

**Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)**  
**Dubai - United Arab Emirates**

**Report and consolidated financial statements**  
**for the year ended 31 December 2016**

## **Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)**

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## INDEPENDENT AUDITOR'S REPORT

### The Shareholders

**Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)**

**United Arab Emirates**

**Report on the Audit of the Financial Statements**

### Opinion

We have audited the financial statements of **Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)** (the "Company") **and its subsidiaries** (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

### Basis 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 (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities requirements 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.

### Emphasis of Matter

We draw attention to Note 36 to the consolidated financial statements which explains that the Company entered into an agreement with the former Chief Executive Officer (CEO) on 9 July 2013 for the payment for and/or transfer of certain assets and investments that were held by him on trust and for the benefit of the Group. As of the date of this report, assets with a total carrying value of AED 12.4 million which are still in his name or owing from him, have not been yet transferred or paid to the Group. The Group is undergoing several legal litigations in regards to the transfer of these assets which involves a degree of uncertainty as to the full and timely recoverability of these assets. The Board of Directors is still confident with respect to the realization of the carrying value of assets and therefore no adjustments to the carrying value of the assets are required. Our opinion is not modified in respect of this matter.

Cont'd...

## INDEPENDENT AUDITOR'S REPORT (continued)

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | How the matter was addressed in our audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
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| <b>Valuation of financial assets measured at fair value</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <p>The valuation of the Group's financial assets measured at fair value was a key area of focus as the fair value of financial instruments is determined through the application of valuation techniques which often involves the exercise of judgement and the use of assumptions and estimates.</p> <p>Due to the significance of financial assets measured at fair value and the related uncertainty, this is considered a key audit risk. As at 31 December 2016 financial assets measured at fair value represented 57% of the total assets. Level 1 represented 10.5%, whereas Level 3 represented around 89.5%. Estimation uncertainty is particularly high for those instruments where significant valuation inputs are unobservable i.e. within Level 3 whereas in the case of level 1 investments the risk is heightened when current market conditions reduce the liquidity of the investment portfolio and therefore an element of judgement may be needed to be factored in the valuation.</p> | <p>We evaluated the designed and implementation of controls around the valuation of investments.</p> <p>For all of the Level 1 financial assets, we tested 100% of the year end prices by tracing it to reliable third party sources. In addition, the liquidity of the portfolio was considered at the year-end date to assess whether any adjustment was required to the valuation of illiquid assets.</p> <p>For unlisted equity investments, we performed additional procedures critically assessing key inputs and assumptions, considering alternative valuation methods and assessing sensitivities to key factors, in addition, we have assessed the reasonableness of the liquidity factor considered for Level 3 financial assets.</p> <p>Further, for unlisted equity investments that are handled by a third party administrator, specifically for managing the unit linked investments, we obtained a direct confirmation from the custodian for the investments held as of 31 December 2016 along with their fair value. In additional to that, we also assessed the control environment of the third party administrator by obtaining the service auditors report of the third party administrator.</p> <p>Finally we assessed whether the financial statements disclosures, including sensitivities to key inputs appropriately reflects the Groups exposure to financial instruments valuation risk.</p> |

### Valuation of takaful contract liabilities and retakaful contract assets

#### Valuation of technical provisions

At 31 December 2016, the Group had the following reserves as required by the U.A.E. Insurance Authority as per the Financial Regulations for Takaful Companies:

- Unearned contribution reserve—AED 180,529,905 (gross), AED 63,074,882 (net)
- Claims reported unsettled —AED 148,137,195 (gross), AED 26,082,879 (net)
- Mathematical reserve—AED 16,999,857 (gross), AED 2,841,865(net)
- Claims incurred but not reported—AED 48,428,978 (gross), AED 24,563,803 (net)
- Unallocated loss adjustment expense – AED 1,646,397 (net)
- Unit Linked Liabilities – AED 595,587,545(net )

Refer to Note 3 (accounting policy) and Note 7 (financial disclosures)

## INDEPENDENT AUDITOR'S REPORT (continued)

### Key Audit Matters (continued)

#### Valuation of takaful contract liabilities and retakaful contract assets (continued)

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | How the matter was addressed in our audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
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| <p><b>Valuation of technical provisions</b></p> <p>The technical provisions are a material balance within the consolidated financial statements. Valuation of these technical provisions is highly judgmental, and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those provisions that are recognised in respect of claims that have occurred, but have not yet been reported to the Group. Certain lines of business also contain greater inherent uncertainty, for example, those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts.</p> <p>The key assumptions that drive the reserving calculations include loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business by territory and line of business.</p> <p>The valuation of technical provisions depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating technical provisions, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of technical provisions may arise.</p> <p>The calculation of the technical provisions involves complex and subjective judgments about future events, both internal and external to the business. Any small change in the assumptions used can lead to material impacts on the valuation of the technical provisions.</p> <p>In addition, the valuation of re-insurers' share of claims outstanding is dependent on, but not directly correlated to, the valuation of the underlying claims outstanding. There is judgement involved in ascertaining the level of retakaful share of IBNR held, which depends on the specific terms of the retakaful contracts in place.</p> <p>Furthermore, valuation of life tactful contract liabilities involves complex and subjective judgement made by the management and the independent external actuary about variety of uncertain future outcomes, including the estimation return, such as expense, mortality and persistency. Changes in these assumptions can result in material impacts to the valuation of these liabilities.</p> <p>As a result of all the above factors, we consider the valuation of takaful contract liabilities and retakaful contract assets as a key audit matter.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Testing the underlying Group data provided to the Group's external valuer to source documentation.</li> <li>• Evaluating and testing of key controls around the claims handling and case reserve setting processes of the Group including allocation of retakaful portion of the claims.</li> <li>• Evaluating and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process.</li> <li>• Checking samples of claims case reserves through comparing the estimated amount of the case reserve to appropriate documentation, such as reports from loss adjuster and retakaful contracts.</li> <li>• Re-performing reconciliations between the claims data recorded in the Group's systems and the data used in the actuarial reserving calculations.</li> <li>• Recalculating the unearned premium reserve based on the earning period on takaful contracts existing as at 31 December 2016.</li> <li>• Obtaining the retakaful treaty summary for the year and verifying the details in the summary to the respective agreements on samples basis.</li> </ul> <p>In addition, with the assistance of our actuarial specialists, we:</p> <ul style="list-style-type: none"> <li>• performed necessary reviews to ascertain whether the results are appropriate for financial disclosure.</li> <li>• reviewed the actuarial report compiled by the independent external actuaries of the Group and calculations underlying these provisions, particularly the following areas:</li> <li>• Appropriateness of the calculation methods and approach (actuarial best practice)</li> <li>• Review of assumptions</li> <li>• Sensitivities to key assumptions</li> <li>• Risk profiles</li> <li>• General application of financial and mathematical rules</li> </ul> |

## INDEPENDENT AUDITOR'S REPORT (continued)

### Other Information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Group. We obtained Board of Directors' report prior to the date of this auditor's report. The other information does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not and we will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Management and those charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, its Article of Association 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.

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

### Auditor's responsibilities for the audit of the Consolidated Financial Statements

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

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 AUDITOR'S REPORT (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 Group and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

## INDEPENDENT AUDITOR'S REPORT (continued)

### Report on Other Legal and Regulatory Requirements

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Group has maintained proper books of account;
- the financial information included in the report of the Directors is consistent with the books of accounts of the Group;
- as disclosed in Note 9 to the consolidated financial statements, the Group has purchased or invested in shares during the financial year ended 31 December 2016;
- Note 29 to the consolidated financial statements reflects material related party transactions, and the terms under which they were conducted;
- based on the information that has been made available to us, and except for the matter in the following paragraph, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the U.A.E. Federal Law No. (2) of 2015, the UAE Federal Law No. (6) of 2007 concerning the establishment of the Insurance Authority and Organisation of its operation or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016.

We draw attention to the fact that as of 31 December 2016, the Group had accumulated losses of AED 118 million which exceeded 50% of the Company's share capital. As per Article 302 of the Federal law no. (2) of 2015, if the losses of a Joint Stock Company reach half of its issued capital, the Board of Directors shall within 30 days from the date of disclosure to the Ministry or the Authority, as applicable, of the periodical or annual financial statements invite the General Assembly to take a special Decision to resolve the Company prior to the expiry of its term or to continue in the activity of the Company. As of the date of the report, the Company did not invite for an AGM within thirty days from the date of disclosure of its financial results to address such breach.

- Note 25 to the consolidated financial statements reflects the social contributions made during the year.

Further, as required by the UAE Federal Law No. 6 of 2007 and the related Financial Regulations for Takaful Companies issued by the Insurance Authority, we have obtained all the required information and explanations we considered necessary for the purposes of our audit. As discussed in Note 3 to the consolidated financial statements, the Group is still in the process of complying with certain Sections of the Financial Regulations for the Takaful companies issued by the Insurance Authority.

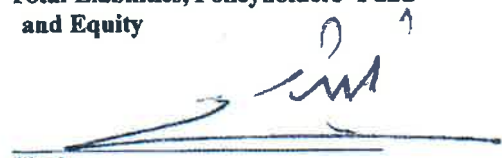
**Deloitte & Touche (M.E.)**



Musa Ramahi  
Registration No. 872  
30 March 2017  
Dubai  
United Arab Emirates

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

|                                                          | Note | 2016<br>AED          | 2015<br>AED<br>(Restated) | 2014<br>AED<br>(Restated) |
|----------------------------------------------------------|------|----------------------|---------------------------|---------------------------|
| <b>Policyholders' fund</b>                               |      |                      |                           |                           |
| Deficit in policyholders' fund                           |      | (189,367,124)        | (181,835,578)             | (141,574,549)             |
| Qard Hassan from shareholders                            |      | 189,367,124          | 181,835,578               | 141,574,549               |
| Policyholders' investments revaluation reserve           | 9    | (17,390,119)         | (48,583,895)              | (13,510,863)              |
| <b>Total deficit in policyholders' fund</b>              | 17   | <b>(17,390,119)</b>  | <b>(48,583,895)</b>       | <b>(13,510,863)</b>       |
| <b>Total Policyholders' Fund and Liabilities</b>         |      | <b>1,162,087,036</b> | <b>1,077,411,795</b>      | <b>931,171,864</b>        |
| <b>Equity</b>                                            |      |                      |                           |                           |
| Share capital                                            | 18   | 225,750,000          | 225,750,000               | 225,750,000               |
| Legal reserve                                            | 19   | 18,729,615           | 18,729,615                | 18,729,615                |
| General reserve                                          | 20   | 18,729,615           | 18,729,615                | 18,729,615                |
| Investments revaluation reserve - FVTOCI                 | 9    | (74,808,679)         | (50,371,164)              | (59,637,987)              |
| Accumulated losses                                       |      | (118,029,974)        | (90,213,610)              | (86,027,008)              |
| <b>Equity attributable to shareholders of the Parent</b> |      | <b>70,370,577</b>    | <b>122,624,456</b>        | <b>117,544,235</b>        |
| Non-controlling interest                                 |      | (407,494)            | (8,441,330)               | (8,778,953)               |
| <b>Total Equity</b>                                      |      | <b>69,963,083</b>    | <b>114,183,126</b>        | <b>108,765,282</b>        |
| <b>Total Liabilities, Policyholders' Fund and Equity</b> |      | <b>1,232,050,119</b> | <b>1,191,594,921</b>      | <b>1,039,937,146</b>      |

  
Jihad Faitrouni  
Chief Executive Officer

  
Mohammed Omeir Yousef Almheiri  
Chairman

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

**Consolidated statement of financial position**  
**As at 31 December 2016**

|                                                                                           | Note | 2016<br>AED          | 2015<br>AED<br>(Restated) | 2014<br>AED<br>(Restated) |
|-------------------------------------------------------------------------------------------|------|----------------------|---------------------------|---------------------------|
| <b>ASSETS</b>                                                                             |      |                      |                           |                           |
| Cash and bank balances                                                                    | 5    | 58,121,643           | 56,217,405                | 59,531,926                |
| Statuary deposit                                                                          | 6    | 10,000,000           | 10,000,000                | 10,000,000                |
| Retakaful contract assets                                                                 |      |                      |                           |                           |
| Unearned contribution reserve                                                             | 7    | 117,455,023          | 123,739,525               | 62,488,621                |
| Claims reported unsettled                                                                 | 7    | 122,054,316          | 127,139,695               | 130,621,081               |
| Mathematical Reserve                                                                      | 7    | 14,157,992           | 11,177,661                | 12,146,422                |
| Claims incurred but not reported                                                          | 7    | 23,865,175           | 5,194,246                 | 11,056,629                |
| Takaful receivables                                                                       | 8    | 86,293,655           | 92,853,387                | 68,370,485                |
| Other financial assets measured at fair value through other comprehensive income (FVTOCI) | 9    | 97,891,280           | 88,675,112                | 114,506,374               |
| Other financial assets measured at fair value through profit and loss (FVTPL)             | 9    | 607,353,075          | 573,082,036               | 469,160,500               |
| Prepayments and other receivables                                                         | 10   | 12,002,157           | 14,831,325                | 11,776,381                |
| Deferred policy acquisition costs                                                         |      | 9,069,308            | 9,069,207                 | 9,231,488                 |
| Due from related parties                                                                  | 29   | 3,164,112            | 5,355,039                 | 7,441,904                 |
| Investment property                                                                       | 11   | 66,500,000           | 70,000,000                | 70,000,000                |
| Furniture and equipment                                                                   | 12   | 4,122,383            | 4,260,283                 | 3,605,335                 |
| <b>Total Assets</b>                                                                       |      | <b>1,232,050,119</b> | <b>1,191,594,921</b>      | <b>1,039,937,146</b>      |
| <b>LIABILITIES, POLICYHOLDERS' FUND AND EQUITY</b>                                        |      |                      |                           |                           |
| <b>Liabilities</b>                                                                        |      |                      |                           |                           |
| Due to Bank                                                                               | 13   | 10,667,340           | 20,001,125                | 20,001,463                |
| Trade and other payables                                                                  | 14   | 74,702,816           | 88,308,495                | 68,776,126                |
| Takaful payables                                                                          | 15   | 77,655,047           | 57,730,041                | 57,683,516                |
| Due to related parties                                                                    | 29   | 6,142,519            | 1,259,677                 | 1,259,677                 |
| Takaful contract liabilities                                                              |      |                      |                           |                           |
| Unearned contribution reserve                                                             | 7    | 180,529,905          | 195,363,688               | 127,797,208               |
| Claims reported unsettled                                                                 | 7    | 148,137,195          | 154,008,353               | 154,928,912               |
| Mathematical Reserve                                                                      | 7    | 16,999,857           | 14,903,985                | 16,195,704                |
| Claims incurred but not reported                                                          | 7    | 48,428,978           | 14,826,405                | 21,913,926                |
| Unallocated loss adjustment expenses                                                      | 7    | 1,646,397            | -                         | -                         |
| Unit Linked Liabilities                                                                   | 7    | 595,587,545          | 556,782,236               | 447,364,700               |
| Murabaha and Ijara payables                                                               | 16   | 10,250,000           | 14,295,181                | 17,568,101                |
| Deferred discount                                                                         |      | 4,850,101            | 4,627,598                 | 7,432,787                 |
| Amounts held under Retakaful treaties                                                     |      | 3,879,455            | 3,888,906                 | 3,760,607                 |
| <b>Total Liabilities</b>                                                                  |      | <b>1,179,477,155</b> | <b>1,125,995,690</b>      | <b>944,682,727</b>        |

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

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

|                                                          | Note | 2016<br>AED          | 2015<br>AED<br>(Restated) | 2014<br>AED<br>(Restated) |
|----------------------------------------------------------|------|----------------------|---------------------------|---------------------------|
| <b>Policyholders' fund</b>                               |      |                      |                           |                           |
| Deficit in policyholders' fund                           |      | (189,367,124)        | (181,835,578)             | (141,574,549)             |
| Qard Hassan from shareholders                            |      | 189,367,124          | 181,835,578               | 141,574,549               |
| Policyholders' investments revaluation reserve           | 9    | (17,390,119)         | (48,583,895)              | (13,510,863)              |
| <b>Total deficit in policyholders' fund</b>              | 17   | <b>(17,390,119)</b>  | <b>(48,583,895)</b>       | <b>(13,510,863)</b>       |
| <b>Total Policyholders' Fund and Liabilities</b>         |      | <b>1,162,087,036</b> | <b>1,077,411,795</b>      | <b>931,171,864</b>        |
| <b>Equity</b>                                            |      |                      |                           |                           |
| Share capital                                            | 18   | 225,750,000          | 225,750,000               | 225,750,000               |
| Legal reserve                                            | 19   | 18,729,615           | 18,729,615                | 18,729,615                |
| General reserve                                          | 20   | 18,729,615           | 18,729,615                | 18,729,615                |
| Investments revaluation reserve - FVTOCI                 | 9    | (74,808,679)         | (50,371,164)              | (59,637,987)              |
| Accumulated losses                                       |      | (118,029,974)        | (90,213,610)              | (86,027,008)              |
| <b>Equity attributable to shareholders of the Parent</b> |      | <b>70,370,577</b>    | <b>122,624,456</b>        | <b>117,544,235</b>        |
| Non-controlling interest                                 |      | (407,494)            | (8,441,330)               | (8,778,953)               |
| <b>Total Equity</b>                                      |      | <b>69,963,083</b>    | <b>114,183,126</b>        | <b>108,765,282</b>        |
| <b>Total Liabilities, Policyholders' Fund and Equity</b> |      | <b>1,232,050,119</b> | <b>1,191,594,921</b>      | <b>1,039,937,146</b>      |

Jihad Faitrouni  
Chief Executive Officer

Mohammed Omeir Yousef Almheiri  
Chairman

**Consolidated Income Statement  
for the year ended 31 December 2016**

|                                                          | Note   | 2016<br>AED          | 2015<br>AED<br>(Restated) |
|----------------------------------------------------------|--------|----------------------|---------------------------|
| <b>Attributable to policyholders</b>                     |        |                      |                           |
| <i><b>Takaful income</b></i>                             |        |                      |                           |
| Gross takaful contributions                              | 21     | 414,455,951          | 442,765,328               |
| Retakaful share of accepted business                     | 21     | (224,783,342)        | (227,558,617)             |
| Retakaful share of ceded business                        | 21     | (39,786,399)         | (42,011,814)              |
| <b>Net Takaful contributions</b>                         | 21     | <b>149,886,210</b>   | <b>173,194,897</b>        |
| Net transfer to unearned contributions reserve           |        | 8,549,281            | (6,315,576)               |
| Increase in mathematical reserve                         |        | 884,459              | 322,958                   |
| <b>Net Takaful contributions earned</b>                  |        | <b>159,319,950</b>   | <b>167,202,279</b>        |
| Discount received on ceded Retakaful                     |        | 11,387,781           | 15,028,315                |
| Policy fees                                              |        | 21,664,090           | 16,410,832                |
|                                                          |        | <b>192,371,821</b>   | <b>198,641,426</b>        |
| <i><b>Takaful expenses</b></i>                           |        |                      |                           |
| Gross claims incurred                                    | 22     | (190,224,859)        | (199,870,172)             |
| Retakaful share of accepted business claims              | 22     | 56,983,688           | 57,090,763                |
| Retakaful share of ceded business claims                 | 22     | 20,406,742           | 19,980,447                |
| <b>Net Takaful claims</b>                                | 22     | <b>(112,834,429)</b> | <b>(122,798,962)</b>      |
| Provision for outstanding claims                         |        | 5,871,158            | 920,559                   |
| Retakaful share of outstanding claims                    |        | (5,085,379)          | (3,481,386)               |
| Increase in incurred but not reported claims             |        | (14,931,644)         | 1,225,140                 |
| Increase in unallocated loss adjustment expenses reserve |        | (1,646,397)          | -                         |
| <b>Net claims incurred</b>                               |        | <b>(128,626,691)</b> | <b>(124,134,649)</b>      |
| Excess of loss of takaful contribution                   |        | (8,902,017)          | (9,147,401)               |
| Policy acquisition cost                                  | 39 (b) | -                    | (28,049,978)              |
|                                                          |        | <b>(137,528,708)</b> | <b>(161,332,028)</b>      |
| <b>Net Takaful income</b>                                |        | <b>54,843,113</b>    | <b>37,309,398</b>         |
| Wakala fees                                              | 23     | (64,365,342)         | (75,065,590)              |
| Investment income/(loss)                                 | 24     | 300,449              | (2,504,840)               |
| Mudarib's share                                          | 23     | (75,112)             | -                         |
| Reversed policyholders dividend                          |        | 1,765,346            | -                         |
| <b>Net loss from takaful operation for the year</b>      |        | <b>(7,531,546)</b>   | <b>(40,261,032)</b>       |

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

**Consolidated Income Statement  
for the year ended 31 December 2016 (continued)**

|                                                       | <b>Note</b> | <b>2016<br/>AED</b>  | <b>2015<br/>AED<br/>(Restated)</b> |
|-------------------------------------------------------|-------------|----------------------|------------------------------------|
| <b>Attributable to shareholders</b>                   |             |                      |                                    |
| <b>Income</b>                                         |             |                      |                                    |
| Investment income/(loss)                              | 24          | 1,478,437            | (2,457,474)                        |
| Wakala fees from policyholders                        | 23          | 64,365,342           | 75,065,590                         |
| Mudarib's share from policyholders                    | 23          | 75,112               | -                                  |
| Other operating income                                |             | 21,403,023           | 21,789,212                         |
|                                                       |             | <u>87,321,914</u>    | <u>94,397,328</u>                  |
| <b>Expenses</b>                                       |             |                      |                                    |
| Policy acquisition cost                               | 39 (b)      | (26,630,221)         | -                                  |
| General and administrative expenses                   | 25          | (73,242,543)         | (56,853,050)                       |
| Contribution from Qard Hassan to policyholders' fund  |             | (7,531,546)          | (40,261,032)                       |
|                                                       |             | <u>(107,404,310)</u> | <u>(97,114,082)</u>                |
| <b>Loss for the year attributable to shareholders</b> |             | <u>(20,082,396)</u>  | <u>(2,716,754)</u>                 |
| <b>Attributable to:</b>                               |             |                      |                                    |
| Shareholders of the parent                            |             | (19,671,641)         | (3,054,377)                        |
| Non-controlling interests                             |             | (410,755)            | 337,623                            |
|                                                       |             | <u>(20,082,396)</u>  | <u>(2,716,754)</u>                 |
| <b>Loss per share</b>                                 | 26          | <u>(0.09)</u>        | <u>(0.01)</u>                      |

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

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

|                                                                                                       | 2016<br>AED         | 2015<br>AED<br>(Restated) |
|-------------------------------------------------------------------------------------------------------|---------------------|---------------------------|
| <b>Attributable to Policyholders:</b>                                                                 |                     |                           |
| <b>Loss for the year</b>                                                                              | (7,531,546)         | (40,261,032)              |
| <i>Items that will not be reclassified subsequently to profit or loss:</i>                            |                     |                           |
| Changes in fair value of financial assets carried at<br>fair value through other comprehensive income | 31,193,776          | (35,073,032)              |
| <b>Total loss for the year Attributable to Policyholders</b>                                          | <u>23,662,230</u>   | <u>(75,334,064)</u>       |
| <b>Attributable to Shareholders:</b>                                                                  |                     |                           |
| <b>Loss for the year</b>                                                                              | (20,082,396)        | (2,716,754)               |
| <b>Other comprehensive (loss)/income</b>                                                              |                     |                           |
| <i>Items that will not be reclassified subsequently to profit or loss:</i>                            |                     |                           |
| Changes in fair value of financial assets carried at<br>fair value through other comprehensive income | (24,437,515)        | 9,266,823                 |
| <b>Total comprehensive (loss)/income for the year</b>                                                 | <u>(44,519,911)</u> | <u>6,550,069</u>          |
| <b>Attributable to:</b>                                                                               |                     |                           |
| Shareholders of the parent                                                                            | (44,109,156)        | 6,212,446                 |
| Non-controlling interests                                                                             | (410,755)           | 337,623                   |
|                                                                                                       | <u>(44,519,911)</u> | <u>6,550,069</u>          |

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

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

|                                                                                 | Share<br>capital<br>AED | Legal<br>reserve<br>AED | General<br>reserve<br>AED | Investments<br>revaluation<br>reserve -<br>FVTOCI<br>AED | Accumulated<br>losses<br>AED | Equity<br>attributable<br>to shareholders<br>of the Parent<br>AED | Non-<br>controlling<br>interests<br>AED | Total<br>AED      |
|---------------------------------------------------------------------------------|-------------------------|-------------------------|---------------------------|----------------------------------------------------------|------------------------------|-------------------------------------------------------------------|-----------------------------------------|-------------------|
| Balance at 1 January 2015<br>(As previously reported)                           | 225,750,000             | 18,729,615              | 18,729,615                | (59,637,987)                                             | (69,926,025)                 | 133,645,218                                                       | (8,778,953)                             | 124,866,265       |
| Effect of changes in accounting<br>policies (note 36)                           | -                       | -                       | -                         | -                                                        | (16,100,983)                 | (16,100,983)                                                      | -                                       | (16,100,983)      |
| As at 1 January 2015 (restated)                                                 | 225,750,000             | 18,729,615              | 18,729,615                | (59,637,987)                                             | (86,027,008)                 | 117,544,235                                                       | (8,778,953)                             | 108,765,282       |
| Loss for the year                                                               | -                       | -                       | -                         | -                                                        | (3,054,377)                  | (3,054,377)                                                       | 337,623                                 | (2,716,754)       |
| Other comprehensive income for the year                                         | -                       | -                       | -                         | 9,266,823                                                | -                            | 9,266,823                                                         | -                                       | 9,266,823         |
| Total other comprehensive income<br>for the year                                | -                       | -                       | -                         | 9,266,823                                                | (3,054,377)                  | 6,212,446                                                         | 337,623                                 | 6,550,069         |
| Zakat                                                                           | -                       | -                       | -                         | -                                                        | (1,132,225)                  | (1,132,225)                                                       | -                                       | (1,132,225)       |
| Balance at 31 December 2015                                                     | 225,750,000             | 18,729,615              | 18,729,615                | (50,371,164)                                             | (90,213,610)                 | 122,624,456                                                       | (8,441,330)                             | 114,183,126       |
| Loss for the year                                                               | -                       | -                       | -                         | -                                                        | (19,671,641)                 | (19,671,641)                                                      | (410,755)                               | (20,082,396)      |
| Other comprehensive income for the year                                         | -                       | -                       | -                         | (24,437,515)                                             | -                            | (24,437,515)                                                      | -                                       | (24,437,515)      |
| Total other comprehensive loss for the year                                     | -                       | -                       | -                         | (24,437,515)                                             | (19,671,641)                 | (44,109,156)                                                      | (410,755)                               | (44,519,911)      |
| Introduction of new share capital in non-<br>controlling interest               | -                       | -                       | -                         | -                                                        | -                            | -                                                                 | 353,000                                 | 353,000           |
| Net change in non-controlling interest due<br>to change in ownership percentage | -                       | -                       | -                         | -                                                        | (7,294,000)                  | (7,294,000)                                                       | 8,091,591                               | 797,591           |
| Zakat                                                                           | -                       | -                       | -                         | -                                                        | (1,157,528)                  | (1,157,528)                                                       | -                                       | (1,157,528)       |
| Reversed Directors' remuneration                                                | -                       | -                       | -                         | -                                                        | 306,805                      | 306,805                                                           | -                                       | 306,805           |
| <b>Balance at 31 December 2016</b>                                              | <b>225,750,000</b>      | <b>18,729,615</b>       | <b>18,729,615</b>         | <b>(74,808,679)</b>                                      | <b>(118,029,974)</b>         | <b>70,370,577</b>                                                 | <b>(407,494)</b>                        | <b>69,963,083</b> |

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

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

|                                                                            | 2016<br>AED  | 2015<br>AED<br>(Restated) |
|----------------------------------------------------------------------------|--------------|---------------------------|
| <b>Cash flows from operating activities</b>                                |              |                           |
| Loss for the year                                                          | (20,082,396) | (2,716,754)               |
| Adjustments for:                                                           |              |                           |
| Depreciation of furniture and equipment                                    | 1,536,076    | 1,452,040                 |
| (Gain)/loss on sale of investments measured at FVTPL, net                  | (1,935,967)  | 7,924,625                 |
| Loss on revaluation of investment property                                 | 3,500,000    | -                         |
| Allowance for doubtful receivables                                         | 8,500,000    | 500,000                   |
| Dividend income                                                            | (2,458,065)  | (2,084,675)               |
| Profit income                                                              | (222,528)    | (304,974)                 |
| Provision for employees' end of service benefits                           | 1,639,611    | 1,507,295                 |
| Loss on disposal of furniture and equipment                                | -            | 18,486                    |
|                                                                            | <hr/>        | <hr/>                     |
| <b>Changes in operating assets and liabilities:</b>                        | (9,523,269)  | 6,296,043                 |
| Increase in Retakaful contract assets                                      | (10,281,380) | (50,938,384)              |
| Increase in Takaful receivables                                            | (1,940,268)  | (24,982,902)              |
| Decrease /(increase) in prepayments and other receivables                  | 2,829,168    | (5,697,853)               |
| Increase in due from related parties                                       | 2,190,927    | 2,086,865                 |
| Increase in Takaful contract liabilities                                   | 55,445,210   | 167,684,225               |
| (Decrease)/increase in amounts held under Retakaful treaties               | (9,451)      | 128,300                   |
| Increase in Takaful and Retakaful payables                                 | 19,925,009   | 46,525                    |
| (Decrease)/increase in trade and other payables                            | (13,365,732) | 19,262,304                |
| Increase in due to a related party                                         | 4,882,842    | -                         |
| Increase/(decrease) in deferred discount                                   | 222,501      | (2,805,189)               |
| (Increase)/decrease in deferred policy acquisition costs                   | (100)        | 162,280                   |
|                                                                            | <hr/>        | <hr/>                     |
| <b>Cash generated from operations</b>                                      | 50,375,457   | 111,242,214               |
| Employees' end of service benefits paid                                    | (849,385)    | (506,141)                 |
|                                                                            | <hr/>        | <hr/>                     |
| <b>Net cash from operating activities</b>                                  | 49,526,072   | 110,736,073               |
|                                                                            | <hr/>        | <hr/>                     |
| <b>Cash flows from investing activities</b>                                |              |                           |
| Purchase of furniture and equipment                                        | (1,398,176)  | (2,172,322)               |
| Proceeds from sale of furniture and equipment                              | -            | 46,848                    |
| Purchase of other financial assets measured at FVTPL                       | (3,195,317)  | (38,759,971)              |
| Proceeds from sale of other financial assets measured at FVTPL             | 9,665,554    | 36,331,346                |
| Net increase in unit linked investments                                    | (38,805,309) | (109,417,536)             |
| Purchase of other financial assets measured at FVTOCI                      | (2,459,907)  | -                         |
| Proceeds from redemption/sale of other financial assets measured at FVTOCI | -            | 25,053                    |
| Dividend income received                                                   | 2,458,065    | 2,084,675                 |
| Profit income received                                                     | 222,528      | 304,974                   |
|                                                                            | <hr/>        | <hr/>                     |
| <b>Net cash used in investing activities</b>                               | (33,512,562) | (111,556,933)             |
|                                                                            | <hr/>        | <hr/>                     |
| <b>Cash flows from financing activities</b>                                |              |                           |
| Repayment of Ijara payables                                                | (4,046,570)  | (3,333,430)               |
| Receipts from Murabaha financing                                           | 1,389        | 60,512                    |
| Increase in due to bank                                                    | (9,333,785)  | (338)                     |
| Increase in zakat payable                                                  | (730,306)    | 779,595                   |
|                                                                            | <hr/>        | <hr/>                     |
| <b>Net cash used in financing activities</b>                               | (14,109,272) | (2,493,661)               |
|                                                                            | <hr/>        | <hr/>                     |
| <b>Net increase /(decrease) in cash and cash equivalents</b>               | 1,904,238    | (3,314,521)               |
| Cash and cash equivalents at the beginning of the year                     | 31,217,405   | 34,531,926                |
|                                                                            | <hr/>        | <hr/>                     |
| <b>Cash and cash equivalents at the end of the year (Note 5)</b>           | 33,121,643   | 31,217,405                |
|                                                                            | <hr/>        | <hr/>                     |
| <b>Non-cash transaction:</b>                                               |              |                           |
| Introduction of new share capital in non-controlling interest              | 353,000      | -                         |
| Write off of loan from shareholder                                         | 797,591      | -                         |
|                                                                            | <hr/>        | <hr/>                     |

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2016**

**1. General information**

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC) is registered as a public shareholding company in Dubai, United Arab Emirates. The Company carries out general Takaful (insurance) business in accordance with the principles of Islamic Sharia'a as interpreted by its Fatwa and Sharia Board. The Company is also licensed to engage in Retakaful and life Takaful business. The registered address of the Company is P.O. Box 157, Dubai, United Arab Emirates.

The Company obtained its commercial license on 12 March 2003 and commenced operations on 8 April 2003.

The Company mainly issues short term Takaful contracts in connection with motor, marine, fire and engineering, general accident risks, group life, credit life, individual life and medical risks (collectively known as general Takaful). The Company also invests in investment securities and properties.

The Company's business activities are subject to the supervision of its Fatwa and Sharia'a Board consisting of three members appointed by the shareholders. The Sharia'a Board performs a supervisory role in order to determine whether the operations of the Company are conducted in accordance with Sharia'a rules and principles.

The Company with its subsidiaries are together referred to as the "Group" in these consolidated financial statements. At 31 December 2016, the Company had the following subsidiaries:

| <b>Name of subsidiary</b>             | <b>Place of<br/>incorporation<br/>(or registration)<br/>and operation</b> | <b>Beneficial of<br/>ownership<br/>profit<br/>%</b> | <b>Proportion<br/>of voting<br/>power held<br/>%</b> | <b>Principal activity</b>                                                         |
|---------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------|------------------------------------------------------|-----------------------------------------------------------------------------------|
| Nawat Investments L.L.C.              | United Arab Emirates                                                      | 100.00                                              | 100.00                                               | Investment in commercial, industrial and agricultural enterprises and management. |
| Technik Auto Service Centre Co. L.L.C | United Arab Emirates                                                      | 100.00                                              | 100.00                                               | Vehicles' repair services                                                         |
| Amity Health L.L.C.                   | United Arab Emirates                                                      | 90.00                                               | 90.00                                                | Medical billing services                                                          |

The Chairman of the Group holds 1% of Nawat Investments L.L.C and 1% of Technik Auto Service Centre Co. L.L.C on behalf and for the benefit of the Group.

*Going concern*

The Group had accumulated losses of AED 118 million which exceeded 50% of the Group's share capital. As per Article 302 of the Federal law no. (2) of 2015, if the losses of a Joint Stock Company reach half of its issued capital, the Board of Directors shall within 30 days from the date of disclosure to the Ministry or the Authority, as applicable, of the periodical or annual financial statements invite the General Assembly to take a special decision to dissolve the Group prior to the expiry of its term or to continue in the activity of the Group. The consolidated financial statements have been prepared on a going concern basis and do not include any adjustments relating to recoverability and classification of liabilities that might be necessary should the Group be unable to continue as a going concern as the Group is in the process of taking the following actions in order to address this issue:

- Decrease total expenses of the Group by immediate corrective action
- Increase the prices of Motor and Fire insurance policies

Recommendation to write off a part of the accumulated losses through releasing the legal and general reserves of the Group after obtaining the necessary approvals from the concerned regulators.

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

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

**2.1 New and revised IFRS applied with no material effect on the consolidated financial statements**

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

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

**2.2 New and revised IFRS in issue but not yet effective**

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

**New and revised IFRS**

**Effective for  
annual periods  
beginning on or after**

Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28.

The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.

Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses.

1 January 2017

Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

1 January 2017

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

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

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

| <b><u>New and revised IFRS</u></b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b><u>Effective for<br/>annual periods<br/>beginning on or after</u></b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| <p>IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i></p> <p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> <li>• there is consideration that is denominated or priced in a foreign currency;</li> <li>• the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and</li> <li>• the prepayment asset or deferred income liability is non-monetary.</li> </ul> | 1 January 2018                                                           |
| <p>Amendments to IFRS 2 <i>Share Based Payment</i> regarding classification and measurement of share based payment transactions.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 1 January 2018                                                           |
| <p>Amendments to IFRS 4 <i>Insurance Contracts</i>: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.</p>                                                                                                                                                                                                                                                                                                                                                                                                                              | 1 January 2018                                                           |
| <p>Amendments to IAS 40 <i>Investment Property</i>: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.</p>                                            | 1 January 2018                                                           |
| <p>Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                         | When IFRS 9 is first applied                                             |
| <p>IFRS 7 <i>Financial Instruments: Disclosures</i> relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.</p>                                                                                                                                                                                                                                                                                                                                                                      | When IFRS 9 is first applied                                             |
| <p>Finalised version of IFRS 9 (IFRS 9 <i>Financial Instruments</i> (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.</p>                                                                                                                                                                                                                                   | 1 January 2018                                                           |

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

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

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

**New and revised IFRS**

**Effective for  
annual periods  
beginning on or after**

A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract

*IFRS 15 Revenue from Contracts with Customers*

1 January 2018

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

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

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

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 *Revenue from Contracts with Customers* to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

1 January 2018

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

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

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

| <u>New and revised IFRS</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <u>Effective for<br/>annual periods<br/>beginning on or after</u> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| IFRS 16 <i>Leases</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 1 January 2019                                                    |
| <p>IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.</p> |                                                                   |
| Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.                                                                                                                                                                                                                            | Effective date deferred indefinitely                              |

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 15, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

**3. Significant accounting policies**

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

**Statement of compliance**

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

The articles of association of the Company require that separate accounts be maintained for Takaful operations on behalf of the policyholders.

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

The Group is in the process of complying with the requirements of the Financial Regulations for Insurance Companies issued by the Insurance Authority especially pertaining to Article (1) of Section (7) and Appendix (1) relating to presentation of financial statements and disclosures in addition to the compliance with the regulatory capital requirements and investment concentration limits.

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

**3. Significant accounting policies (continued)**

**Changes in accounting policy**

As per Federal Law No 6 of 2007, relating to Establishment of Insurance Authority and regulation of Insurance operations, a new financial regulation for insurance companies was issued on 28 January 2015. The financial regulation provided an alignment period for insurance companies between one to three years from the publication of financial regulation in Public Gazette from 29 January 2015 to comply with the covenants of the regulations therein. The Company is in the process of aligning the operations with the requirement of the regulations and will be fully aligned before the deadline for alignment period.

During 2016, the company has adapted the above directives that related to recognising technical reserves based on external independent valuers report. Consequently, the Group has changed the basis for recognition of unearned contribution reserve ('UCR'), from an internal statistical model applied earlier.

The change in the basis of recognition this year has resulted in recognising UCR using 1/365<sup>th</sup> method except for marine cargo and engineering. The UCR for the marine cargo is recognised as fixed proportion of written premium and UCR for engineering is recognized on a daily increasing basis over the term of the policy period.

The Change has been applied by the Company retrospectively as management believes that the change in basis provides more relevant and reliable information of the Company's financial performance and its financial position to the financial users. The effect of the change in accounting policy are disclosed in Note 37.

**Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

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

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

The consolidated financial statements are presented in Arab Emirates Dirham (AED). The principal accounting policies are set out below.

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

**3. Significant accounting policies (continued)**

**Basis of consolidation**

These consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group. Control is achieved where the Group has:

- power over an investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns.

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

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Business combinations (continued)**

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holder to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 and IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit and loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in consolidated statement of comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

**Presentation**

The consolidated statements of income and consolidated statement of profit or loss and comprehensive income of the Group present separately the profit and loss and the comprehensive income attributable to the participants and to shareholders.

The notes to the consolidated financial statements presents relevant captions in the consolidated statement of financial position separately for participants' fund and shareholders' fund assets and liabilities.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Gross Takaful contributions**

Gross Takaful contributions comprise the total contributions receivable for the whole period of cover provided by Takaful contracts entered into during the accounting period and are recognised on the date on which the Takaful policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of Takaful contracts executed in prior accounting periods. Contributions collected by intermediaries but not yet received, are assessed based on estimates from Takaful operations or past experience and are included in Takaful contributions.

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

**Retakaful contribution**

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

Gross retakaful contribution on life are recognised as an expense on the earlier of the date when contribution are payable or when the policy becomes effective

**Claims**

Claims consist of amounts paid and payable to Takaful contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to income as incurred. Provision for incurred but not reported claims is included within the Claims reported unsettled and reflected in the consolidated income statement.

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

**Retakaful share of claims incurred**

Retakaful share of claims are recognised when the related gross claim is recognised according to the terms of the relevant contract

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Retakaful**

The Group cedes Takaful risk in the normal course of business for all of its businesses. Retakaful assets represent balances due from Retakaful companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the Retakaful contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the Retakaful can be measured reliably. The impairment loss is recorded in the consolidated income statement. Ceded Retakaful arrangements do not relieve the Group from its obligations to policyholders.

Ceded retakaful arrangements do not relieve the Group from its obligations to participants.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Contributions and claims on assumed retakaful are recognised as income and expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the reinsured business. Retakaful liabilities represent balances due to retakaful companies. Amounts payable are estimated in a manner consistent with the associated retakaful contract.

Contributions and claims are presented on a gross basis for both ceded and assumed retakaful.

Retakaful assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party

**Policy acquisition costs**

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are amortized over the terms of the policies as Takaful contribution is earned.

**Discounts earned**

Discounts earned are recognised at the time policies are written. Discount earned on outwards retakaful contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

**Receivables and payables related to Takaful contracts**

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

If there is objective evidence that the Takaful receivable is impaired, the Group reduces the carrying amount of the Takaful receivable accordingly and recognizes that impairment loss in the consolidated income statement.

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

**3. Significant accounting policies (continued)**

**Product classification**

Takaful contracts are those contracts where a group of participants (the policyholders) mutually cover one another against prescribed uncertain future events of loss or damage. The Group acts as an agent (Wakil) on their behalf in managing the Islamic Takaful operations, in consideration of a Wakala fee. Wakala fee is charged on gross Takaful contributions where the Group retained significant risk on such contributions. No Wakala fee is charged on those Takaful contributions where they retain insignificant risk. The Takaful amounts (contributions) paid net of the Wakala fee are considered as Mudaraba capital, where the Group acts as Mudarib, investing these funds in consideration of a pre-agreed share of the realised profit or loss, if any. The policyholders further donate their contributions (tabarru) to those other policyholders who suffer a prescribed event of loss or damage, payable per the policies of the Group, in its capacity as an agent.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable provided in 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 a Takaful contract, it remains as a Takaful contract for the remainder of its lifetime, even if the Takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. An investment contract can however be classified as an insurance contract after its inception if the insurance risk becomes significant.

The policyholder bears the financial risk relating to some insurance contracts or investment contracts. Such products are usually called unit-linked contracts.

**Takaful contract liabilities**

*(i) Unearned contributions reserve*

At the end of each year a proportion of net retained contributions of the general Takaful, medical and group life Takaful is reserved to cover portions of risks which have not expired at the reporting date. These reserves are calculated using 1/365<sup>th</sup> method relating to general Takaful except Marine Cargo and engineering. The UCR for the marine cargo is recognised as fixed proportion of written premium and UCR for engineering is recognized on a daily increasing basis over the term of the policy period.

*(ii) Outstanding claims*

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

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

**3. Significant accounting policies (continued)**

**Takaful contract liabilities (continued)**

*(iii) Claims incurred but not reported*

A provision is made for the estimated excess of potential claims over unearned contribution and for claims incurred but not reported at the financial position date using chain ladder method.

The reserves represent management's best estimates on the basis of:

- a) claims reported during the year
- b) delay in reporting these claims

*(iv) Unit linked liabilities*

For unit linked policies, liability is equal to the policy account values. The account value is the number of unit times the bid price. The investment component of these insurance contract are designated as at fair value through profit and loss.

*(v) Unexpired risk reserve*

Provision is made for unexpired risk reserve arising from general takaful contract where the expected value of claim and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned contribution reserve and already recorded claim liabilities in relation to such policies. The provision for unexpired risk reserve is calculated by reference to classes of business, which are managed together, after taking into account the future investment return on investment held to back the Unearned contributions reserve and outstanding claims.

**Surplus/deficit in policyholders' fund**

If the surplus in the participants' fund at the end of a year is sufficiently large, a percentage of the surplus shall be distributed between participants that have not made a claim, in proportion to their risk contributions to the fund after accounting for reserves. The distributions will be approved by the Group's Shari'a Supervisory Board. Any remaining surplus after the distribution will remain in the participants' fund.

A deficiency in participants' fund is made good by a profit free loan (Qard Hassan) from the shareholders' fund. This loan is to be repaid from future surpluses arising from takaful operations on a priority basis.

On liquidation of the fund, the accumulated surplus in the participants' fund, if any, after meeting all obligations (including repayment of the outstanding amount of profit free loan), will be dealt with after consulting with the Group's Shari'a Supervisory Board. In case of an accumulated deficit, any profit free loan outstanding at the time of liquidation will not be repayable by the participants' fund and the shareholders' fund will forego such outstanding amount.

Any deficit in the participants' fund, except for deficits arising from a decline in the fair value of securities, is financed by the shareholders through a Qard Hassan (a finance cost free loan with no repayment terms). The Group maintains a full provision against the Qard Hassan.

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

**3. Significant accounting policies (continued)**

**Investment income**

Profit from investment deposits is recognised on a time proportion basis.

Dividend income is accounted for when the right to receive payment is established.

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

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the carrying amount and are recorded on occurrence of the sale transaction.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

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

*The Group as lessee*

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**General and administration expenses**

Administration expenses are charged to the shareholders' statement of income. Expenses related to participants are allocated to consolidated statement of income of participant's fund on the basis of guidelines issued by the Sharia'a and Supervisory board.

**Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the consolidated income statement.

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

**3. Significant accounting policies (continued)**

**Financial instruments (continued)**

*Financial assets*

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

In prior years, the Group had early adopted Phase 1 of IFRS 9.

*Classification of financial assets*

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Debt instruments, including receivables related to Takaful contracts, are measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

*Amortised cost and effective profit method*

The effective profit method is a method of calculating the amortised cost of a debt instrument and of allocating profit income over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective profit basis for debt instruments (other than those financial assets designated as FVTPL) are measured subsequently at amortised cost. Profit income is recognised in the consolidated income statement.

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

**3. Significant accounting policies (continued)**

**Financial instruments (continued)**

*Financial assets (continued)*

*Cash and cash equivalents*

Cash and cash equivalents include cash on hand, in banks and deposits in banks with original maturity not more than three months from the date of placement.

*Takaful, Retakaful and other receivables*

Takaful, Retakaful and other receivables that have fixed or determinable payments are measured at amortised cost using the effective profit rate method, less any impairment.

*Financial assets at fair value through other comprehensive income (FVTOCI)*

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; and
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to consolidated income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

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

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

Debt instruments that do not meet the amortised cost criteria (as described above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

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

**3. Significant accounting policies (continued)**

**Financial instruments (continued)**

***Financial assets (continued)***

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the 'net investment income' line item in the consolidated income statement. Fair value is determined in the manner described in Note 34 to the consolidated financial statements.

Profit income on debt instruments as at FVTPL is included in the net gain or loss described above and is included in the 'net investment income' line item.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue and is included in the net gain or loss described above.

***Foreign exchange gains and losses***

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated income statement; and
- for financial assets that are designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated income statement.

***Impairment of financial assets***

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in profit or principal payments; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

**3. Significant accounting policies (continued)**

**Financial instruments (continued)**

***Financial assets (continued)***

***Impairment of financial assets (continued)***

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective profit rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

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

***De-recognition of financial assets***

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

On de-recognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated income statement.

On de-recognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

***Financial liabilities and equity instruments***

***Classification as debt or equity***

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

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

**3. Significant accounting policies (continued)**

**Financial instruments (continued)**

***Financial liabilities and equity instruments (continued)***

*Equity instruments*

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

*Financial liabilities*

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'Other financial liabilities'.

Other financial liabilities, including takaful, retakaful and other payables, Ijara and Murabaha payable and due to banks are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective profit method, with profit expense recognized on an effective yield basis.

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

*Foreign exchange gains and losses*

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

*De-recognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

**Furniture and equipment**

Furniture and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss.

Subsequent costs are included in the asset's carrying amount or recognized 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 are charged to the consolidated income statement when incurred.

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

**3. Significant accounting policies (continued)**

**Furniture and equipment (continued)**

Depreciation is charged so as to write off the cost, over their estimated useful lives, using the straight-line method, as follows:

|                        |         |
|------------------------|---------|
| Furniture and fixtures | 4 years |
| Office equipment       | 4 years |
| Motor vehicles         | 4 years |

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

**Liability adequacy test**

At the end of each reporting date the Group assesses whether its recognised Takaful liabilities are adequate using current estimates of future cash flows under its Takaful contracts. If that assessment shows that the carrying amount of its Takaful liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised as charge against income and an additional reserve created.

**Dividend distribution**

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

**Investment property**

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

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

**Impairment of tangible assets**

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Impairment of tangible assets (continued)**

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

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

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

**Provisions**

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

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

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

**Foreign currencies**

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Foreign currencies (continued)**

Exchange differences are recognized in consolidated income statement in the year in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to finance costs on foreign currency financings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

**Zakat**

Zakat as approved by the Group's Sharia'a Supervisory Board is computed on the following basis:

- Zakat on shareholders' equity is deducted from retained earnings and is computed on their Zakat Pool (Legal Reserve, General Reserve, Retained Earnings and employees' end of service benefits).
- Zakat is distributed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.
- Zakat on paid up capital and proposed dividend is not included in the Zakat computation and is payable directly by the shareholders themselves.

**Provision for employees' end of service indemnity**

Provision for employees' end of service indemnity is made in accordance with the Group's policy which meets the requirements of U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the reporting date.

**Defined contribution plan**

U.A.E. National employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme established pursuant to U.A.E. Federal Labour Law No. 7 of 1999. The Group is required to contribute 12.5% of the "contribution calculation salary" to the retirement benefit scheme to fund the benefits. These employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the consolidated income statement.

**Deferred policy acquisition costs**

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are amortised over the terms of the policies as contribution is earned.

**Notes to the consolidated financial statements  
for the year ended 31 December 2016 (continued)****4. Critical accounting judgements and key sources of estimation uncertainty**

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

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

The significant judgments and estimates made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

**Critical judgements in applying accounting policies***Valuation of unquoted equity investments*

Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, management have determined it using internal valuation that includes the use of mathematical model. Management has used the comparable multiples method to determine the fair value of its financial assets; this method derives the value of the investments using the valuation multiples of other businesses similar in industry, sector and size; assuming that similar companies will have similar valuation multiples. A median of the identified valuation multiples for similar industry in various countries in the MENA was used. This median of multiples and the investment's earnings before interest, tax, depreciation and amortisation (EBITDA) was used to determine the investment's value.

*Provision for outstanding claims, whether reported or not*

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

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

*Unit linked investments*

The Group recognizes the unit linked investments and its related liabilities pertaining to the deposit component of the Takaful contract on gross basis on its consolidated statement of financial position.

These were not recorded in net, as based on the management judgement, financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position if, and only if, as required by IAS 1, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously; which is not the case for the unit linked investments provided by the Group.

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

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

**Key sources of estimation uncertainty**

*Useful lives of furniture and equipment*

Furniture and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

*Impairment losses on Takaful receivables*

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

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

**5. Cash and bank balances**

|                                                                         | <b>2016<br/>AED</b> | <b>2015<br/>AED</b> |
|-------------------------------------------------------------------------|---------------------|---------------------|
| Cash on hand                                                            | <b>312,300</b>      | 167,615             |
| Bank balances :                                                         |                     |                     |
| Wakala deposits                                                         | <b>25,000,000</b>   | 25,000,000          |
| Current accounts                                                        | <b>32,809,343</b>   | 31,049,790          |
|                                                                         | <b>58,121,643</b>   | 56,217,405          |
| Less: Deposits with original maturities<br>of greater than three months | <b>25,000,000</b>   | 25,000,000          |
| Cash and cash equivalents                                               | <b>33,121,643</b>   | 31,217,405          |
| Attributable to:                                                        |                     |                     |
| Policyholders                                                           | <b>17,545,300</b>   | 19,969,658          |
| Shareholders                                                            | <b>40,576,343</b>   | 36,247,747          |
|                                                                         | <b>58,121,643</b>   | 56,217,405          |

The profit rates on Wakala deposits with Banks ranges from 1.5% to 2.00% (2015: 1.5% to 2.00%).

Wakala deposit amounting to AED 25,000,000 (2015: AED 25,000,000) have maturity more than three months.

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

**6. Statuary deposit**

Wakala deposits held as restricted deposits are maintained in accordance with the requirements of U.A.E. Federal Law No. 6 of 2007 concerning the formation of Insurance Authority of U.A.E. and are not available to finance the day to day operations of the Group.

**7. Retakaful contract assets and Takaful contract liabilities**

|                                                     | 2016<br>AED        | 2015<br>AED<br>(Restated) | 2014<br>AED<br>(Restated) |
|-----------------------------------------------------|--------------------|---------------------------|---------------------------|
| <b>Gross</b>                                        |                    |                           |                           |
| Takaful contract liabilities:                       |                    |                           |                           |
| Unearned contribution reserve                       | 180,529,905        | 195,363,688               | 127,797,208               |
| Claims reported unsettled                           | 148,137,195        | 154,008,353               | 154,928,912               |
| Mathematical Reserve                                | 16,999,857         | 14,903,985                | 16,195,704                |
| Claims incurred but not reported                    | 48,428,978         | 14,826,405                | 21,913,926                |
| Unallocated loss adjustment expenses                | 1,646,397          | -                         | -                         |
| Unit linked liabilities                             | 595,587,545        | 556,782,236               | 447,364,700               |
| <b>Total takaful contract liabilities, gross</b>    | <b>991,329,877</b> | <b>935,884,667</b>        | <b>768,200,450</b>        |
| <b>Recoverable from retakaful</b>                   |                    |                           |                           |
| Retakaful contract assets:                          |                    |                           |                           |
| Unearned contribution reserve                       | 117,455,023        | 123,739,525               | 62,488,621                |
| Claims reported unsettled                           | 122,054,316        | 127,139,695               | 130,621,081               |
| Mathematical reserve                                | 14,157,992         | 11,177,661                | 12,146,422                |
| Claims incurred but not reported                    | 23,865,175         | 5,194,246                 | 11,056,629                |
| <b>Total retakaful share of takaful liabilities</b> | <b>277,532,506</b> | <b>267,251,127</b>        | <b>216,312,753</b>        |
| <b>Net</b>                                          |                    |                           |                           |
| Unearned contribution reserve                       | 63,074,882         | 71,624,163                | 65,308,587                |
| Claims reported unsettled                           | 26,082,879         | 26,868,658                | 24,307,831                |
| Mathematical Reserve                                | 2,841,865          | 3,726,324                 | 4,049,282                 |
| Claims incurred but not reported                    | 24,563,803         | 9,632,159                 | 10,857,299                |
| Unallocated loss adjustment expenses                | 1,646,397          | -                         | -                         |
| Unit linked liabilities                             | 595,587,545        | 556,782,236               | 447,364,700               |
|                                                     | <b>713,797,371</b> | <b>668,633,540</b>        | <b>551,887,697</b>        |

All of Retakaful contract assets and Takaful contract liabilities are attributable to Policyholders.

Takaful contract liabilities-net, comprises of the following:

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

7. Retakaful contract assets and Takaful contract liabilities (continued)

|                                 | Unearned<br>contribution<br>reserve<br>AED | Claims<br>reported<br>unsettled<br>AED | Mathematical<br>reserve<br>AED | Claims<br>incurred but<br>not reported<br>AED | Unallocated loss<br>adjustment<br>expenses<br>AED | Unit linked<br>liabilities<br>AED | Total<br>AED       |
|---------------------------------|--------------------------------------------|----------------------------------------|--------------------------------|-----------------------------------------------|---------------------------------------------------|-----------------------------------|--------------------|
| <b>2016</b>                     |                                            |                                        |                                |                                               |                                                   |                                   |                    |
| Motor                           | 47,600,714                                 | 19,573,437                             | -                              | 14,280,555                                    | 1,104,879                                         | -                                 | 82,559,585         |
| Engineering                     | 245,752                                    | 139,862                                | -                              | 47,492                                        | 4,697                                             | -                                 | 437,803            |
| Marine & aviation               | 295,313                                    | 564,952                                | -                              | 286,320                                       | 22,751                                            | -                                 | 1,169,336          |
| Fire                            | 733,750                                    | 928,469                                | -                              | 467,772                                       | 37,280                                            | -                                 | 2,167,271          |
| General insurance & liabilities | 3,530,437                                  | 1,729,381                              | -                              | 1,485,634                                     | 94,013                                            | -                                 | 6,839,465          |
| Medical                         | 9,345,525                                  | 2,515,157                              | -                              | 7,392,974                                     | 346,022                                           | -                                 | 19,599,678         |
| Life                            | 1,323,391                                  | 631,621                                | 2,841,865                      | 603,056                                       | 36,755                                            | 595,587,545                       | 601,024,233        |
| <b>Total</b>                    | <b>63,074,882</b>                          | <b>26,082,879</b>                      | <b>2,841,865</b>               | <b>24,563,803</b>                             | <b>1,646,397</b>                                  | <b>595,587,545</b>                | <b>713,797,371</b> |
| <b>2015 (Restated)</b>          |                                            |                                        |                                |                                               |                                                   |                                   |                    |
| Motor                           | 54,778,382                                 | 15,115,293                             | -                              | 6,548,201                                     | -                                                 | -                                 | 76,441,876         |
| Engineering                     | 145,706                                    | 89,604                                 | -                              | 4,609                                         | -                                                 | -                                 | 239,919            |
| Marine & aviation               | 367,513                                    | 775,299                                | -                              | 68,039                                        | -                                                 | -                                 | 1,210,851          |
| Fire                            | 2,037,448                                  | 983,359                                | -                              | 46,813                                        | -                                                 | -                                 | 3,067,620          |
| General insurance & liabilities | 4,236,702                                  | 7,850,794                              | -                              | 913,276                                       | -                                                 | -                                 | 13,000,772         |
| Medical                         | 8,913,397                                  | 2,051,224                              | -                              | 2,051,221                                     | -                                                 | -                                 | 13,015,842         |
| Life                            | 1,145,015                                  | 3,085                                  | 3,726,324                      | -                                             | -                                                 | 556,782,236                       | 561,656,660        |
| <b>Total</b>                    | <b>71,624,163</b>                          | <b>26,868,658</b>                      | <b>3,726,324</b>               | <b>9,632,159</b>                              | <b>-</b>                                          | <b>556,782,236</b>                | <b>668,633,540</b> |

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

7. Retakaful contract assets and Takaful contract liabilities (continued)

|                                 | Unearned<br>contribution<br>reserve<br>AED | Claims<br>reported<br>unsettled<br>AED | Mathematical<br>Reserve<br>AED | Claims<br>incurred but<br>not reported<br>AED | Unallocated loss<br>adjustment<br>expenses<br>AED | Unit linked<br>liabilities<br>AED | Total       |
|---------------------------------|--------------------------------------------|----------------------------------------|--------------------------------|-----------------------------------------------|---------------------------------------------------|-----------------------------------|-------------|
| <u>2014 (Restated)</u>          |                                            |                                        |                                |                                               |                                                   |                                   |             |
| Motor                           | 49,835,904                                 | 12,469,252                             | -                              | 9,223,942                                     | -                                                 | -                                 | 71,529,098  |
| Engineering                     | 224,334                                    | 96,434                                 | -                              | -                                             | -                                                 | -                                 | 320,768     |
| Marine & Aviation               | 163,526                                    | 607,089                                | -                              | -                                             | -                                                 | -                                 | 770,615     |
| Fire                            | 1,579,102                                  | 455,503                                | -                              | -                                             | -                                                 | -                                 | 2,034,605   |
| General Insurance & Liabilities | 5,037,366                                  | 8,257,643                              | -                              | -                                             | -                                                 | -                                 | 13,295,009  |
| Medical                         | 8,139,182                                  | 1,633,357                              | -                              | 1,633,357                                     | -                                                 | -                                 | 11,405,896  |
| Life                            | 329,173                                    | 788,553                                | 4,049,282                      | -                                             | -                                                 | 447,364,700                       | 452,531,708 |
| Total                           | 65,308,587                                 | 24,307,831                             | 4,049,282                      | 10,857,299                                    | -                                                 | 447,364,700                       | 551,887,699 |

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

**8. Takaful receivables**

|                                       | 2016<br>AED       | 2015<br>AED       |
|---------------------------------------|-------------------|-------------------|
| Due from policyholders                | 26,868,607        | 32,039,203        |
| Less: Allowance for doubtful debts    | (4,973,562)       | (2,973,562)       |
|                                       | <u>21,895,045</u> | <u>29,065,641</u> |
| Due from takaful /retakaful companies | 60,432,194        | 51,466,103        |
| Due form brokers/ agents              | 18,192,854        | 20,048,081        |
| Less: Allowance for doubtful debts    | (14,226,438)      | (7,726,438)       |
|                                       | <u>86,293,655</u> | <u>92,853,387</u> |

All of Takaful receivables are attributable to Policyholders.

The average credit period for customers is 90 days. No profit on the past due receivables. The Group has provided for receivables based on the estimated irrecoverable amounts, determined by reference to past default experience and management's assessment of current economic conditions as to the future recoverability of these balances.

At the reporting date, there is no significant concentration of credit risk that will result in a loss to the Group. There are no significant concentrations of credit risk to receivables outside the industry in which the Group operates.

**Inside United Arab Emirates**

|                                       | 2016<br>AED       | 2015<br>AED       |
|---------------------------------------|-------------------|-------------------|
| Due from policyholders                | 26,611,918        | 31,782,514        |
| Less: Allowance for doubtful debts    | (4,716,873)       | (2,716,873)       |
|                                       | <u>21,895,045</u> | <u>29,065,641</u> |
| Due from takaful /retakaful companies | 44,343,352        | 38,778,729        |
| Due form brokers/ agents              | 18,192,854        | 20,048,081        |
| Less: Allowance for doubtful debts    | (4,239,444)       | (2,739,444)       |
|                                       | <u>80,191,807</u> | <u>85,153,007</u> |

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

**8. Takaful receivables (continued)**

| 2016                                     | Policy<br>holders<br>AED | Takaful and<br>retakaful<br>companies<br>AED | Brokers and<br>agents<br>AED | Total<br>AED      |
|------------------------------------------|--------------------------|----------------------------------------------|------------------------------|-------------------|
| <u>Aging of takaful receivables</u>      |                          |                                              |                              |                   |
| <b>Past due and not impaired</b>         |                          |                                              |                              |                   |
| Less than 30 days                        | 7,466,196                | 10,190,778                                   | 3,680,487                    | 21,337,461        |
| 30-90 days                               | 6,459,615                | 10,519,272                                   | 7,860,805                    | 24,839,692        |
| 91-180 days                              | 2,677,294                | 12,894,430                                   | 1,487,859                    | 17,059,583        |
| 181-270 days                             | 3,440,092                | 6,417,129                                    | 364,108                      | 10,221,329        |
| 271-365 days                             | 1,023,836                | 2,116,178                                    | 996,409                      | 4,136,423         |
| More than 365                            | 800,245                  | 509,348                                      | 933,559                      | 2,243,152         |
|                                          | <u>21,867,278</u>        | <u>42,647,135</u>                            | <u>15,323,227</u>            | <u>79,837,640</u> |
| <b>Past due and impaired</b>             |                          |                                              |                              |                   |
| More than 365                            | 4,744,640                | 1,696,217                                    | 2,869,627                    | 9,310,484         |
| <b>Total takaful receivables (gross)</b> | <u>26,611,918</u>        | <u>44,343,352</u>                            | <u>18,192,854</u>            | <u>89,148,124</u> |
| 2015                                     |                          |                                              |                              |                   |
| <u>Aging of takaful receivables</u>      |                          |                                              |                              |                   |
| <b>Past due and not impaired</b>         |                          |                                              |                              |                   |
| Less than 30 days                        | 5,421,141                | 16,819,032                                   | 5,229,421                    | 27,469,594        |
| 30-90 days                               | 8,980,124                | 21,263,479                                   | 5,362,311                    | 35,605,914        |
| 91-180 days                              | 7,257,560                | -                                            | 6,949,374                    | 14,206,934        |
| 181-270 days                             | 5,916,046                | -                                            | 20,469                       | 5,936,515         |
| 271-365 days                             | 1,428,204                | -                                            | -                            | 1,428,204         |
| More than 365                            | -                        | -                                            | -                            | -                 |
|                                          | <u>29,003,075</u>        | <u>38,082,511</u>                            | <u>17,561,575</u>            | <u>84,647,161</u> |
| <b>Past due and impaired</b>             |                          |                                              |                              |                   |
| More than 365                            | 2,779,439                | 696,218                                      | 2,486,506                    | 5,962,163         |
| <b>Total takaful receivables (gross)</b> | <u>31,782,514</u>        | <u>38,778,729</u>                            | <u>20,048,081</u>            | <u>90,609,324</u> |

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

**8. Takaful receivables**

| <u>Outside United Arab Emirates</u>   | 2016<br>AED | 2015<br>AED |
|---------------------------------------|-------------|-------------|
| Due from policyholders                | 256,689     | 256,689     |
| Less: Allowance for doubtful debts    | (256,689)   | (256,689)   |
|                                       | -           | -           |
| Due from takaful /retakaful companies | 16,088,842  | 13,187,374  |
| Due from brokers/ agents              | -           | -           |
| Less: Allowance for doubtful debts    | (9,986,994) | (4,986,994) |
|                                       | 6,101,848   | 8,200,380   |

| 2016                                     | Policy<br>holders<br>AED | Takaful and<br>Retakaful<br>companies<br>AED | Brokers<br>and agents<br>AED | Total<br>AED |
|------------------------------------------|--------------------------|----------------------------------------------|------------------------------|--------------|
| <u>Aging of takaful receivables</u>      |                          |                                              |                              |              |
| <b>Past due but not impaired</b>         |                          |                                              |                              |              |
| Less than 30 days                        | -                        | 454,547                                      | -                            | 454,547      |
| 30 - 90 days                             | -                        | 2,437,555                                    | -                            | 2,437,555    |
| 91 - 180 days                            | -                        | 2,205,556                                    | -                            | 2,205,556    |
| 181 - 270 days                           | -                        | 419,380                                      | -                            | 419,380      |
| 271 - 365 days                           | -                        | 18,298                                       | -                            | 18,298       |
| More than 365 days                       | -                        | 566,511                                      | -                            | 566,511      |
|                                          | -                        | 6,101,847                                    | -                            | 6,101,847    |
| <b>Past due and impaired</b>             |                          |                                              |                              |              |
| More than 365 days                       | 256,689                  | 9,986,995                                    | -                            | 10,243,684   |
| <b>Total takaful receivables (gross)</b> | 256,689                  | 16,088,842                                   | -                            | 16,345,531   |

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

**8. Takaful receivables (continued)**

|                                          | <b>Policy<br/>holders<br/>AED</b> | <b>Takaful and<br/>Retakaful<br/>companies<br/>AED</b> | <b>Brokers and<br/>agents<br/>AED</b> | <b>Total<br/>AED</b> |
|------------------------------------------|-----------------------------------|--------------------------------------------------------|---------------------------------------|----------------------|
| 2015                                     |                                   |                                                        |                                       |                      |
| <u>Aging of takaful receivables</u>      |                                   |                                                        |                                       |                      |
| <b>Past due but not impaired</b>         |                                   |                                                        |                                       |                      |
| Less than 30 days                        | -                                 | 3,017,600                                              | -                                     | 3,017,600            |
| 30-90 days                               | -                                 | 182,780                                                | -                                     | 182,780              |
| 91-180 days                              | -                                 | -                                                      | -                                     | -                    |
| 181-270 days                             | -                                 | -                                                      | -                                     | -                    |
| 271-365 days                             | -                                 | -                                                      | -                                     | -                    |
| More than 365 days                       | -                                 | -                                                      | -                                     | -                    |
|                                          | -                                 | 3,200,380                                              | -                                     | 3,200,380            |
| <b>Past due and impaired</b>             |                                   |                                                        |                                       |                      |
| More than 365 days                       | 256,689                           | 9,986,994                                              | -                                     | 10,246,683           |
| <b>Total takaful receivables (gross)</b> | 256,689                           | 13,187,374                                             | -                                     | 13,447,066           |

Included in the Group's receivables are balances with a carrying amount AED 2,809,663 (2015: AED Nil) which are past due for more than 365 days at the end of the reporting period for which the Group has not provided for as there has not been a significant change in the credit quality of these receivables and the amounts are considered recoverable.

|                                                      | <b>2016<br/>AED</b> | <b>2015<br/>AED</b> |
|------------------------------------------------------|---------------------|---------------------|
| <i>Movement in the allowance for doubtful debts:</i> |                     |                     |
| At 1 January                                         | 10,700,000          | 10,200,000          |
| Charge for the year                                  | 8,500,000           | 500,000             |
| <b>At 31 December</b>                                | <b>19,200,000</b>   | <b>10,700,000</b>   |

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

**9. Other financial assets measured at fair value**

|                                                                                                    | <b>2016<br/>AED</b> | <b>2015<br/>AED</b> |
|----------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Financial assets measured at fair value through<br/>other comprehensive income (FVTOCI) (A)</b> |                     |                     |
| - Listed                                                                                           | <b>62,133,269</b>   | 52,917,040          |
| - Unlisted                                                                                         | <b>35,758,011</b>   | 35,758,072          |
|                                                                                                    | <b>97,891,280</b>   | 88,675,112          |
| <b>Financial assets measured at fair value through<br/>profit and loss (FVTPL) (B)</b>             |                     |                     |
| - Listed                                                                                           | <b>11,765,530</b>   | 16,299,800          |
| - Unit linked investments                                                                          | <b>595,587,545</b>  | 556,782,236         |
|                                                                                                    | <b>607,353,075</b>  | 573,082,036         |
| <b>Total other financial assets measured at fair value (A+B)</b>                                   | <b>705,244,355</b>  | 661,757,148         |
| Attributable to:                                                                                   |                     |                     |
| Policyholder                                                                                       | <b>20,510,470</b>   | 39,748,525          |
| Shareholders                                                                                       | <b>684,733,885</b>  | 622,008,623         |
|                                                                                                    | <b>705,244,355</b>  | 661,757,148         |

Investments by geographic concentration are as follows:

|                  | <b>2016<br/>AED</b> | <b>2015<br/>AED</b> |
|------------------|---------------------|---------------------|
| - Within U.A.E.  | <b>68,825,212</b>   | 60,558,921          |
| - Outside U.A.E. | <b>636,419,143</b>  | 601,198,227         |
|                  | <b>705,244,355</b>  | 661,757,148         |

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

**9. Other financial assets measured at fair value (continued)**

- i. FVTOCI listed and unlisted securities are carried at a value of AED 97,891,280 (2015: AED 88,675,112), with a decline in their fair value from original acquisition cost amounting to AED 92,198,798 (2015: AED 98,955,059). Of this amount, AED 74,808,679 (2015: AED 50,371,164) is deducted from shareholders' equity and AED 17,390,119 (2015: AED 48,583,895) is deducted from policyholders' fund in accordance with the allocation of investment losses to the shareholders and policyholders as approved by the Group's Fatwa and Sharia'a Supervisory Board.
- ii. Unlisted securities carried at a fair value of AED 35,758,011 (2015: AED 35,758,072) mainly represent the Group's investments in shares of companies registered in Dubai, Algeria, Kuwait and certain other international markets.
- iii. The Group owns shares of Al Salam Bank - Bahrain and Al Salam Bank - Algeria which are held by the former CEO (who resigned during 2013 - see Note 36) on behalf and for the benefit of the Group [Note 29 (a)].
- iv. During the year ended 31 December 2016, the Group purchased and disposed investments amounted to AED 5,655,224 and AED 9,665,554 respectively excluding the purchases and disposals of unit linked investments.

**10. Prepayments and other receivables**

|                                                 | <b>2016<br/>AED</b> | <b>2015<br/>AED</b> |
|-------------------------------------------------|---------------------|---------------------|
| Advances for acquisition of investment property | <b>3,000,000</b>    | 3,000,000           |
| Less: Allowance for doubtful debts              | <b>(3,000,000)</b>  | (2,000,000)         |
|                                                 | <b>-</b>            | 1,000,000           |
| Prepayments                                     | <b>4,781,088</b>    | 5,056,489           |
| Receivables from employees                      | <b>1,512,000</b>    | 1,195,099           |
| Refundable deposits                             | <b>900,329</b>      | 1,002,222           |
| Advance to suppliers                            | <b>1,055,000</b>    | 1,000,000           |
| Other receivables                               | <b>3,753,740</b>    | 5,577,515           |
|                                                 | <b>12,002,157</b>   | 14,831,325          |

All prepayments and other receivables are attributable to shareholders.

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

**11. Investment property**

|                                                   | <b>2016<br/>AED</b>      | <b>2015<br/>AED</b> |
|---------------------------------------------------|--------------------------|---------------------|
| Balance at beginning of the year                  | <b>70,000,000</b>        | 70,000,000          |
| (Loss)/gain on revaluation of investment property | <b>(3,500,000)</b>       | -                   |
| Balance at end of the year                        | <b><u>66,500,000</u></b> | <u>70,000,000</u>   |
| Attributable to:                                  |                          |                     |
| Policyholders                                     | <b>12,438,138</b>        | 34,268,201          |
| Shareholders                                      | <b>54,061,862</b>        | 35,731,799          |
|                                                   | <b><u>66,500,000</u></b> | <u>70,000,000</u>   |

During 2016, the Group recognised a change in fair value of AED 3.5 million (2015: Nil). The fair value of the investment property has been arrived at on the basis of a valuation carried by two professional, independent values, not related to the Group. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties, in accordance with Royal Institute of Chartered Surveyors (RICS) appraisal and valuation standards. In estimating the fair value of the property, the highest and best use of the property is their current use.

Fair value hierarchy of the Group's investment properties are as follows:

**At 31 December 2016**

|                     | <b>Level 1<br/>AED</b> | <b>Level 2<br/>AED</b> | <b>Level 3<br/>AED</b> | <b>Total<br/>AED</b> |
|---------------------|------------------------|------------------------|------------------------|----------------------|
| Investment property | <u>-</u>               | <u>-</u>               | <u>66,500,000</u>      | <u>66,500,000</u>    |

**At 31 December 2015**

|                     | <b>Level 1<br/>AED</b> | <b>Level 2<br/>AED</b> | <b>Level 3<br/>AED</b> | <b>Total<br/>AED</b> |
|---------------------|------------------------|------------------------|------------------------|----------------------|
| Investment property | <u>-</u>               | <u>-</u>               | <u>70,000,000</u>      | <u>70,000,000</u>    |

Key inputs is price per square foot, the higher fair value for the square foot the higher the investments property value.

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

**12. Furniture and equipment**

|                                 | <b>Motor<br/>vehicles<br/>AED</b> | <b>Furniture<br/>and fixtures<br/>AED</b> | <b>Office<br/>equipment<br/>AED</b> | <b>Total<br/>AED</b> |
|---------------------------------|-----------------------------------|-------------------------------------------|-------------------------------------|----------------------|
| <b>Cost</b>                     |                                   |                                           |                                     |                      |
| At 31 December 2014             | 896,013                           | 7,622,368                                 | 7,840,133                           | 16,358,514           |
| Additions                       | -                                 | 175,609                                   | 1,996,713                           | 2,172,322            |
| Disposals                       | (82,842)                          | -                                         | (12,875)                            | (95,717)             |
|                                 | <hr/>                             | <hr/>                                     | <hr/>                               | <hr/>                |
| At 31 December 2015             | 813,171                           | 7,797,977                                 | 9,823,971                           | 18,435,119           |
| Additions                       | 144,998                           | 228,596                                   | 1,024,582                           | 1,398,176            |
|                                 | <hr/>                             | <hr/>                                     | <hr/>                               | <hr/>                |
| <b>At 31 December 2016</b>      | <b>958,169</b>                    | <b>8,026,573</b>                          | <b>10,848,553</b>                   | <b>19,833,295</b>    |
|                                 | <hr/>                             | <hr/>                                     | <hr/>                               | <hr/>                |
| <b>Accumulated depreciation</b> |                                   |                                           |                                     |                      |
| At 31 December 2014             | 655,463                           | 6,261,592                                 | 5,836,124                           | 12,753,179           |
| Charge for the year             | 34,198                            | 187,385                                   | 1,230,457                           | 1,452,040            |
| Eliminated on disposals         | (20,994)                          | -                                         | (9,389)                             | (30,383)             |
|                                 | <hr/>                             | <hr/>                                     | <hr/>                               | <hr/>                |
| At 31 December 2015             | 668,667                           | 6,448,977                                 | 7,057,192                           | 14,174,836           |
| Charge for the year             | 60,745                            | 495,679                                   | 979,652                             | 1,536,076            |
|                                 | <hr/>                             | <hr/>                                     | <hr/>                               | <hr/>                |
| <b>At 31 December 2016</b>      | <b>729,412</b>                    | <b>6,944,656</b>                          | <b>8,036,844</b>                    | <b>15,710,912</b>    |
|                                 | <hr/>                             | <hr/>                                     | <hr/>                               | <hr/>                |
| <b>Net carrying amount</b>      |                                   |                                           |                                     |                      |
| <b>At 31 December 2016</b>      | <b>228,757</b>                    | <b>1,081,917</b>                          | <b>2,811,709</b>                    | <b>4,122,383</b>     |
|                                 | <hr/>                             | <hr/>                                     | <hr/>                               | <hr/>                |
| At 31 December 2015             | 144,504                           | 1,349,000                                 | 2,766,779                           | 4,260,283            |
|                                 | <hr/>                             | <hr/>                                     | <hr/>                               | <hr/>                |

All Furniture and equipment are attributable to shareholders.

**13. Due to bank**

The Group obtained a Sharia Compliant secured overdraft facility with a total limit of AED 20 million (2015: AED 20 million) from an Islamic bank in the U.A.E. to meet business requirements at commercial profit rates. The facility is secured by lien over fixed deposits based on a Mudarabah financing structure of AED 20 million (2015: AED 20 million) as margin in favor of the bank and mortgage of investment property under Ijara Muntahiya Bittamlik facility.

All due to bank is attributable to shareholders.

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

**14. Trade and other payables**

|                                        | 2016              | 2015              |
|----------------------------------------|-------------------|-------------------|
|                                        | AED               | AED               |
| Trade payables and accruals            | 66,011,631        | 79,677,230        |
| Employees' end of service benefits (i) | 7,533,657         | 6,743,431         |
| Zakat payable                          | 1,157,528         | 1,887,834         |
|                                        | <u>74,702,816</u> | <u>88,308,495</u> |
| Balance at end of the year             | <u>74,702,816</u> | <u>88,308,495</u> |
| Attributable to:                       |                   |                   |
| Policyholders                          | 46,632,819        | 51,797,039        |
| Shareholders                           | 28,069,997        | 36,511,456        |
|                                        | <u>74,702,816</u> | <u>88,308,495</u> |

(i) Movements in the provision for employees' end of service benefits during the year were as follows:

|                                  | 2016             | 2015             |
|----------------------------------|------------------|------------------|
|                                  | AED              | AED              |
| Balance at beginning of the year | 6,743,431        | 5,742,277        |
| Amounts charged during the year  | 1,639,611        | 1,507,295        |
| Amounts paid during the year     | (849,385)        | (506,141)        |
|                                  | <u>7,533,657</u> | <u>6,743,431</u> |
| Balance at end of the year       | <u>7,533,657</u> | <u>6,743,431</u> |

**15. Takaful payables**

|                              | 2016              | 2015              |
|------------------------------|-------------------|-------------------|
|                              | AED               | AED               |
| Inside United Arab Emirates  | 56,008,396        | 36,653,545        |
| Outside United Arab Emirates | 21,646,651        | 21,076,496        |
|                              | <u>77,655,047</u> | <u>57,730,041</u> |
| Total                        | <u>77,655,047</u> | <u>57,730,041</u> |
| Attributable to:             |                   |                   |
| Policyholders                | 75,320,592        | 57,600,684        |
| Shareholders                 | 2,334,455         | 129,357           |
|                              | <u>77,655,047</u> | <u>57,730,041</u> |

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

**15. Takaful payables (continued)**

| <b>Inside United Arab Emirates</b>         | <b>2016<br/>AED</b> | <b>2015<br/>AED</b> |
|--------------------------------------------|---------------------|---------------------|
| Payable to policyholders                   | 13,659,647          | 7,405,161           |
| Payable to takaful and retakaful companies | 40,502,458          | 27,490,259          |
| Payable to broker/ agent                   | 1,846,291           | 1,758,125           |
|                                            | <u>56,008,396</u>   | <u>36,653,545</u>   |
| <b>Outside United Arab Emirates</b>        | <b>2016<br/>AED</b> | <b>2015<br/>AED</b> |
| Payable to policyholders                   | -                   | -                   |
| Payable to takaful and retakaful companies | 21,646,651          | 21,076,496          |
| Payable to broker/ agent                   | -                   | -                   |
|                                            | <u>21,646,651</u>   | <u>21,076,496</u>   |

**16. Murabaha and Ijara payables**

|                               | <b>2016<br/>AED</b> | <b>2015<br/>AED</b> |
|-------------------------------|---------------------|---------------------|
| Murabaha payable [Note 16(a)] | 10,250,000          | 10,248,611          |
| Ijara payable [Note 16(b)]    | -                   | 4,046,570           |
|                               | <u>10,250,000</u>   | <u>14,295,181</u>   |

All Murabaha and Ijara payables are attributable to shareholders.

- (a) The Group has obtained a Murabaha finance from an Islamic bank in U.A.E which carries a profit rate of 12 months EIBOR + 3% per annum with a minimum rate of 4.5% per annum (2015: 12 months EIBOR + 3% per annum with a minimum rate of 4.5% per annum).
- (b) The Group had obtained an Ijara finance of AED 16.4 million from an Islamic bank in the U.A.E which carries a profit rate of 3 months EIBOR + 2.5% per annum with a minimum rate of 7% per annum. The facility is payable over twenty quarterly payments ending on December 2016. The Ijara finance was secured by legal mortgage over the investment property, and the facility was paid in full during the year.

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

**17. Policyholders' Fund**

|                                                     | 2016<br>AED         | 2015<br>AED<br>(Restated) | 2014<br>AED<br>(Restated) |
|-----------------------------------------------------|---------------------|---------------------------|---------------------------|
| <b>Deficit in Policyholders' Fund:</b>              |                     |                           |                           |
| Beginning balance of deficit in policyholders' fund | (181,835,578)       | (141,574,546)             | (112,924,491)             |
| Loss for the year                                   | (7,531,546)         | (40,261,032)              | (28,659,055)              |
| Ending balance of deficit in policyholders' fund    | (189,367,124)       | (181,835,578)             | (141,574,546)             |
| Qard Hassan from shareholders (i)                   | 189,367,124         | 181,835,578               | 141,574,546               |
| Investment revaluation reserve FVTOCI (ii)          | (17,390,119)        | (48,583,895)              | (13,510,863)              |
| <b>Total deficit in policyholders' fund</b>         | <b>(17,390,119)</b> | <b>(48,583,895)</b>       | <b>(13,510,863)</b>       |

- (i) The shareholders finance the policyholders' deficit excluding loss related to negative fair value movements of investments in accordance with the Group's policy, through a Qard Hassan (a profit free loan with no repayment terms charged to consolidated income statement).
- (ii) During the current year, the Group transferred to the policyholders their share of investment revaluation reserve FVTOCI of AED 17,390,119 (2015: AED 48,583,895) from the shareholders' equity in the same ratio as the policyholders share of investment losses.

**18. Share capital**

|                                              | 2016<br>AED | 2015<br>AED | 2014<br>AED |
|----------------------------------------------|-------------|-------------|-------------|
| Issued and fully paid:                       |             |             |             |
| 225,750,000 ordinary shares of AED 1 each    |             |             |             |
| (2015 and 2014: 225,750,000 ordinary shares) | 225,750,000 | 225,750,000 | 225,750,000 |

**19. Legal reserve**

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

**20. General reserve**

The Group is required to transfer 10% of the profit of the Parent Company for the year to a general reserve in accordance with its Articles of Association. The reserve is available for distribution by a resolution of the shareholders of the Group at an ordinary general meeting, on the recommendation of the Board of Directors.

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

**21. Net Takaful contributions**

|                                             | 2016<br>AED        | 2015<br>AED        |
|---------------------------------------------|--------------------|--------------------|
| <b>Gross takaful contribution</b>           |                    |                    |
| Motor                                       | 113,784,786        | 158,531,039        |
| Engineering                                 | 4,961,290          | 3,995,876          |
| Marine and aviation                         | 85,971,208         | 87,826,627         |
| Fire                                        | 30,519,246         | 32,395,991         |
| General and insurance liabilities           | 50,864,636         | 52,051,700         |
| Medical                                     | 51,344,142         | 47,434,195         |
| Life                                        | 77,010,643         | 60,529,900         |
|                                             | <u>414,455,951</u> | <u>442,765,328</u> |
| <b>Retakaful share of accepted business</b> |                    |                    |
| Motor                                       | 23,067,317         | 38,747,169         |
| Engineering                                 | 2,327,383          | 1,848,658          |
| Marine and aviation                         | 82,134,742         | 82,696,498         |
| Fire                                        | 20,699,743         | 19,491,788         |
| General and insurance liabilities           | 39,780,892         | 41,792,201         |
| Medical                                     | 3,139,393          | 1,770,815          |
| Life                                        | 53,633,872         | 41,211,488         |
|                                             | <u>224,783,342</u> | <u>227,558,617</u> |
| <b>Retakaful share of ceded business</b>    |                    |                    |
| Motor                                       | 1,226,395          | 9,137,221          |
| Engineering                                 | 2,143,112          | 1,804,517          |
| Marine and Aviation                         | 2,496,212          | 3,414,073          |
| Fire                                        | 8,102,196          | 10,435,193         |
| General and Insurance Liabilities           | 3,469,186          | 869,447            |
| Medical                                     | 12,061,092         | 8,911,661          |
| Life                                        | 10,288,206         | 7,439,702          |
|                                             | <u>39,786,399</u>  | <u>42,011,814</u>  |
| <b>Net takaful contribution</b>             |                    |                    |
| Motor                                       | 89,491,074         | 110,646,649        |
| Engineering                                 | 490,795            | 342,701            |
| Marine and Aviation                         | 1,340,254          | 1,716,056          |
| Fire                                        | 1,717,307          | 2,469,010          |
| General and Insurance Liabilities           | 7,614,558          | 9,390,052          |
| Medical                                     | 36,143,657         | 36,751,719         |
| Life                                        | 13,088,565         | 11,878,710         |
|                                             | <u>149,886,210</u> | <u>173,194,897</u> |

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

**22. Net Claims incurred**

|                                                   | 2016<br>AED        | 2015<br>AED        |
|---------------------------------------------------|--------------------|--------------------|
| <b>Gross claim incurred</b>                       |                    |                    |
| Motor                                             | 102,911,557        | 130,902,013        |
| Engineering                                       | 524,568            | 976,155            |
| Marine and aviation                               | 2,151,310          | 2,643,927          |
| Fire                                              | 9,459,786          | 1,979,986          |
| General insurance and liabilities                 | 7,461,700          | 4,172,256          |
| Medical                                           | 37,956,789         | 33,945,667         |
| Life                                              | 29,759,149         | 25,250,168         |
|                                                   | <u>190,224,859</u> | <u>199,870,172</u> |
| <b>Retakaful share of accepted business claim</b> |                    |                    |
| Motor                                             | 25,544,018         | 33,605,705         |
| Engineering                                       | 6,619              | 101,452            |
| Marine and aviation                               | 1,198,343          | 900,622            |
| Fire                                              | 604,827            | 436,319            |
| General insurance and liabilities                 | 5,074,523          | 2,388,764          |
| Medical                                           | -                  | -                  |
| Life                                              | 24,555,358         | 19,657,901         |
|                                                   | <u>56,983,688</u>  | <u>57,090,763</u>  |
| <b>Retakaful share of ceded business claims</b>   |                    |                    |
| Motor                                             | 2,219,622          | 5,281,523          |
| Engineering                                       | 471,253            | 803,461            |
| Marine and aviation                               | 540,419            | 1,116,120          |
| Fire                                              | 7,947,211          | 1,411,675          |
| General insurance and liabilities                 | 644,492            | 248,600            |
| Medical                                           | 7,646,225          | 11,119,068         |
| Life                                              | 937,520            | -                  |
|                                                   | <u>20,406,742</u>  | <u>19,980,447</u>  |
| <b>Net claims incurred</b>                        |                    |                    |
| Motor                                             | 75,147,917         | 92,014,785         |
| Engineering                                       | 46,696             | 71,242             |
| Marine and aviation                               | 412,548            | 627,185            |
| Fire                                              | 907,748            | 131,992            |
| General insurance and liabilities                 | 1,742,685          | 1,534,892          |
| Medical                                           | 30,310,564         | 22,826,599         |
| Life                                              | 4,266,271          | 5,592,267          |
|                                                   | <u>112,834,429</u> | <u>122,798,962</u> |

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

**23. Wakala fees and Mudarib's share**

The Group manages the Takaful operations for the policyholders and charges 25% of the gross Takaful contributions net of gross unearned contribution as Wakala fees (2015: 25%). During the year, no Wakala fee was charged on gross Takaful contributions amounting to AED 156,994,583 (2015: AED 142,502,970) as the Group retained insignificant risk on such contributions and commission income from such business was significantly lower than the normal commission. Management, therefore, decided not to charge Wakala fee on these Takaful contributions. The Wakala fee was charged on a total gross contribution of AED 257,461,368 (2015: AED 300,262,358).

Wakala fee is calculated as follows:

|                                                       | 2016<br>AED              | 2015<br>AED              |
|-------------------------------------------------------|--------------------------|--------------------------|
| Net Takaful contributions                             | 414,455,951              | 442,765,328              |
| Less: Takaful contributions not subject to Wakala fee | (156,994,583)            | (142,502,970)            |
|                                                       | <u>257,461,368</u>       | <u>300,262,358</u>       |
| Percentage                                            | 25%                      | 25%                      |
| Wakala fee for the year                               | <u><u>64,365,342</u></u> | <u><u>75,065,590</u></u> |

The Group also manages the Policyholders' investment funds and is entitled to 25% (2015: 25%) of net investment income earned by the Policyholders' investment funds as the Mudarib's share. The Mudarib's share was AED 75,112 (2015: Nil) for the year as the policyholders incurred losses on their investment funds (2015: Nil).

**24. Investment income/(loss)**

|                                                   | 2016<br>AED             | 2015<br>AED               |
|---------------------------------------------------|-------------------------|---------------------------|
| Loss on revaluation of investment property        | (3,500,000)             | -                         |
| Gain/(loss) on investments measured at FVTPL, net | 1,935,967               | (7,924,625)               |
| <i>Other investment income</i>                    |                         |                           |
| Income from investment deposits                   | 222,528                 | 304,974                   |
| Dividend income                                   | 2,458,065               | 2,084,675                 |
| Rental income                                     | 589,827                 | 500,000                   |
| Other income                                      | 72,499                  | 72,662                    |
|                                                   | <u><u>1,778,886</u></u> | <u><u>(4,962,314)</u></u> |

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

**24. Investment income/(loss) (continued)**

|                      | 2016<br>AED      | 2015<br>AED        |
|----------------------|------------------|--------------------|
| <i>Allocated to:</i> |                  |                    |
| Policyholders        | 300,449          | (2,504,840)        |
| Shareholders         | 1,478,437        | (2,457,474)        |
|                      | <u>1,778,886</u> | <u>(4,962,314)</u> |

Investment income and losses are allocated amongst the shareholders and the policyholders on a pro rata basis. This allocation to policyholders is approved by the Group's Fatwa and Sharia'a Supervisory Board on an annual basis.

**25. General and administrative expenses**

|                                    | 2016<br>AED       | 2015<br>AED       |
|------------------------------------|-------------------|-------------------|
| Salaries and benefits              | 41,120,026        | 37,626,786        |
| Rent                               | 4,187,406         | 3,757,606         |
| Legal and professional fees        | 2,368,594         | 1,577,632         |
| Workshop charges                   | 4,127,228         | 4,106,096         |
| Depreciation (Note 12)             | 1,536,076         | 1,452,040         |
| Communication                      | 1,788,848         | 1,610,173         |
| Repairs and maintenance            | 710,485           | 698,719           |
| Printing and stationary            | 386,172           | 410,931           |
| Travelling and conveyance          | 514,672           | 450,216           |
| Advertising                        | 152,053           | 189,761           |
| Allowance for doubtful receivables | 8,500,000         | 500,000           |
| Other                              | 7,850,983         | 4,473,090         |
|                                    | <u>73,242,543</u> | <u>56,853,050</u> |

**26. Basic and diluted earnings per share**

Earnings per share are calculated by dividing profit attributable to the shareholders for the year, by weighted average number of shares outstanding during the year.

|                                                                              | 2016                | 2015<br>(Restated) |
|------------------------------------------------------------------------------|---------------------|--------------------|
| Loss for the year attributable to shareholders of the parent <i>(In AED)</i> | <u>(19,671,641)</u> | <u>(3,054,377)</u> |
| Weighted average number of shares outstanding during the year                | <u>225,750,000</u>  | <u>225,750,000</u> |
| Loss per share <i>(In AED)</i>                                               | <u>(0.09)</u>       | <u>(0.01)</u>      |

No figure for diluted earnings per share has been presented since the Group has not issued any instruments which would have an impact on earnings per share when exercised.

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

**27. Operating lease commitments**

Operating leases relate to offices with a lease term of 1 year, with an option to extend. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

|                                                                                                  | 2016<br>AED      | 2015<br>AED      |
|--------------------------------------------------------------------------------------------------|------------------|------------------|
| Minimum lease payments under operating leases recognised as an expense during the year (Note 25) | <u>4,187,406</u> | <u>3,757,606</u> |

At the end of the reporting date, the Group had no outstanding commitments under operating leases.

**28. Fatwa and Sharia'a Supervisory Board**

The Group's business activities are subject to the supervision of its Fatwa and Sharia'a Supervisory Board consisting of three members appointed by the shareholders. The Fatwa and Sharia'a Supervisory Board perform a supervisory role in order to determine whether the operations of the Group are conducted in accordance with Sharia'a rules and principles.

**29. Related party transactions**

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard (IAS) 24: *Related Parties*. Related parties comprise companies and entities under common ownership and/or common management and control, their partners and key management personnel. Transactions with such related parties are made on substantially the same terms, as those prevailing at the same time for comparable transactions with external customers and parties.

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

|                                                               | 31 December 2016             |                                    |              | 31 December 2015             |                                    |              |
|---------------------------------------------------------------|------------------------------|------------------------------------|--------------|------------------------------|------------------------------------|--------------|
|                                                               | Major<br>shareholders<br>AED | Other<br>related<br>parties<br>AED | Total<br>AED | Major<br>shareholders<br>AED | Other<br>related<br>parties<br>AED | Total<br>AED |
| Wakala deposits                                               | -                            | 5,000,000                          | 5,000,000    | -                            | 5,000,000                          | 5,000,000    |
| Carrying value of investments in ordinary shares [Note 29(a)] | -                            | 28,790,322                         | 28,790,322   | -                            | 28,750,159                         | 28,750,159   |
| Cash and cash equivalents                                     | -                            | 221,924                            | 221,924      | -                            | 122,006                            | 122,006      |
| Due from related parties [Note 29(b)]                         | 2,547,491                    | 616,621                            | 3,164,112    | -                            | 5,355,039                          | 5,355,039    |
| Due to related parties [Note 29(c)]                           | 5,987,939                    | 154,580                            | 6,142,519    | -                            | 1,259,677                          | 1,259,677    |

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

**29. Related party transactions (continued)**

- (a) A major shareholder, who is a member of the Board of Directors, is also a Board Member of Al Salam Bank - Algeria and Al Salam Bank - Bahrain. The Group has equity investments in Al Salam Bank - Algeria and Al Salam Bank - Bahrain amounting to AED 28.9 million (31 December 2015: AED 28.7 million).

Out of the total shareholding at the reporting date, 106,530 shares amounting AED 7 million of Al Salam Bank - Algeria were held by the former CEO (who resigned during 2013 and no longer qualifies as a related party) on trust and for the benefit of the Group and the total shares of Al Salam Bank - Bahrain (5,476,149 shares amounting AED 5.4 million) are held by a company controlled by the former CEO (who resigned during 2013 and no longer qualifies as a related party), in trust and for the benefit of the Group. Refer to note 36 for further details

- (b) Due from related parties represents the following:

|                                                                    | 2016<br>AED      | 2015<br>AED      |
|--------------------------------------------------------------------|------------------|------------------|
| <i>Entities owned by the Chairman of the Board of Directors</i>    |                  |                  |
| Emirates Taxi                                                      | -                | 3,022,772        |
| Fast Rent A Car L.L.C.                                             | 96,632           | 1,430,545        |
| Emirates Cab L.L.C.                                                | -                | 764,452          |
| Fast Service Centre / FLAS                                         | -                | 10,703           |
| Fast Passenger Transport (Fast Limo-Silver Cab L.L.C.)             | 4,350            | 29,567           |
| Nation Hospital (Bin Omeir)                                        | 63,597           | -                |
| Bin Omeir Holding Group                                            | 1,251,906        | -                |
| Bin Omeir Medical Group                                            | 1,244            | -                |
| Bin Omeir Auto Motive Group                                        | 875,166          | -                |
| Bin Omeir Travel & Tourism Group                                   | 130,221          | -                |
| Bin Omeir Education Foundation                                     | 225,358          | -                |
| P.H Receivable-Yas Mineral Water Bottling                          | 44,310           | -                |
| First Motors                                                       | 153,408          | -                |
| Chocolatier                                                        | 13,051           | -                |
| Al Massa Art Products                                              | 3,498            | -                |
| National Consultants Debit Collection                              | 30,706           | -                |
| Nation Hospital                                                    | 270,665          | -                |
| <i>Shareholder of a subsidiary</i>                                 |                  |                  |
| Agility Global Health Solutions (Pty) Ltd,<br>United Arab Emirates | -                | 97,000           |
| <b>Total</b>                                                       | <b>3,164,112</b> | <b>5,355,039</b> |

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

**29. Related party transactions (continued)**

(c) Due to related parties represents the following:

|                                                                 | 2016<br>AED      | 2015<br>AED      |
|-----------------------------------------------------------------|------------------|------------------|
| <i>Entities owned by the Chairman of the Board of Directors</i> |                  |                  |
| Ajyal International School - Medical                            | 8,818            | -                |
| Bin Omeir Holding Group - General                               | 92,323           | -                |
| Emirates Taxi                                                   | 145,762          | -                |
| Fast Service Centre - Abu Dhabi                                 | 3,269,231        | -                |
| Fast Service Centre - Sharjah                                   | 10,700           | -                |
| First Motors - Motor Agent                                      | 534,375          | -                |
| Fast Line Auto Services                                         | 2,081,310        | -                |
| Agility                                                         | -                | 1,259,677        |
| <b>Total</b>                                                    | <b>6,142,519</b> | <b>1,259,677</b> |

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

|                                        | 2016                         |                                    |              | 2015                         |                                    |              |
|----------------------------------------|------------------------------|------------------------------------|--------------|------------------------------|------------------------------------|--------------|
|                                        | Major<br>shareholders<br>AED | Other<br>related<br>parties<br>AED | Total<br>AED | Major<br>shareholders<br>AED | Other<br>related<br>parties<br>AED | Total<br>AED |
| Gross contributions                    | 1,383,580                    | 1,209,665                          | 2,593,245    | 2,115,988                    | 17,106,855                         | 19,222,843   |
| Gross claims                           | 123,452                      | 19,638,104                         | 19,761,556   | 135,723                      | 37,741,561                         | 37,877,284   |
| Profit share on<br>investment deposits | -                            | 49,918                             | 49,918       | -                            | 246,817                            | 246,817      |

*Compensation of key management personnel is as follows:*

|                                                            | 2016<br>AED      | 2015<br>AED      |
|------------------------------------------------------------|------------------|------------------|
| Short term employee benefits                               | 1,804,549        | 1,678,914        |
| End of service benefits                                    | 56,855           | 74,714           |
| <b>Total compensation paid to key management personnel</b> | <b>1,861,404</b> | <b>1,753,628</b> |

**30. Segmental information**

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Company's management in order to allocate resources to the segment and to assess its performance. Information reported to the Company's Board of Directors for the purpose of resource allocation and assessment of performance is based on following strategic business activities:

- **Takaful activities** include the general, life and medical insurance business undertaken by the Group.
- **Investment activities** represent investment and cash management for the Group's own account.
- **Others** represent income and expense activities conducted by the subsidiaries and included in this consolidated financial report.

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

#### 30. Segmental information (continued)

The following table presents segment information for the year ended 31 December 2016 and 2015.

|                                  | 31 December 2016 |                    |              |                     | 31 December 2015 |                |                    |              |                     |               |
|----------------------------------|------------------|--------------------|--------------|---------------------|------------------|----------------|--------------------|--------------|---------------------|---------------|
|                                  | Takaful<br>AED   | Investments<br>AED | Other<br>AED | Eliminations<br>AED | Total<br>AED     | Takaful<br>AED | Investments<br>AED | Other<br>AED | Eliminations<br>AED | Total<br>AED  |
| Takaful                          |                  |                    |              |                     |                  |                |                    |              |                     |               |
| Takaful income                   | 192,371,821      | -                  | -            | -                   | 192,371,821      | 198,141,426    | -                  | -            | -                   | 198,141,426   |
| Takaful expenses                 | (137,528,708)    | -                  | -            | -                   | (137,528,708)    | (133,282,049)  | -                  | -            | -                   | (133,282,049) |
| Net Takaful income               | 54,843,113       | -                  | -            | -                   | 54,843,113       | 64,859,377     | -                  | -            | -                   | 64,859,377    |
| Wakala fees                      | (64,365,342)     | 64,365,342         | -            | -                   | -                | (75,065,590)   | 75,065,590         | -            | -                   | -             |
| Mudarib fees                     | (75,112)         | 75,112             | -            | -                   | -                | -              | -                  | -            | -                   | -             |
| Commission Paid                  | -                | (27,234,390)       | -            | 604,169             | (26,630,221)     | (29,035,513)   | -                  | -            | 985,544             | (28,049,969)  |
| Other income                     | 1,765,346        | -                  | -            | -                   | 1,765,346        | -              | -                  | -            | -                   | -             |
| Investment                       | (62,675,108)     | 37,206,064         | -            | 604,169             | (24,864,875)     | (104,101,103)  | 75,065,590         | -            | 985,544             | (28,049,969)  |
| Investment income/(loss)         | 300,449          | 1,478,437          | -            | -                   | 1,778,886        | (2,504,840)    | (2,457,474)        | -            | -                   | (4,962,314)   |
| Unallocated expenses             | -                | (47,183,685)       | (26,058,858) | -                   | (73,242,543)     | -              | (35,375,438)       | (20,977,612) | -                   | (56,353,050)  |
| Other income                     | -                | 23                 | 22,007,169   | (604,169)           | 21,403,023       | -              | -                  | 22,774,746   | (985,544)           | 21,789,202    |
| Net (loss)/profit for the period | (7,531,546)      | (8,499,161)        | (4,051,689)  | -                   | (20,082,396)     | (41,746,566)   | 37,232,678         | 1,797,134    | -                   | (2,716,754)   |

During the period, the management of the Group has changed its internal reporting in the way business segments are monitored. As a result, the presentation for the current and prior periods has been changed to correspond to the Group's new internal reporting.

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

30. Segmental information (continued)

Other information

|                     | Takaful<br>2016<br>AED | 2015<br>AED   | Investment<br>2016<br>AED | 2015<br>AED | Total<br>2016<br>AED | 2015<br>AED   |
|---------------------|------------------------|---------------|---------------------------|-------------|----------------------|---------------|
| Segment assets      | 1,020,893,313          | 980,620,009   | 211,156,806               | 210,974,912 | 1,232,050,119        | 1,191,594,921 |
| Segment liabilities | 1,169,227,155          | 1,111,700,509 | 10,250,000                | 14,295,181  | 1,179,477,155        | 1,125,995,690 |

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

**31. Capital management**

**(i) 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 delegated authorities and responsibilities from the Board of Directors to the Chief Executive Officer and other senior managers.

The Board of Directors meets regularly to approve any commercial, regulatory and organisational decisions. The Board of Directors defines the Group's risk and its interpretation, limits structure to ensure the appropriate quality and diversification of assets, aligns underwriting and Retakaful strategy to the corporate goals, and specifies reporting requirements.

**(ii) Capital management framework**

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

**(iii) Regulatory framework**

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

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

**32. Financial instruments**

**(a) Significant accounting policies**

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

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

**32. Financial instruments (continued)**

**(b) Categories of financial instruments**

|                              | 2016<br>AED        | 2015<br>AED        |
|------------------------------|--------------------|--------------------|
| <b>Financial assets</b>      |                    |                    |
| At amortized cost            | 164,800,479        | 174,200,567        |
| At fair value                | 705,244,355        | 661,757,148        |
|                              | <u>870,044,834</u> | <u>835,957,715</u> |
| <b>Financial liabilities</b> |                    |                    |
| At amortized cost            | 175,763,520        | 178,739,997        |

**(c) Fair value of financial instruments**

The fair values of the financial assets and financial liabilities at year-end approximate their carrying amounts in the consolidated statement of financial position.

**33. Risk management**

**(i) Asset liability management (ALM) framework**

Financial risks arise from open positions in profit 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 Takaful contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from Takaful contracts by reference to the type of benefits payable to contract holders.

The Group's management actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from Takaful contracts.

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

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

**33A Takaful risk**

The principal risk the Group faces under Takaful 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 Takaful contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of Retakaful arrangements as well as the diversification of Retakaful providers.

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

**33. Risk management (continued)**

**33A Takaful risk (continued)**

*Frequency and amounts of claims*

The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly property, motor, marine, medical and group life. These are regarded as short-term Takaful contracts, as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate Takaful risk.

*Property and liability*

Property and liability Takaful is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the actual loss caused by the inability to use the insured properties.

For property Takaful contracts the main risks are fire and business interruption. In recent years the Group has targeted policies for properties containing fire detection and/or firefighting equipment

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Group has Retakaful cover for such damage to limit losses for any individual claim to AED 350,000 (2015: AED 350,000).

*Motor*

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

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Group has Retakaful cover for such claims to limit losses for any individual claim to AED 250,000 (2015: AED 250,000).

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

*Marine*

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

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Group has Retakaful to limit losses for any individual claim to AED 350,000 (2015: AED 350,000).

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

**33. Risk management (continued)**

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

***Medical, group life and personal accident***

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

For medical Takaful, the main risks are illness and related healthcare costs. For group life and personal accident the main risks are claims from death and permanent or partial disability. The Group generally does not offer medical Takaful to walk-in customers. Medical, group life and personal accident Takaful are generally offered to corporate customers with large population to be covered under the policy. The Group has Retakaful cover for such claims to limit losses for any individual claim to AED 500,000 (2015: AED 500,000) per annum per person for medical.

***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.

***Geographical concentration of risks***

The Takaful risk arising from Takaful contracts is concentrated mainly in the United Arab Emirates. The geographical concentration of risks is similar to prior year.

**Retakaful risk**

In common with other Takaful companies, in order to minimise financial exposure arising from large Takaful claims, the Group, in the normal course of business, enters into arrangements with other parties for Retakaful purposes. Such Retakaful 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 Retakaful is effected under treaty, facultative and excess of loss Retakaful 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 Retakaful insolvencies, the Group evaluates the financial condition of its Retakaful, monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers and ensure diversification of Retakaful providers. The Group deals with Retakaful approved by the Board of Directors.

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

**33. Risk management (continued)**

**33B Financial risk**

The Group's principal financial instruments are financial investments, receivables arising from Takaful and Retakaful contracts, investment deposits and cash and cash equivalents.

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

The Group does not enter into any derivative transactions.

*Credit risk*

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

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

- The Group only enters into Takaful and Retakaful 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 Takaful and Retakaful contracts are monitored on an ongoing basis in order to reduce the Group's exposure against defaults.
- The Group seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Group's investments are managed in accordance with the guidance and the supervision of the Board of Directors.
- The Group's bank balances are maintained with a range of international and local banks in accordance with limits set by the management.

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

|                          | Notes | 2016<br>AED        | 2015<br>AED        |
|--------------------------|-------|--------------------|--------------------|
| Cash and bank balance    | 5     | 58,121,643         | 56,217,405         |
| Statutory deposits       | 6     | 10,000,000         | 10,000,000         |
| Takaful receivables      | 8     | 86,293,655         | 92,853,387         |
| Other receivables        | 10    | 7,221,069          | 9,774,736          |
| Due from related parties | 29    | 3,164,112          | 5,355,039          |
|                          |       | <b>164,800,479</b> | <b>174,200,567</b> |

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

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

**33. Risk management (continued)**

**33B Financial risk (continued)**

*Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its commitments associated with its financial liabilities when 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 below summarizes the maturity of the financial liabilities of the Group based on remaining discounted contractual obligations:

| <b>31 December 2016</b>               | <b><i>1 to<br/>12 months<br/>AED</i></b> | <b><i>1 to<br/>5 years<br/>AED</i></b> | <b><i>Over<br/>5 years<br/>AED</i></b> | <b><i>Total<br/>AED</i></b> |
|---------------------------------------|------------------------------------------|----------------------------------------|----------------------------------------|-----------------------------|
| <b>Liabilities</b>                    |                                          |                                        |                                        |                             |
| Due to bank                           | 10,667,340                               | -                                      | -                                      | 10,667,340                  |
| Trade and other payables              | 67,169,159                               | -                                      | -                                      | 67,169,159                  |
| Takaful payables                      | 77,655,047                               | -                                      | -                                      | 77,655,047                  |
| Murabaha and ijara payables           | 10,250,000                               | -                                      | -                                      | 10,250,000                  |
| Amounts held under Retakaful treaties | 3,879,455                                | -                                      | -                                      | 3,879,455                   |
| Due to a related parties              | 6,142,519                                | -                                      | -                                      | 6,142,519                   |
|                                       | <u>175,763,520</u>                       | <u>-</u>                               | <u>-</u>                               | <u>175,763,520</u>          |
| <b>31 December 2015</b>               | <b><i>1 to<br/>12 months<br/>AED</i></b> | <b><i>1 to<br/>5 years<br/>AED</i></b> | <b><i>Over<br/>5 years<br/>AED</i></b> | <b><i>Total<br/>AED</i></b> |
| <b>Liabilities</b>                    |                                          |                                        |                                        |                             |
| Due to Bank                           | 20,001,125                               | -                                      | -                                      | 20,001,125                  |
| Trade and other payables              | 81,565,067                               | -                                      | -                                      | 81,565,067                  |
| Takaful and Retakaful payables        | 57,730,041                               | -                                      | -                                      | 57,730,041                  |
| Murabaha and ijara payables           | 14,295,181                               | -                                      | -                                      | 14,295,181                  |
| Amounts held under Retakaful treaties | 3,888,906                                | -                                      | -                                      | 3,888,906                   |
| Due to a related party                | 1,259,677                                | -                                      | -                                      | 1,259,677                   |
|                                       | <u>178,739,997</u>                       | <u>-</u>                               | <u>-</u>                               | <u>178,739,997</u>          |

*Market risk*

Market risk arises from fluctuations in foreign exchange rates, profit rates and equity prices. The value of risk that may be accepted by the Group is monitored on a regular basis by the Board of Directors.

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

**33. Risk management (continued)**

**33B 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 Group undertakes certain investments denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Group's foreign currency denominated monetary assets at the reporting date are as follows:

|                      | <b>Assets</b>     |             |
|----------------------|-------------------|-------------|
|                      | <b>2016</b>       | <b>2015</b> |
|                      | <b>AED</b>        | <b>AED</b>  |
| Kuwaiti Dinar (KWD)  | <b>9,642,705</b>  | 9,642,705   |
| Algerian Dinar (DZD) | <b>22,353,030</b> | 22,353,030  |

The majority of the assets and liabilities are denominated in either U.A.E. Dirhams or US Dollars, which is pegged to the U.A.E. Dirhams.

The following table details the Group's sensitivity to a 5% decrease and increase in the UAE Dirham against the relevant foreign currencies. 5% represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where the UAE Dirham strengthens 5% against the relevant currency. For a 5% weakening of the UAE Dirham against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

|                      | <b>Other<br/>comprehensive income</b> |             |
|----------------------|---------------------------------------|-------------|
|                      | <b>2016</b>                           | <b>2015</b> |
|                      | <b>AED</b>                            | <b>AED</b>  |
| Kuwaiti Dinar (KWD)  | <b>(482,135)</b>                      | (482,135)   |
| Algerian Dinar (DZD) | <b>(1,117,652)</b>                    | (1,117,652) |

This is attributable to the exposure to the FVTOCI investments at each year end.

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

**33. Risk management (continued)**

**33B Financial risk (continued)**

*Profit rate risk*

Profit rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market rates. Floating rate instruments expose the Group to cash flow risk. The Group is exposed to profit rate risk on certain of its investments and investment deposits. The Group limits its risk by monitoring changes in such rates.

Details of maturities of the major classes of profit generating financial instruments as at 31 December are as follows:

| <b>2016</b>         | <b><i>Less than<br/>1 years<br/>AED</i></b> | <b><i>1 to<br/>5 years<br/>AED</i></b> | <b><i>Over<br/>5 years<br/>AED</i></b> | <b><i>Total<br/>AED</i></b> | <b><i>Effective<br/>profit rate</i></b>    |
|---------------------|---------------------------------------------|----------------------------------------|----------------------------------------|-----------------------------|--------------------------------------------|
| <b>Assets:</b>      |                                             |                                        |                                        |                             |                                            |
| Wakala deposits     | 25,000,000                                  | -                                      | -                                      | 25,000,000                  | 1.5% to 2%                                 |
| Statuary deposits   | 10,000,000                                  | -                                      | -                                      | 10,000,000                  | 1.5% to 2%                                 |
|                     | <u>35,000,000</u>                           | <u>-</u>                               | <u>-</u>                               | <u>35,000,000</u>           |                                            |
| <b>Liabilities:</b> |                                             |                                        |                                        |                             |                                            |
| Murabaha payables   | 10,250,000                                  | -                                      | -                                      | 10,250,000                  | Minimum 4.5%<br>commercial<br>profit rates |
| Due to bank         | 10,667,340                                  | -                                      | -                                      | 10,667,340                  | Nil                                        |
|                     | <u>20,917,340</u>                           | <u>-</u>                               | <u>-</u>                               | <u>20,917,340</u>           |                                            |
| <b>2015</b>         | <b><i>Less than<br/>1 years<br/>AED</i></b> | <b><i>1 to<br/>5 years<br/>AED</i></b> | <b><i>Over<br/>5 years<br/>AED</i></b> | <b><i>Total<br/>AED</i></b> | <b><i>Effective<br/>profit rate</i></b>    |
| Wakala deposits     | 25,000,000                                  | -                                      | -                                      | 25,000,000                  | 1.5% to 2%                                 |
| Statuary deposits   | 10,000,000                                  | -                                      | -                                      | 10,000,000                  | 1.5% to 2%                                 |
|                     | <u>35,000,000</u>                           | <u>-</u>                               | <u>-</u>                               | <u>35,000,000</u>           |                                            |
| <b>Liabilities:</b> |                                             |                                        |                                        |                             |                                            |
| Ijara payables      | 4,046,570                                   | -                                      | -                                      | 4,046,570                   | Minimum 7%<br>commercial<br>profit rates   |
| Murabaha payables   | 10,248,611                                  | -                                      | -                                      | 10,248,611                  | Minimum 4.5%<br>commercial<br>profit rates |
| Due to bank         | 20,001,125                                  | -                                      | -                                      | 20,001,125                  | Nil                                        |
|                     | <u>34,296,306</u>                           | <u>-</u>                               | <u>-</u>                               | <u>34,296,306</u>           |                                            |

The impact of changes in profit rate risk is not expected to be significant for the Group, as all financial assets and financial liabilities bears fixed profit rates.

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

**33. Risk management (continued)**

**33B Financial risk (continued)**

*Equity price risk*

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

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December:

|                                               | Reflected in income statement |                            | Reflected in other comprehensive income |                            |
|-----------------------------------------------|-------------------------------|----------------------------|-----------------------------------------|----------------------------|
|                                               | Favourable change<br>AED      | Unfavourable change<br>AED | Favourable change<br>AED                | Unfavourable change<br>AED |
| <b>2016</b>                                   |                               |                            |                                         |                            |
| Other financial assets measured at fair value | 60,735,307                    | (60,735,307)               | 9,789,128                               | (9,789,128)                |
| <b>2015</b>                                   |                               |                            |                                         |                            |
| Other financial assets measured at fair value | 57,308,204                    | (57,308,204)               | 8,867,511                               | (8,867,511)                |

*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.

**34. Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Differences can therefore arise between book value under historical cost method and fair value estimates.

**(a) Fair value of financial instruments measured at amortised cost**

The management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

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

**34. Fair value of financial instruments (continued)**

**(b) Valuation techniques and assumptions applied for the purposes of measuring fair value**

Valuation of financial instruments recorded at fair value, is based on quoted market prices and other valuation techniques.

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

*Fair value of the financial assets that are measured at fair value on a recurring basis*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

*Fair value of the financial assets that are measured at fair value on a recurring basis*

| Financial assets                  | Fair value as at            |                             | Fair value hierarchy | Valuation techniques and key inputs                           | Significant unobservable input | Relationship of unobservable inputs to fair value                    |
|-----------------------------------|-----------------------------|-----------------------------|----------------------|---------------------------------------------------------------|--------------------------------|----------------------------------------------------------------------|
|                                   | 31 December 2016<br>AED'000 | 31 December 2015<br>AED'000 |                      |                                                               |                                |                                                                      |
| <b>Financial assets at FVTOCI</b> |                             |                             |                      |                                                               |                                |                                                                      |
| Quoted equity securities          | 62,133                      | 52,917                      | Level 1              | Quoted bid prices in an active market.                        | None                           | N/A                                                                  |
| Unquoted equity securities        | 35,758                      | 35,758                      | Level 3              | Net assets valuation method and comparable multiples approach | Net assets value               | Higher the net assets value of the investees, higher the fair value. |
| <b>Financial assets at FVTPL</b>  |                             |                             |                      |                                                               |                                |                                                                      |
| Quoted equity securities          | 11,765                      | 16,300                      | Level 1              | Quoted bid prices in an active market.                        | None                           | N/A                                                                  |
| Unit linked investments           | 595,587                     | 556,782                     | Level 3              | Net assets valuation method.                                  | Net assets value               | Higher the net assets value of the investees, higher the fair value. |

There were no transfers between each of the levels during the years ended 31 December 2016 and 2015.

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

**34. Fair value of financial instruments (continued)**

*Reconciliation of Level 3 fair value measurement of other financial assets measured at FVTOCI:*

|                                       | 2016<br>AED'000 | 2015<br>AED'000 |
|---------------------------------------|-----------------|-----------------|
| At 1 January                          | 35,758          | 47,598          |
| Additions during the year             | -               | -               |
| Redemptions/disposals during the year | -               | (25)            |
| Changes in fair value                 | -               | (11,815)        |
| <b>At 31 December</b>                 | <b>35,758</b>   | <b>35,758</b>   |

*Reconciliation of Level 3 fair value measurement of other financial assets measured at FVTPL:*

|                            | 2016<br>AED'000 | 2015<br>AED'000 |
|----------------------------|-----------------|-----------------|
| At 1 January               | 556,782         | 447,365         |
| Net change during the year | 38,805          | 109,417         |
| <b>At 31 December</b>      | <b>595,587</b>  | <b>556,782</b>  |

The investments classified under Level 3 category have been fair-valued based on information available for each investment. There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table.

**35. Contingencies**

- (a) At reporting date, the Group has contingent liabilities in respect of bank and other guarantees arising in the ordinary course of business amounting AED .7 million (31 December 2015: AED 0.74 million).
- (b) The Group, in common with other insurance companies, is involved as a defendant in a number of legal cases with other insurance, reinsurance and customers. A provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Group in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made. The expected outcome of the cases is dependent on future legal proceedings. The disputed amounts involved are AED .59 million excluding reinsurance impact for which no contingency provision has been made as of the reporting date due to the uncertainty of possible outcome of the legal cases.

**36. Significant events**

The former CEO of the Group resigned on 10 July 2013. The Company entered into an agreement with the former CEO on 9 July 2013 for the payment and/or transfer of certain assets and investments that were held by him or by entities controlled by him on trust and for the benefit of the Group. Given the delay in settlement and the level of uncertainty involved is considered as an exceptional outstanding matter, for which the chances of favourable outcome cannot be fully guaranteed. However, the Board of Directors is confident in the realization of a minimum of the carrying value of assets due from him and therefore no adjustments to the carrying value of the assets are required.

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

**36. Significant events (continued)**

The settlement agreement referred to above contains the following 3 clauses:

- (a) The advance of AED 5,358,581 to invest in a real estate project in the Emirate of Ajman will be returned to the Company.
- (b) Transfer of shares of Al Salam Bank - Bahrain (currently held under the name of Leader Capital) together with the payment of any associated dividends due, to the Company's name.
- (c) Transfer of legal ownership of Al Salam Bank - Algeria shares held by the former CEO to the Company's name.

The Company has received an amount of AED 2.3 million during the previous years against the advance mentioned in clause (a) above, in addition to receiving cumulative dividends of Al Salam Bank - Bahrain pertaining to prior years amounting to AED 0.46 million.

**37. Effect of changes in accounting policies and the application of the new insurance regulation**

As disclosed in Note 3, further to the new financial regulation issued on 28 January 2015 for insurance companies under federal law number 6 of 2007, the Group has changed its accounting policy for accounting for unearned contribution reserve switching from 1/8 method to 1/365 method. In addition, the Group has also reclassified its reserves out of additional reserve into multiple reserve captions within the consolidated statement of financial position and the consolidated income statement in order to align it to the requirements of the insurance authority.

All reserves have been computed by the internal actuary using statistical models and verified by the Company externally appointed actuary. Reserves booked by the group are identical to those determined by the external actuary.

- (a) Impact of the change in accounting policies on the consolidated statement of financial statement position as at 1 January 2015

|                                                                       | As previously<br>reported<br>AED | Adjustment<br>AED | Restated<br>AED |
|-----------------------------------------------------------------------|----------------------------------|-------------------|-----------------|
| Accumulated losses                                                    | 69,926,025                       | 16,100,983        | 86,027,008      |
| Retakaful contract assets - unearned contribution reserve             | 80,837,417                       | (18,348,796)      | 62,488,621      |
| Retakaful contract assets - Claim reported unsettled                  | 134,612,940                      | (3,991,859)       | 130,621,081     |
| Takaful contract liabilities - additional reserve                     | (23,280,586)                     | 23,280,586        | -               |
| Takaful contract liabilities - mathematical reserve - net             | -                                | (4,049,282)       | (4,049,282)     |
| Takaful contract liabilities - claims incurred but not reported - net | -                                | (10,857,299)      | (10,857,299)    |
| Takaful contract liabilities - unearned contribution reserve          | (125,662,875)                    | (2,134,333)       | (127,797,208)   |
| Deficit in policyholders' fund                                        | (125,473,562)                    | (16,100,987)      | (141,574,549)   |
| Qard Hassan from shareholder                                          | 125,473,562                      | 16,100,987        | 141,574,549     |

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

**37. Effect of changes in accounting policies (continued)**

(b) Impact of the change in accounting policies on the consolidated statement of financial statement position as at 31 December 2015 is as follows:

|                                                                          | As previously<br>reported<br>AED | Adjustments<br>AED | Restated<br>AED |
|--------------------------------------------------------------------------|----------------------------------|--------------------|-----------------|
| Accumulated losses                                                       | 69,926,025                       | 20,287,585         | 90,213,610      |
| Retakaful contract assets - unearned<br>contribution reserve             | 90,134,695                       | 33,604,830         | 123,739,525     |
| Retakaful contract assets - Claim reported<br>unsettled                  | 137,670,978                      | (10,531,283)       | 127,139,695     |
| Takaful contract liabilities - additional<br>reserve                     | (20,275,984)                     | 20,275,984         | -               |
| Takaful contract liabilities - mathematical<br>reserve - net             | -                                | (3,726,324)        | (3,726,324)     |
| Takaful contract liabilities - claims<br>incurred but not reported – net | -                                | (9,632,159)        | (9,632,159)     |
| Takaful contract liabilities - unearned<br>contribution reserve          | 144,372,372                      | 50,991,316         | 195,363,688     |
| Deficit in policyholders' fund                                           | (159,651,012)                    | (22,184,566)       | (181,835,578)   |
| Qard Hassan from shareholder                                             | 159,651,012                      | 22,184,566         | 181,835,578     |

(c) Impact of the change in accounting policies on the consolidated income statement of as at 31 December 2015 is as follows:

|                      | As previously<br>reported<br>AED | Adjustments<br>AED | Restated<br>AED |
|----------------------|----------------------------------|--------------------|-----------------|
| Takaful contribution | 427,060,433                      | 1,640,141          | 428,700,574     |
| Gross claim          | (198,949,613)                    | (6,539,424)        | 205,489,037     |

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

**38. Non-controlling interest**

During the year, the ownership structure of Amity Health L.L.C. changed to being 90% owned by Nawat Investments L.L.C (subsidiary) (31 December 2015: 51%) and 10% owned by CEO of Amity Health L.L.C through capitalization of shareholders' funds. This resulted in a decrease in the non-controlling interest in the subsidiary by AED 7,294,000.

The movement on the non-controlling interest during the period is as follows:

|                                                                              | <b>31 December<br/>2016<br/>AED</b> |
|------------------------------------------------------------------------------|-------------------------------------|
| At beginning of the period                                                   | <b>(8,441,330)</b>                  |
| Loss for the period attributable to non-controlling interest                 | <b>(410,755)</b>                    |
| Introduction of new share capital in non-controlling interest                | <b>353,000</b>                      |
| Net change in non-controlling interest due to change in ownership percentage | <b>7,294,000</b>                    |
| Write off of loan from shareholder                                           | <b>797,591</b>                      |
| <b>At end of the period</b>                                                  | <b><u>(407,494)</u></b>             |

**39. Comparative figures**

- a. Certain comparative figures have been reclassified to align the presentation of the consolidated financial statements to the requirement of the insurance authority.
- b. As per Article (3) of Section 7 to the Financial Regulation of Takaful Insurance Companies, the shareholder account should bear all operational, administrative and general expenses for takaful insurance business. Accordingly effective 1 January 2016, the policy acquisition cost has been classified in the consolidated statement of income as attributable to shareholder

**40. Approval of consolidated financial statements**

The consolidated financial statements for the year ended 31 December 2016 were approved by the Board of Directors and authorized for issue on 30 March 2017.