the Group's accumulated losses exceeded 50% of its share capital. As per Article 302 of the Federal Law No. (2) of 2015 concerning Commercial Companies, the Board of Directors shall invite the General Assembly to take a special Resolution to resolve the Company prior to the expiry of its term or to continue in the activity of the Company.

Based on the information that has been made available to us, except the above matter, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016.

Further, as required by the U.A.E. Federal Law No. 6 of 2007, as amended, except for the matters described in the *Basis for Qualified Opinion* above 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 Group is still in the process of implementing the requirements of Appendix (1) of the Financial Regulations for Insurance Companies in respect of preparation of the financial statements and disclosures; in particular, those disclosures related to the solvency margin, operational risk management and certain disclosures related to receivables and payables.

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Signed by:
Georges F. Najem
Registration No. 809
27 March 2017
Abu Dhabi
United Arab Emirates

Consolidated statement of financial position
as at 31 December 2016

	Notes	2016 AED	2015 AED Restated
ASSETS			
Property and equipment	5	**1,738,307**	6,847,823
Investment properties	6	**322,799,000**	334,674,000
Investments in securities:			
- Available-for-sale (AFS) investments	7	**64,936,033**	75,803,618
- Investments at fair value through profit or loss (FVTPL)	7	**168,466,719**	187,250,824
Statutory deposit	8	**10,000,000**	10,000,000
Reinsurance share of technical provisions:			
- Unearned premium reserve	9	**19,774,489**	24,022,000
- Claims under settlement reserve	9	**85,443,079**	66,714,000
- Claims incurred but not reported reserve	9	**12,382,930**	8,197,000
- Unexpired risk reserve	9	**3,842,975**	-
Insurance receivables	10	**99,546,054**	116,102,818
Other receivables and prepayments	11	**15,691,384**	19,904,482
Deferred acquisition costs		**8,907,879**	6,452,973
Term deposits		**1,829,807**	1,800,927
Cash and cash equivalents	12	**55,649,026**	46,322,500
Total assets		**871,007,682**	904,092,965

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

Consolidated statement of financial position (continued) as at 31 December 2016

	Notes	2016 AED	2015 AED Restated
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	420,000,000	420,000,000
Share premium		1,788,422	1,788,422
Legal reserve	14	62,145,349	62,145,349
Regulatory reserve	15	-	60,103,225
Fair value reserve		19,890,242	30,757,827
Revaluation reserve		11,736,841	11,736,841
Accumulated losses		(254,708,897)	(237,110,644)
Total capital and reserves		260,851,957	349,421,020
LIABILITIES			
Provision for end of service benefit	16	5,845,678	5,126,985
Gross technical provisions:			
- Unearned premium reserve	9	101,240,344	97,600,000
- Claims under settlement reserve	9	122,076,612	89,155,000
- Claims incurred but not reported reserve	9	33,664,673	19,010,000
- Unallocated loss adjustment expense reserve	9	2,830,061	2,543,000
- Unexpired risk reserve	9	11,873,773	13,200,000
Insurance payables	17	83,812,659	57,270,663
Other payables	18	32,454,193	27,994,588
Reinsurance deposit retained		2,051,371	2,585,489
Unearned reinsurance commission		1,523,263	1,276,378
Deferred income		7,687,693	8,842,169
Bank borrowings	19	205,095,405	230,067,673
Total liabilities		610,155,725	554,671,945
Total equity and liabilities		871,007,682	904,092,965

Chairman **Managing Director** **Chief Financial Officer**

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

Consolidated statement of profit or loss for the year ended 31 December 2016

	Notes	2016 AED	2015 AED Restated
Gross premiums written	22	236,809,312	172,081,539
Reinsurance share of direct business premium	22	(60,942,068)	(55,795,491)
Net premium		175,867,244	116,286,048
Change in unearned premium provision		(7,887,855)	(32,139,667)
Net premium earned		167,979,389	84,146,381
Commission expenses - net		(12,990,545)	(6,601,232)
Commission income		2,772,170	6,266,194
Gross underwriting income		157,761,014	83,811,343
Gross claims paid	23	(202,517,255)	(100,830,090)
Reinsurance share of claims	23	37,017,529	36,024,421
Net claims paid		(165,499,726)	(64,805,669)
Change in claims under settlement reserve		(32,921,612)	(3,875,878)
Change in reinsurance share for claims under settlement reserve		18,729,079	(2,586,199)
Change in claims incurred but not reported reserve		(14,654,673)	(16,094,000)
Change in reinsurance share for claims incurred but not reported reserve		4,185,930	7,177,727
Change in unallocated loss adjustment expense reserve		(287,061)	(2,543,000)
Change in unexpired risk reserve		1,326,227	(13,200,000)
Change in reinsurance share of unexpired reserve		3,842,975	-
Net claims incurred		(185,278,861)	(95,927,019)
Operating expenses	24	(38,211,663)	(24,228,153)
Net underwriting loss		(65,729,510)	(36,343,829)
Net loss from investments	25	(6,768,232)	(19,476,435)
(Loss)/income from investment properties	26	(744,852)	9,639,358
Operating expenses	24	(4,720,205)	(4,720,366)
Finance costs		(2,531,538)	(22,173,433)
Other income		2,792,859	13,403,828
Loss for the year attributable to equity holders of the parent company	27	(77,701,478)	(59,670,877)
Basic and diluted loss earning per share	28	(0.185)	(0.142)

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

Consolidated statement of comprehensive income
for the year ended 31 December 2016

	2016 AED	2015 AED
Loss for the year	**(77,701,478)**	(59,670,877)
Other comprehensive loss:		
Items that will be reclassified subsequently to profit or loss:		
Net fair value loss on available-for-sale investments	**(10,867,585)**	(8,727,358)
Total other comprehensive loss for the year	**(10,867,585)**	(8,727,358)
Total comprehensive loss for the year	**(88,569,063)**	(68,398,235)
Attributable to:		
Equity holders of the Parent Company	**(88,569,063)**	(68,398,235)

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

Consolidated statement of changes in equity for the year ended 31 December 2016

	Share capital AED	Share premium AED	Legal reserve AED	Regulatory reserve AED	Fair value and revaluation reserves AED	Accumulated losses AED	Attributable to the equity holders of the Company AED
Balance at 1 January 2015	420,000,000	1,788,422	62,145,349	60,103,225	51,222,026	(177,439,767)	417,819,255
Loss for the year	-	-	-	-	-	(59,670,877)	(59,670,877)
Other comprehensive loss	-	-	-	-	(8,727,358)	-	(8,727,358)
Total comprehensive loss for the year	-	-	-	-	(8,727,358)	(59,670,877)	(68,398,235)
Balance at 1 January 2016	420,000,000	1,788,422	62,145,349	60,103,225	42,494,668	(237,110,644)	349,421,020
Loss for the year	-	-	-	-	-	(77,701,478)	(77,701,478)
Other comprehensive loss	-	-	-	-	(10,867,585)	-	(10,867,585)
Total comprehensive loss for the year	-	-	-	-	(10,867,585)	(77,701,478)	(88,569,063)
Transfer (note 15)	-	-	-	(60,103,225)	-	60,103,225	-
Balance at 31 December 2016	**420,000,000**	**1,788,422**	**62,145,349**	-	**31,627,083**	**(254,708,897)**	**260,851,957**

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

Consolidated statement of cash flows
for the year ended 31 December 2016

	Note	2016 AED	2015 AED
Cash flows from operating activities			
Loss for the year		**(77,701,478)**	(59,670,877)
Adjustments for:			
Depreciation of property and equipment	**5**	**680,899**	716,870
Net fair value loss/(gain) on investment properties	**6 & 26**	**11,875,000**	(1,550,000)
Net fair value loss on investments designated at FVTPL	**7 & 25**	**18,784,105**	28,576,607
Income on restructuring of loan	**19**	**(2,131,184)**	-
Dividends from investments in securities	**25**	**(12,802,511)**	(9,405,389)
Net income from investment properties	**6 & 26**	**(11,130,148)**	(8,089,358)
Interest income	**25**	**(30,534)**	(29,361)
Finance costs		**2,136,217**	22,173,433
Gain on disposal of property and equipment		**(118,000)**	(97,766)
Provision/(reversals) of provisions for doubtful receivables, net		**1,258,146**	(5,919,140)
Provision for employees' end of service benefit	**16**	**838,485**	951,981
Impairment of capital work in progress	**5**	**5,145,916**	-
Cash flows used in operating activities before movements in working capital		**(63,195,087)**	(32,343,000)
Increase in deferred acquisition costs		**(2,454,906)**	(4,540,329)
(Increase)/decrease in reinsurance contract assets		**(22,510,473)**	555,168
Increase in insurance contract liabilities		**50,177,463**	62,705,849
Increase/(decrease) in unearned reinsurance commission		**246,885**	(1,341,490)
Decrease/(increase) in insurance and other receivables		**19,511,716**	(31,255,905)
Increase in insurance and other payables		**28,865,351**	5,023,305
Decrease in reinsurance deposit retained		**(534,118)**	(837,119)
(Increase)/decrease in deferred income		**(1,154,476)**	5,294,010
Cash generated from operating activities		**8,952,355**	3,260,489
Employees' end of service benefit paid	**16**	**(119,792)**	(214,211)
Net cash generated from operating activities		**8,832,563**	3,046,278
Cash flows from investing activities			
Movement in term deposits with maturity of greater than three months		**(28,880)**	(26,079)
Payments to acquire property and equipment	**5**	**(732,599)**	(511,995)
Dividends received		**12,802,511**	9,405,389
Net income received from investment properties		**11,130,148**	4,229,561
Interest income received		**30,567**	27,689
Proceeds from sale of property and equipment		**133,300**	113,270
Net cash generated from investing activities		**23,335,047**	13,237,835
Cash flows from financing activities			
Dividends paid		-	(3,889)
Repayment of bank borrowings		**(22,841,084)**	(81,084)
Net cash used in financing activities		**(22,841,084)**	(84,973)
Net increase in cash and cash equivalents		**9,326,526**	16,199,140
Cash and cash equivalents at beginning of the year	**12**	**46,322,500**	30,123,360
Cash and cash equivalents at end of the year		**55,649,026**	46,322,500

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

1 General information

Al Khazna Insurance Company P.S.C. (the "Company") is a public shareholding company. The Company are incorporated in the Emirate of Abu Dhabi by virtue of the Emiri Decree No. (4) dated 11 September 1996.

The Company's principal activity is the writing of general insurance and re-insurance business of all classes.

The Company operates through its head office in Abu Dhabi and branch offices in Dubai and Al Ain. The Company is domiciled in the United Arab Emirates and its registered office address is P.O. Box 73343, Abu Dhabi, United Arab Emirates.

The Company's ordinary shares are listed on Abu Dhabi Securities Exchange.

The UAE Federal Law No. 2 of 2015 ("Companies Law") has come into force on 1 July 2015. The Company has twenty-four months from the effective date of the Companies Law to comply with its provisions ("the transitional provisions") and the Company has availed of these transitional provisions. The Group did not purchase or invest in any shares during the financial year ended 31 December 2016.

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

2.1 New and revised IFRSs applied with no material effect on the consolidated 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 consolidated financial statements. The application of these revised and new 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.

- 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

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

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

2.2 Standards and Interpretations in issue but not yet effective

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

New standards and significant amendments to standards applicable	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.	1 January 2018

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

2.2 Standards and Interpretations in issue but not yet effective (continued)

New standards and significant amendments to standards applicable	Effective for annual periods beginning on or after
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	When IFRS 9 is first applied
Amendments to IFRS 7 *Financial Instruments*: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement.* The standard contains requirements in the following areas:

Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised

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

2.2 Standards and Interpretations in issue but not yet effective (continued)

New standards and significant amendments to standards applicable	Effective for annual periods beginning on or after
IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014) (continued)	
Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.	
Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	
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.

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.

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

2.2 Standards and Interpretations in issue but not yet effective (continued)

New standards and significant amendments to standards applicable	Effective for annual periods beginning on or after
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 standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 4, IFRS 9 (2014), IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 4, IFRS 15 and IFRS 9 (2014) will be adopted in the consolidated financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the consolidated financial statements for the annual period beginning 1 January 2019. The application of IFRS 15 and IFRS 9 (2014) may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of revenue from contracts with customers and the Group's financial assets and financial liabilities and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

3 Summary of significant accounting policies

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 (UAE) Federal Law No. 2 of 2015 and Federal Law No. 6 of 2007, concerning the formation of Insurance Authority of UAE.

On 28 December 2014, the United Arab Emirates (UAE) Insurance Authority issued Financial Regulations for Insurance Companies (the "Financial Regulations") 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 Group is still in the process of implementing the requirements of Appendix (1) of the Financial Regulations in respect of preparation of the financial statements and disclosures; in particular, those disclosures related to the solvency margin, operational risk management and certain disclosures related to receivables and payables.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments and investment properties. Historical cost is generally based on 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 Group 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 consolidated financial statements is determined on such a basis, 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 value in use in IAS 36.

3.2.1 Going concern

The Group incurred a loss of AED 77.7 million for the year ended 31 December 2016 and its accumulated losses exceeded 50% of its share capital as of 31 December 2016. Management considers that the above factors present significant challenges to the Group in terms of meeting its operating and financing cash flow requirements in the foreseeable future. Whilst management has planned measures to overcome those circumstances, there are material uncertainties over future results and cash flows.

- Management has approved a corrective action plan to review the pricing and reinsurance strategy to improve the performance of the medical line of business and to review the pricing and expense loadings of the motor and other lines of business. The Management is also developing and implementing a plan to review the overall expenses across all lines of business. Management has a reasonable expectation that this corrective plan will enable the Group to generate profits or at least reduce its losses from operating activities significantly.

3 Summary of significant accounting policies (continued)

3.2 Basis of preparation (continued)

3.2.1 Going concern (continued)

- Management has set an investment action plan for full or partial disposal of certain investments including plots of land, and/or other quoted and non-quoted investment to generate cash flows to support the operating and financing cash flow requirements in the short and medium term as well as to comply with Insurance Authority regulations requirements of concentration and assets allocation limits.

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business. As a result of the mitigating measures described above, management has a reasonable expectation that the Group has adequate plan and resources to overcome these challenges and continue in operational existence for the foreseeable future.

This conclusion relies particularly on the Group being able to successfully implement its corrective plan for the insurance business as well as its action plan for full or partial disposal of certain assets, so the Group can contain its losses, and generate positive cash flows from operating and investing activities. For these reasons, management continues to adopt the going concern basis of accounting in preparing the annual consolidated financial statements.

In the absence of the Group's ability to do so, the going concern basis would be invalid and adjustments would have to be made to reduce the consolidated statement of financial position values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify non-current assets and liabilities as current assets and liabilities

Additionally, as required by Article 302 of the Federal Law No. (2) of 2015 concerning Commercial Companies, the Board of Directors are required to invite the General Assembly to take a special Resolution to dissolve the Company prior to the expiry of its term or to continue in the activity of the Company, due to the fact that the accumulated losses exceeded 50% of the share capital as of 31 December 2016.

The principal accounting policies are set out below:

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation

Name of subsidiary	Proportion of ownership		Country of incorporation	Principal activities
	2016	2015		
The Best Tenants LLC ***	**99%**	99%	UAE	To market, promote and deliver property management and advisory services.
Real Estate Academy Est. (Al Akarya Academy) **	**100%**	100%	UAE	To market, promote and delivery management and advisory services in respect of real estate.
Al Khazna Real Estate Est. *	**100%**	100%	UAE	To market, promote and deliver management and advisory services in respect of real estate.
Modern Academy Administrative Training LLC *	**100%**	100%	UAE	To provide business management training.
IT Academy LLC *	**100%**	100%	UAE	To provide business management training.
Real Estate Academy for Training LLC *	**100%**	100%	UAE	To provide business management training.
Academy of Tourism and Holidays LLC *	**100%**	100%	UAE	To provide training in the field of travel, tourism and hotel management.
First Deal Real Estate LLC ***	**100%**	100%	UAE	To manage investments in real estate.
Academy for Investment Est. *	**100%**	100%	UAE	To manage investments in real estate.
Under Writing Electronics Solutions Est. *	**100%**	100%	UAE	Data formatting, computer system and instruments filling services.
Tadawel Electronics Solutions Est. *	**100%**	100%	UAE	Software consultancy, storing and retrieving data.
Tel Fast Recruitment Agencies LLC *	**99%**	99%	UAE	Employment services – recruitment.
Tel Fast Manpower Supply LLC *	**99%**	99%	UAE	Labourers supply services.

*These subsidiaries have not yet commenced operations and their trade licenses have expired and not been renewed.
**These subsidiaries have not yet commenced operations and do not have trade licenses.
***These subsidiaries have commenced operations but their trade licenses have expired and not been renewed.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3 Summary of significant accounting policies (continued)

3.4 Foreign currencies

For the purpose of these consolidated financial statements UAE Dirhams (AED) is the functional and the presentation currency of the Group.

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

Exchange differences are recognised in the consolidated statement of profit or loss in the period in which they arise.

3.5 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

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

Depreciation is calculated so as to write off the cost of property and equipment less their estimated residual values, on a straight line basis over their expected useful economic lives, as follows:

Furniture, fixtures and office equipment	5 years
Motor vehicles	4 years
Computer equipment and accessories	5 years

The estimated useful lives, residual values and depreciation method reviewed at the end of each annual reporting period with the effect of any changes accounted for on a prospective basis. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

3.6 Capital work in progress

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. When the asset is ready for its intended use and is commissioned, capital work in progress is transferred to the appropriate property, plant and equipment or intangible asset category and is depreciated or amortised on the same basis as other assets in accordance with Group's policies.

3 Summary of significant accounting policies (continued)

3.7 Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes), are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the profit or loss for the period in which they arise.

3.8 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or 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 (or 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 (or 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.

3.9 Provisions

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

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 using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3 Summary of significant accounting policies (continued)

3.10 Insurance contracts

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

Recognition and measurement

General insurance contracts protect the Group's customers for damage suffered to their assets as well as against the risk of causing harm to third parties as a result of their legitimate activities. General insurance contracts also protect the Group's customers from the consequences of events such as illness and disability.

For all these contracts, premiums are recognised as revenue proportionally over the period of coverage. 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. Premiums are shown before deduction of commission.

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

The Group 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 Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Liability adequacy tests

Liability adequacy tests are performed at the end of the reporting period to ensure the adequacy of the contract liabilities. In performing these test, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss.

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 unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the end of the reporting period and is estimated using the time proportionate method. The unearned premiums are computed using the 365-day method to spread the premium written proportionally over the period of coverage for all lines of business, except for marine cargo which is calculated as 25% of gross written premium and for engineering which is calculated on a daily decreasing basis over the term of the policy.

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

3 Summary of significant accounting policies (continued)

3.10 Insurance contracts (continued)

Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

Insurance contracts entered into by the Group under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well as longer-term receivables (classified as reinsurance assets) 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 contract and in accordance with the terms of each reinsurance contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expenses when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance assets is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the consolidated statement of income.

Reinsurance commissions received from the reinsurers are carried over the same period as the related ceded premiums.

Deferred policy acquisition costs

Commissions that are related to securing new contracts and renewing existing contracts are capitalised as Deferred Acquisition Costs ("DAC"). All other costs are recognised as expenses when incurred. Deferred acquisition costs are subsequently amortised over the life of the contracts. The resulting change to the carrying value of the DAC is charged to the consolidated statement of profit or loss.

Receivable 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 Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated statement of profit or loss.

The Group 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 Summary of significant accounting policies (continued)

3.10 Insurance contracts (continued)

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimated of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

3.11 Employee benefits

Accrual is made for the full amount of end of service benefits due to non-UAE national employees in accordance with UAE Labour Law, for their period of service up to the end of the reporting period.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (9) of 2000 for Pension and Social Security. Such contributions are charged to profit or loss during the employees' period of service.

3.12 Operating leases

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 Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3.13 Financial assets

All financial assets are recognised and derecognised on trade date when 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. Financial assets 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.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

3.13.1 Classification of financial assets

The Group classifies its financial assets under the following categories: loans and receivables, available for sale financial assets and financial assets at fair value through profit or loss (FVTPL).

3.13.2 Loans and receivables

Cash and cash equivalents

Cash and cash equivalents which include cash on hand and deposits held at call with banks with original maturities of three months or less, are classified as loans and receivables.

Insurance receivables

Insurance receivables and other receivables that are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Interest income is recognised by applying the effective interest rate, except for short- term receivables when the recognition of interest would be immaterial.

3.13.3 Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL where the financial assets is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

3.13.3 Financial assets at fair value through profit or loss (continued)

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair values of financial assets at fair value through profit or loss are determined by reference to quoted market prices.

Dividend income on investments in equity instruments at FVTPL is recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue* and is included in the 'net investment income' line item in the profit and loss.

3.13.4 Available for-sale financial assets

Investments not classified as "FVTPL", loans and receivables, and held-to-maturity investments are classified as AFS investments and are initially measured at trade date value, plus directly attributable transaction costs.

After initial recognition, AFS investments are remeasured at fair value, based on quoted market prices at the end of reporting period.

Unrealised gains and losses on remeasurement to fair value on AFS investments are recognised directly in equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gains or losses previously reported in equity are included in profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

3.13.5 Impairment of financial assets

Financial assets cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 financial asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

3.13.5 Impairment of financial assets (continued)

For certain categories of financial asset, such as trade 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, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, reflecting the impact of collateral and guarantees, 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 trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade 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.

With the exception of AFS equity instruments, 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 investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3.13.6 Derecognition of financial assets

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

3.14 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

3 Summary of significant accounting policies (continued)

3.14 Financial liabilities and equity instruments (continued)

Financial liabilities

Financial liabilities comprised of insurance payables and other liabilities, term loan and bank overdraft are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term liabilities 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.

Derecognition of financial liabilities

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

3.15 Dividend distribution

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

3.16 Revenue recognition

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

Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these consolidated financial statements (see above 3.10)

Commission income and expenses

Commission income is recognised as 'deferred income' when reinsurance contract is entered into and subsequently amortised in profit or loss over the term of the reinsurance contract.

Commission expense is recognised as 'deferred acquisition cost' under prepayment when policies are issued and subsequently amortised in profit or loss over the term of the policies as premium is earned.

Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease and is stated net of related expenses.

Dividend income

Dividend income is recognised when the Group's right to receive the payment has been established.

3 Summary of significant accounting policies (continued)

3.16 Revenue recognition (continued)

Interest income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable.

4 Critical accounting judgments and key sources of estimation of uncertainty

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

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

4.1 Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as at available for sale or FVTPL. In judging whether investments in securities are as at available for sale or FVTPL. Management has considered the detailed criteria for determination of such classification as set out in IAS 39, *Financial Instruments*: *Recognition and Measurement*. Management is satisfied that its investments in securities are appropriately classified.

4.2 Impairment for available-for-sale financial assets

The Group follows the guidance of IAS 39 *'Financial Instruments'*: *Recognition and Measurement* to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business for the investee.

4.3 Obligations arising from claims made under insurance contracts

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

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

4.4 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Group 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.

4.5 Impairment of amounts due from policy holders

An estimate of the collectible amount from policy holders is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired entails the management's evaluation of the specific credit and liquidity position of the policy holders and their historical recovery rates including detailed investigations carried out during the year. Provision for impairment of amounts due from policy holders at 31 December 2016 is AED 17,834,871 (2015: AED 16,576,725).

4.6 Impairment of amounts due from insurance and re-insurance companies

Management regularly reviews the collectability of amounts due from insurance and re-insurance companies. The majority of these receivables are due from reputable local and international insurance and re-insurance companies. Such balances are regularly reconciled by both parties and are settled by on account payments on a regular basis. Based on above evaluation, Management is satisfied that no impairment is necessary on receivables from insurance and re-insurance companies.

4.7 Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determined the amount within a range of reasonable fair value estimates. In making its judgment, the Group considered recent prices of similar properties in the same location and similar conditions, which adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. Details of fair valuation methods and assumptions applied are disclosed in note 6 to the consolidated financial statements.

5 Property and equipment

	Furniture, fixtures and office equipment AED	Motor vehicles AED	Computer equipment and accessories AED	Capital work in progress AED	Total AED
Cost					
1 January 2015	6,750,564	1,394,270	5,902,469	5,145,916	19,193,219
Additions	171,421	189,400	151,174	-	511,995
Disposals	(35,000)	(248,944)	-	-	(283,944)
1 January 2016	6,886,985	1,334,726	6,053,643	5,145,916	19,421,270
Additions	118,678	54,000	559,921	-	732,599
Disposals	-	(479,300)	-	-	(479,300)
Impairment of capital work in progress	-	-	-	(5,145,916)	(5,145,916)
31 December 2016	**7,005,663**	**909,426**	**6,613,564**	-	**14,528,653**
Accumulated depreciation					
1 January 2015	6,233,072	996,981	4,894,964	-	12,125,017
Charge for the year	193,305	160,790	362,775	-	716,870
Eliminated on disposals	(19,496)	(248,944)	-	-	(268,440)
1 January 2016	6,406,881	908,827	5,257,739	-	12,573,447
Charge for the year	183,991	155,802	341,106	-	680,899
Eliminated on disposals	-	(464,000)	-	-	(464,000)
31 December 2016	**6,590,872**	**600,629**	**5,598,845**	-	**12,790,346**
Carrying amount					
31 December 2016	**414,791**	**308,797**	**1,014,719**	-	**1,738,307**
31 December 2015	480,104	425,899	795,904	5,145,916	6,847,823

Capital work in progress in the prior year of AED 5.1 million was largely comprised of a flat in a property under development in Dubai which the management intend to hold for their Group's use. The contracted value of the flat was AED 18.3 million of which AED 9.1 million had been advanced and the remaining commitment in respect of this flat amounted to AED 9.2 million at 31 December 2016 (2015: AED 9.2 million).

During the year, the Group fully impaired the capital work in progress balance due to non-recoverability of the balance from the developer.

6 Investment properties

	Land AED	Buildings AED	Total AED
At 1 January 2015	160,264,000	172,860,000	333,124,000
Changes in fair value	-	1,550,000	1,550,000
At 1 January 2016	160,264,000	174,410,000	334,674,000
Changes in fair value	(5,335,000)	(6,540,000)	(11,875,000)
31 December 2016	**154,929,000**	**167,870,000**	**322,799,000**

Investment properties represent the fair value of plots of lands with a total value of AED 154.9 million (2015: AED 160.3 million) and buildings with a value of AED 167.9 million (2015: AED 174.4 million) owned by the Group in Abu Dhabi, Al Ain and Mussaffah.

The fair value of the investment properties as of 31 December 2016 has been arrived at on the basis of independent valuations carried out by two valuers that are not related to the Group. The valuers are members of the Royal Institute of Surveyors, and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations.

Fair value of building properties
The fair values of building properties were determined based on a combination of market comparable approach and income capitalisation approach. Market comparable approach involves making adjustments to the rents achieved for comparable properties to account for differences in location, configuration, floor area, date of transaction, included facilities, potential views, and other individual characteristics.

Having established its opinion on the market rents based on the market comparable approach, the Group has thereafter utilised the income capitalisation method to assess the market value of the property. This methodology involves the capitalisation of the subject property's net income stream at an appropriate investment yield, after the deduction of non-recoverable items such as operational costs. The capitalisation rate adopted is made with reference to the yield rates observed by the valuer's for similar properties in the locality and adjusted based on the valuer's knowledge of the factors specific to the respective properties.

Fair value of land properties
The fair values of land properties were determined based on market comparable approach. This approach involves making adjustments to the sales price of comparable properties to account for differences in location, frontage, services provided, plot area and shape, level of site works required, maximum permitted Gross Floor Area (GFA) allowance, height allowance, date of sale, potential views, aspect and other relevant points of difference between the subject plot and the comparable evidence.

There has been no change to the valuation technique during the year.

In estimating the fair value of the properties, the highest and best use of properties is their current use.

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

6 Investment properties (continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 and 2015 are as follows:

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
31 December 2016				
Building in Abu Dhabi	-	-	**148,950,000**	**148,950,000**
Building in Al Ain	-	-	**18,920,000**	**18,920,000**
Land plots in Abu Dhabi	-	-	**154,929,000**	**154,929,000**
	-	-	**322,799,000**	**322,799,000**
31 December 2015				
Building in Abu Dhabi	-	-	153,000,000	153,000,000
Building in Al Ain	-	-	21,410,000	21,410,000
Land plots in Abu Dhabi	-	-	160,264,000	160,264,000
	-	-	334,674,000	334,674,000

For investments categorised into Level 3 of the fair value hierarchy, the following information is relevant:

Property	Valuation Techniques	Significant unobservable inputs	Sensitivity
Building in Abu Dhabi	Combination of Market comparable approach and Income capitalisation approach	Capitalisation rate (taking into account the capitalisation of rental income, potential, nature of property, and prevailing market condition) of 8.7%.	A 0.5% increase in the capitalisation rate used would result to a decrease in fair value by AED 8 million (2015: AED 8 million) and vice versa.
		Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average of AED 2,300 per square meter per year for the showroom unit and AED 1,100 per square meter for other units.	A 5% increase in the market rent used would result to an increase in fair value by AED 8 million (2015: AED 7 million) and vice versa.
Building in Al Ain	Combination of Market comparable approach and Income capitalisation approach	Capitalisation rate (taking into account the capitalisation of rental income, potential, nature of property, and prevailing market condition) of 9.6%.	A 0.5% increase in the capitalisation rate used would result to a decrease in fair value by AED 1.08 million (2015: AED 1.1 million) and vice versa.
		Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at a range of AED 650 to AED 980 per square meter.	A 5% increase in the market rent used would result to an increase in fair value by AED 0.9 million (2015: AED 1.1 million) and vice versa.

6 Investment properties (continued)

Property	Valuation techniques	Significant unobservable inputs	Sensitivity
Land plots in Abu Dhabi	Market comparable approach	Market value per Gross Floor Area (GFA), taking into account differences in location, frontage, services provided, plot area and shape, level of site works required, maximum permitted GFA allowance, height allowance, date of sale, potential views, aspect and other relevant points of difference between the subject plot and the comparable evidence.	A 5% increase in the market value per GFA used would result to an increase in fair value by AED 7.7 million (2015: AED 8.1 million) and vice versa.

A building with a carrying value of AED 148.95 million (2015: AED 153 million) is mortgaged in favour of First Gulf Bank against the bank loan (note 19).

Included within investment properties are two plots of land with a carrying value of AED 87.3 million (2015: AED 89.3 million) whose title were not transferred to the name of the Group, pending the settlement of the last installments which are linked to the completion of the Group's development works on these plots. The master developer has filed a legal case against the Company in relations with these last installments (see note 30 for further details).

Also included in the investment properties is a plot of land valued at AED 9.1 million (2015: AED 10.8 million) registered in the name of previous directors who assigned full beneficial rights of the plot to the Group.

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

	2016 **AED**	2015 AED
Rental income	**12,556,611**	9,833,850
Direct operating expenses	**(1,426,463)**	(1,744,492)
	11,130,148	8,089,358

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

7 Investments in securities

	2016 AED	2015 AED
Available for sale (AFS) investments		
Quoted UAE equity securities	**11,034,788**	5,774,610
Unquoted UAE equity securities	**53,901,245**	70,029,008
	64,936,033	75,803,618
Investments at FVTPL		
Quoted UAE securities	**122,780,074**	141,551,236
Unquoted UAE equity securities	**487,500**	487,500
Quoted foreign equity securities	**556,500**	330,000
Quoted but suspended foreign equity securities	**44,552,550**	44,776,200
Unquoted foreign equity securities	**90,095**	105,888
	168,466,719	187,250,824

The movement in the investments in securities is as follows:

	2016 AED	2015 AED
AFS investments		
Fair value at 1 January	**75,803,618**	84,530,976
Decrease in fair value taken to other comprehensive income	**(10,867,585)**	(8,727,358)
Fair value at the end of the reporting year	**64,936,033**	75,803,618
Investments at FVTPL		
Fair value at 1 January	**187,250,824**	215,827,431
Decrease in fair value taken to profit or loss (note 25)	**(18,784,105)**	(28,576,607)
Fair value at the end of the reporting year	**168,466,719**	187,250,824

The geographical distribution of investments is as follows:

	2016 AED	2015 AED
Within UAE	**188,203,607**	217,842,354
Outside UAE	**45,199,145**	45,212,088
	233,402,752	263,054,442

7 Investments in securities (continued)

The Group's investments include:

- An investment classified at FVTPL that has been suspended in September 2014. This investment is measured in these consolidated financial statements at its fair value at the date of suspension amounting to AED 44.5 million.
- Certain investments classified as available-for-sale (AFS) and FVTPL which are measured in these consolidated financial statements at AED 20.5 million and AED 0.6 million, respectively by reference to a fair valuation that is based on 2015 financial information due to the lack of recent financial information.

8 Statutory deposit

In accordance with the requirements of UAE Federal Law No.6/2007 covering insurance companies and agencies, the Company maintains a bank deposit of AED 10,000,000 (2015: AED 10,000,000) which cannot be utilised without the consent of the UAE Insurance Authority.

9 Technical provisions

	2016	2015
	AED	AED
Gross technical reserves		
- Unearned premiums reserve	**101,240,344**	97,600,000
- Claims under settlement reserve	**122,076,612**	89,155,000
- Claims incurred but not reported reserve	**33,664,673**	19,010,000
- Unallocated loss adjustment expense reserve	**2,830,061**	2,543,000
- Unexpired risk reserve	**11,873,773**	13,200,000
	271,685,463	221,508,000
Reinsurance share of technical reserves		
- Unearned premiums reserve	**19,774,489**	24,022,000
- Claims under settlement reserve	**85,443,079**	66,714,000
- Claims incurred but not reported reserve	**12,382,930**	8,197,000
- Unexpired risk reserve	**3,842,975**	-
	121,443,473	98,933,000
Insurance liabilities – net		
- Unearned premiums reserve	**81,465,855**	73,578,000
- Claims reported unsettled reserve	**36,633,533**	22,441,000
- Claims incurred but not reported reserve	**21,281,743**	10,813,000
- Unallocated loss adjustment expense reserve	**2,830,061**	2,543,000
- Unexpired risk reserve	**8,030,798**	13,200,000
	150,241,990	122,575,000

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

9 Technical provisions (continued)

Technical provisions - net, comprises of following:

	Claims under settlement reserve	Claims incurred but not reported reserve	Unearned premiums reserve	Unallocated loss adjustment expense reserve	Unexpired risk reserve	Total
	AED	AED	AED	AED	AED	AED
2016						
Fire	**839,953**	**86,644**	**200,185**	**323,351**	**-**	**1,450,133**
Motor	**18,235,670**	**10,732,904**	**57,056,135**	**781,924**	**3,634,295**	**90,440,928**
Medical	**13,645,948**	**10,033,460**	**22,757,973**	**675,786**	**4,396,503**	**51,509,670**
Marine and Aviation	**1,780,216**	**175,101**	**34,435**	**711,855**	**-**	**2,701,607**
Accident and others	**2,131,746**	**253,634**	**1,417,127**	**337,145**	**-**	**4,139,652**
	36,633,533	**21,281,743**	**81,465,855**	**2,830,061**	**8,030,798**	**150,241,990**
2015						
Fire	742,000	152,000	150,000	217,000	72,000	1,333,000
Motor	9,106,000	4,050,000	28,987,000	359,000	1,739,000	44,241,000
Medical	8,757,000	6,211,000	42,722,000	457,000	10,681,000	68,828,000
Marine and Aviation	2,265,000	141,000	304,000	1,107,000	8,000	3,825,000
Accident and others	1,571,000	259,000	1,415,000	403,000	700,000	4,348,000
	22,441,000	10,813,000	73,578,000	2,543,000	13,200,000	122,575,000

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

9 Technical provisions (continued)

Movements in the below technical provisions (gross and net) during the year are as follows:

	2016			2015		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
CLAIMS						
Notified claims	**89,155,000**	**66,714,000**	**22,441,000**	85,279,122	69,300,199	15,978,923
Incurred but not reported	**19,010,000**	**8,197,000**	**10,813,000**	2,916,000	1,019,273	1,896,727
Unallocated loss adjustment expense	**2,543,000**	**-**	**2,543,000**	-	-	-
Unexpired risk reserve	**13,200,000**	**-**	**13,200,000**	-	-	-
Total at 1 January	**123,908,000**	**74,911,000**	**48,997,000**	88,195,122	70,319,472	17,875,650
Claims settled	**(202,517,255)**	**(37,017,529)**	**(165,499,726)**	(100,830,090)	(36,024,421)	(64,805,669)
Increase in liabilities	**249,054,374**	**63,775,513**	**185,278,861**	136,542,968	40,615,949	95,927,019
Total at 31 December	**170,445,119**	**101,668,984**	**68,776,135**	123,908,000	74,911,000	48,997,000
Notified claims	**122,076,612**	**85,443,079**	**36,633,533**	89,155,000	66,714,000	22,441,000
Incurred but not reported	**33,664,673**	**12,382,930**	**21,281,743**	19,010,000	8,197,000	10,813,000
Unallocated loss adjustment expense	**2,830,061**	**-**	**2,830,061**	2,543,000	-	2,543,000
Unexpired risk reserve	**11,873,773**	**3,842,975**	**8,030,798**	13,200,000	-	13,200,000
Total at 31 December	**170,445,119**	**101,668,984**	**68,776,135**	123,908,000	74,911,000	48,997,000
UNEARNED PREMIUM						
Total at 1 January	**97,600,000**	**24,022,000**	**73,578,000**	70,607,029	29,168,696	41,438,333
Premiums written during the year	**236,809,312**	**60,942,068**	**175,867,244**	172,081,539	55,795,491	116,286,048
Release during the year	**(233,168,968)**	**(65,189,579)**	**(167,979,389)**	(145,088,568)	(60,942,187)	(84,146,381)
Net increase/(decrease) during the year	**3,640,344**	**(4,247,511)**	**7,887,855**	26,992,971	(5,146,696)	32,139,667
Total at 31 December	**101,240,344**	**19,774,489**	**81,465,855**	97,600,000	24,022,000	73,578,000

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

10 Insurance receivables

	2016 AED	2015 AED
Due from policy holders	**61,959,772**	79,070,181
Due from agents, brokers and intermediaries	**35,247,662**	37,447,005
Due from reinsurance companies	**20,173,491**	16,162,357
	117,380,925	132,679,543
Less: provision for impairment of receivables	**(17,834,871)**	(16,576,725)
	99,546,054	116,102,818

Due from policy holders include an amount of AED 2.6 million (2015: AED 3.3 million) receivable from related parties (note 20).

At 31 December 2016, the Group had a concentration of credit risk, with five customers (2015: five customers) accounting for 30% of insurance receivables outstanding at that date (2015: 32.0%). Management is confident that this concentration of credit risk will not result in any loss to the Group considering the credit history of these customers.

As at 31 December 2016, insurance receivables with a carrying value of AED 17.8 million (2015: AED 16.6 million) were impaired and fully provided.

The movement in allowance for impairment loss in respect of receivables is as follows:

	2016 AED	2015 AED
At 1 January	**16,576,725**	25,234,317
Provision for the year	**1,928,056**	284,096
Release of provision	**(669,910)**	(8,941,688)
At 31 December	**17,834,871**	16,576,725

Insurance receivables that are outstanding for more than three months are considered past due. At 31 December 2016, due from policy holders, agents, brokers, intermediaries and reinsurers of AED 99.5 million (2015: AED 71.5 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

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

10 Insurance receivables (continued)

	2016 AED	2015 AED
Not past due:	**10,701,290**	44,580,130
Past due but not impaired:		
91 to 180 days	**30,373,831**	26,777,559
181 to 365 days	**21,738,415**	5,102,559
More than 1 year	**36,732,518**	39,642,570
	99,546,054	116,102,818
Past due and impaired:		
More than 1 year	**17,834,871**	16,576,725
	117,380,925	132,679,543

11 Other receivables and prepayments

	2016 AED	2015 AED
Deposits and other receivables	**15,457,295**	16,002,687
Less: provision for impairment of other receivables	**(8,138,452)**	(8,138,452)
	7,318,843	7,864,235
Prepayments	**6,666,830**	5,709,730
Rent receivables	**1,705,711**	6,330,517
	15,691,384	19,904,482

Deposits and other receivables include an amount of AED 2.3 million (2015: AED 3.1 million) relating to security deposit for tender bonds.

Prepayments include an amount of prepaid rent of AED Nil (2015: AED 4.7 million) which represents a 5-year lease agreement that commenced on 19 November 2011 for a five storey building in Dubai World Center which management intends to use for a university project.

The Group signed a Memorandum of Understanding (MoU) with Abu Dhabi Holding, a related party, on 27 March 2013. As per the MoU, both parties agreed to enter into a partnership to establish and operate a University, whereby the Group contribution would be providing the leased premises to the partnership. The partnership has not been established as at 31 December 2016.

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

11 Other receivables and prepayments (continued)

Impairment of other receivables

The provision for impaired other receivables amounted to AED 8.1 million as at 31 December 2016 (2015: AED 8.1 million).

The creation of provision for impaired insurance receivables and the provision for impaired other receivables has been included in the consolidated statement of profit or loss. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

12 Cash and cash equivalents

	2016 AED	2015 AED
Balances held at UAE banks	**54,076,231**	44,629,331
Balances held at foreign banks abroad	**1,488,395**	1,514,844
Cash on hand	**84,400**	178,325
	55,649,026	46,322,500

For the purpose of the consolidated statement of cash flows, bank overdraft amounting to AED Nil (2015: AED 204.2 million) was excluded from cash and cash equivalents since it relates to the financing of the bank loan (note 19) and is included within the financing activities.

13 Share capital

	2016 AED	2015 AED
Authorised:		
420,000,000 shares of AED 1 each	**420,000,000**	420,000,000
Allotted, issued and fully paid:		
420,000,000 shares of AED 1 each	**420,000,000**	420,000,000

In an Extraordinary General Meeting on 22 December 2013, the Shareholders approved to increase the share capital of the Company by AED 200 million. The Company did not start the process to obtain the necessary approvals from the concerned authorities for the capital increase. Moreover, the Shareholders have requested the issue of bonus shares up to the maximum amount.

14 Legal reserve

In accordance with the UAE Federal Law number (2) of 2015 concerning Commercial Companies and the Company's Articles of Association, 10% of profit is to be transferred to a non-distributable legal reserve until the balance of the legal reserve equals 50% of the Company's paid up share capital. This reserve is not available for dividend distribution.

15 Regulatory reserve

In accordance with Article 57 of the Company's Articles of Association, 10% of the Company's annual profit is transferred to the regulatory reserve. This reserve may be used for such purposes as the Directors deem fit.

During the year, the Board of Directors of the Company resolved to transfer the regulatory reserve to reduce the accumulated losses. The Shareholders approved this transfer in their meeting held on 21 April 2016.

16 Provision for end of service benefits

	2016 AED	2015 AED
Balance at the beginning of the year	**5,126,985**	4,389,215
Charge for the year	**838,485**	951,981
Paid during the year	**(119,792)**	(214,211)
Balance at the end of the year	**5,845,678**	5,126,985

17 Insurance payables

	2016 AED	2015 AED
Payable to policyholders	**36,389,075**	23,718,102
Payable to insurance companies	**26,387,727**	13,854,613
Payable to brokers/agents	**21,035,857**	19,697,948
	83,812,659	57,270,663

18 Other payables

	2016 AED	2015 AED
Dividends payable	**18,041,263**	18,045,083
Accruals and other payables	**14,412,930**	9,949,505
	32,454,193	27,994,588

19 Bank borrowings

	Current AED	Non-current AED	Total AED
As at 31 December 2016			
Term loan 1	**20,000,000**	**184,940,000**	**204,940,000**
Term loan 2	**81,084**	**74,321**	**155,405**
	20,081,084	**185,014,321**	**205,095,405**
As at 31 December 2015			
Term loan 1	25,644,245	-	25,644,245
Term loan 2	81,084	155,405	236,489
Bank overdrafts	204,186,939	-	204,186,939
	229,912,268	155,405	230,067,673

Term loan 1:

Term loan 1 from First Gulf Bank was repayable in semi-annual installments of AED 15.7 million each up to 2017. The loan carried interests at a rate of 6 month EIBOR + 1.50%. The Group had provided First Gulf Bank with a primary mortgage over AKIC Tower, classified under the investment properties, fair valued at AED 149 million (31 December 2015: AED 153 million).

Beginning 2009, the bank changed the interest rates on the bank loan and charged the Group interest rate greater than what was stipulated in the loan agreement. As per the agreement, changes in interest rate need to be mutually agreed by both parties through a written confirmation. The Group did not acknowledge any change in interest rate and requested the justification from the bank for the change in interest rate.

The bank opened a bank overdraft facility in the name of the Group for the repayment of the due installments on which the group defaulted from 2011 to 30 September 2016. The outstanding overdraft balance as at 30 September 2016 amounted to AED 253.6 million (31 December 2015: AED 204.2 million). The bank charged an interest at a rate of 10% on this overdraft facility.

Management determined that the 10% interest charged on the overdraft facility was excessive and the Group would not be eligible for more than 3% interest over the overdraft facility as a penalty for the due payments as per the original agreement.

The excess interest charged up to 30 September 2016 on the loan and the overdraft facility was approximately AED 19.4 million (31 December 2015: AED 19.9 million). This was not recorded by the Group as a finance cost.

19 Bank borrowings (continued)

During the fourth quarter, the Group finalised the agreement with the Bank to restructure the loan to a total amount of AED 227.1 million (net of a forgiven amount of AED 39.4 million, which is subject to terms and conditions) as full and final settlement. The terms of the new loan are as follows:

- Interest rate: 3 months EIBOR + 1.5% per annum (subject to minimum rate of 4.75% per annum);
- Down payment of AED 22.760 million;
- 1st year payment: AED 20 million (semi-annual payments of AED 10 million);
- 2nd year till 5th year: AED 120 million (semi – annual payments of AED 15 million); and
- 6th year: AED 64.94 million (semi – annual payments of AED 32.47 million).

The above stated forgiven amount of AED 39.4 million is subject to the compliance with the payment schedule for both the principal and interest amounts. In case of default, the forgiven amount will become immediately payable together with all the interest thereon.

The restructuring as mentioned above has resulted in substantial modification of the financing terms, and accordingly the previous liability has been extinguished and new liability has been recognized at fair value. The difference between the carrying amount of the liability extinguished and the fair value of the new liability has been recognised as AED 19.1 million as reversal of interest under finance costs and AED 2.1 million under other income.

Term loan 2:

Term loan 2 is from a local bank and is repayable in monthly installments of AED 6,757 each up to November 2018. The loan carries interest at a rate of 5% per annum.

20 Related parties

Related parties comprise the major Shareholders, Directors and key management personnel of the Group and those entities in which they have the ability to control or exercise significant influence in financial and operation decisions.

Directors are expected to avoid any action, position or interest that conflict with an interest of the Company. Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors for their review and approval. When a potential conflict of interest arises, Directors concerned neither participates in the discussions nor exercise any influence over other members of the Board. If a major shareholder or a Director has any conflict of interests with any matter to be considered by the Board of Director and the Board of Directors determines that such a matter is significant, the decision thereon by the Board of Directors shall be made in the presence of all Directors and in the absence of the interested Director's vote.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, being the directors, managing director and his direct reports.

20 Related parties (continued)

The Group maintains significant balances with these related parties which arise from commercial transactions as follows:

	2016 AED	2015 AED
Due from policyholders (note 10)	**2,567,165**	3,340,021
Other receivables (note 11)	**3,445,941**	3,572,166
Due to policyholders (note 17)	**8,315**	40,700

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

	2016 AED	2015 AED
Net premiums written	**1,271,016**	46,221,139
Claims paid	**9,266,807**	11,175,186
Directors' remuneration	**255,000**	750,000

The remuneration of the Board of Directors is subject to approval by the Shareholders and as per limits set by the UAE Federal Law No. (2) of 2015 concerning Commercial Companies.

	2016 AED	2015 AED
Remuneration of key management personnel		
Short term benefits	**7,935,936**	6,753,362
Post-employment benefits	**477,897**	218,313
	8,413,833	6,971,675

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

21 Summary of actuary's report on the technical provisions

This Group writes short term health, life and other general insurance lines of business (LOBs). No discounting of technical provisions was employed.

Earned Premiums are calculated by apportioning premiums using risk inception and termination dates on an exact daily basis. The unearned premium reserve (UPR) is calculated as the sum of earned premiums across all months after the valuation date. For the Marine Cargo Open Cover LOB it is assumed that each policy is earned fully in the quarter following the quarter in which it was written. Hence the total UPR at the end of a particular quarter will be equal to the written premium in that quarter. For the Engineering LOB it is assumed that the pattern of risk is non-uniform and subsequently premiums are allocated and earned on a daily increasing basis over the term of policy period. The UPR is calculated as the sum of earned premiums across all months after the valuation date. These are in line with the regulatory requirements stipulated in the Regulations.

In the calculation of deferred acquisition cost and unearned commission income, commission expense and commission income are apportioned in the same way as is done for earned premiums and UPR for the relevant LOBs as described above.

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by claims technicians and established case setting procedures. Ultimate claims are estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder, Expected Loss Ratio, Bornhuetter-Ferguson and Cape Cod methods. The main assumption underlying these techniques is that the past claims development experience can be used to project future claims development and hence ultimate claims. As such, these methods extrapolate the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period. Incurred but not reported (IBNR) claims are estimated by subtracting outstanding claims provisions from ultimate claims estimates.

Claim development is separately analysed for each LOB. The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

The unallocated loss adjustment expense (ULAE) reserve makes an allowance for the future cost of settling current outstanding and IBNR claims. This ULAE percentage is determined based on market consistent benchmarks available to the appointed actuary.

The additional unexpired risk reserve (AURR) is calculated on a LOB level. In estimating the AURR, the prospective loss ratios, adjusted expense ratio and capital cost are estimated as at the valuation date. If the unexpired risk reserve is found to be higher than the unexpired premiums, an AURR is recommended.

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

22 Premium

	2016 AED	2015 AED
Gross premium written:		
Fire	**7,846,675**	5,127,746
Motor	**109,518,335**	48,676,252
Medical	**92,816,218**	73,496,381
Marine and aviation	**1,045,434**	19,256,887
Accident and others	**25,582,650**	25,524,273
	236,809,312	172,081,539
Reinsurance share of direct business premium:		
Fire	**7,498,224**	5,016,748
Motor	**12,431,283**	4,598,686
Medical	**17,081,934**	5,147,909
Marine and aviation	**973,561**	18,464,102
Accident and others	**22,957,066**	22,568,046
	60,942,068	55,795,491

23 Claims paid

	2016 AED	2015 AED
Gross claims paid:		
Fire	**5,054,541**	11,153,064
Motor	**55,697,664**	21,279,122
Medical	**124,013,297**	50,185,082
Marine and aviation	**10,535,676**	10,013,150
Accident and others	**7,216,077**	8,199,672
	202,517,255	100,830,090
Reinsurance share of claims paid:		
Fire	**4,880,589**	10,847,327
Motor	**1,914,694**	3,845,736
Medical	**13,463,748**	3,896,419
Marine and aviation	**10,144,130**	9,637,038
Accident and others	**6,614,368**	7,797,901
	37,017,529	36,024,421

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

23 Claims paid (continued)

	2016 AED	2015 AED
Net claims paid:		
Fire	**173,952**	305,737
Motor	**53,782,970**	17,433,386
Medical	**110,549,549**	46,288,663
Marine and aviation	**391,546**	376,112
Accident and others	**601,709**	401,771
	165,499,726	64,805,699

24 Operating expenses

	2016 AED	2015 AED
Staff costs	**23,267,499**	21,617,881
Rent	**7,346,188**	7,364,632
Provision/(reversals) of provisions for doubtful receivables, net	**1,261,788**	(5,919,140)
Depreciation on property and equipment	**680,899**	716,870
Fees and licenses	**1,479,413**	1,177,970
Impairment of capital work in progress	**5,145,916**	-
Others	**3,750,165**	3,990,306
	42,931,868	28,948,519
Allocated to:		
Underwriting	**38,211,663**	24,228,153
Other expenses	**4,720,205**	4,720,366
	42,931,868	28,948,519

25 Net loss from investments

	2016 AED	2015 AED
Net fair value loss on investments at FVTPL (note 7)	**(18,784,105)**	(28,576,607)
Dividends from investments in securities	**12,802,511**	9,405,389
Interest on term deposits	**30,534**	29,361
Other investment loss – net	**(817,172)**	(334,578)
	(6,768,232)	(19,476,435)

26 (Loss)/income from investment properties

	2016 AED	2015 AED
Net fair value (loss)/gain on investment properties (note 6)	**(11,875,000)**	1,550,000
Net income from investment properties (note 6)	**11,130,148**	8,089,358
	(744,852)	9,639,358

27 Loss for the year

Loss for the year is arrived after charging the following:

	2016 AED	2015 AED
Staff costs	**23,267,499**	21,617,881
Depreciation on property and equipment	**680,899**	716,870

28 Basic and diluted loss per share

Loss per share are calculated by dividing the loss for the year over the weighted average number of ordinary shares outstanding during the year as follows:

	2016	2015
Loss for the year (AED)	**(77,701,478)**	(59,670,877)
Weighted number of ordinary shares in issue throughout the year	**420,000,000**	420,000,000
Basic and diluted loss per share (AED)	**(0.185)**	(0.142)

As of 31 December 2016 and 2015, the Group has not issued any instruments that have an impact on earnings per share when exercised and accordingly diluted earnings per share are the same as basic earnings per share.

29 Segment information

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

- Underwriting of general insurance business – incorporating all classes of general insurance such as; fire, marine, motor, medical, general accident and miscellaneous.

- Investments – Incorporating investments in marketable equity securities, term deposits with banks and investment properties and other securities.

Primary segment information- business segment

The following is an analysis of the Group's revenue and results by operating segment:

	Underwriting		Investments		Total	
	2016 AED	2015 AED	**2016 AED**	2015 AED	**2016 AED**	2015 AED
Segment revenue	**239,581,482**	178,347,733	**(7,513,084)**	(9,837,077)	**232,068,398**	168,510,656
Segment result	**(65,729,510)**	(36,343,829)	**(12,233,289)**	(14,557,443)	**(77,962,799)**	(50,901,272)
Unallocated expenses					**261,321**	(8,769,605)
Loss for the year					**(77,701,478)**	(59,670,877)

The following is an analysis of the Group's assets and liabilities by operating segment:

	Underwriting		Investments		Total	
	2016 AED	2015 AED	**2016 AED**	2015 AED	**2016 AED**	2015 AED
Segment assets	**247,327,097**	248,241,096	**568,031,559**	609,529,369	**815,358,656**	857,770,465
Unallocated assets					**55,649,026**	46,322,500
Total assets					**871,007,682**	904,092,965
Segment liabilities	**379,331,363**	297,717,020	**212,783,098**	238,909,842	**592,114,461**	536,626,862
Unallocated liabilities					**18,041,263**	18,045,083
Total liabilities					**610,155,725**	554,671,945

There were no transactions between the business segments during the year.

29 Segment information (continued)

Secondary segment information-revenue from underwriting departments

The following is an analysis of the Group's revenues (gross written premiums and commission income) classified by major underwriting departments.

	2016 AED	2015 AED
Motor	**109,655,205**	49,476,980
Engineering	**5,631,364**	5,956,235
Fire and General Accidents	**29,256,617**	28,300,641
Marine and Aviation	**1,704,705**	20,711,839
Employee Benefits, Medical and Personal Assurance	**93,333,591**	73,902,038
	239,581,482	178,347,733

Geographical information

The Group's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe. All the investments of the Group are held in the UAE and other GCC countries.

Total revenues and total assets of the underwriting and investment segments by geographical location are detailed below:

	Revenue 2016 AED	Revenue 2015 AED	**Total assets 2016 AED**	Total assets 2015 AED
United Arab Emirates	**236,881,413**	175,396,719	**824,499,037**	836,658,122
Other GCC countries	**1,182,476**	662,754	**44,552,550**	46,192,308
Others	**1,517,593**	2,288,260	**1,956,095**	21,242,535
	239,581,482	178,347,733	**871,007,682**	904,092,965

30 Contingent liabilities and commitments

Commitments

The Group has a commitment to pay AED 9.2 million for a flat in a property under development in Dubai (note 5).

Contingent liabilities

At 31 December 2016, the Group had contingent liabilities in respect of outstanding letters of guarantee issued in the normal course of business, amounting to AED 2.3 million (2015: AED 0.3 million).

30 Contingent liabilities and commitments (continued)

Legal case

As disclosed in note 6, included within investment properties are two plots of land with a carrying value of AED 87.3 million (2015: AED 89.3 million) for which the master developer did not transfer the title to the name of the Company, pending the settlement of the last installments which are linked to the completion of the Group's development works. The master developer has filed a legal case against the Company, claiming the last installments, compensation for certain utilities work, interest on delays in settlement and penalties due to the delay in completion of the development works. An accrual related to the last instalment payments is recognised in the Group's consolidated financial statements. As the case remain in its early stage, Management concluded that it cannot determine a reliable estimate of any additional liability that might result from this case. Accordingly, no further liability has been recorded as at 31 December 2016.

Other legal proceedings

The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

31 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 Group faces under its insurance contracts is that the actual claims and benefit payments exceed the estimated amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

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

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

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

31 Insurance risk (continued)

31.1 Frequency and severity of claims

The Company has the right not to renew individual policies, re-price the risk, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. 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 Group should not suffer net insurance losses of a set limit of AED 200,000 for motor, AED 500,000 for marine, AED 20,000 for medical and AED 750,000 for others in any one policy. The Group has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

The concentration of insurance risk before and after reinsurance in relation to the type of general insurance risk that is accepted is summarized below, with reference to the net carrying amount of the related insurance liabilities (gross and net of reinsurance) arising from general insurance contracts.

	Technical provision by Type of risk					
2016	**Fire AED**	**Motor AED**	**Medical AED**	**Marine and aviation AED**	**Accident and others AED**	**Total AED**
Gross	**23,389,155**	**101,595,087**	**63,226,122**	**46,976,940**	**36,498,159**	**271,685,463**
Net	**1,450,133**	**90,440,928**	**51,509,670**	**2,701,607**	**4,139,652**	**150,241,990**
2015						
Gross	11,226,000	46,247,000	70,870,000	60,592,000	32,573,000	221,508,000
Net	1,333,000	44,241,000	68,828,000	3,825,000	4,348,000	122,575,000

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

31 Insurance risk (continued)

31.2 Sources of uncertainty in the estimation of future claim payments

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

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

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

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

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

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

	Year ended 31 December 2016		Year ended 31 December 2015	
Type of risk	**Gross loss ratio**	**Net loss ratio**	Gross loss ratio	Net loss ratio
Motor	**102%**	**104%**	78%	99%
Medical	**121%**	**118%**	123%	127%
Other lines	**77%**	**5%**	84%	54%

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

31 Insurance risk (continued)

31.3 Process used to decide on assumptions

The risks associated with the insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Group's quarterly claims reports and screening of the actual insurance contracts carried out at the 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.

31.4 Claims development process

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

31 December 2016 Underwriting year	**2012 and earlier AED' 000**	**2013 AED' 000**	**2014 AED' 000**	**2015 AED' 000**	**2016 AED' 000**	**Total AED' 000**
At the end of the underwriting year	68,808	10,177	28,851	606,012	124,906	**n/a**
One year later	642,884	19,028	45,567	154,870	-	**n/a**
Two years later	642,083	25,902	52,413	-	-	**n/a**
Three years later	608,416	24,072	-	-	-	**n/a**
Four years later	630,917	-	-	-	-	**n/a**
Current estimate of cumulative claims	630,917	24,072	52,413	154,870	124,906	**987,179**
Cumulative payments to date	(622,558)	(20,047)	(46,995)	(111,408)	(64,094)	**(865,102)**
Liability recognised in the consolidated statement of financial position	**8,359**	**4,025**	**5,419**	**43,462**	**60,812**	**122,077**

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

31 Insurance risk (continued)

31.4 Claims development process (continued)

31 December 2015 Underwriting year	2011 and earlier AED' 000	2012 AED' 000	2013 AED' 000	2014 AED' 000	2015 AED' 000	Total AED' 000
At the end of the underwriting year	572,878	35,930	10,177	28,851	60,012	n/a
One year later	616,163	26,721	19,028	45,567	-	n/a
Two years later	609,242	32,796	25,902	-	-	n/a
Three years later	587,729	20,687	-	-	-	n/a
Four years later	618,582	-	-	-	-	n/a
Current estimate of cumulative claims	618,582	20,687	25,902	45,567	60,012	770,750
Cumulative payments to date	(601,660)	(13,108)	(16,102)	(31,715)	-	(662,585)
Liability recognised in the consolidated statement of financial position	16,922	7,579	9,800	13,852	60,012	108,165

31.5 Concentration of insurance risk

The Group's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe.

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

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

31 Insurance risk (continued)

31.5 Concentration of insurance risk (continued)

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarised below:

		31 December 2016 Type of risk		
Territory		**Marine AED '000**	**Non-marine AED '000**	**Total AED '000**
UAE	Gross	**293,815**	**36,490,236**	**36,784,051**
	Net	**53,129**	**845,613**	**898,742**
GCC Countries	Gross	-	**1,930**	**1,930**
	Net	-	**386**	**386**
Others	Gross	-	**537,268**	**537,268**
	Net	-	**751**	**751**
Total	Gross	**293,815**	**37,029,434**	**37,323,249**
	Net	**53,129**	**846,750**	**899,879**

		31 December 2015 Type of risk		
Territory		Marine AED '000	Non-marine AED '000	Total AED '000
UAE	Gross	1,739,707	36,085,175	37,824,882
	Net	132,806	11,115,903	11,248,709
GCC Countries	Gross	-	142,925	142,925
	Net	-	31,668	31,668
Others	Gross	-	493,471	493,471
	Net	-	1,501	1,501
Total	Gross	1,739,707	36,721,571	38,461,278
	Net	132,806	11,149,072	11,281,878

31 Insurance risk (continued)

31.6 Sensitivity of underwriting profit and losses

The contribution by the insurance operations in the loss of the Group amounts to AED 27.5 million for the year ended 31 December 2016 (2015: AED 13.2 million).

The Company has an overall risk retention level of 44% and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 89%. However, in this class the liabilities are covered by excess of loss reinsurance programs to guard against major financial impact.

31.7 Managing insurance risk

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

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

32 Financial instruments

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

32.1 Capital risk management

The Group's objectives in managing its capital are:

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

32.2 Significant accounting policies

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

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

32 Financial instruments (continued)

32.3 Categories of financial instruments

	2016 AED	2015 AED
Financial assets		
AFS investments	**64,936,033**	75,803,618
Investments designated at FVTPL	**168,466,719**	187,250,824
Statutory deposit	**10,000,000**	10,000,000
Reinsurers' share of claims under settlement reserve	**85,443,079**	66,714,000
Insurance receivable	**99,546,054**	116,102,818
Other receivables and prepayments	**15,691,384**	19,904,482
Term deposits	**1,829,807**	1,800,927
Cash and cash equivalents	**55,649,026**	46,322,500
Total	**501,562,102**	523,899,169
Financial liabilities		
Gross claims under settlement reserve	**122,076,612**	89,155,000
Insurance payables	**83,812,659**	57,270,663
Other payables	**32,454,193**	27,994,588
Bank borrowings	**205,095,405**	230,067,673
Total	**443,438,869**	404,487,924

32.4 Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Group. The Group's result will be affected by changes in prevailing interest rates since it incurs significant interest on borrowings. A minor portion of its income derives from interest on investments and bank deposits.

The Group generally tries to minimise the interest rate risk by closely monitoring the market interest rates and investing in those financial assets in which such risk is expected to be minimal. The Group is exposed to cash flow interest rate risk as the bank borrowing carries interest at a floating rate.

Interest rate sensitivity analysis

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the end of the reporting period.

If on the outstanding borrowings at 31 December 2016 the interest rates had been 1% higher/lower during the year with all other variables held constant, loss for the year would have been AED 2.05 million higher/lower (2015: AED 2.3 million higher/lower loss), mainly as a result of higher/lower interest expense on floating rate borrowings.

32 Financial instruments (continued)

32.5 Market price risk management

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

Equity price risk sensitivity analysis

At the end of the reporting period, if the equity prices are 5% higher/lower as per the assumptions mentioned below and all the other variables were held constant:

- The Group's loss would (decrease)/increase by AED 8.4 million (2015: AED 9.3 million) as a result of the Group's portfolio of listed securities classified under fair value through profit and loss (FVTPL).
- The Group's fair value reserves would increase/(decrease) by AED 552 thousand (2015: AED 289 thousand) as a result of the Group's portfolio of listed securities classified as available-for-sale financial assets (AFS).

32.6 Foreign currency risk management

Foreign currency risk is the risk that the financial instrument will fluctuate due to change in foreign currency rates. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures.

Management believes that there is minimal risk of significant loss due to exchange rate fluctuations and consequently the Group does not hedge its foreign currency exposure.

The Group's main operations are currently in the United Arab Emirates and therefore have limited exposure to foreign exchange risk. The transactions and balances are denominated in either AED or in currencies which the AED is currently pegged to.

32.7 Credit risk management

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

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

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

32 Financial instruments (continued)

32.7 Credit risk management (continued)

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of 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 the management annually.

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

The Group maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policy holders and groups of policy holders are collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policy holders, or homogenous groups of policy holders, a financial analysis equivalent to that conducted for re-insurers is carried out by the Group. Details on concentration of amounts due from policy holders is disclosed in Note 10. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policy holders.

At 31 December 2016 and 2015, virtually all of the deposits were placed with 8 banks. Management is confident that this concentration of liquid assets at year end does not result in any credit risk to the Group as the banks are major banks operating in the UAE and are highly regulated by the Central Bank.

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

32.8 Liquidity risk management

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Bank facilities, the policy holders and the re-insurers, are the major sources of funding for the Company and the liquidity risk for the Group is assessed to be low. The Group 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 tables below summarise the maturities of the Group's undiscounted financial liabilities as of 31 December 2016 and 2015 based on contractual payment dates.

32 Financial instruments (continued)

32.8 Liquidity risk management (continued)

Financial liabilities	< 1 year AED	> 1 year AED	Total AED
31 December 2016			
Gross claims under settlement reserve	**122,076,612**	-	**122,076,612**
Insurance and other payables	**116,266,852**	-	**116,266,852**
Bank borrowings	**20,081,084**	**185,014,321**	**205,095,405**
	258,424,548	**185,014,321**	**443,438,869**
31 December 2015			
Gross claims under settlement reserve	89,155,000	-	89,155,000
Insurance and other payables	85,265,251	-	85,265,251
Bank borrowings	230,067,673	-	230,067,673
	404,487,924	-	404,487,924

The maturity profile of financial assets as of 31 December 2016 and 2015 was as follows:

	Current AED	Non-current AED	Total AED
31 December 2016			
Statutory deposit	-	**10,000,000**	**10,000,000**
AFS investments	-	**64,936,033**	**64,936,033**
Investments designated at FVTPL	**168,466,719**	-	**168,466,719**
Reinsurers' share of claims under settlement reserve	**85,443,079**	-	**85,443,079**
Insurance and other receivables	**115,237,438**	-	**115,237,438**
Term deposits	**1,829,807**	-	**1,829,807**
Cash and cash equivalents	**55,649,026**	-	**55,649,026**
	426,626,069	**74,936,033**	**501,562,102**
31 December 2015			
Statutory deposit	-	10,000,000	10,000,000
AFS investments	-	75,803,618	75,803,618
Investments designated at FVTPL	187,250,824	-	187,250,824
Reinsurers' share of outstanding claims reserve	66,714,000	-	66,714,000
Insurance and other receivables	136,007,300	-	136,007,300
Term deposits	1,800,927	-	1,800,927
Bank balances and cash	46,322,500	-	46,322,500
	438,095,551	85,803,618	523,899,169

32 Financial instruments (continued)

32.9 Fair value of financial instruments

While the Group prepares its consolidated statements under the historical cost convention modified for measurement to fair value of investments carried at fair value and investment properties, in the opinion of management, the estimated carrying values and fair values of financial assets and liabilities, that are not carried at fair value in the consolidated financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of deposits, frequently repriced.

For financial reporting purposes, fair value measurements are categorised 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 measurement 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 asset or liability.

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy for the year ended 31 December 2016 and 2015:

31 December 2016	**Level 1 AED**	**Level 2 AED**	**Level 3 AED**	**Total AED**
ASSETS MEASURED AT FAIR VALUE				
At fair value through profit or loss				
Quoted equity securities	122,780,074	-	-	122,780,074
Unquoted equity securities	-	-	1,134,095	1,134,095
Listed but suspended equity securities	-	-	44,552,550	44,552,550
	122,780,074	-	45,686,645	168,466,719
AFS financial assets				
Quoted equity securities	11,034,788	-	-	11,034,788
Unquoted equity securities	-	10,129,577	43,771,668	53,901,245
	11,034,788	10,129,577	43,771,668	64,936,033

32 Financial instruments (continued)

32.9 Fair value of financial instruments

31 December 2015	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
ASSETS MEASURED AT FAIR VALUE				
At fair value through profit or loss				
Quoted equity securities	141,551,236	-	-	141,551,236
Unquoted equity securities	-	-	923,388	923,388
Listed but suspended equity securities	-	-	44,776,200	44,776,200
	141,551,236	-	45,699,588	187,250,824
AFS financial assets				
Quoted equity securities	5,774,610	-	-	5,774,610
Unquoted equity securities	-	10,129,577	59,899,431	70,029,008
	5,774,610	10,129,577	59,899,431	75,803,618

Reconciliation of level 3 fair value measurements

	2016 AED	2015 AED
Opening balance	**105,599,019**	68,964,789
Transfer into level 3	**-**	44,776,200
Transfer out of level 3	**(5,530,980)**	-
Decrease in fair value	**(10,609,726)**	(8,141,970)
Closing balance	**89,458,313**	105,599,019

During the year, there was one transfer from level 3 to level 1 fair value measurement. There is no transfer in level 2 fair value measurement (2015: one transfer into level 3 fair value measurement).

The following is a description of the determination of fair value for assets which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the assets.

Investments carried at fair value through profit or loss

Investments carried at fair value through profit or loss are mainly listed equity instruments in local as well as international exchanges. Valuations are based on market prices as quoted in the exchange.

32 Financial instruments (continued)

32.9 Fair value of financial instruments

Available for sale investments

The revaluation gains/losses of which are recognised through equity, comprise long term strategic investments in listed equities and companies. Listed equity valuations are based on market prices as quoted in the exchange. For companies, the financial statements provide the valuations of these investments which are arrived at primarily by discounted cash flow analysis. Fair value of the unquoted ordinary shares has been estimated using DCF model and Price Earning Multiple basis valuation. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility and price earnings multiples. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

33 Comparative figures

Certain reclassifications have been made to the comparative figures as of and for the year ended 31 December 2015 to comply with the current period classification, in adherence with the disclosure requirements of Appendix (1) of Section 7 of the Insurance Authority Board Decision Number (25) of 2014 Pertinent to Financial Regulations for Insurance Companies.

These reclassifications did not have any impact on the loss, loss per share or accumulated losses of the prior period. The main reclassifications were:

Consolidated statement of financial position:

a) *reinsurance share of unearned premium reserve*, *reinsurance share of claims under settlement reserve,* and *reinsurance share of claims incurred but not recorded reserve*, previously aggregated under *reinsurance contract assets* are now disclosed in separate lines in the consolidated statement of financial position.
b) *insurance receivables* and *other receivables and prepayments* previously aggregated under *insurance and other receivables* are now disclosed in separate lines in the consolidated statement of financial position.
c) *unearned premium reserve*, *claims under settlement reserve*, *claims incurred but not recorded reserve*, *unallocated loss adjustment expense reserve*, and *unexpired risk reserve*, previously aggregated under *insurance contract liabilities* are now disclosed in separate lines in the consolidated statement of financial position.
d) *insurance payables* and *other payables*, previously aggregated under *insurance and other payables* are now disclosed in separate lines in the consolidated statement of financial position.

Consolidated statement of profit or loss:

e) the presentation of net claims incurred was changed to show the *gross claims paid, reinsurance share of insurance claims, change in claims under settlement reserve, change in reinsurance share for claims under settlement reserve, and change in reinsurance share for claims incurred but not reported reserve.*
f) *income from investments, and income from investment properties*, previously clubbed together under *net investment income* are now shown in separate lines in the consolidated statement of profit or loss.

33 Comparative figures (continued)

		As previously reported AED	Reclassifications AED	As reclassified AED
Consolidated statement of financial position as at 31 December 2015				
Re-insurance contract assets	(a)	98,933,000	(98,933,000)	-
Reinsurers' share of technical provisions:				
- Unearned premium reserve	(a)	-	24,022,000	24,022,000
- Claims under settlement reserve	(a)	-	66,714,000	66,714,000
- Claims incurred but not reported reserve	(a)	-	8,197,000	8,197,000
Insurance and other receivables	(b)	136,007,300	(136,007,300)	-
Insurance receivables	(b)	-	116,102,818	116,102,818
Other receivables and prepayments	(b)	-	19,904,482	19,904,482
Insurance contract liabilities		221,508,000	(221,508,000)	-
Gross technical provisions:				
- Unearned premium reserve	(c)	-	97,600,000	97,600,000
- Claims under settlement reserve	(c)	-	89,155,000	89,155,000
- Claims incurred but not reported reserve	(c)	-	19,010,000	19,010,000
- Unallocated loss adjustment expense reserve	(c)	-	2,543,000	2,543,000
- Unexpired risk reserve	(c)	-	13,200,000	13,200,000
Insurance and other payables	(d)	85,265,251	(85,265,251)	-
Insurance payables	(d)	-	57,270,663	57,270,663
Other payables	(d)	-	27,994,588	27,994,588
Consolidated statement of profit or loss for the year ended 31 December 2015				
Gross claims incurred	(e)	(136,542,968)	(136,542,968)	-
Reinsurance share of claims incurred	(e)	40,615,949	40,615,949	-
Gross claims paid	(e)	-	(100,830,090)	(100,830,090)
Reinsurance share of insurance claims	(e)	-	36,024,421	36,024,421
Change in claims under settlement reserve	(e)	-	(3,875,878)	(3,875,878)
Change in reinsurance share for claims under settlement reserve	(e)	-	(2,586,199)	(2,586,199)
Change in claims incurred but not reported reserve	(e)	-	(16,094,000)	(16,094,000)
Change in reinsurance share for claims incurred but not reported reserve	(e)	-	7,177,727	7,177,727
Change in unallocated loss adjustment expense reserve			(2,543,000)	(2,543,000)
Change in unexpired risk reserve			(13,200,000)	(13,200,000)
Net investment income	(f)	(9,837,077)	(9,837,077)	-
Income from investments	(f)	-	(19,476,435)	(19,476,435)
Income from investment properties	(f)	-	9,639,358	9,639,358

34 Approval of consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 March 2017.