orient
orient insurance pjsc

ANNUAL REPORT 2016

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Registration No. (14)
Dated 29 December 1984
Under the provisions of
Federal Law No. (6) of 2007

HEAD OFFICE
Orient Building
Al Badia Business Park
Dubai Festival City
P.O. Box 27966, Dubai, UAE
Tel: (04) 253 1300, Fax: (04) 253 1500

AUDITORS
ERNST & YOUNG

RATED STRONG
STANDARD & POOR'S
A

Financial Strength Rating
A M BEST
A Excellent

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ANNUAL REPORT 2016

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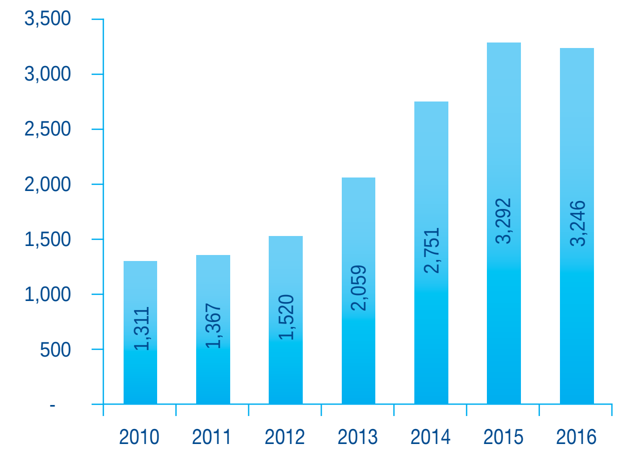
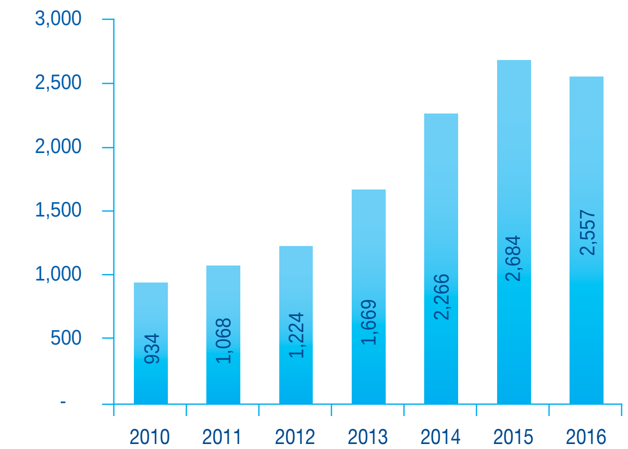
Total Investments

(Amount in AED Million)



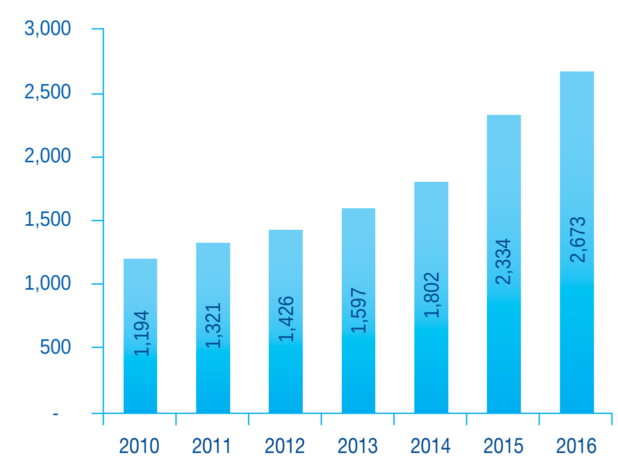
Shareholders' Equity

(Amount in AED Million)



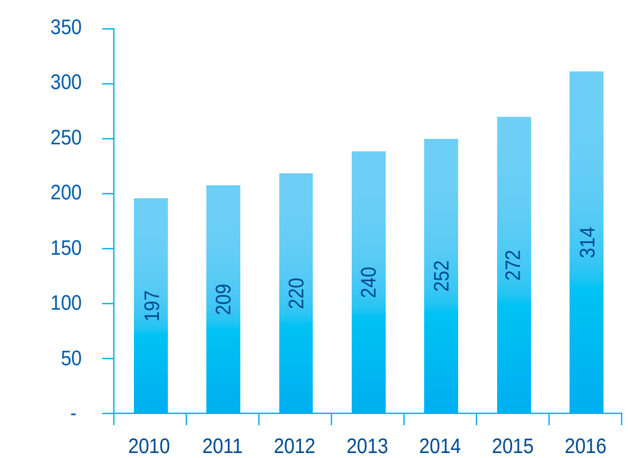
Gross Premium

(Amount in AED Million)



Net Profit

(Amount in AED Million)



H. H. SHEIKH KHALIFA BIN ZAYED AL NAHYAN
President of the United Arab Emirates
Ruler of Abu Dhabi

H. H. SHEIKH MOHAMED BIN RASHID AL MAKTOUM
Vice President and Prime Minister of the United Arab Emirates
Ruler of Dubai

Orient Insurance PJSC has been crowned with the highest level of recognition of business excellence in the GCC
"Mohammed Bin Rashid Al Maktoum Business Award for Excellence".
The coveted award was received by our Group President from
His Highness Sheikh Maktoum Bin Mohammed Al Maktoum, Deputy Ruler of Dubai on 21 February 2017.

Directors and Management

BOARD OF DIRECTORS

Chairman	Abdulla Hamad Al Futtaim (representative of Al-Futtaim Company (L.L.C.))
Vice Chairman	Omar Abdulla Al Futtaim (representative of Al-Futtaim Development Services Co (L.L.C.))
Director	Ahmed Zaky Haroun (representative of Al-Futtaim Private Company (L.L.C.))
Director	Khalid Abdulla Al Futtaim (representative of Al-Futtaim Development Services Co (L.L.C.))
Director	Mira Omar Abdulla Hamad Al Futtaim

MANAGEMENT

President – Orient Group	Omer Hassan Elamin

Department and Branches

Chief Operating Officer
Xavier Arputharaj - A.C.I.I

Executive Vice President - Technical
Rohana Alagiyage – F.C.I.I

Executive Vice President – Business Development
Syed Muhammad Asim – A.C.I.I., M.B.A

Executive Vice President – Medical
Wissam Khalifeh – F.L.M.I., Diploma in Actuarial Sciences

Senior Vice President – Sales and Marketing
Fadi Awni Al Ahmadi – P.I.C, A.C.I.I

Senior Vice President – Brokers
Margaret Koshy – B.Com

Senior Vice President – Life
Selvan Raman – M.Sc, DAT, A.I.A.I

Senior Vice President – Finance
B. Sundararajan – F.C.A, F.I.I.I, A.C.I.I

Senior Vice President – Operations Control
S. Raj Gopal – A.C.A, A.I.I.I

Senior Vice President – Claims
Natarajan Ramesh - F.C.I.I, M.I.R.M

Senior Vice President – Reinsurance
Nadia Saleh – F.C.I.I

Senior Vice President – Marine and Energy
Upali Wijeratne - A.C.I.I., B.Sc. (MGT)

Senior Vice President – Human Resource & Admin.
Gilbert Espiritu – B.Sc. Psychology

Senior Vice President – Bancassurance
Gurvir Man Singh – B.B.M (Finance), M.B.A (Finance)

Senior Vice President – Non Marine
Gaurav Bajaj - A.C.M.A, F.I.I, A.C.I.I

Senior Vice President & Head of Operations – Abu Dhabi Emirate
Dilip Ranjan Sinha – F.I.I.I, A.C.I.I

Senior Vice President – Area Manager - Bur Dubai
Muhamood Ahammed – B.Com, A.C.I.I

Senior Vice President – Agency
Ramkumar Narayanan – B.A. Corp Sec., PGBM

Senior Vice President – Quality Control
Issam Awad Alkareem – MBA (Insurance)

Senior Vice President – Oman
Adil Hassan Al Lawati – C.I.P, A.C.I.I, C.B.M

Senior Vice President – Bahrain
Jaffar Alakram – B.Com

BRANCHES:

Bur Dubai
P.O. Box 27966, Suite No. 401,402,403 & 417,
4th Floor, 308 3rd Floor Business Venue Building
Oud Metha, Bur Dubai
Tel: (04) 335 2400, Fax: (04) 335 2015

Jebel Ali
P.O. Box 17292, JAFZA View 19, Office. 2507,
25th Floor & LB19002 Ground Floor, Jebel Ali
Tel: (04) 884 7471, Fax: (04) 884 7449

Sharjah
P.O. Box 6654, Al Jazeera Bldg 1, Office 301 & 302, 3rd Floor, Al Majaz 3, Al Khan Road, Near Safeer Market or Buhaira Corniche, Next to Canal Al Qasba, Behind Hotel Hilton, Sharjah
Tel: (06) 568 2045, Fax: (06) 568 1334

Ras Al-Khaimah
P.O. Box 33217, Office 304, Red Crescent Building,
Al Jissir Road, Ras Al-Khaimah
Tel: (07) 226 0540, Fax: (07) 226 4296

Mussafah
P.O. Box 37035, Plot #12, Global Ascent Business Centre, Next to ADNOC Vehicle Inspection Centre
Mussafah Industrial City, Mussafah 4
Tel: (02) 554 8718, Fax: (02) 553 8513

Salalah
P.O. Box 2255, Postal Code 211 – Hafa House
Salalah, Sultanate of Oman
Tel: (+968) 232 014 67, Fax: (+968) 232 014 36

Dubai Health Care City
P.O. Box 27966, Retail # 3 & 4, Ground Floor
Building No. AP24
Tel: (04) 363 5321, Fax: (04) 363 5320

Sheikh Zayed Road
P.O. Box 27966, Office No. 117, Al Quoz
Business Centre, Sheikh Zayed Road
Tel: (04) 338 1880, Fax: (04) 338 0363

Deira
P.O. Box 27966, Business Point Building, Office 203, 2nd Floor, Behind Nissan Service Centre, Port Saeed, Deira
Tel: (04) 294 2415, Fax: (04) 298 9702

Abu Dhabi
P.O. Box 37035, Office No. 102 & 103
First Floor, Business Avenue Tower,
Salam Street, Abu Dhabi
Tel: (02) 676 3222, Fax: (02) 672 2236

Al Ain
P.O. Box 18800, Al Ain ,Main Street - Near Clock Signal
Bank Melli Iran Building, M2 Floor
Tel: (03) 737 7012, Fax: (03) 737 7013

Muscat
P.O. Box 1534, Postal Code 133, 401 City Seasons Building, Al-Khuwair - Muscat, Sultanate of Oman
Tel: (+968) 244 754 10, Fax: (+968) 244 752 62

Bahrain
P.O. Box: 11440, Office No:122, 7th Floor, Millenium Tower
Building No.:398, Rd No:2806, Block No:428,
King Mohammed VI Avenue, Seef District,
Manama, Kingdom of Bahrain
Tel: (+973) 17 563 999, Fax: (+973) 17 563 888

Report of the Directors

BUSINESS OVERVIEW:

The U.A.E economy has somehow been able to overcome the negative impact of the drop in oil prices. However the cessation of mega projects and infrastructure projects has slowed down some activities like construction. There has been a drop in car sales and a higher drop in the retail sector. The real estate sector is also seeing a correction where prices as well as rent returns have both dropped. The tourism sector, especially in the emirate of Dubai has continued to see a growth where hotel occupancy ratio remains at a decent level. The general performance of the economy has been more than acceptable due to the diversification of the economy with less dependence on oil prices. The stock market has remained stable with no major increases or decreases. However there has been a reduced liquidity during the summer of 2016.

We are confident that 2017 will show an improvement compared to 2016 with the increase in oil prices which has been fluctuating between USD 55 to 60 per barrel.

INSURANCE MARKET:

There has been an improvement in 2016 in the performance of the local insurance companies on technical results. The market has produced up to the 3rd quarter of the year a net technical loss of AED 43 million against a loss of AED 304 million for the same period of 2015. We are seeing an increase in rates on property and motor although all the other classes of business are still under pressure due to the competition. The increase in the rates of property have been driven mainly by the frequent fires especially on the high rise buildings. There is a serious concern about the cladding problem which has contributed in the frequency of these fires. The motor rates have increased due to the heavy losses the market has suffered during the years 2015 & 2016. There are about 16 companies as at the end of the 3rd quarter who are having issues with the solvency margin. The new regulations with regard to motor actuarial pricing have helped to drive the prices up. It is expected that the new motor rates introduced by the regulator will substantially improve the results of the market in 2017.

The new DHA health mandatory scheme has helped also to increase the market premiums. The Dubai health authority have given a deadline to all residents to comply with the requirements of having medical insurance for all dependents, domestic helpers and family members. This has produced a substantial premium and has helped in improving the loss ratio of the medical class of business.

ORIENT GROUP PERFORMANCE:

Despite the address hotel fire claim which has impacted the company by close to AED 20 million to net account in 2016 as a result of the increase of the reserve, the final net profit results have been more than outstanding. The company has shown an increase in technical profit as well as in investment income. With the good performance of all the overseas entities the group has produced an increase of 15% in premiums and a similar percentage in net profit on consolidated basis. We are confident that 2017 will be an excellent year for the group. We are strengthening our sales & marketing team and adopting new strategies for business development. The company is working on more automation and online selling capability. We have sold nearly 75,000 medical policies online during the month of December 2016. We will continue developing our online capabilities to include all the other personal lines. This is in addition to the current individual medical, individual life and travel selling windows. Our life business has shown substantial growth in the year 2016. We are continuing to build our Bancassurance business as well as strengthening the other distribution channels including direct sales force.

In line with our expansion strategy we have concluded successfully the licensing process of the new takaful company. We have collaborated with a powerful partner which is Union National Bank in Abu Dhabi. The new company is expected to start operating effective 1st July 2017.

ORIENT INTERACTIVE RATING

The rating review from both AM Best and S&P has reaffirmed the prestigious rating of the company at "A". This is the highest in the market and the region. It is also a reflection of the outstanding performance and the excellent achievements of the company.

REINSURANCE TREATIES

The market is experiencing less capacity in the property due to the recent fires. There are clear signs of hard market in this class of business. Orient has successfully concluded the renewal of the treaties for all classes of business. Orient has continued its relationship with its long term leader Swiss Re and many of the other prestigious following panel in the renewal of 2017. It is expected that the results of the property treaties will improve in the U.A.E. insurance market due to the substantial rate increase.

2017 OUTLOOK

We are very optimistic about the year 2017 and confident that the group will continue its excellent performance during the year. Our expectation is that we will grow by 10 to 15% both in premiums and profit. This optimistic outlook is driven by an increase in motor and property rates as well as our new capabilities of selling online and the strengthening of our distribution channels.

FINANCIAL HIGHLIGHTS:

	2016 AED'000	2015 AED'000	%Increase / decrease over 2015
GROSS PREMIUM WRITTEN	2,673,121	2,333,682	15%
NET PREMIUM WRITTEN	868,510	733,554	18%
NET CLAIMS INCURRED	396,950	299,201	33%
TECHNICAL PROFIT	174,510	164,345	6%
NET PROFIT	313,847	272,037	15%
SHARE CAPITAL	500,000	500,000	0%
SHAREHOLDERS' EQUITY	2,556,753	2,684,403	-5%
TOTAL INVESTMENTS	3,245,655	3,292,405	-1%

CONCULSION

We would like to thank our valuable customers for their support during the previous year and to all the employees of the company for their great efforts which have resulted in achieving our goals. We would also like to thank our partners from the international reinsurance market for fulfilling their obligations.

Independent Auditors' Report to the Shareholders of Orient Insurance PJSC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Orient Insurance PJSC (the “Company”) and its subsidiaries (collectively the “Group”), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the consolidated financial statements 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 opinion.

KEY AUDIT MATTERS

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

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

a) Valuation of insurance contract liabilities and reinsurance assets

The Group has insurance contract liabilities stated at AED 3,281,626 thousand at 31 December 2016 (note 11) representing 81% of the Group's total liabilities. The estimation of insurance contract liabilities and reinsurance assets involves a significant degree of judgment. The liabilities are based on a best-estimate of the ultimate cost of all claims incurred but not settled at a given date. A range of methods are used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

Key audit matters (continued)

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

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

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

b) Revenue recognition

Gross insurance written premiums comprise the total premiums receivable for the period of cover provided by contracts entered into during the accounting period, and are recognised on the date on which the policy commences. At the end of each year, a proportion of net retained premiums of the general insurance, medical and life businesses are provided for to cover portions of risk which have not expired at the reporting date. Total reserve for the unexpired policy period as at the reporting date is AED 1,084,080 thousand (note 11) which is 27% of the Group's total liabilities. The reserves are required to be calculated in accordance with the requirements of the Insurance Law relating to insurance companies.

Independent Auditors' Report to the Shareholders of Orient Insurance PJSC (continued)

Key audit matters (continued)

Risk outlined above was addressed by us as follows:

- We assessed whether the Group's revenue recognition policies complied with IFRS and tested the implementation of those policies. Specifically, we considered whether the premiums on insurance policies are accounted for on the date of inception of policies, by testing a sample of revenue items to insurance contracts, with a specific focus on transactions which occurred near 31 December 2016.
- We evaluated the relevant IT systems and tested the operating effectiveness of the internal controls over the recording of revenue in the correct period.
- We compared the unearned premiums reserve balance as per the consolidated financial statements to the reserve balance computed by the Group's actuary.
- We recalculated the unearned premium reserve based on the earning period of insurance contracts existing as of 31 December 2016.
- We also tested a risk based sample of journal entries posted to revenue accounts to identify any unusual or irregular items, and we tested the reconciliations between the policy master file and its financial ledgers.

c) Impairment losses on insurance receivables

The Group has material amounts of trade receivables that are overdue and not impaired (as disclosed in note 9 to the consolidated financial statements). The key associated risk is the recoverability of receivables. The determination of the related provision is subjective and is influenced by assumptions concerning the probability of default and probable losses in the event of default.

Risk outlined above was addressed by us as follows:

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

d) Valuation of investments

The Group's investment portfolio of AED 3,003,953 thousands (note 8 and 13) represents 45% of the Group's total assets. Given the ongoing market volatility and macroeconomic uncertainty, investment valuation continues to be an area of inherent risk. The risk is not uniform for all investment types, and is greatest where the investments are hard to value because quoted prices are not readily available.

Risk outlined above was addressed by us as follows:

For unquoted investments, we assessed both the methodology and assumptions used by management in the calculation of the year end values.

The testing included performing the following procedures:

- Evaluated the methodology, assumptions and discounted cash flows used within the valuation models.
- We compared the valuation to the latest available audited financial statements, where appropriate

Other information included in the Company's 2016 Annual Report

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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.

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

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

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

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

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

Independent Auditors' Report to the Shareholders of Orient Insurance PJSC (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

i) the Company has maintained proper books of account;

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

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

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

v) investments in shares and stocks during the year ended 31 December 2016, if any, are disclosed in note 8 to the consolidated financial statements;

vi) note 22 reflects material related party transactions and the terms under which they were conducted;

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

viii) note 4 reflects the social contributions made during the year.

Building a better working world

Signed by:
Ashraf Abu Sharkh
Partner
Registration No. 690

5th February 2017
Dubai, United Arab Emirates

Consolidated statement of financial position as at 31 December 2016

	Notes	2016 AED'000	2015 AED'000
ASSETS			
Property and equipment	6	**107,491**	118,680
Investments in an associate	7	**70,000**	-
Held to maturity investments	8	**65,293**	130,125
Available-for-sale investments	8	**1,577,029**	1,835,954
Investments carried at fair value through profit and loss	8	**13,804**	13,554
Insurance balances receivable	9	**412,626**	447,137
Statutory deposits	10	**53,969**	69,707
Insurance contract assets	11	**2,581,702**	1,818,776
Other receivables and prepayments	12	**45,177**	36,287
Bank deposits	13	**1,347,827**	1,212,565
Cash and cash equivalents	13	**350,465**	119,371
TOTAL ASSETS		**6,625,383**	5,802,156
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	15	**500,000**	500,000
Statutory reserve	16	**125,000**	125,000
Legal reserve	16	**250,000**	226,596
Exceptional loss reserve	16	**177,763**	159,680
General reserve	16	**658,664**	509,845
Retained earnings		**26,291**	14,118
Available-for-sale reserve	16	**782,907**	1,055,087
Foreign currency translation reserve	16	**(85,814)**	(46,938)
Proposed dividends	17	**100,000**	100,000
		2,534,811	2,643,388
Non-controlling interests		**21,942**	41,015
Total equity		**2,556,753**	2,684,403
Other liabilities			
Retirement benefit obligation	19	**17,533**	15,729
Reinsurance and other payables	20	**769,471**	665,852
		787,004	681,581
Insurance contract liabilities			
Outstanding claims	11	**1,921,525**	1,201,621
Premium collected in advance	11	**93,054**	103,788
Unearned premium reserve	11	**870,872**	1,009,373
Incurred but not reported reserve	11	**227,543**	44,363
Allocated loss adjustment expense reserve	11	**16,254**	7,999
Unallocated loss adjustment expense reserve	11	**6,288**	-
Mathematical reserve	11	**120,154**	54,973
Unit-linked funds' reserve	11	**25,936**	14,055
Total insurance contract liabilities		**3,281,626**	2,436,172
Total liabilities		**4,068,630**	3,117,753
TOTAL EQUITY AND LIABILITIES		**6,625,383**	5,802,156

These consolidated financial statements were approved by the Board of Directors on 5 February 2017 and signed on its behalf by:

ABDULLA HAMAD AL-FUTTAIM
Chairman

OMAR ABDULLA AL-FUTTAIM
Vice Chairman

The attached notes 1 to 26 form part of these consolidated financial statements

Consolidated statement of income for the year ended 31 December 2016

	Notes	2016 AED'000	2015 AED'000
Gross premiums written	11	**2,580,888**	2,201,239
Reinsurance share of inward premiums	11	**92,233**	132,443
Reinsurance share of ceded premiums	11	**(1,804,611)**	(1,600,128)
Net premium written		**868,510**	733,554
Net transfer to unearned premium reserve/mathematical reserve		**(108,169)**	(106,983)
Net premium earned		**760,341**	626,571
Commission income		**185,780**	177,424
Commission expenses		**(201,564)**	(169,206)
Gross underwriting income		**744,557**	634,789
Gross claims paid		**1,343,497**	743,348
Reinsurance share of insurance claims and loss adjustment expenses recovered from reinsurers		**(1,046,790)**	(556,904)
Reinsurance share of ceded claims		**40,676**	78,494
Net claims paid		**337,383**	264,938
Increase in provisions for outstanding claims		**803,537**	612,164
Increase in reinsurance share of outstanding claims		**(764,159)**	(572,824)
Increase/ (decrease) in incurred but not reported claims reserves		**13,157**	(5,668)
Increase in allocated and unallocated loss adjustment expense reserve		**7,032**	591
Net claims incurred		**396,950**	299,201
Net underwriting income		**347,607**	335,588
Income from investments	14	**129,924**	103,820
Other income		**11,317**	10,475
Total income		**488,848**	449,883
General and administrative expenses		**(173,097)**	(171,243)
Profit before tax		**315,751**	278,640
Income tax expenses net of deferred taxes	5	**(1,904)**	(6,603)
Profit after tax		**313,847**	272,037
Attributable to:			
Equity holders of the parent		**302,479**	263,888
Non-controlling interests		**11,368**	8,149
		313,847	272,037
Basic and diluted earnings per share (AED) attributable to equity holders of the parent	21	**60.50**	52.78

The attached notes 1 to 26 form part of these consolidated financial statements

Consolidated Statement of Other Comprehensive Income
for the year ended 31 December 2016

	2016 AED'000	2015 AED'000
Profit after tax	**313,847**	272,037
Other comprehensive income		
Other comprehensive income to be reclassified to profit and loss in subsequent periods:		
Net unrealised (loss)/gain from investments	**(272,180)**	263,852
Exchange difference on translation of foreign operations	**(68,711)**	(14,198)
Other comprehensive (loss)/income for the year	**(340,891)**	249,654
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(27,044)**	521,691
Attributable to:		
Shareholders of the parent company	**(8,577)**	518,568
Non-controlling interests	**(18,467)**	3,123
	(27,044)	521,691

The attached notes 1 to 26 form part of these consolidated financial statements

Consolidated Statement of Cash Flows for the year ended 31 December 2016

	2016 AED'000	2015 AED'000
PROFIT BEFORE TAX	**315,751**	278,640
Adjustments:		
Depreciation	**7,999**	8,348
Gain on sale of investments	**(8)**	-
Unrealised (gain)/loss on investments at fair value through profit or loss	**(2,398)**	52
Interest income	**(77,372)**	(53,214)
Dividend income	**(50,146)**	(50,658)
Gain on sale of property and equipment	**(16)**	(88)
Operating profit before changes in operating assets and liabilities	**193,810**	183,080
Decrease/(increase) in insurance receivables	**34,511**	(124,948)
Increase in insurance contract assets	**(762,926)**	(763,079)
Increase in other receivables and prepayments	**(6,137)**	(13,402)
Increase in reinsurance and other payable	**105,555**	111,660
Increase in insurance contract liabilities	**845,454**	891,517
Increase in retirement benefit obligations	**1,804**	2,178
Income tax paid	**(6,593)**	(3,571)
Net cash flow from operating activities	**405,478**	283,435
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	**(2,980)**	(3,604)
Proceeds from sale of property and equipment	**136**	117
Interest income	**77,372**	53,214
Dividends received	**50,146**	50,658
Investment in an associate	**(70,000)**	-
Purchase of investment securities (net)	**(21,366)**	(231,015)
Movement in deposits with banks	**(119,524)**	(153,514)
Foreign exchange differences	**81,149**	-
Net cash flow used in investing activities	**(5,067)**	(284,144)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to Company's shareholders	**(100,000)**	(100,000)
Dividend paid to non-controlling interests	**(606)**	(2,752)
Statutory payment to employees	**-**	(546)
Net cash flow used in financing activities	**(100,606)**	(103,298)
Increase/(decrease) in cash and cash equivalents	**299,805**	(104,007)
Balance as at 1 January	**119,371**	237,576
Movement in foreign currency translation reserve	**(68,711)**	(14,198)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**350,465**	119,371

The attached notes 1 to 26 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity for the year ended 31 December 2016

	Attributable to shareholders of the parent											
	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	Exceptional loss reserve AED'000	General reserve AED'000	Retained earnings AED'000	Available for-sale reserve AED'000	Foreign currency translation reserve AED'000	Proposed dividend AED'000	Total AED'000	Non-controlling interests AED'000	Total AED'000
At 1 January 2016	500,000	125,000	226,596	159,680	509,845	14,118	1,055,087	(46,938)	100,000	2,643,388	41,015	2,684,403
Profit for the year	-	-	-	-	-	302,479	-	-	-	302,479	11,368	313,847
Other comprehensive income for the year	-	-	-	-	-	-	(272,180)	(38,876)	-	(311,056)	(29,835)	(340,891)
Total comprehensive income	-	-	-	-	-	302,479	(272,180)	(38,876)	-	(8,577)	(18,467)	(27,044)
Transfers	-	-	23,404	18,083	148,819	(190,306)	-	-	-	-	-	-
Dividend paid (note 17)	-	-	-	-	-	-	-	-	(100,000)	(100,000)	(606)	(100,606)
Dividend proposed (note 17)	-	-	-	-	-	(100,000)	-	-	100,000	-	-	-
At 31 December 2016	**500,000**	**125,000**	**250,000**	**177,763**	**658,664**	**26,291**	**782,907**	**(85,814)**	**100,000**	**2,534,811**	**21,942**	**2,556,753**
At 1 January 2015	500,000	125,000	200,076	141,170	390,159	15,274	791,235	(37,766)	100,000	2,225,148	40,862	2,266,010
Profit for the year	-	-	-	-	-	263,888	-	-	-	263,888	8,149	272,037
Other comprehensive income for the year	-	-	-	-	-	-	263,852	(9,172)	-	254,680	(5,026)	249,654
Total comprehensive income	-	-	-	-	-	263,888	263,852	(9,172)	-	518,568	3,123	521,691
Transfers	-	-	26,520	18,510	119,686	(164,716)	-	-	-	-	-	-
Dividend paid (note 17)	-	-	-	-	-	-	-	-	(100,000)	(100,000)	(2,752)	(102,752)
Dividend proposed (note 17)	-	-	-	-	-	(100,000)	-	-	100,000	-	-	-
Statutory payment to employees	-	-	-	-	-	(328)	-	-	-	(328)	(218)	(546)
At 31 December 2015	**500,000**	**125,000**	**226,596**	**159,680**	**509,845**	**14,118**	**1,055,087**	**(46,938)**	**100,000**	**2,643,388**	**41,015**	**2,684,403**

The attached notes 1 to 26 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Orient Insurance PJSC was incorporated with limited liability on 22 July 1980 in the Emirate of Dubai by a decree of His Highness The Ruler of Dubai and commenced operations on 1 January 1982. The Company was registered in accordance with the UAE Federal Law No.(9) of 1984, as amended, ("The Insurance Companies Law") on 29 December 1984 with registration No.14. On 2 May 1988 the Company was converted into a public shareholding company in accordance with the requirements of the Insurance Companies Law and has been registered under UAE Federal Law No.(2) of 2015, as amended, relating to commercial companies. The shares of the Company are listed on the Dubai Financial Market. The Company is subject to the regulations of UAE Federal Law No. 6 of 2007, on Establishment of Insurance Authority and organisation of its operations. The registered address of the Company is P.O. Box 27966, Dubai, United Arab Emirates. The holding company of the Group is Al-Futtaim Development Services Company which is based in Dubai, United Arab Emirates and has a significant influence over the Group. The ultimate holding company of the Group is Al-Futtaim Private Company which is based in Dubai, United Arab Emirates.

The Company engages in the business of issuing short term insurance contracts in connection with Property, Engineering, Motor, Marine, Miscellaneous Accidents and Medical (collectively referred as General Insurance) and Group Life and Individual Life classes (collectively referred as Life Insurance). The Company also invests its funds in investment securities.

The Company has established subsidiary companies in Syria, Egypt, Sri Lanka, Turkey and has branches in Sultanate of Oman and Bahrain.

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (collectively referred to as the "Group").

2.1 BASIS OF PREPARATION

Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for available-for-sale (AFS) financial assets and Investments carried at fair value through profit or loss that have been measured at fair value. The consolidated financial statements have been presented in UAE Dirhams and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

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

Statement of compliance

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

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company with the exception of Orient Takaful Insurance Company (S A E) – Egypt, a subsidiary, whose year end is 30 June and hence the Group uses their reviewed 12 months accounts as at 31 December. Consistent accounting policies are applied to like transactions and events in similar circumstances. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group 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 in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The Group comprises of the Company and the under-mentioned subsidiary companies.

Subsidiaries	Principal activity	Country of incorporation	Ownership 2016	Ownership 2015
Arab Orient Insurance	General insurance	Syria	40%	40%
Orient Takaful Insurance Company (S.A.E)	General insurance	Egypt	60%	60%
Orient Insurance Limited	General insurance	Sri Lanka	100%	100%
Orient Sigorta Anonim Sirketi	General insurance	Turkey	100%	100%

2.2 BASIS OF CONSOLIDATION (CONTINUED)

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards and interpretations effective after 1 January 2016

The following new and revised IFRSs have been applied in the current period in these consolidated financial statements. Their adoption had no significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

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

IFRS 8 Operating Segments
The amendments are applied retrospectively and clarify that

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar' and;
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities. These amendments did not impact the Group's consolidated financial statements or accounting policies

New standards and interpretations not yet effective
Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

New standards and interpretations not yet effective (continued)

The Group plans to adopt the new standard on the required effective date. Overall, the Group expects no significant impact on its consolidated statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The Group plans to defer the application of IFRS 9 until the earlier of the effective date of the new insurance contracts standard (IFRS 17) of 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments.

The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time. During 2016, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2016. The Group intends to apply the temporary exemption in its reporting period starting on 1 January 2018.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group expects to apply IFRS 15 on a retrospective basis. Given insurance contracts are scoped out of IFRS 15, the Group expects the main impact of the new standard to be on the accounting for income from administrative and investment management services. The Group does not expect the impact to be significant.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

New standards and interpretations not yet effective (continued)
IFRS 16 Leases (continued)

right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Judgements
Classification of investments
Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, fair value though profit or loss or available-for-sale.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Judgements (continued)

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, that the Group has the intention and ability to hold these to maturity.

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making a short term profit.

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

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

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

Estimates & assumptions
Impairment losses on available for sale investments
The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. Where fair values are not available, the recoverable amount of such investment is estimated to test for impairment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities.

Impairment losses on held-to-maturity investments
The Group reviews its individually significant held-to-maturity investments at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Impairment losses on receivables
Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the inability to pay all amounts due as per contractual terms.

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

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Estimation uncertainty

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

Provision for outstanding claims, whether reported or not

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the statement of financial position date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

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

All insurance contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

Insurance premium revenue

Gross premiums

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. The proportion attributable to subsequent periods is deferred as unearned premium reserve.

Reinsurance premiums

Reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Insurance premium revenue (continued)

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

Commission income
Commission income on policies written is recognised at the time the reinsurance premium is ceded.

Interest income
Interest income is recognised in the consolidated statement of income as it accrues and is calculated by using the effective interest rate method.

Other income
- Dividend income is accounted for when the right to receive payment is established.
- Rental income is recognised as income over the period to which it relates.

Claims
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries made are charged to consolidated statement of income as incurred.

The Group generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition a provision based on management's judgement and the Group's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the consolidated statement of income for that year. Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Taxes
Current income tax
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other income (continued)

Deferred tax (continued)

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in consolidated statement of income.

Commission expenses

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

Leases

Group as a lessee

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Group as a lessor (continued)

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

Foreign currencies

The Group's consolidated financial statements are presented in UAE Dirhams, which is also the Parent Company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or statement of income are also recognised in other comprehensive income or statement of income, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into UAE Dirham at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

Subsequent costs are included in the asset's carrying amount or are 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 income during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the Group is as follows:

- Building - 25 years
- Furniture and fixtures - 4 to 7 years
- Office equipment - 3 to 5 years
- Motor vehicles - 5 years

Assets are depreciated on a straight-line basis over their estimated useful lives as given above.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

Financial assets

Initial recognition and measurement

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities designated at fair value through profit or loss or available-for-sale assets are recognised. Receivables are recognised on the day they are transferred to or acquired by the Group.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include bank balances and short term deposits, trade receivables, insurance receivables and quoted and unquoted financial instruments.

Subsequent measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

Derecognition

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any interest in derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Insurance receivables

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

Cash and cash equivalents

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

Impairment of financial assets

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

a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Impairment of non-financial assets (excluding goodwill)

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through income statement, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and insurance contracts.

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through income statement
Financial liabilities at fair value through income statement includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through income statement.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through income statement.

Insurance contract liabilities
Unearned premium reserve
The unearned premium reserve represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. Unearned premiums relating to general and group life insurance business are computed on a daily pro-rata basis. The unearned premium reserve so calculated are at least equal to the minimum stipulated in the Insurance Laws of the respective region.

Until 31 December 2015, the reserves were calculated at 50% of annual premiums earned net of reinsurance for life and medical and 40% of annual premiums earned net of reinsurance for general business.

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

As a result of the change, profit for the year profit is higher by AED 13,427 thousand and unearned premium reserve at 31 December 2016 is lower by AED 13,427 thousand.

Mathematical reserve/Unit-linked funds' reserve
Reserve created for long term insurance contracts (Insurance of Persons and Fund Accumulation operations products more than one year) to cover all future claim liabilities as determined by the Actuary as required by Article 44 of the UAE Insurance Companies Law and Insurance Laws of the respective countries where subsidiaries are registered.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Insurance contract liabilities (continued)

Advance premium
When non-life insurance policies are issued for a period exceeding one year, the proportion of the premium for the period beyond one year is accounted as advance premium and classified under insurance liabilities.

Allocated Loss Adjustment Expense (ALAE)/Unallocated Loss Adjustment Expense (ULAE)
These represents future claim expenses and related handling costs. The ALAE reserve is for expenses and costs those can be assigned to a specific claim. The ULAE reserve is for all other overhead expenses and costs those cannot be assigned to a specific claim.

Outstanding claims
Outstanding claims are recognized when claims are intimated. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, including claims incurred but not reported (IBNR) together with related claims handling costs. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the statement of financial position date. The liability is not discounted for the time value of money. The liability is derecognised when the contract expires, is discharged or is cancelled.

Deferred acquisition cost (DAC)
Commissions that vary with and are related to the acquisition of new investment and insurance contracts are treated as prepayments (DAC) to the extent that the commission relates to the future provision of services by the parties to whom payments are made, when the degree of completeness of the service can be reliably measured and the Group is confident of future economic benefit from the introduction acquired. Prepaid commission is expensed through consolidated statement of income over a period determined by policy features chosen by the contract holder introduced in return for the commission payment. The periods over which it is expensed range from six to sixty months. Commissions for which liability arises on completion of a significant act without the expectation of the delivery of further services are recognised in expenses when incurred. For investment contract introductions where costs are deferred, no costs are deferred beyond the point at which the introducer is considered to have fulfilled his contractual obligations and is not expected or obliged to perform further services.

Other payables and accruals
Liabilities are recognised for amounts to be paid in the future for goods and services rendered, whether billed by the supplier or not.

Provisions
Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Employees' end of service benefits
The Group provides end of service benefits to its employees employed in the UAE in accordance with the UAE Labour Law and for employees employed in the foreign branches of the Group and subsidiary companies in accordance with the respective region's labour Law. The entitlement of these benefits is based upon employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees' end of service benefits (continued)

With respect to its national employees, the Group makes contributions to a pension or social security fund established by the respective countries, calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Interest expense

Interest paid is recognised in the consolidated statement of income as it accrues and is calculated by using the effective interest rate method.

Liability adequacy test

At each statement of financial position date the Group assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision created. The Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

Reinsurance contracts held

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. These amounts are shown as "reinsurance assets" in the statement of financial position until the claim is paid by the Group. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to "insurance receivables".

Gains or losses on buying reinsurance are recognised in the consolidated statement of income immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policy holders.

At each reporting date, the Group assesses whether there is any indication that a reinsurance asset may be impaired. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. The impairment loss is recognised in the consolidated statement of income.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is legally enforceable right to offset the recognised amounts, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the consolidated statement of income unless required or permitted by an accounting standard or interpretation.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement of financial instruments (continued)

For financial instruments traded in active markets, fair value at each reporting date is determined by reference to Stock Exchange quoted market bid prices, without any deduction for transaction costs.

For financial instruments not traded in active market, fair value is determined by reference to the current market value of a similar instrument, recent arm's length market transactions or is based on the expected discounted cash flows or any other valuation model.

Segment reporting

The Group's segmental reporting is based on the following operating segments: General insurance, Life assurance and Investment segment.

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

Product classification

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

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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

Investment contracts

The Group issues investment contracts without fixed and guaranteed terms (unit-linked) and in accordance with IAS 39 premium received and claims paid on these contracts are not recognised in the income statement but are treated as movements in the statement of financial position. All subsequent movements in respect of investment contract financial liabilities are included in "Available-for-sale reserve" under the statement of changes in equity. The financial liabilities are measured at current unit investment contract value which reflects the fair value of the assets of the funds.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Product classification (continued)

If the investment contract is subject to a surrender option, exercisable at the discretion of the investment contract holder rather than the Group, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable, in accordance with the requirements of IAS 39: Recognition and Measurement paragraph 55.

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

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value, this being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition investment contract liabilities are measured at fair value through other comprehensive income.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the consolidated statement of financial position and are not recognised as gross premium in the consolidated income statement.

Fair value adjustments are performed at each reporting date and are recognised in the consolidated statement of other comprehensive income in “Net unrealised gain on available -for- sale investments”. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit prices at the reporting date are valued on a fair value basis adjusted to take account of the effect on the liabilities of the deferred tax on unrealised gains on assets in the fund.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value of the contract cannot be less than the surrender value.

When contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same basis as insurance contracts and the remaining element is accounted for as a deposit through the consolidated statement of financial position as described above.

3 SEGMENT INFORMATION

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

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

Transactions between operating segments are conducted at estimated market rates. Operating segment information is presented below:

3.1 SEGMENTAL INCOME, EXPENSES AND RESULTS

	General Insurance		Life Insurance		Total	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Total premiums written	2,368,120	2,099,747	305,001	233,935	2,673,121	2,333,682
Gross underwriting income	666,699	587,855	77,858	46,934	744,557	634,789
Net underwriting income	293,305	301,416	54,302	34,172	347,607	335,588
General & administration expenses	(138,242)	(151,339)	(34,855)	(19,904)	(173,097)	(171,243)
Net technical profit	155,063	150,077	19,447	14,268	174,510	164,345
Investment and other income					141,241	114,295
PROFIT BEFORE TAX					315,751	278,640
Income tax expenses net of deferred taxes					(1,904)	(6,603)
PROFIT AFTER TAX					313,847	272,037

3.2 SEGMENTAL ASSETS & LIABILITIES

	General Insurance		Life Insurance		Investment		Total	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Segmental assets	3,258,690	2,393,636	238,771	146,615	3,127,922	3,261,905	6,625,383	5,802,156
Segmental liabilities	3,738,195	2,911,218	330,435	206,535	-	-	4,068,630	3,117,753
Capital expenditure	2,889	3,425	91	179	-	-	2,980	3,604
Depreciation	7,584	7,951	415	397	-	-	7,999	8,348

4 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2016 AED'000	2015 AED'000
Staff costs	**126,477**	115,317
Rental costs – Operating leases	**6,218**	5,941

During the year the Company has not made any social contribution.

5 TAXES

The Group entities operate in the Sultanate of Oman, Egypt, Sri Lanka, Turkey & Syria and are subject to income tax in these countries.

A reconciliation of accounting profit to tax charge has not been presented as the majority of the Group's operations are in the UAE and are not subject to a charge of tax.

The component of taxes recognised in the consolidated statement of income is as follows:

	2016 AED'000	2015 AED'000
Current income tax expenses	**4,657**	6,603
Deferred taxes	**(2,753)**	-
	1,904	6,603

Movements in the income tax payable recognised in the consolidated statement of financial position are as follows:

	2016 AED'000	2015 AED'000
Provision as at 1 January	**5,111**	2,427
Provided during the year	**4,657**	6,603
Taxes paid during the year	**(6,593)**	(3,571)
Exchange differences	**(1,451)**	(348)
Balance as at 31 December	**1,724**	5,111

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

6 PROPERTY AND EQUIPMENT

2016 Consolidated

	Land AED'000	*Building* AED'000	*Office equipment, furniture & fixtures* AED'000	*Motor vehicles* AED'000	*Total* AED'000
Cost:					
At 1 January 2016	20,000	96,456	37,555	2,088	156,099
Additions	-	-	2,203	777	2,980
Disposals	-	-	(71)	(326)	(397)
Foreign exchange differences	-	-	(11,755)	(484)	(12,239)
At 31 December 2016	**20,000**	**96,456**	**27,932**	**2,055**	**146,443**
Depreciation:					
At 1 January 2016	-	15,506	20,858	1,055	37,419
Charge for the year	-	3,858	3,777	364	7,999
Relating to disposals	-	-	(69)	(208)	(277)
Foreign exchange differences	-	-	(5,858)	(331)	(6,189)
At 31 December 2016	-	19,364	18,708	880	38,952
Net carrying amount:					
At 31 December 2016	**20,000**	**77,092**	**9,224**	**1,175**	**107,491**

2016 Life Insurance

	Land AED'000	*Building* AED'000	*Office equipment, furniture & fixtures* AED'000	*Motor vehicles* AED'000	*Total* AED'000
Cost:					
At 1 January 2016	-	-	2,505	-	2,505
Additions	-	-	91	-	91
At 31 December 2016	**-**	**-**	**2,596**	**-**	**2,596**
Depreciation:					
At 1 January 2016	-	-	876	-	876
Charge for the year	-	-	415	-	415
At 31 December 2016	-	-	**1,291**	-	**1,291**
Net carrying amount:					
At 31 December 2016	**-**	**-**	**1,305**	**-**	**1,305**

6 PROPERTY AND EQUIPMENT (continued)

2016 General Insurance

	Land AED'000	Building AED'000	Office equipment, furniture & fixtures AED'000	Motor vehicles AED'000	Total AED'000
Cost:					
At 1 January 2016	20,000	96,456	35,050	2,088	153,594
Additions	-	-	2,112	777	2,889
Disposals	-	-	(71)	(326)	(397)
Foreign exchange differences	-	-	(11,755)	(484)	(12,239)
At 31 December 2016	**20,000**	**96,456**	**25,336**	**2,055**	**143,847**
Depreciation:					
At 1 January 2016	-	15,506	19,982	1,055	36,543
Charge for the year	-	3,858	3,362	364	7,584
Relating to disposals	-	-	(69)	(208)	(277)
Foreign exchange differences	-	-	(5,858)	(331)	(6,189)
At 31 December 2016	**-**	**19,364**	**17,417**	**880**	**37,661**
Net carrying amount:					
At 31 December 2016	**20,000**	**77,092**	**7,919**	**1,175**	**106,186**

2015 Consolidated

	Land AED'000	Building AED'000	Office equipment, furniture & fixtures AED'000	Motor vehicles AED'000	Total AED'000
Cost:					
At 1 January 2015	20,000	96,456	34,341	1,917	152,714
Additions	-	-	3,226	378	3,604
Disposals	-	-	(12)	(207)	(219)
At 31 December 2015	20,000	96,456	37,555	2,088	156,099
Depreciation:					
At 1 January 2015	-	11,648	16,689	924	29,261
Charge for the year	-	3,858	4,179	311	8,348
Relating to disposals	-	-	(10)	(180)	(190)
At 31 December 2015	-	15,506	20,858	1,055	37,419
Net carrying amount:					
At 31 December 2015	20,000	80,950	16,697	1,033	118,680

6 PROPERTY AND EQUIPMENT (continued)

2015 Life Insurance

	Land AED'000	Building AED'000	Office equipment, furniture & fixtures AED'000	Motor vehicles AED'000	Total AED'000
Cost:					
At 1 January 2015	-	-	2,326	-	2,326
Additions	-	-	179	-	179
At 31 December 2015	-	-	2,505	-	2,505
Depreciation:					
At 1 January 2015	-	-	479	-	479
Charge for the year	-	-	397	-	397
At 31 December 2015	-	-	876	-	876
Net carrying amount:					
At 31 December 2015	-	-	1,629	-	1,629

2015 General Insurance

	Land AED'000	Building AED'000	Office equipment, furniture & fixtures AED'000	Motor vehicles AED'000	Total AED'000
Cost:					
At 1 January 2015	20,000	96,456	32,015	1,917	150,388
Additions	-	-	3,047	378	3,425
Disposals	-	-	(12)	(207)	(219)
At 31 December 2015	20,000	96,456	35,050	2,088	153,594
Depreciation:					
At 1 January 2015	-	11,648	16,210	924	28,782
Charge for the year	-	3,858	3,782	311	7,951
Relating to disposals	-	-	(10)	(180)	(190)
At 31 December 2015	-	15,506	19,982	1,055	36,543
Net carrying amount:					
At 31 December 2015	20,000	80,950	15,068	1,033	117,051

7 INVESTMENTS IN AN ASSOCIATE

The investment in an associate represents a 35% interest in Orient UNB Takaful PJSC, a public shareholding company registered and incorporated in UAE. The associate is yet to commence its commercial operations.

The following table illustrates summarised financial information of the company's investment in an associate:

	2016
	AED'000
Shares at cost	**70,000**
Investment in net equity at year end	**70,000**

8 INVESTMENT SECURITIES

2016 Consolidated

	Held for trading	*Held to maturity*	*Available-for-sale*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
Equity securities				
Within UAE (Listed)	13,804	-	1,292,159	1,305,963
Within UAE (Not listed)	-	-	260,809	260,809
Outside UAE (Not listed)	-	-	9,273	9,273
Total equity securities	13,804	-	1,562,241	1,576,045
Total other invested assets	-	65,293	14,788	80,081
Total	**13,804**	**65,293**	**1,577,029**	**1,656,126**

2016 Life Insurance

	Held for trading	*Held to maturity*	*Available-for-sale*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
Equity securities				
Within UAE (Not listed)	-	-	16,666	16,666
Outside UAE	-	-	9,270	9,270
Total equity securities	-	-	25,936	25,936

8 INVESTMENT SECURITIES (continued)

2016 General Insurance

	Held for trading AED'000	Held to maturity AED'000	Available-for-sale AED'000	Total AED'000
Equity securities				
Within UAE (Listed)	13,804	-	1,292,159	1,305,963
Within UAE (Not listed)	-	-	244,143	244,143
Outside UAE (Not listed)	-	-	3	3
Total equity securities	13,804	-	1,536,305	1,550,109
Total other invested assets	-	65,293	14,788	80,081
Total	**13,804**	**65,293**	**1,551,093**	**1,630,190**

2015 Consolidated

	Held for trading AED'000	Held to maturity AED'000	Available-for-sale AED'000	Total AED'000
Equity securities				
Within UAE (Listed)	11,406	-	1,564,720	1,576,126
Within UAE (Not listed)	-	-	247,121	247,121
Outside UAE (Not listed)	2,148	-	5,637	7,785
Total equity securities	13,554	-	1,817,478	1,831,032
Non-Government debt securities	-	-	9,800	9,800
Total other invested assets	-	130,125	8,676	138,801
Total	**13,554**	**130,125**	**1,835,954**	**1,979,633**

2015 Life Insurance

	Held for trading AED'000	Held to maturity AED'000	Available-for-sale AED'000	Total AED'000
Equity securities				
Within UAE (Not listed)	-	-	8,426	8,426
Outside UAE	-	-	5,629	5,629
Total equity securities	-	-	14,055	14,055
Total	**-**	**-**	**14,055**	**14,055**

8 INVESTMENT SECURITIES (continued)

2015 General Insurance

	Held for trading AED'000	Held to maturity AED'000	Available-for-sale AED'000	Total AED'000
Equity securities				
Within UAE (Listed)	11,406	-	1,564,720	1,576,126
Within UAE (Not listed)	-	-	238,695	238,695
Outside UAE (Not listed)	2,148	-	8	2,156
Total equity securities	13,554	-	1,803,423	1,816,977
Non-Government debt securities	-	-	9,800	9,800
Total other invested assets	-	130,125	8,676	138,801
Total	**13,554**	**130,125**	**1,821,899**	**1,965,578**

9 INSURANCE BALANCE RECEIVABLES

	General Insurance		Life Insurance		Consolidated Total	
	2016 AED'000	2015 AED'000	**2016 AED'000**	2015 AED'000	**2016 AED'000**	2015 AED'000
Inside UAE						
Due from policyholders	**286,270**	335,289	**24,527**	20,610	**310,797**	355,899
Due from insurance/ reinsurance companies	**21,641**	16,801	**239**	-	**21,880**	16,801
	307,911	352,090	**24,766**	20,610	**332,677**	372,700
Outside UAE						
Due from policyholders	**50,619**	59,434	**431**	599	**51,050**	60,033
Due from insurance/ reinsurance companies	**43,149**	30,219	**2,938**	3,725	**46,087**	33,944
	93,768	89,653	**3,369**	4,324	**97,137**	93,977
Gross insurance balance receivable	**401,679**	441,743	**28,135**	24,934	**429,814**	466,677
Less: Allowance for doubtful debts	**(15,896)**	(17,898)	**(1,292)**	(1,642)	**(17,188)**	(19,540)
Net insurance balance receivable	**385,783**	423,845	**26,843**	23,292	**412,626**	447,137

Movement on the provision for doubtful debts during the year was as follows:

	2016 AED'000	2015 AED'000
Balance at 1 January	**19,540**	18,597
Movement during the year	**(2,352)**	943
Balance at 31 December	**17,188**	19,540

10 STATUTORY DEPOSITS

	General Insurance 2016 AED'000	General Insurance 2015 AED'000	Life Insurance 2016 AED'000	Life Insurance 2015 AED'000	Consolidated Total 2016 AED'000	Consolidated Total 2015 AED'000
a) Statutory deposit that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 42 of Federal Law No.6 of 2007	**6,000**	6,000	**4,000**	4,000	**10,000**	10,000
b) Amounts under lien with Capital Market Authority, Sultanate of Oman	**16,722**	21,567	**1,433**	716	**18,155**	22,283
c) Amounts under lien with Omani Unified Bureau for the Orange Card (SAOC)	**478**	478	**-**	-	**478**	478
d) Amounts under lien with Insurance Authority Syria	**178**	418	**-**	-	**178**	418
e) Amounts under lien with Egyptian Financial Supervisory Authority	**17,486**	30,762	**-**	-	**17,486**	30,762
f) Amounts under lien with Turkish Treasury	**6,943**	5,037	**-**	-	**6,943**	5,037
g) Amounts under lien with Central Bank of Bahrain	**729**	729	**-**	-	**729**	729
Statutory deposit Total	48,536	64,991	5,433	4,716	53,969	69,707

11 INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS

Consolidated Total

	Gross 2016 AED'000	Gross 2015 AED'000	Reinsurers' share 2016 AED'000	Reinsurers' share 2015 AED'000	Net 2016 AED'000	Net 2015 AED'000
Gross premiums	**2,673,121**	2,333,682	**(1,804,611)**	(1,600,128)	**868,510**	733,554
Movement in provision for unearned premiums/ mathematical reserve	**(10,183)**	(282,459)	**(97,986)**	175,476	**(108,169)**	(106,983)
Insurance premium revenue	**2,662,938**	2,051,223	**(1,902,597)**	(1,424,652)	**760,341**	626,571

Life Insurance

	Gross 2016 AED'000	Gross 2015 AED'000	Reinsurers' share 2016 AED'000	Reinsurers' share 2015 AED'000	Net 2016 AED'000	Net 2015 AED'000
Gross premiums	**305,001**	233,935	**(122,369)**	(109,086)	**182,632**	124,849
Movement in provision for unearned premiums/ mathematical reserve	**(63,361)**	(47,511)	**6,963**	9,894	**(56,398)**	(37,617)
Insurance premium revenue	**241,640**	186,424	**(115,406)**	(99,192)	**126,234**	87,232

11 INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS (continued)

General Insurance

	Gross		Reinsurers' share		Net	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Gross premiums	**2,368,120**	2,099,747	**(1,682,242)**	(1,491,042)	**685,878**	608,705
Movement in provision for unearned premiums/ mathematical reserve	**53,178**	(234,948)	**(104,949)**	165,582	**(51,771)**	(69,366)
Insurance premium revenue	**2,421,298**	1,864,799	**(1,787,191)**	(1,325,460)	**634,107**	539,339

Consolidated Total

	Gross		Reinsurers' share		Net	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Unearned premium reserve	**870,872**	1,009,373	**(563,786)**	(712,641)	**307,086**	296,732
Premiums collected in advance	**93,054**	103,788	**(78,528)**	(84,524)	**14,526**	19,264
Mathematical reserve	**120,154**	54,973	(28,102)	(9,235)	**92,052**	45,738
Unit-linked funds' reserve	**25,936**	14,055	**-**	-	**25,936**	14,055
	1,110,016	1,182,189	**(670,416)**	(806,400)	**439,600**	375,789
Outstanding claims	**1,921,525**	1,201,621	**(1,723,018)**	(1,001,642)	**198,507**	199,979
Incurred but not reported reserve	**227,543**	44,363	**(174,292)**	(4,269)	**53,251**	40,094
Allocated loss adjustment expense reserve	**16,254**	7,999	**(13,976)**	(6,465)	**2,278**	1,534
Unallocated loss adjustment expense reserve	**6,288**	-	**-**	-	**6,288**	-
	2,171,610	1,253,983	**(1,911,286)**	(1,012,376)	**260,324**	241,607
	3,281,626	2,436,172	**(2,581,702)**	(1,818,776)	**699,924**	617,396

11 INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS (continued)

Life Insurance

	Gross		Reinsurers' share		Net	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Unearned premium reserve	26,736	43,390	(18,740)	(30,782)	7,996	12,608
Mathematical reserve	120,154	54,973	(28,102)	(9,235)	92,052	45,738
Unit-linked funds' reserve	25,936	14,055	-	-	25,936	14,055
	172,826	112,418	(46,842)	(40,017)	125,984	72,401
Outstanding claims	101,602	52,657	(88,950)	(44,679)	12,652	7,978
Incurred but not reported reserve	15,120	3,182	(12,679)	-	2,441	3,182
Unallocated loss adjustment expense reserve	429	-	-	-	429	-
	117,151	55,839	(101,629)	(44,679)	15,522	11,160
	289,977	168,257	(148,471)	(84,696)	141,506	83,561

General Insurance

	Gross		Reinsurers' share		Net	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Unearned premium reserve	844,136	965,983	(545,046)	(681,859)	299,090	284,124
Premiums collected in advance	93,054	103,788	(78,528)	(84,524)	14,526	19,264
	937,190	1,069,771	(623,574)	(766,383)	313,616	303,388
Outstanding claims	1,819,923	1,148,964	(1,634,068)	(956,963)	185,855	192,001
Incurred but not reported reserve	212,423	41,181	(161,613)	(4,269)	50,810	36,912
Allocated loss adjustment expense reserve	16,254	7,999	(13,976)	(6,465)	2,278	1,534
Unallocated loss adjustment expense reserve	5,859	-	-	-	5,859	-
	2,054,459	1,198,144	(1,809,657)	(967,697)	244,802	230,447
	2,991,649	2,267,915	(2,433,231)	(1,734,080)	558,418	533,835

11 INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS (continued)

OUTSTANDING CLAIMS

Consolidated Total

	2016 Gross AED'000	2016 Reinsurer's share AED'000	2016 Net AED'000	2015 Gross AED'000	2015 Reinsurer's share AED'000	2015 Net AED'000
At 1 January	1,253,983	(1,012,376)	241,607	656,246	(440,699)	215,547
Insurance claims paid	(1,384,173)	1,046,790	(337,383)	(821,842)	556,904	(264,938)
Claims incurred	2,385,433	(1,988,483)	396,950	1,433,575	(1,134,374)	299,201
Exchange differences	(83,633)	42,783	(40,850)	(13,996)	5,793	(8,203)
At 31 December	2,171,610	(1,911,286)	260,324	1,253,983	(1,012,376)	241,607

Life Insurance

	2016 Gross AED'000	2016 Reinsurer's share AED'000	2016 Net AED'000	2015 Gross AED'000	2015 Reinsurer's share AED'000	2015 Net AED'000
At 1 January	55,839	(44,679)	11,160	64,398	(52,549)	11,849
Insurance claims paid	(107,127)	87,933	(19,194)	(92,517)	79,066	(13,451)
Claims incurred	168,439	(144,883)	23,556	83,958	(71,196)	12,762
At 31 December	117,151	(101,629)	15,522	55,839	(44,679)	11,160

General Insurance

	2016 Gross AED'000	2016 Reinsurer's share AED'000	2016 Net AED'000	2015 Gross AED'000	2015 Reinsurer's share AED'000	2015 Net AED'000
At 1 January	1,198,144	(967,697)	230,447	591,848	(388,150)	203,698
Insurance claims paid	(1,277,046)	958,857	(318,189)	(729,325)	477,838	(251,487)
Claims incurred	2,216,994	(1,843,600)	373,394	1,349,617	(1,063,178)	286,439
Exchange differences	(83,633)	42,783	(40,850)	(13,996)	5,793	(8,203)
At 31 December	2,054,459	(1,809,657)	244,802	1,198,144	(967,697)	230,447

11 INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS (continued)

Claims development table - Gross

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

Accident year	Before 2013 AED'000	2013 AED'000	2014 AED'000	2015 AED'000	2016 AED'000	Total AED'000
At the end of accident year	-	664,180	661,837	1,466,894	1,565,231	
One year later	-	659,505	704,341	2,246,113	-	
Two years later	-	628,365	694,148	-	-	
Three years later	-	604,485	-	-	-	
Four years later	3,990,019	-	-	-	-	
Current estimate of cumulative claims	3,990,019	604,485	694,148	2,246,113	1,565,231	
At the end of accident year	-	(355,833)	(385,402)	(510,781)	(947,225)	
One year later	-	(507,788)	(612,265)	(864,417)	-	
Two years later	-	(567,643)	(640,577)	-	-	
Three years later	-	(574,615)	-	-	-	
Four years later	(3,901,552)	-	-	-	-	
Cumulative payments to date	(3,901,552)	(574,615)	(640,577)	(864,417)	(947,225)	
Total gross outstanding claims	88,467	29,870	53,571	1,381,696	618,006	2,171,610

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are, as follows:

Life Insurance

Mortality and morbidity rates

Assumptions are based on the reinsurance rates provided by the reinsurer, according to the type of contract written and the territory in which the insured person resides. They reflect recent historical experience and are adjusted when appropriate to reflect the Group's own experiences. Being on the conservative side, no allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type. An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the Group.

Investment return

The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long–term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. An increase in investment return would lead to an increase in profits for the Group.

11 INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS (continued)

Expenses

Operating expenses assumptions reflect the projected costs of maintaining and servicing in–force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate. An increase in the level of expenses would result in an increase in expenditure, thereby reducing profits for the Group.

Lapse and surrender rates

Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Group's experience and vary by product type, policy duration and sales trends. An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure. A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

General Insurance

The Group principally issues the following types of general insurance contracts: motor, household, commercial and business interruption. Healthcare contracts provide medical expense coverage to policyholders and are not guaranteed as renewable. Risks under general insurance policies usually cover twelve months duration. For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities. For longer tail claims that take some years to settle, there is also inflation risk. For healthcare contracts, the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

These risks do not vary significantly in relation to the location of the risk insured by the Group, type of risk insured and by industry.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are established to reduce the risk exposure of the Group. The Group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

12 OTHER RECEIVABLES AND PREPAYMENTS

	General Insurance		Life Insurance		Consolidated Total	
	2016	2015	**2016**	2015	**2016**	2015
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Receivable from employees	**1,001**	961	**-**	-	**1,001**	961
Refundable deposits	**2,956**	1,413	**-**	-	**2,956**	1,413
Prepayments	**9,538**	6,790	**8,438**	11,659	**17,976**	18,449
Others	**19,963**	13,816	**3,281**	1,648	**23,244**	15,464
	33,458	22,980	**11,719**	13,307	**45,177**	36,287

13 BANK BALANCES AND CASH

	General Insurance		Life Insurance		Consolidated Total	
	2016	2015	**2016**	2015	**2016**	2015
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Bank balances and cash	**182,299**	65,180	**50,433**	23,691	**232,732**	88,871
Deposits with banks maturing within three months	**117,733**	30,500	**-**	-	**117,733**	30,500
Cash and cash equivalents	**300,032**	95,680	**50,433**	23,691	**350,465**	119,371
Term deposits	**1,260,059**	1,166,257	**87,768**	46,308	**1,347,827**	1,212,565
Total	**1,560,091**	1,261,937	**138,201**	69,999	**1,698,292**	1,331,936
Banks in UAE	**1,397,136**	1,073,782	**134,703**	69,222	**1,531,839**	1,143,004
Banks outside UAE	**162,955**	188,155	**3,498**	777	**166,453**	188,932
Total	**1,560,091**	1,261,937	**138,201**	69,999	**1,698,292**	1,331,936

Interest on deposit with banks at fixed rates range from 0.8% - 13.2% (2015: 0.8% - 12.8%) per annum.

14 INCOME FROM INVESTMENTS

	General Insurance		Life Insurance		Consolidated Total	
	2016	2015	**2016**	2015	**2016**	2015
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Interest income	**74,505**	52,303	**2,867**	911	**77,372**	53,214
Dividend income	**50,146**	50,658	**-**	-	**50,146**	50,658
Gain on sale of investment carried at fair value through profit or loss	**8**	-	**-**	-	**8**	-
Fair value gain/(loss) on investments carried at fair value through profit or loss	**2,398**	(52)	**-**	-	**2,398**	(52)
	127,057	102,909	**2,867**	911	**129,924**	103,820

15 SHARE CAPITAL

	2016 *AED'000*	*2015* *AED'000*
Issued and fully paid 5,000,000 shares of AED 100 each (2015: 5,000,000 shares of AED 100 each)	**500,000**	500,000

16 RESERVES

NATURE AND PURPOSE OF RESERVES

- STATUTORY RESERVE

In accordance with the Company's Articles of Association, the Company has resolved not to increase the statutory reserve above an amount equal to 25% of its paid up capital. Accordingly, no transfer to statutory reserve has been made during the year. The reserve can be used for any purpose to be decided by the shareholders upon the recommendation of the Board of Directors.

- LEGAL RESERVE

In accordance with the Commercial Companies Law and the Company's Articles of Association, 10% of the profit for the year should be transferred to the legal reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital which occurred in 2016. The reserve is not available for distribution except in the circumstances stipulated by the law.

- EXCEPTIONAL LOSS RESERVE

An amount equal to 10% of the net underwriting income, less general and administrative expenses for the year is transferred to an exceptional loss reserve to ensure that the Company has sufficient solvency to meet exceptional, non-recurring claims which may arise in future years.

An amount equal to 10% of the outstanding claims (Non-life) for the year and 1% of gross premiums for life assurance is transferred to a contingency loss reserve to ensure that the Company has sufficient solvency to meet exceptional, non-recurring claims which may arise in future years for Oman branch.

- GENERAL RESERVE

Transfers to the general reserve are made on the recommendation of the Board of Directors and are approved by the shareholders. This reserve may be used for such purposes as deemed appropriate by the Board of Directors.

- AVAILABLE-FOR-SALE RESERVE

This reserve records fair value changes on available-for-sale financial assets.

- FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of its foreign subsidiaries.

17 DIVIDENDS

For the year ended 31 December 2016, the Board of Directors has proposed a cash dividend of AED 20 per share totalling AED 100 million (2015: AED 100 million). This is subject to the approval of the shareholders at the Annual General Meeting to be held during 2017.

For the year ended 31 December 2015, the Shareholders at the annual general meeting dated 23 February 2016 approved a cash dividend of 20% (AED 20 per share) totalling AED 100 million and the same was paid in 2016.

18 SUMMARY OF THE ACTUARY'S REPORT ON THE TECHNICAL PROVISIONS

Sidat Hyder Morshed Associates Limited, actuary of the Group has issued a report providing an independent actuarial estimate of the Group's reserves as at 31 December 2016.

(a) Summary of the required technical provisions recommenced by the group's actuary:

	2016	
	Gross	Net
	AED'000	AED'000
Unearned premium reserve	**951,545**	**316,414**
Mathematical reserve and Unit-linked funds' reserve	**146,089**	**117,987**
Deferred acquisition cost (Net)	**(7,786)**	**(4,133)**
Unexpired risk reserve	**4,366**	**773**
Unallocated loss adjusted expense reserve	**7,367**	**7,367**
Outstanding claim reserve and Incurred but not reported reserve	**2,168,196**	**255,265**
	3,269,777	**693,673**

	2015	
	Gross	Net
	AED'000	AED'000
Unearned premium reserve	1,047,202	304,356
Mathematical reserve	76,842	53,186
Deferred acquisition cost (Net)	(4,639)	(1,758)
Unexpired risk reserve	18,809	2,155
Case reserves	1,209,341	201,513
Incurred but not reported reserve	132,831	41,039
Unallocated loss adjusted expense reserve	6,288	6,288
	2,486,674	606,779

*ALAE Reserve is included in the Loss Reserves (Case reserves and Incurred but not reported reserve)

18 SUMMARY OF THE ACTUARY'S REPORT ON THE TECHNICAL PROVISIONS (continued)

(b) Reconciliation of technical provisions as per actuary's report and the insurance contract liabilities in the consolidated financial statements is as follows:

As per consolidated financial statements:

	Gross		Net	
	2016	2015	**2016**	2015
	AED'000	AED'000	**AED'000**	AED'000
Unearned premium reserve	**870,872**	1,009,373	**307,086**	296,732
Premiums collected in advance	**93,054**	103,788	**14,526**	19,264
Mathematical reserve	**120,154**	54,973	**92,052**	45,738
Unit-linked funds' reserve	**25,936**	14,055	**25,936**	14,055
Outstanding claims	**1,921,525**	1,201,621	**198,507**	199,979
Incurred but not reported reserve	**227,543**	44,363	**53,251**	40,094
Allocated loss adjustment expense reserve	**16,254**	7,999	**2,278**	1,534
Unallocated loss adjustment expense reserve	**6,288**	-	**6,288**	-
	3,281,626	2,436,172	**699,924**	617,396
Deferred acquisition costs	**(7,786)**	(4,639)	**(4,113)**	(1,758)
Add/(less): Additional reserve	**(4,063)**	55,141	**(2,138)**	(8,859)
As per Actuarial valuation (note 18a)	**3,269,777**	2,486,674	**693,673**	606,779

19 EMPLOYEES' END OF SERVICE BENEFITS

Movement in the provision recognised in the consolidated statement of financial position is as follows:

	General Insurance		Life Insurance		Consolidated Total	
	2016	2015	**2016**	2015	**2016**	2015
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Provision as at 1 January	**14,784**	12,807	**945**	744	**15,729**	13,551
Provided during the year	**3,243**	2,891	**190**	400	**3,433**	3,291
End of service benefits paid	**(1,025)**	(821)	**(17)**	(199)	**(1,042)**	(1,020)
Exchange differences	**(587)**	(93)	**-**	-	**(587)**	(93)
Provision as at 31 December	**16,415**	14,784	**1,118**	945	**17,533**	15,729

20 REINSURANCE AND OTHER PAYABLES

This item consists of the following:

	General Insurance		Life Insurance		Consolidated Total	
	2016	2015	2016	2015	2016	2015
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Payables – Inside UAE	**229,343**	164,574	**15,655**	11,525	**244,998**	176,099
Payables – Outside UAE	**500,788**	463,945	**23,685**	25,808	**524,473**	489,753
Total	**730,131**	628,519	**39,340**	37,333	**769,471**	665,852
Inside UAE						
Insurance/reinsurance companies payable	**61,003**	44,478	**2,688**	1,249	**63,691**	45,727
Payable to agents and brokers	**16,880**	10,927	**3,585**	3,234	**20,465**	14,161
Payable to employees	**16,115**	14,686	**3,329**	2,752	**19,444**	17,438
Other payables	**135,345**	94,483	**6,053**	4,290	**141,398**	98,773
Total	**229,343**	164,574	**15,655**	11,525	**244,998**	176,099
Outside UAE						
Insurance/reinsurance companies payable	**467,736**	430,140	**23,623**	25,807	**491,359**	455,947
Payable to agents and brokers	**2,490**	3,698	**5**	-	**2,495**	3,698
Payable to employees	**1,542**	1,655	**-**	-	**1,542**	1,655
Other payables	**29,020**	28,452	**57**	1	**29,077**	28,453
Total	**500,788**	463,945	**23,685**	25,808	**524,473**	489,753

21 BASIC AND DILUTED EARNINGS PER SHARE

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

	2016	2015
	AED'000	AED'000
Profit after tax for the year	**313,847**	272,037
Less: Attributable to non-controlling interests	**(11,368)**	(8,149)
Profit attributable to shareholders	**302,479**	263,888
Weighted average number of shares outstanding during the year	**5,000**	5,000
Earnings per share (AED)	**60.50**	52.78

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

22 RELATED PARTY TRANSACTIONS

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

Transactions with related parties included in the consolidated statement of income are as follows:

	General Insurance		Life Insurance		Total	
	2016	2015	2016	2015	2016	2015
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Gross premium written	**210,566**	216,467	**13,437**	7,729	**224,003**	224,196
Administration expenses	**14,440**	18,758	**794**	831	**15,234**	19,589
Motor vehicle repair charges paid relating to claims	**80,699**	76,193	**-**	-	**80,699**	76,193
Interest income	**2,761**	3,313	**2,331**	889	**5,092**	4,202
Rental income	**3,750**	3,574	**-**	-	**3,750**	3,574
Dividend income	**49,551**	49,551	**-**	-	**49,551**	49,551

	General Insurance		Life Insurance		Total	
	2016	2015	2016	2015	2016	2015
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Investment securities	**44,143**	38,695	**-**	-	**44,143**	38,695
Deposit with banks	**72,569**	113,044	**54,308**	50,306	**126,877**	163,350
Amounts owed by related parties	**26,868**	62,151	**138**	29	**27,006**	62,180
Amounts owed to related parties	**9,612**	7,871	**-**	-	**9,612**	7,871

Investment securities and deposits with banks are disclosed in notes 8,10 and 13, respectively.

Amounts due from and due to related parties are disclosed in notes 9 and 20 respectively.

As at 31 December 2016, amounts owed by related parties were not impaired. The impairment assessment is undertaken each financial year through examining the financial position of the related parties and the market in which related party operates.

Compensation of key management personnel

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

	31 December 2016 AED'000	31 December 2015 AED'000
Short-term benefits	**24,030**	22,890
Employees' end of service benefits	**1,386**	956
	25,416	23,846

The amount disclosed in the table are the amounts recognised as an expense during the year.

23 RISK MANAGEMENT

The risks faced by the Group and the manner these risks are managed by management are summarised below:

(a) Governance framework

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

The Group's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the Group President and Senior Vice Presidents.

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

(b) Capital management framework

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

(c) Regulatory framework

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

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

Pursuant to the requirement of financial regulations of Insurance Authority, United Arab Emirates, the Group has presented the consolidated statement of financial position and consolidated statement of income of comprehensive income of General Insurance (referred as 'Property and Liability Insurance') and Life Insurance (referred as 'Persons and Funds Accumulation Operations') as follows:.

23 RISK MANAGEMENT (CONTINUED)

(c) Regulatory framework *(continued)*

FINANCIAL INFORMATION OF PERSONS AND FUND ACCUMULATION OPERATIONS

Consolidated statement of financial position of persons and fund accumulation operations

	Notes	2016 AED'000	2015 AED'000
ASSETS			
Property and equipment	6	**1,305**	1,629
Available-for-sale investments	8	**25,936**	14,055
Insurance balances receivable	9	**26,843**	23,292
Statutory deposits	10	**5,433**	4,716
Insurance contracts assets	11	**148,471**	84,696
Other receivables and prepayments	12	**11,719**	13,307
Bank deposits	13	**87,768**	46,308
Cash and cash equivalents	13	**50,433**	23,691
TOTAL ASSETS		**357,908**	211,694
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
General reserve	16	**10,000**	-
Retained earning reserve		**17,473**	5,159
Total equity		**27,473**	5,159
Liabilities			
Retirement benefit obligation	19	**1,118**	945
Reinsurance and other payable	20	**39,340**	37,333
		40,458	38,278
Insurance contract liabilities			
Outstanding claims	11	**101,602**	52,657
Unearned premium reserve	11	**26,736**	43,390
Unit-linked funds' reserve	11	**25,936**	14,055
Claims incurred but not reported	11	**15,120**	3,182
Unallocated loss adjustment expenses	11	**429**	-
Mathematical Reserve	11	**120,154**	54,973
Total insurance contract liabilities		**289,977**	168,257
Total liabilities		**330,435**	206,535
TOTAL EQUITY AND LIABILITIES		**357,908**	211,694

23 RISK MANAGEMENT (CONTINUED)

(c) Regulatory framework *(continued)*

FINANCIAL INFORMATION OF PERSONS AND FUND ACCUMULATION OPERATIONS (continued)

Consolidated statement of income of persons and funds accumulation operations

	Notes	2016 AED'000	2015 AED'000
Gross premium written	11	**305,001**	233,935
Reinsurance share of ceded premiums	11	**(122,369)**	(109,086)
Net premium written		**182,632**	124,849
Net transfer to unearned premium reserve/mathematical reserve		**(56,398)**	(37,617)
Net premium earned		**126,234**	87,232
Commission income		**9,073**	11,120
Commission expenses		**(57,449)**	(51,418)
Gross underwriting income		**77,858**	46,934
Gross claims paid		**107,127**	92,517
Reinsurance share of insurance claims and loss adjustment expenses recovered from reinsurers		**(87,933)**	(79,066)
Net claims paid		**19,194**	13,451
Increase/(decrease) in provisions for outstanding claims		**48,945**	(8,559)
(Increase)/decrease in reinsurance share of outstanding claims		**(44,271)**	7,870
Decrease in incurred but not reported reserves		**(741)**	-
Increase in unallocated loss adjustment expense reserve		**429**	-
Net claims incurred		**23,556**	12,762
Net underwriting income		**54,302**	34,172
Income from investments	14	**2,867**	911
Total income		**57,169**	35,083
General and administrative expenses		**(34,855)**	(19,904)
Profit before tax		**22,314**	15,179

23 RISK MANAGEMENT (CONTINUED)

(c) Regulatory framework *(continued)*

FINANCIAL INFORMATION OF PROPERTY AND LIABILITY INSURANCE

Consolidated statement of financial position of property and liability insurance

	Notes	2016 AED'000	2015 AED'000
ASSETS			
Property and equipment	6	**106,186**	117,051
Investments in an associate	7	**70,000**	-
Held-to-maturity investments	8	**65,293**	130,125
Available-for-sale investments	8	**1,551,093**	1,821,899
Investments classified as fair value through income statement	8	**13,804**	13,554
Insurance receivables	9	**385,783**	423,845
Statutory deposits	10	**48,536**	64,991
Insurance contract assets	11	**2,433,231**	1,734,080
Other receivables and prepayments	12	**33,458**	22,980
Bank deposits	13	**1,260,059**	1,166,257
Cash and cash equivalents	13	**300,032**	95,680
Total Assets		**6,267,475**	5,590,462
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent:			
Share capital		**500,000**	500,000
Statutory reserve	16	**125,000**	125,000
Legal reserve	16	**250,000**	226,596
Exceptional loss reserve	16	**177,763**	159,680
General reserve	16	**648,664**	509,845
Retained earnings		**8,818**	8,959
Available-for-sale reserve	16	**782,907**	1,055,087
Foreign currency translation adjustments	16	**(85,814)**	(46,938)
Proposed Dividend	17	**100,000**	100,000
		2,507,338	2,638,229
Non-controlling interest		**21,942**	41,015
Total equity		**2,529,280**	2,679,244
Liabilities			
Retirement benefit obligation	19	**16,415**	14,784
Reinsurance and other payable	20	**730,131**	628,519
		746,546	643,303

23 RISK MANAGEMENT (CONTINUED)

(c) Regulatory framework *(continued)*

FINANCIAL INFORMATION OF PROPERTY AND LIABILITY INSURANCE (continued)

Consolidated statement of financial position of property and liability insurance (continued)

	Notes	2016 AED'000	2015 AED'000
Insurance contract liabilities			
Outstanding claims	11	**1,819,923**	1,148,964
Premium collected in advance		**93,054**	103,788
Unearned premium reserve	11	**844,136**	965,983
Incurred but not reported reserve	11	**212,423**	41,181
Allocated loss adjustment expense reserve	11	**16,254**	7,999
Unallocated loss adjustment expense reserve	11	**5,859**	-
Total insurance contract liabilities		**2,991,649**	2,267,915
TOTAL LIABILITIES		**3,738,195**	2,911,218
TOTAL EQUITY AND LIABILITIES		**6,267,475**	5,590,462

Consolidated statement of income of property and liability insurance

	Notes	2016 AED'000	2015 AED'000
Gross premium written	11	**2,275,887**	1,967,304
Reinsurance share of inward premiums	11	**92,233**	132,443
Reinsurance share of ceded premiums	11	**(1,682,242)**	(1,491,042)
Net premium		**685,878**	608,705
Net transfer to unearned premium reserve		**(51,771)**	(69,366)
Net premium earned		**634,107**	539,339
Commission income		**176,707**	166,304
Commission expenses		**(144,115)**	(117,788)
Gross underwriting income		**666,699**	587,855
Gross claims paid		**1,236,370**	650,831
Reinsurance share of insurance claims and loss adjustment expenses recovered from reinsurers		**(958,857)**	(477,838)
Reinsurance share of ceded claims		**40,676**	78,494
Net claims paid		**318,189**	251,487

23 RISK MANAGEMENT (CONTINUED)

(c) Regulatory framework *(continued)*

FINANCIAL INFORMATION OF PROPERTY AND LIABILITY INSURANCE (continued)

Consolidated statement of income of property and liability insurance (continued)

	Notes	2016 AED'000	2015 AED'000
Increase in provisions for outstanding claims		**754,592**	620,723
Increase in reinsurance share of outstanding claims		**(719,888)**	(580,694)
Increase/(decrease) in incurred but not reported claims reserves		**13,898**	(5,668)
Increase in allocated and unallocated loss adjustment expense reserves		**6,603**	591
Net claims incurred		**373,394**	286,439
Net underwriting income		**293,305**	301,416
Income from investments	14	**127,057**	102,909
Other income		**11,317**	10,475
		431,679	414,800
General and administrative expenses		**(138,242)**	(151,339)
Profit before tax		**293,437**	263,461

Indirect expenses included in general and administrative expenses have been allocated between property and liability insurance and persons and funds accumulation operations on the basis of the gross premiums written by each business during the year.

(d) Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

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

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

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

23 A Insurance risk

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

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

23 RISK MANAGEMENT (CONTINUED)

(d) Asset liability management (ALM) framework *(continued)*

23 A Insurance risk (continued)

Frequency and Severity of Claims
The frequency and severity of claims can be affected by several factors. The Group underwrites mainly property, engineering, motor, miscellaneous accident, marine, medical and group life and personal accident classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Property
For property insurance contracts, the main perils are fire damage and other allied perils and business interruption resulting therefrom.

These contracts are underwritten either on replacement value or indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption and the basis of insurance are the main factors that influence the level of claims.

Engineering
For engineering insurance contracts, the main elements of risks are loss or damage to insured project works and resultant third party liabilities, loss or damage to insured plant, machinery and equipment and resultant business interruption losses. The extent of the loss or damage is the main factor that influences the level of claims.

Motor
For motor insurance contracts, the main elements of risks are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles.

The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims.

Miscellaneous Accident
For miscellaneous accident classes of insurance such as loss of money, infidelity of employees, personal accident, workmen's compensation, travel, general third party liability and professional indemnity, the extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

Marine
In marine insurance the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in the total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

Medical, Group Life and Personal Accident
In medical insurance, the main risk elements are illness and accidents and related healthcare costs. For group life and personal accident the main risks elements are claims arising from death and/or permanent or partial disability.

Individual Life
For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. Group wide reinsurance limits on any single life insured and on all high risk individuals insured are in place.

23 RISK MANAGEMENT (CONTINUED)

(d) Asset liability management (ALM) framework *(continued)*

23 A Insurance risk (continued)

The Group has adequate reinsurance arrangements to protect its financial viability against such claims for all the above classes.

Geographical concentration of risks
The insurance risk arising from insurance contracts is primarily concentrated mainly in the United Arab Emirates. The geographical concentration of risks is similar to last year.

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

Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

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 reinsures.

The five largest reinsurers account for 34% of the maximum credit exposure at 31 December 2016 (2015: 29%). The maximum theoretical credit risk exposure in this connection is mainly from receivables in the UAE business.

23 B Financial risk
Financial instrument consists of financial assets and financial liabilities. The Group has no derivative financial instruments.

Financial assets of the Group include cash and cash equivalents, deposits with banks, other receivables, insurance receivables and investment securities.

Financial liabilities of the Group include reinsurance payables, amounts held under reinsurance treaties and other payables and accruals.

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

Interest *rate* risk
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's only exposure to interest rate risk is on account of its investment in floating rate bonds included under available-for-sale investments. The Group limits interest rate risk by monitoring changes in interest rates in the currencies in which its investment is denominated.

23 RISK MANAGEMENT (continued)

(d) Asset Liability Management (ALM) Framework (continued)

23 B Financial risk (continued)

Details of maturities of the major classes of financial assets as at 31 December are as follows:

31 December 2016	Less than 1 year AED'000	1 to 5 years AED'000	Non interest bearing items AED'000	Total AED'000	Effective interest rate
Investment securities	39,635	240,445	1,376,046	1,656,126	5.5% - 19.2%
Insurance balance receivables	-	-	412,626	412,626	
Other receivables and prepayments	-	-	45,177	45,177	
Deposits with banks	1,207,861	193,935	-	1,401,796	1% - 15%
Bank balances	117,733	-	232,672	350,405	0.8% - 13.2%
	1,365,229	434,380	2,066,521	3,866,130	

31 December 2015	Less than 1 year AED'000	1 to 5 years AED'000	Non interest bearing items AED'000	Total AED'000	Effective interest rate
Investment securities	53,577	295,024	1,631,032	1,979,633	1% - 12.6%
Insurance balance receivables	-	-	447,137	447,137	
Other receivables and prepayments	-	-	32,112	32,112	
Deposits with banks	941,823	340,449	-	1,282,272	0.8% - 12.8%
Bank balances	30,500	-	88,811	119,311	0.8% - 12.8%
	1,025,900	635,473	2,199,092	3,860,465	

Effective interest rate varies among Group's investments across various countries where it operates.

The sensitivity of Group's consolidated statement of income to reasonably possible changes in interest rates, with all other variables constant is considered insignificant.

23 RISK MANAGEMENT (continued)

(d) Asset Liability Management (ALM) Framework (continued)

23 B Financial risk (continued)

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

	Increase in exchange rate	Effect on profit & other comprehensive income AED'000
31 December 2016		
Egyptian Pounds	**+5%**	**1,901**
Syrian Pounds	**+5%**	**516**
Sri Lankan Rupees	**+5%**	**728**
Turkish Lire	**+5%**	**106**
31 December 2015		
Egyptian Pounds	+5%	3,055
Syrian Pounds	+5%	1,142
Sri Lankan Rupees	+5%	640
Turkish Lire	+5%	319

Equity price risk

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

The Group's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices. The Group's equity investments comprise securities quoted on the Stock Exchanges in United Arab Emirates.

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

	2016			2015		
	Change in equity price %	Effect on equity AED'000	Effect on income statement AED'000	Change in equity price %	Effect on equity AED'000	Effect on income statement AED'000
All investments – (Mainly Dubai Financial Market and Abu Dhabi Stock Market)	**10**	**129,216**	**1,380**	10	156,472	1,141

23 RISK MANAGEMENT (continued)

(d) Asset Liability Management (ALM) Framework (continued)

23 B Financial risk (continued)

Credit risk

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

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

- The Group only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Group's exposure to bad debts.

- The Group seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.

- The Group's bank balances are maintained with a range of local banks in accordance with limits set by the board of directors.

- There are no significant concentrations of credit risk within the Group.

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

	Notes	**31 December 2016 AED'000**	31 December 2015 AED'000
Investment securities	8	**80,081**	148,601
Insurance balance receivables	9	**412,626**	447,137
Insurance contract assets	11	**1,911,286**	1,012,376
Deposits with banks and bank balances	10 & 13	**1,752,201**	1,401,583
TOTAL CREDIT RISK EXPOSURE		**4,156,194**	3,009,697

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The table below provides information regarding the credit risk exposure of the Group by classifying assets according to the Group's credit rating of counterparties.

23 RISK MANAGEMENT (CONTINUED)

23 B Financial risk (continued)

Credit risk (continued)

31 December 2016	Neither past due nor impaired				
	Investment grade AED'000	Non Investment grade (satisfactory) AED'000	Non investment grade (unsatisfactory) AED'000	Past due or impaired AED'000	Total AED'000
Investment securities	**14,785**	**65,296**	**-**	**-**	**80,081**
Insurance balance receivables	**412,626**	**-**	**-**	**17,188**	**429,814**
Insurance contract assets	**1,911,286**	**-**	**-**	**-**	**1,911,286**
Deposits with banks and bank balances	**1,702,311**	**49,890**	**-**	**-**	**1,752,201**
					4,173,382
Less: impairment provision					**(17,188)**
					4,156,194

31 December 2015	Neither past due nor impaired				
	Investment grade AED'000	Non Investment grade (satisfactory) AED'000	Non investment grade (unsatisfactory) AED'000	Past due or impaired AED'000	Total AED'000
Investment securities	18,468	130,133	-	-	148,601
Insurance balance receivables	447,137	-	-	19,540	466,677
Insurance contract assets	1,012,376	-	-	-	1,012,376
Deposits with banks and bank balances	1,313,155	88,428	-	-	1,401,583
					3,029,237
Less: impairment provision					(19,540)
					3,009,697

23 RISK MANAGEMENT (CONTINUED)

23 B Financial risk (continued)

The ageing analysis of insurance balance receivables is as follows:

Consolidated	*Policy holders 2016 AED'000*	*Insurance and reinsurance companies 2016 AED'000*	*Total 2016 AED'000*	*Policy holders 2015 AED'000*	*Insurance and reinsurance companies 2015 AED'000*	*Total 2015 AED'000*
Inside UAE						
Less than 30 days	**159,906**	**2,172**	**162,078**	222,609	3,480	226,089
30 – 90 days	**84,008**	**5,536**	**89,544**	81,946	1,459	83,405
91 – 180 days	**38,604**	**6,380**	**44,984**	30,365	418	30,783
181 – 270 days	**10,561**	**4,206**	**14,767**	11,525	3,782	15,307
271 – 360 days	**6,225**	**2,212**	**8,437**	5,274	7,251	12,525
More than 360 days	**11,493**	**1,374**	**12,867**	4,180	411	4,591
Total	**310,797**	**21,880**	**332,677**	355,899	16,801	372,700
Outside UAE						
Less than 30 days	**12,367**	**12,990**	**25,357**	11,307	9,260	20,567
30 – 90 days	**12,513**	**8,677**	**21,190**	15,472	2,190	17,662
91 – 180 days	**13,877**	**5,576**	**19,453**	11,587	6,062	17,649
181 – 270 days	**6,138**	**9,039**	**15,177**	7,658	9,520	17,178
271 – 360 days	**2,046**	**3,383**	**5,429**	11,120	4,316	15,436
More than 360 days	**4,109**	**6,422**	**10,531**	2,889	2,596	5,485
Total	**51,050**	**46,087**	**97,137**	60,033	33,944	93,977
Total	**361,847**	**67,967**	**429,814**	415,932	50,745	466,677

The Group provides credit facilities upto 120 days. For assets to be classified as 'past due and impaired' contractual payments in arrears are more than 120 days and an impairment adjustment is recorded in the consolidated statement of income for this. When the credit exposure is adequately secured, arrears more than 120 days might still be classified as "past due but not impaired", with no impairment adjustment recorded.

The Group issues unit–linked investment policies in a number of its operations. In the unit–linked business, the policyholder bears the investment risk on the assets held in the unit–linked funds, as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Group has no material credit risk on unit–linked financial assets.

23 RISK MANAGEMENT (CONTINUED)

23 B Financial risk (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its commitments associated with insurance contracts and financial liabilities as they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. The table in the following page summarises, in AED'000 the maturity of the assets and liabilities of the Group based on remaining undiscounted contractual obligations. As the Group does not have any interest bearing liabilities, the totals in the table match the consolidated statement of financial position.

	31 December 2016				31 December 2015			
	Less than one year AED '000	More than one year AED '000	No term AED '000	Total AED '000	Less than one year AED '000	More than one year AED '000	No term AED '000	Total AED '000
ASSETS								
Property and equipment	-	-	107,491	107,491	-	-	118,680	118,680
Investments in an associate	-	-	70,000	70,000	-	-	-	-
Investment securities	39,635	240,445	1,376,046	1,656,126	53,577	295,024	1,631,032	1,979,633
Insurance contract assets	2,581,702	-	-	2,581,702	1,818,776	-	-	1,818,776
Insurance balance receivables	406,416	6,210	-	412,626	447,137	-	-	447,137
Other receivables and prepayments	45,177	-	-	45,177	36,287	-	-	36,287
Term deposits and bank balances	1,504,297	193,935	53,969	1,752,201	991,487	340,449	69,707	1,401,643
TOTAL ASSETS	4,577,227	440,590	1,607,506	6,625,323	3,347,264	635,473	1,819,419	5,802,156
EQUITY AND LIABILITIES								
Equity								
Share capital	-	-	500,000	500,000	-	-	500,000	500,000
Statutory reserve	-	-	125,000	125,000	-	-	125,000	125,000
Legal reserve	-	-	250,000	250,000	-	-	226,596	226,596
Exceptional loss reserve	-	-	177,763	177,763	-	-	159,680	159,680
General reserve	-	-	658,664	658,664	-	-	509,845	509,845
Retained earnings	-	-	26,291	26,291	-	-	14,118	14,118
Available-for-sale reserve	-	-	782,907	782,907	-	-	1,055,087	1,055,087
Foreign currency translation reserve	-	-	(85,814)	(85,814)	-	-	(46,938)	(46,938)
Proposed dividends	100,000	-	-	100,000	100,000	-	-	100,000
Non-controlling interest	-	-	21,942	21,942	-	-	41,015	41,015
Total equity	100,000	-	2,456,753	2,556,753	100,000	-	2,584,403	2,684,403

23 RISK MANAGEMENT (CONTINUED)

23 B Financial risk (continued)

Liquidity risk (continued)

	31 December 2016				31 December 2015			
	Less than one year AED '000	More than one year AED '000	No term AED '000	Total AED '000	Less than one year AED '000	More than one year AED '000	No term AED '000	Total AED '000
Liabilities								
Insurance contracts liabilities	3,255,690	25,936	-	3,281,626	2,422,117	14,055	-	2,436,172
Reinsurance and other payables	769,471	-	-	769,471	665,852	-	-	665,852
Retirement benefit obligations	-	-	17,533	17,533	-	-	15,729	15,729
Total liabilities	4,025,161	25,936	17,533	4,068,630	3,087,969	14,055	15,729	3,117,753
TOTAL EQUITY AND LIABILITIES	4,125,161	25,936	2,474,286	6,625,383	3,187,969	14,055	2,600,132	5,802,156

Capital management

Capital requirements are set and regulated by the regulatory requirements in the UAE, Oman, Syria, Egypt, Sri Lanka, Turkey and Bahrain. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Group to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Group manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to shareholders or issue capital securities.

The Group fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its objectives, policies and processes from the previous year.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

Underwriting risk

Underwriting risk refers to the potential loss to the Group emanating from the perils covered and the processes used in the conduct of business.

Underwriting risk is mitigated by the Group by diversification across a large portfolio of insurance contracts. The variability of risks is also managed by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Group regularly reviews its management of risk in the context of relevant internal and external factors and changes in these factors.

24 CONTINGENCIES AND COMMITMENTS

a) Legal Claims

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

b) Contingent liabilities

At 31 December 2016, guarantees, other than those relating to claims for which provisions are held, amounting to AED 16,470 thousand (2015: AED 15,894 thousand) had been issued on behalf of the Group by its banker in the ordinary course of business.

c) Capital commitments

The Group has the following capital commitments at the statement of financial position date:

	2016 AED'000	*2015 AED'000*
Commitment for investments	**11,057**	16,505

25 FAIR VALUE MEASUREMENT

A. Determination of fair value and fair value hierarchy

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

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

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

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

The following table shows an analysis of assets recorded at fair value by level of the fair value hierarchy:

25 FAIR VALUE MEASUREMENT (CONTINUED)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000
31 December 2016				
Financial assets held-for-trading:				
Equity securities	13,804	-	-	13,804
Available-for-sale financial assets:				
Banking sector	1,288,316	-	-	1,288,316
Other sectors	3,843	-	-	3,843
Equity securities				
Investments held on behalf of policy holders of unit linked products	25,936	-	-	25,936
	1,331,899	-	-	1,331,899

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000
31 December 2015				
Financial assets held-for-trading:				
Equity securities	11,406	-	-	11,406
Financial assets designated at fair value through profit or loss				
Equity securities	-	-	2,148	2,148
Available-for-sale financial assets:				
Banking sector	1,560,845	-	-	1,560,845
Other sectors	3,875	-	-	3,875
Equity securities				
Investments held on behalf of policy holders of unit linked products	14,055	-	-	14,055
Debt securities	9,800	-	-	9,800
	1,599,981	-	2,148	1,602,129

25 FAIR VALUE MEASUREMENT (CONTINUED)

Financial instruments recorded at fair value

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

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

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

25 FAIR VALUE MEASUREMENT (CONTINUED)

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

31 December 2016

	At 1 January 2016 AED'000	*Total gain or loss recorded in profit and loss 2016 AED'000*	*Sale AED'000*	*At 31 December 2016 AED'000*
Financial assets designated at fair value through profit or loss				
Equity securities	2,148	8	2,156	-
Total	2,148	8	2,156	-

31 December 2015

	At 1 January 2015 AED'000	*Total gain or loss recorded in profit and loss AED'000*	*At 31 December 2015 AED'000*
Financial assets designated at fair value through profit or loss			
Equity securities	2,136	12	2,148
Total	2,136	12	2,148

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

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

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

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

Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity and would qualify for a level 2 disclosure.

25 FAIR VALUE MEASUREMENT (CONTINUED)

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit and maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

26 RECLASSIFICATIONS

Certain previous year amounts have been reclassified to conform with current presentation. The following table summarises the effect of previous year reclassifications on the consolidated financial statements:

Consolidated Statement of Financial Position

	31 December 2015		
	As previously reported	*Reclassification*	*As reclassified*
	AED'000	*AED'000*	*AED'000*
Insurance contract assets (note a and c)	1,738,427	80,349	1,818,776
Prepayment and other receivables (note a)	32,112	4,175	36,287
Insurance contract liabilities (note b and c)	2,334,640	101,532	2,436,172
Reinsurance and other payables (note a, b and c)	698,589	(32,737)	665,852
Retirement benefit obligations (note c)	-	15,729	15,729

a) Reinsurance share of premium collected in advance of AED 84,524 thousand is classified and presented in insurance contract assets from reinsurance and other payable. Deferred acquisition costs of AED 4,175 thousand are reclassified and presented under prepayment and other receivables in the consolidated statement of financial position.

b) Premium collected in advance of AED 103,788 thousand is classified and presented in insurance contract liabilities from reinsurance and other payables. Reinsurance share of deferred acquisition costs of AED 2,256 thousand are reclassified and presented under reinsurance and other payables in the consolidated statement of financial position.

c) Retirement benefit obligations of AED 15,729 thousand has been reclassified from reinsurance and other payables and separately disclosed in the consolidated statement of financial position.