

**Arabian Scandinavian Insurance Company (PLC) -
Takaful - ASCANA Insurance**

**Independent auditor's report and financial statements
for the year ended 31 December 2016**

Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance

Contents	Pages
Directors' report	1
Independent auditor's report	2 - 7
Statement of financial position	8 - 9
Statement of income	10 - 11
Statement of comprehensive income	12
Statement of changes in equity	13
Statement of cash flows	14 - 15
Notes to the financial statements	16 - 61

Directors' report

The Board of Directors has pleasure in submitting their report and the audited financial statements for the year ended 31 December 2016.

Incorporation and registered offices

Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance - Dubai (the "Company") is a public shareholding company and was registered in 1992 under U.A.E. Federal Law No. (2) of 2015 relating to commercial companies in U.A.E. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its Operations and is registered in the Insurance Companies Register of Insurance Authority of U.A.E under registration number 6. The address of the Company's registered office is P.O. Box 1993, Dubai, United Arab Emirates.

Principal activities

The Company started issuing short term takaful contracts from 1 February 2015 in connection with non-life takaful such as motor, marine, fire, engineering, medical and general accident risks (collectively known as general takaful) and the name of the Company was changed to Arabian Scandinavian Insurance Company P.L.C. - Takaful ASCANA Insurance. The Company only operates in U.A.E., through its Dubai and Abu Dhabi office.

Financial position and results

The financial position and results of the Company for the year ended 31 December 2016 are set out in the accompanying financial statements.

Dividend

The Directors recommend the distribution of 17% cash dividend in respect of the year ended 31 December 2016.

Directors

The following were the Directors of the Company for the year ended 31 December 2016:

H.H. Sheikh Butti Bin Maktoum Bin Juma Al Maktoum
Mr. Khaled Habib Mohammed Al Redha
Mr. Majid Mohammed Amin Al Kazim
Mr. Ahmad Mohammed Amin Al Kazim
Mr. Faisal Aqeel Mohammed Al Bastaki
Mr. Mahmoud Mohammed Hadi Hassan
Dr. Mohammad Salim Ahmad Al Olama
Mr. Mohammed Yousef Majid Al Muhairi

Auditors

The financial statements for the year ended 31 December 2016 have been audited by Deloitte & Touche (M.E.) and, being eligible, offer themselves for reappointment.

By order of the Board of Directors



Managing Director

27th February 2017

INDEPENDENT AUDITOR'S REPORT

**The Shareholders of
Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance
Dubai
United Arab Emirates**

Report on the audit of the financial statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance** as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

Key audit matters

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Valuation of takaful contract liabilities and retakaful contract assets</i> As at 31 December 2016, takaful contract liabilities and retakaful contract assets amounted to AED 147.1 million and AED 50.9 million respectively, as detailed in note 7 to these financial statements. As set out in note 3 and note 4, valuation of these liabilities requires professional judgment and also involve number of assumptions made by management. Retakaful contract assets includes amounts that the Company is entitled to receive under the retakaful contracts and, more specifically, the share of the retakaful in the takaful contract liabilities recorded by the Company. This is particularly the case for those liabilities that are based on the best-estimate of technical reserves that includes ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and related technical reserves along with their retakaful recoveries. A range of methods are used by management and the independent external actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Changes in these assumptions can result in material impacts to the valuation of these liabilities. As a result of all the above factors, we consider the valuation of takaful contract liabilities and retakaful contract assets as key audit matter.	Our audit procedures included: • Testing the underlying Company data to source documentation. • Evaluating and testing of key controls around the claims handling and case reserve setting processes of the Company including allocation of retakaful portion of the claims. • Evaluating and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process. • Checking samples of claims case reserves through comparing the estimated amount of the case reserve to appropriate documentation, such as reports from loss adjuster and retakaful contracts. • Re-performing reconciliations between the claims data recorded in the Company's systems and the data used in the actuarial reserving calculations. • Recalculating the unearned premium reserve based on the earning period on takaful contracts existing as at 31 December 2016. • Obtaining the retakaful treaty summary for the year and verifying the details in the summary to the respective agreements on samples basis. In addition, with the assistance of our actuarial specialists, we: • performed necessary reviews to ascertain whether the results are appropriate for financial disclosure. • reviewed the actuarial report compiled by the independent external actuaries of the Company and calculations underlying these provisions, particularly the following areas; • Appropriateness of the calculation methods and approach (actuarial best practice) • Review of assumptions • Sensitivities to key assumptions • Risk profiles • Consistency between valuation periods • General application of financial and mathematical rules

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Valuation of investment properties</i> Under fair value model, investment property is remeasured at fair value, which is the amount for which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Gains or losses arising from changes in the fair value of investment property and investment property under development is included in net profit or loss for the period in which it arises. The valuation of investment properties, as detailed in Note 4 and 12, requires significant judgement and estimates by management and the independent external valuers. The existence of significant estimation and judgement, coupled with change in valuation assumption used could result in material misstatement. We consider the valuation of investment properties a key audit matter, given the significant measurement uncertainty and judgements involved.	The Company has involved two external valuers in order to value the investment properties for the purpose of determining the fair value for inclusion in the financial statements. As part of our audit procedures, we assessed the competence, capabilities, objectivity and verified the qualifications of the external valuers. In addition to above, we made use of our internal experts to review the reasonableness on a sample basis of :- • methodologies used and the appropriateness of the key assumptions, and • accuracy and relevance of the input data used for deriving fair values.

Other information

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

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

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

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INDEPENDENT AUDITOR'S REPORT (continued)**Other information (continued)**

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

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

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

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

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

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

Auditor's Responsibilities for the audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those 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 omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

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INDEPENDENT AUDITOR'S REPORT (continued)**Auditor's Responsibilities for the audit of the Financial Statements (continued)**

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other Legal and Regulatory Requirements

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

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Directors' report is consistent with the books of account of the Company;

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INDEPENDENT AUDITOR'S REPORT (continued)**Report on other Legal and Regulatory Requirements (continued)**

- v) as disclosed in Note 11 to the financial statements, the Company has purchased and invested in shares during the financial year ended 31 December 2016;
- vi) Note 8 to the financial statements discloses material related party transactions and balances, and the terms under which they were conducted and
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has, during the financial year ended 31 December 2016, contravened any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2016.

Further, as required by UAE Federal Law No. 6 of 2007 and the related Financial Regulations for Insurance Companies, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit. As discussed in note 3 to the financial statements, the Company is in the process of complying with the requirements of the Financial Regulations for Insurance Companies issued by the Insurance Authority especially pertaining to Article (1) of Section (7) and Appendix (1) relating to presentation of financial statements and disclosures.

Deloitte & Touche (M.E.)



Signed by:
Samir Madbak
Registration No. 386
27 February 2017
Sharjah, United Arab Emirates

**Statement of financial position
at 31 December 2016**

		31 December		1 January
		2016	2015	2015
	Notes	AED'000	AED'000	AED'000
			(Restated)	(Restated)
ASSETS				
Takaful operations' assets				
Cash and bank balances	5	66,925	26,754	-
Takaful and retakaful receivables	6	28,232	24,029	-
Retakaful contract assets	7	50,866	23,943	-
Prepayments and other receivables		3,115	1,644	-
Due from related parties	8	9,561	5,446	-
Due from shareholders	9	-	24,477	-
Total takaful operations' assets		158,699	106,293	-
Shareholders' assets				
Cash and bank balances	5	39,070	23,536	28,117
Statutory deposits	10	10,000	10,000	10,000
Insurance and reinsurance receivables		-	-	18,124
Re-insurance contract assets		-	-	19,385
Other financial assets measured at fair value through other comprehensive income (FVTOCI)	11	2,306	2,729	2,770
Other financial assets measured at fair value through profit and loss (FVTPL)	11	30,109	43,203	61,103
Due from related parties		-	-	3,448
Prepayments and other receivables		1,855	1,450	5,464
Due from policyholders	9	9,787	-	-
Investment properties	12	281,947	266,733	268,020
Property and equipment	13	655	248	360
Total shareholders' assets		375,729	347,899	416,791
Total assets		534,428	454,192	416,791

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

**Statement of financial position
at 31 December 2016 (continued)**

		31 December		1 January
	Notes	2016	2015	2015
		AED'000	AED'000	AED'000
			(Restated)	(Restated)
LIABILITIES, POLICYHOLDERS' FUND AND EQUITY				
Takaful operations' liabilities and policyholders' fund				
Takaful operations' liabilities				
Takaful and retakaful payables	14	45,650	27,774	-
Takaful contract liabilities	7	147,048	91,006	-
Other liabilities	15	4,615	5,016	-
Due to shareholders	9	9,787	-	-
Due to related parties	8	11	5	-
Total takaful operations' liabilities		207,111	123,801	-
Policyholders' fund				
Deficit in policyholders' fund	16(i)	(48,410)	(17,509)	-
Qard Hassan to policyholder's fund	16(ii)	48,410	17,509	-
Total policyholders' fund		-	-	-
Liabilities and policyholders' fund		207,111	123,801	-
Shareholders' liabilities and equity				
Shareholders' liabilities				
Provision for employees' end of service indemnity	17	2,000	1,834	1,790
Insurance and reinsurance payables		-	-	20,895
Insurance contract liabilities		-	-	67,339
Other liabilities	15	9,580	7,311	12,986
Due to policyholders	9	-	24,477	-
Due to related parties	8	3	-	1
Total shareholders' liabilities		11,583	33,622	103,011
Shareholders' equity				
Share capital	18	154,000	154,000	154,000
Statutory reserve	19	60,940	57,955	56,609
Voluntary reserve	20	50,064	50,064	48,718
Investments revaluation reserve - FVTOCI	21	(117)	(444)	(403)
Retained earnings		50,847	35,194	54,856
Total shareholders' equity		315,734	296,769	313,780
Total shareholders' liabilities and equity		327,317	330,391	416,791
Total liabilities, policyholders' fund and equity		534,428	454,192	416,791



Managing Director

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

**Statement of income
for the year ended 31 December 2016**

	Notes	2016 AED'000	2015 AED'000 (Restated)
Attributable to policyholders			
Takaful income			
Gross contribution written	22	165,406	100,291
Movement in unearned contributions and additional unexpired risk reserves	22	(22,693)	(15,358)
Takaful contributions revenue		142,713	84,933
Retakaful contributions ceded	22	(47,866)	(29,063)
Movement in retakaful share of unearned contributions and additional unexpired risk reserves	22	8,553	948
Retakaful share of contributions		(39,313)	(28,115)
Net takaful revenue	22	103,400	56,818
Discount received on retakaful contributions		7,092	5,965
Policy fees		773	305
Total takaful income		111,265	63,088
Takaful expenses			
Gross claims incurred	23	(135,157)	(77,918)
Retakaful share of claims incurred	23	43,247	25,070
Net claims incurred	23	(91,910)	(52,848)
Other underwriting expenses		(1,224)	(171)
Total takaful expenses		(93,134)	(53,019)
Net takaful income		18,131	10,069
Other income		778	176
Mudarib fee		(188)	-
Wakala fees	24	(49,622)	(27,754)
Deficit for the year attributable to policyholders		(30,901)	(17,509)

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

Statement of income
for the year ended 31 December 2016 (continued)

	Notes	2016 AED'000	2015 AED'000 (Restated)
Attributable to shareholders			
Investment income	25	46,064	18,568
Other income		201	902
Wakala fees from policyholders	24	49,622	27,754
Mudarib Fees		188	-
Policy acquisition cost		(15,281)	(5,911)
General and administrative expenses	26	(19,147)	(16,874)
Income for the year before Qard Hassan and Zakat		61,647	24,439
Provision against Qard Hassan to policyholders		(30,901)	(17,509)
Income for the year before Zakat		30,746	6,930
Zakat	27	(899)	(800)
Profit for the year attributable to shareholders		29,847	6,130
Earnings per share	28	0.20	0.04

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

**Statement of comprehensive income
for the year ended 31 December 2016**

	2016 AED'000	2015 AED'000 (Restated)
Attributable to shareholders		
Profit for the year	<u>29,847</u>	<u>6,130</u>
Other comprehensive loss		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Net fair value loss on investments at FVTOCI	(117)	(41)
Gain on sale of investments at FVTOCI	<u>15</u>	<u>-</u>
Other comprehensive loss for the year	<u>(102)</u>	<u>(41)</u>
Total comprehensive income for the year attributable to shareholders	<u><u>29,745</u></u>	<u><u>6,089</u></u>

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

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

	Share capital AED'000	Statutory reserve AED'000	Voluntary reserve AED'000	Investments revaluation reserve - FV/TOCI AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2015 (As previously reported)	154,000	56,609	48,718	(403)	63,217	322,141
Effect of changes in accounting policies (Note 3)	-	-	-	-	(8,361)	(8,361)
As at 1 January 2015 (Restated)	154,000	56,609	48,718	(403)	54,856	313,780
Profit for the year (Restated)	-	-	-	-	6,130	6,130
Other comprehensive loss for the year	-	-	-	(41)	-	(41)
Total comprehensive income for the year	-	-	-	(41)	6,130	6,089
Transfer to statutory reserve	-	1,346	-	-	(1,346)	-
Transfer to general reserve	-	-	1,346	-	(1,346)	-
Dividend paid (Note 38)	-	-	-	-	(23,100)	(23,100)
Balance at 31 December 2015 (Restated)	154,000	57,955	50,064	(444)	35,194	296,769
Balance at 1 January 2016 (As previously reported)	154,000	57,955	50,064	(444)	50,885	312,460
Effect of changes in accounting policies (Note 3)	-	-	-	-	(15,691)	(15,691)
As at 1 January 2016 (Restated)	154,000	57,955	50,064	(444)	35,194	296,769
Profit for the year	-	-	-	-	29,847	29,847
Other comprehensive loss for the year	-	-	-	(117)	15	(102)
Total comprehensive income for the year	-	-	-	(117)	29,862	29,745
Transfer to retained earnings on disposal of Investments designated at FV/TOCI	-	-	-	444	(444)	-
Transfer to statutory reserve	-	2,985	-	-	(2,985)	-
Dividend paid (Note 38)	-	-	-	-	(10,780)	(10,780)
Balance at 31 December 2016	154,000	60,940	50,064	(117)	50,847	315,734

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

**Statement of cash flows
for the year ended 31 December 2016**

	2016 AED'000	2015 AED'000 (Restated)
Cash flows from operating activities		
Profit for the year before Zakat	29,847	6,930
Adjustments for:		
Depreciation of property and equipment	166	147
Fair value (gain)/loss on investment properties	(15,214)	2,993
Unrealized (gain)/loss on other financial assets at FVTPL	(407)	285
Realized gain on sale of other financial assets at FVTPL	(8,793)	(1,090)
Provision for employees' end of service benefits	200	180
Other investment income	(22,601)	(22,108)
Profit on wakala deposits	(430)	(341)
Board of Directors' remuneration	-	800
Operating cash flows before changes in operating assets and liabilities	(17,232)	(12,204)
Increase in retakaful contract assets	(26,923)	(4,558)
Increase in takaful and retakaful receivables	(4,203)	(5,905)
Increase in due from related parties	(4,115)	(1,998)
(Increase)/decrease in prepayments and other receivables	(1,876)	2,370
Increase in takaful contract liabilities	56,042	23,667
Increase in takaful and retakaful payables	17,876	6,879
Increase/(decrease) in other liabilities	2,068	(1,459)
Increase in due to related parties	9	4
Cash generated from operations	21,646	6,796
Employee's end of service benefits paid	(34)	(136)
Zakat paid	(200)	-
Net cash generated from operating activities	21,412	6,660
Cash flows from investing activities		
Purchase of property and equipment	(573)	(35)
Purchase of investments properties	-	(1,706)
Purchase of other financial assets	(35,078)	(8,517)
Proceeds from sale of other financial assets	57,693	27,222
Rental income received	20,677	18,806
Profit received on wakala deposit	430	341
Dividend received	1,924	3,302
Increase in wakala deposits with maturity over 3 months	(40,000)	-
Net cash generated from investing activities	5,073	39,413

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

Statement of cash flows
for the year ended 31 December 2016 (continued)

	2016 AED'000	2015 AED'000 (Restated)
Cash flows from financing activities		
Board of Directors' remuneration paid	-	(800)
Dividend paid	(10,780)	(23,100)
Net cash used in financing activities	(10,780)	(23,900)
Net increase in cash and cash equivalents	15,705	22,173
Cash and cash equivalents at the beginning of the year	40,290	18,117
Cash and cash equivalents at the end of the year (Note 29)	55,995	40,290

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

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

1. General information

Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance - Dubai (the "Company") is a public shareholding company and was registered in 1992 under U.A.E. Federal Law No. (2) of 2015 relating to commercial companies in U.A.E. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its Operations and is registered in the Insurance Companies Register of Insurance Authority of U.A.E under registration number 6. The address of the Company's registered office is P.O. Box 1993, Dubai, United Arab Emirates.

The Shareholders Extraordinary General Assembly Meeting held on 19 March 2014 approved conversion of the Company's business from conventional insurance to Takaful insurance. The Board of Directors appointed a Fatwa and Sharia'a Supervisory Board for overseeing the compliance with Sharia'a.

The Company started issuing short term takaful contracts from 1 February 2015 in connection with life and non-life takaful such as motor, marine, fire, engineering, medical and general accident risks (collectively known as general takaful) and the name of the Company was changed to Arabian Scandinavian Insurance Company P.L.C. - Takaful ASCANA Insurance. The Company only operates in U.A.E., through its Dubai and Abu Dhabi offices.

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

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

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

- IFRS 14 *Regulatory Deferral Accounts*.
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative.
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and 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.

**Notes to the 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

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

New and revised IFRSs

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

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

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

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

1 January 2017

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

1 January 2017

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

1 January 2018

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepayment asset or deferred income liability is non-monetary.

Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions

1 January 2018

Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.

1 January 2018

Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.

1 January 2018

**Notes to the 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 IFRSs

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

Finalised version of IFRS 9 (IFRS 9 Financial Instruments (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.

1 January 2018

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.

Amendments to IFRS 4: Insurance Contracts which introduces the overlay approach and deferral approach towards implementing IFRS 9 before implementing the replacement standard that the IASB Board is developing for IFRS 4

When IFRS 9 is first applied
or 1 January 2021 under
deferral approach

IFRS 15 Revenue from Contracts with Customers

1 January 2018

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

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

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

**Notes to the 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 IFRSs

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

IFRS 15 Revenue from Contracts with Customers (continued)

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

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

1 January 2018

IFRS 16 Leases

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.

1 January 2019

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

Effective date deferred indefinitely

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

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

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

3. Significant accounting policies

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

Statement of compliance

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

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

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

Presentation

The statements of income and comprehensive income of the Company present separately the profit and loss, and the comprehensive income attributable to the policyholders and to shareholders.

The statement of financial position presents separately policyholders' fund and shareholders' fund assets and liabilities.

Basis of preparation

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

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

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

3. Significant accounting policies (continued)

Basis of preparation (continued)

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

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

The financial statements are presented in Arab Emirates Dirham (AED) since that is the currency in which the majority of the Company's transactions are denominated. All values are rounded to the nearest thousands dirhams, except when otherwise indicated.

The principal accounting policies are set out below.

Change in accounting policy

As disclosed in the Note 3 to the financial statements, the financial regulation issued by Insurance Authority provide an alignment period to the insurance companies between one to three years from the publication of financial regulation in Public Gazette from 29 January 2015 to align the operations to the covenants of the regulations therein. The Company is in the process of aligning the operations with the requirement of the regulations relating to investment operations.

On 1 October 2016, the Company has adopted the above directives that relates to the basis of recognizing technical reserves based on external independent valuers report. Consequently, the Company has changed the basis for recognition of unearned contribution reserve ("UCR"), Incurred but Not Reported Claims ("IBNR"), Unallocated loss adjustment expense reserve ("ULAE"), Unexpired risk reserve ("URR"), deferred policy acquisition cost and unearned discounts. Prior to the above adoption, the Company had accounted for technical reserves for takaful contracts using internal statistical model.

Prior to the change, the Company's UCR was calculated using an internal statistical model. The change in the basis of recognition this year has resulted in recognizing UCR using the 1/365 except for marine cargo and engineering. The UCR for marine cargo is recognized as fixed proportion of written premium and UCR for engineering is recognized on a daily increasing basis over the term of the policy period.

Prior to the change, the Company's IBNR was calculated using an internal statistical model based on historical data. The change in the basis of recognition this year has resulted in recognizing IBNR using a range of standard actuarial claim projection techniques.

Prior to the change, the Company did not account for ULAE which is a new technical reserve now calculated in accordance with the financial regulation requirements.

Prior to the change, the Company used to perform an internal assessment of the need for UCR using a high level calculation based on the loss ratios by line of business to comply with the liability adequacy test. The change in the basis of recognition URR this year has resulted in Company's actuary assessing extent to which the UCR is insufficient to meet the future claims liabilities and expenses that will be incurred on unexpired business.

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

Prior to the change, the Company has recognized commissions and other acquisition cost related to securing new contracts and renewing existing contracts as expense when incurred. The change in accounting policy in the current year resulted in commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts being recognized as deferred acquisition cost.

The Company has recognized discount received from retakaful contribution ceded as discount earned in the period in which contribution was ceded to the retakaful companies, in the prior years. The change in accounting policy in the current year resulted in deferring these amounts as deferred discount.

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 statement users. The effect of changes in accounting policy are disclosed in Note 39 to the financial statements.

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 period of risk after the reporting date. Unearned contribution is calculated in accordance with Federal Law No.6 of 2007. The proportion attributable to subsequent year 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 Takaful 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.

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.

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

3. Significant accounting policies (continued)

Wakala fees

The Company manages the takaful operations on behalf of the policyholders for a wakala fee which is recognised on an accrual basis. A similar amount is shown as expense statement of income attributable to policyholders.

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 additional reserve and reflected in the statement of income.

The Company 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 year.

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.

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.

Realised gains and losses

Realised gains and losses recorded in the statement of income on investments include gains and losses on financial assets. 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.

General and administration expenses

Administration expenses are charged to the statement of income of shareholders's fund.

Liability adequacy test

At the end of each reporting date the Company 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.

Retakaful

The Company 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.

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

3. Significant accounting policies (continued)

Retakaful (continued)

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 Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the retakaful can be measured reliably. The impairment loss is recorded in the statement of income.

Ceded retakaful arrangements do not relieve the Company from its obligations to policyholders

The Company also assumes retakaful risk in the normal course of business for takaful 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.

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 Company reduces the carrying amount of the Takaful receivable accordingly and recognises that impairment loss in the statement of income.

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

The Company has no finance leases. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense 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.

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

3. Significant accounting policies (continued)

Leases (continued)

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.

Product classification

Takaful contracts are those contracts where a group of policyholders (the policyholders) mutually guarantee one another against prescribed uncertain future events of loss or damage, where the Company acts as a Wakil (agent) on their behalf in managing the Islamic Takaful insurance operations in consideration for a Wakala fee. The Takaful amounts (contributions) paid net of the Wakala fee are considered as funds available for Mudarba, where the Company acts as Mudarib, investing some of these funds in consideration of a pre-agreed share of the realised profit or loss, (Mudarib fee) if any. The policyholders further donate their contribution to those other policyholders who suffer a prescribed event of loss or damage, payable per the policies of the Company, in its capacity as an agent. As a general guideline, the Company determines whether there is significant takaful risk, by comparing benefits paid with benefits payable if the insured event did not occur.

In case of deficit in policyholders operation, such deficit is funded by the shareholders as a Qard Hasan loan.

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

Surplus/deficit in policyholders' fund

If the surplus in the policyholders' fund at the end of a year is sufficiently large, a percentage of the surplus shall be distributed between policyholders 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 Company's Shari'a Supervisory Board. Any remaining surplus after the distribution will remain in the policyholders' fund.

A deficiency in policyholders' fund is made good by a profit free loan (Qard Hasan) from the shareholders' fund. This loan is to be repaid from future surpluses arising from takaful operations on a priority basis. This loan is tested for impairment annually and the portion of the loan that is considered impaired is charged to the statement of income.

On liquidation of the fund, the accumulated surplus in the policyholders' 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 Company'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 policyholders' fund and the shareholders' fund will forego such outstanding amount

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

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

3. Significant accounting policies (continued)

Foreign currencies

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

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

Exchange differences are recognised in statement of income in the year in which they arise.

Employee benefits

Defined contribution plan

U.A.E. national employees of the Company 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 Company is required to contribute 12.5% of "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 Company with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the statement of income.

Provision for employees' end of service benefits

Provision for employees' end of service indemnity is made in accordance with the U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the end of the reporting period.

Property and equipment

Property and equipment are carried at cost less any accumulated depreciation and any identified impairment losses.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in statement of income.

The useful life considered in the calculation of depreciation of all the assets is 4 years.

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

3. Significant accounting policies (continued)

Investment properties

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

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

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

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

Impairment of tangible assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax 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 is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in statement of income, 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 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 in prior years. A reversal of an impairment loss is recognised immediately in statement of income, 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.

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

3. Significant accounting policies (continued)

Provisions

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

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

Financial assets

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

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

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

Cash and cash equivalents

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

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

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in statement of income.

Dividend income on investments in equity instruments at FVTPL is recognised in statement of income when the Company's right to receive the dividends is established in accordance with IAS 18 *Revenue*.

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

3. Significant accounting policies (continued)

Financial assets (continued)

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

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

A financial asset is held for trading if:

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

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value reserve. The cumulative gain or loss will not be reclassified to statement of income on disposal of the investments, but reclassified to retained earnings.

The Company has designated all investments in equity instruments that are not held for trading as at FVTOCI.

Dividends on these investments in equity instruments are recognised in statement of income when the Company'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.

Takaful and other receivables

Takaful receivables, other receivables and statutory deposits are measured at amortised cost using the effective profit method, less any impairment. Profit income is recognised by applying the effective profit rate, except for short-term receivables when the recognition of profit would be immaterial.

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

3. Significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

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 statement of income 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.

Derecognition of financial assets

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

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

3. Significant accounting policies (continued)

Financial liabilities and equity instruments issued by the Company (continued)

Other financial liabilities

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

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 through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

Takaful contract liabilities

(i) Unearned contributions reserve

Unearned contributions are those proportions of contributions written in a year that relate to period of risk after the reporting date. These reserves are calculated in accordance with the requirements of Federal Law No.6 of 2007 relating to Takaful companies.

The proportion attributable to a subsequent period is deferred as a provision for unearned contributions.

(ii) Claims reported unsettled

Contract liabilities are recognised when contracts are entered into and contributions are charged. These liabilities are known as the claims reported unsettled 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.

(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.

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

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

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

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

4.1 Critical judgements in applying accounting policies

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

4.1.1 Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as at FVTOCI or FVTPL. In judging whether investments in securities are as at FVTOCI or FVTPL, Management has considered the detailed criteria for determination of such classification as set out in IFRS 9 - Financial Instruments. Management is satisfied that its investments in securities are appropriately classified.

4.1.2 Classification of properties

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

4.2 Key sources of estimation uncertainty

4.2.1 The ultimate liability arising from claims made under insurance contracts

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

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

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

4.2 Key sources of estimation uncertainty (continued)

4.2.2 Impairment losses on Takaful receivables

The Company reviews its Takaful receivables on a regular basis to assess whether a provision for impairment should be recorded in the statement of income. 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 Company 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.

4.2.3 Retakaful

The Company is exposed to disputes with, and possibility of defaults by, its retakaful providers. The Company monitors on a quarterly basis the evolution of disputes with and the financial strength of its retakaful providers and seeks legal opinion on such disputes as and when needed.

4.2.4 Liability adequacy test

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

4.2.5 Valuation of unquoted equity instruments

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

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

5. Cash and bank balances

	2016 AED'000	2015 AED'000
Cash on hand	141	44
Bank balances:		
Wakala deposits	55,000	10,000
Current accounts	50,854	40,246
	<u>105,995</u>	<u>50,290</u>
Attributable to:		
Shareholders	39,070	23,536
Policyholders	66,925	26,754
	<u>105,995</u>	<u>50,290</u>

The profit rates on the Wakala deposits with banks range from 1.50% to 2.00% (2015: 0.75% to 1.00%).

Wakala deposits amounting to AED 50 million (2015: AED 10 million) have maturity more than three months.

All cash and bank balances are maintained within U.A.E.

6. Takaful and retakaful receivables

	2016 AED'000	2015 AED'000 (Restated)
Takaful receivable	20,730	12,814
Receivables from takaful companies	1,543	4,183
Receivables from retakaful companies	24	1,273
	<u>22,297</u>	<u>18,270</u>
Less: Provisions for doubtful receivables	(1,436)	(1,436)
Deferred policy acquisition cost	7,371	7,195
	<u>28,232</u>	<u>24,029</u>

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

6. Takaful and retakaful receivables (continued)

The Company has adopted a policy of dealing with credit worthy counter parties. Adequate credit assessment is made before accepting a takaful contract from any counter party. The average credit period on takaful receivable is 90 days. The takaful receivables outstanding between 90 days and 180 days are monitored by the Company for recoverability. The takaful receivables outstanding greater than 180 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience in addition to specific provision made on identified customers.

Ageing of takaful and retakaful receivables:

	2016 AED'000	2015 AED'000
Neither past due nor impaired	12,295	9,329
<i>Past due but not impaired:</i>		
90 to 365 days	8,538	7,190
More than 365 days	28	315
	8,566	7,505
Past due and impaired	1,436	1,436
Total	22,297	18,270

Movement in the allowance for doubtful debts:

	2016 AED'000	2015 AED'000
Balance at the beginning of the year	1,436	1,572
Written off during the year	-	(136)
Balance at the end of the year	1,436	1,436

In determining the recoverability of a takaful receivable, the Company considers any change in the credit quality of the takaful receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that no further provision is required in excess of the allowance for doubtful debts that has been provided for as of 31 December 2016.

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

7. Takaful contract liabilities and retakaful contract assets

	2016 AED'000	2015 AED'000 (Restated)
Gross		
Takaful contract liabilities:		
Unearned contribution	72,115	51,722
Claims reported unsettled	31,503	18,082
Claims incurred but not reported	32,784	13,213
Unallocated loss adjustments expense reserve	1,247	890
Additional unexpired risk reserve	9,399	7,099
Total takaful contract liabilities, gross	147,048	91,006
Recoverable from retakaful		
Retakaful contract assets:		
Unearned contribution	9,800	9,063
Claims reported unsettled	20,691	8,517
Claims incurred but not reported	12,559	6,363
Additional unexpired risk reserve	7,816	-
Total retakaful share of takaful contract liabilities	50,866	23,943
Net		
Unearned contribution	62,315	42,659
Claims reported unsettled	10,812	9,565
Claims incurred but not reported	20,225	6,850
Unallocated loss adjustments expense reserve	1,247	890
Additional unexpired risk reserve	1,583	7,099
	96,182	67,063

8. Due from/to related parties

At the reporting date, amounts due from/to related parties were as follows:

	2016 AED'000	2015 AED'000 (Restated)
Due from related parties:		
Al Redah Insurance Brokers (LLC), Dubai	9,552	5,440
Other	9	6
	9,561	5,446
Due to related parties:		
Other	14	5

All due from related parties are attributable to policy holders.

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

8. Due from/to related parties (continued)

Due to related parties are attributable as follows:

	2016 AED'000	2015 AED'000 (Restated)
Shareholders	3	-
Policyholders	11	5
	<u>14</u>	<u>5</u>

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

Transactions:

The Company enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard 24. Related parties comprise companies and entities under common ownership and/or common management and control, their partners and key management personnel. The management decides on the terms and conditions of the transactions with related parties

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

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

	2016 AED'000	2015 AED'000
Contribution written for related parties	910	530
Management expenses (net)	748	776
Contribution written through a related party broker	19,443	14,673
Policy acquisition cost paid	2,573	2,034
Claims paid	103	74
Claims paid through related party broker	53	75

Transaction with related parties were carried out on terms agreed with the management.

Compensation of board of directors/ key management personnel

	2016 AED'000	2015 AED'000
Short-term benefits	1,397	1,360
Long-term benefits	588	991
Board of Directors' remuneration	800	800

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

9. Due from shareholders/due to policyholders

The balance consists of the net of Wakala fees balances that is due to the shareholders from the policyholders amounting to AED 9.8 million.

10. Statutory deposits

Statutory deposit represents a Wakala deposit under lien against the guarantees issued in favor of Insurance Authority of U.A.E. in accordance with Article 42 of United Arab Emirates (U.A.E.) Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its Operations.

11. Other financial assets

The Company's other financial assets at the end of reporting year are detailed below:

	2016 AED'000	2015 AED'000
Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Quoted U.A.E. equity securities	-	306
Unquoted U.A.E. equity securities	2,306	2,423
	<u>2,306</u>	<u>2,729</u>
Other financial assets measured at fair value through profit and loss (FVTPL)		
Quoted U.A.E. equity securities	29,594	42,688
Unquoted U.A.E. equity securities	515	515
	<u>30,109</u>	<u>43,203</u>

The movement in other financial assets are as follows:

	At fair value through other comprehensive income		At fair value through profit or loss	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Fair value, at the beginning of the year	2,729	2,770	43,203	61,103
Purchased during the year	-	-	35,078	8,517
Sold during the year	(306)	-	(48,579)	(26,132)
Change in fair value	(117)	(41)	407	(285)
	<u>2,306</u>	<u>2,729</u>	<u>30,109</u>	<u>43,203</u>
Fair value, at the end of the year	2,306	2,729	30,109	43,203

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

12. Investment properties

	Land AED'000	Property under construction AED'000	Other real estate AED'000	Total AED'000
Balance at 1 January 2016	11,803	-	254,930	266,733
Change in fair value during the year (Note 25)	136	-	15,078	15,214
Balance at 31 December 2016	11,939	-	270,008	281,947
Balance at 1 January 2015	25,647	14,028	228,345	268,020
Additions during the year	338	1,368	-	1,706
Transfer during the period	(11,175)	(15,396)	26,571	-
Change in fair value during the year (Note 25)	(3,007)	-	14	(2,993)
Balance at 31 December 2015	11,803	-	254,930	266,733

The fair value of the Company's investment properties as at 31 December 2016 and 2015 has been arrived at on the basis of valuations carried on the respective dates by independent valuers who are not related to the Company and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates. The fair value is mainly based on unobservable inputs (i.e. level 3).

The fair value was determined based on the market comparable approach that reflects recent transactions prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Investment property amounting to AED 7.1 million (2015: AED 5.60 million) is registered in the name of related parties in trust and for the benefit of the Company.

All investment properties are located in U.A.E.

The property rental income earned by the Company from its investment properties, which are leased under operating leases on an annual basis and the direct operating expenses arising in the management of the investment properties are as follows:

	2016 AED'000	2015 AED'000
Rental income	21,809	19,970
Direct operating expenses	(1,132)	(1,164)
Income from investment properties (Note 25)	20,677	18,806

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

13. Property and equipment

	Furniture and fixtures AED'000	Motor vehicles AED'000	Total AED'000
<i>Cost</i>			
Balance at 31 December 2014	3,168	376	3,544
Additions during the year	20	15	35
Disposal during the year	-	(12)	(12)
Balance at 31 December 2015	3,188	379	3,567
Additions during the year	573	-	573
Balance at 31 December 2016	3,761	379	4,140
<i>Accumulated depreciation</i>			
Balance at 31 December 2014	3,059	125	3,184
Charge for the year	54	93	147
Eliminated on disposal	-	(12)	(12)
Balance at 31 December 2015	3,113	206	3,319
Charge for the year	73	93	166
Balance at 31 December 2016	3,186	299	3,485
<i>Carrying amount</i>			
Balance at 31 December 2016	575	80	655
Balance at 31 December 2015	75	173	248

At 31 December 2016, the cost of fully depreciated property and equipment that was still in use amounted to AED 3 million (2015: AED 3 million).

14. Takaful and retakaful payables

	2016 AED'000	2015 AED'000 (Restated)
Payable arising from takaful activities	14,702	8,973
Due to takaful companies	12,844	5,936
Due to retakaful companies	16,034	9,900
Deferred discount	2,070	2,965
	45,650	27,774

The average credit period is 90 days. The Company has financial risk management policies in place to ensure that all payables are paid within credit time frame.

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

15. Other liabilities

	2016	2015
	AED	AED
	AED'000	AED'000
		(Restated)
Accrued expenses	2,009	1,603
Deferred rental income	2,959	2,844
Premium reserve withheld	4,254	4,638
Zakat payable	1,499	800
Other	3,474	2,442
	14,195	12,327
Attributable to:		
Shareholders	9,580	7,311
Policyholders	4,615	5,016
	14,195	12,327

16. Qard Hasan

	2016	2015
	AED	AED
	AED'000	AED'000
		(Restated)
(i) Deficit in policyholders' fund:		
As at 1 January	(17,509)	-
Deficit during the year	(30,901)	(17,509)
As at 31 December	(48,410)	(17,509)
(ii) Qard Hasan from shareholders		
As at 1 January	17,509	-
Provision during the year	30,901	17,509
As at 31 December	48,410	17,509

The shareholders have funded the deficit in the policyholders' fund in accordance with the Company's policy through a Qard Hasan (free of finance charge with no repayment terms). During the current year the policyholders fund reported a deficit amounting to AED 30.9 million (2015: AED 17.5 million).

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

17. Provision for employees' end of service indemnity

	2016	2015
	AED	AED
	AED'000	AED'000
Balance at the beginning of the year	1,834	1,790
Charged during the year	200	180
Paid during the year	(34)	(136)
Balance at the end of the year	2,000	1,834

18. Share capital

	2016	2015
	AED'000	AED'000
Authorised and issued and fully paid: 154,000,000 ordinary shares of AED 1 each (2015: 154,000,000)	154,000	154,000

19. Statutory reserve

In accordance with U.A.E. Federal Commercial Companies Law, the Company has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law. For the year ended 31 December 2016, AED 3 million (2015: AED 1.35 million) was transferred to statutory reserve.

20. Voluntary reserve

The Company had set up the voluntary reserve by transferring 10% of annual profit as per the clause in the earlier Articles of Association which required 10% of the Company's annual profit to be transferred to voluntary reserve until its balance reaches 50% of paid up capital of Company and this reserve can be utilized for purposes determined by the Ordinarily General meeting up on recommendation of the Board of Directors.

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

As per the above amendment, no transfer to voluntary reserve is made during 2016.

21. Investments revaluation reserve - FVTOCI

This reserve records gains and losses arising from changes in fair value of other financial assets measured at fair value through other comprehensive income (FVTOCI).

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

22. Net contributions

Year 2016	Gross AED'000	Retakaful share AED'000	Net AED'000
Takaful contracts: Gross contributions written	165,406	(47,866)	117,540
Movement in unearned contributions and additional unexpired risk reserves	(22,693)	8,553	(14,140)
Takaful contributions revenue	142,713	(39,313)	103,400

Year 2015	Gross AED'000 (Restated)	Reinsurance share AED'000 (Restated)	Net AED'000 (Restated)
Takaful contracts: Gross contributions written	100,291	(29,063)	71,228
Movement in unearned contributions and additional unexpired risk reserves	(15,358)	948	(14,410)
Takaful contributions revenue	84,933	(28,115)	56,818

23. Claims incurred

Year 2016	Gross AED'000	Retakaful share AED'000	Net AED'000
Takaful claims paid	101,808	(24,877)	76,931
Movement in provision for claims reported unsettled	13,421	(12,174)	1,247
Movement in provision for claims incurred but not reported	19,571	(6,196)	13,375
Movement in provision for unallocated loss adjustment expense	357	-	357
Claims recorded in the statement of income	135,157	(43,247)	91,910

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

23. Claims incurred (continued)

Year 2015	Gross AED AED'000 (Restated)	Reinsurance share AED AED'000 (Restated)	Net AED AED'000 (Restated)
Takaful claims paid	69,608	(21,460)	48,148
Movement in provision for claims reported unsettled	342	2,406	2,748
Movement in provision for claims incurred but not reported	7,452	(6,016)	1,436
Movement in provision for unallocated loss adjustment expense	516	-	516
Claims recorded in the statement of income	<u>77,918</u>	<u>(25,070)</u>	<u>52,848</u>

24. Wakala fees

Wakala fee for the year ended 31 December 2016 amounted to AED 49.6 million (2015: AED 27.8 million) the fee is calculated at maximum of 30% of gross contribution of AED 165.4 million (2015: AED 92.67 million) without any deduction of policy acquisition cost. Wakala fee is charged to the statement of income when incurred.

25. Investment income

	2016 AED'000	2015 AED'000
Profit on disposal of other financial assets at FVTPL	8,793	1,090
Unrealized gain/(loss) on other financial assets at FVTPL	407	(285)
Profit on wakala deposit	430	341
Dividends from other financial assets:		
measured at FVTOCI	67	-
measured at FVTPL	1,857	3,302
Fair value gain/(loss) on investment properties (Note 12)	15,214	(2,993)
Income from investment properties (Note 12)	20,677	18,806
Expenses allocated to investment	(1,381)	(1,693)
	<u>46,064</u>	<u>18,568</u>

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

26. General and administrative expenses

	2016	2015
	AED	AED
	AED'000	AED'000
Staff cost	11,162	10,168
Administrative expenses	3,511	2,488
Board of directors remuneration (Note 37)	800	800
Rent	751	740
Marketing expenses	164	370
End of service benefits	155	180
Pension	177	177
Depreciation	166	147
Other expenses	2,261	1,804
	19,147	16,874

27. Zakat

Zakat on behalf of shareholders is accounted as per the Articles and Memorandum of Associations of the Company and is approved by the Company Fatwa and Sharia'a Supervisory Boards amounted to AED 0.9 million (2015: AED 0.8 million).

28. Earnings per share

Earnings per share are calculated by dividing the profit for the year by the number of ordinary shares outstanding as of the end of the year as follows:

	2016	2015
		(Restated)
Profit for the year (in AED'000)	29,847	6,130
Number of ordinary shares outstanding	154,000,000	154,000,000
Basic and diluted earnings per share (in AED)	0.20	0.04

Diluted earnings per share as of 31 December 2016 and 31 December 2015 are equivalent to basic earnings per share as the Company did not issue any new instrument that would impact earnings per share when executed.

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

29. Cash and cash equivalents

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

	2016 AED'000	2015 AED'000
Cash and bank balances (Note 5)	105,995	50,290
Wakala deposits with maturity over 3 months	(50,000)	(10,000)
	<u>55,995</u>	<u>40,290</u>

30. Segmental information

For management purposes the Company is organised into two business segments; general takaful management and investment. The general takaful segment comprises the takaful business undertaken by the Company on behalf of Policyholders. Investment comprises investment and cash management for the Company's own account. No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on profit or loss which in certain respects is measured differently from profit or loss in the financial statements.

Except for Wakala fees, and Qard Hassan, no other inter-segment transactions occurred during the year. If any other transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties.

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

30. Segmental information (continued)

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

	2016		2015			
	Attributable to policyholders AED'000	Attributable to shareholders AED'000	Total AED'000	Attributable to policyholders AED'000 (Restated)	Attributable to shareholders AED'000 (Restated)	Total AED'000 (Restated)
<i>Takaful</i>						
Total takaful income	111,265	-	111,265	63,088	-	63,088
Total takaful expenses	(93,134)	(15,281)	(108,415)	(53,019)	(5,911)	(58,930)
Net takaful income	18,131	(15,281)	2,850	10,069	(5,911)	4,158
Wakala fees	(49,622)	49,622	-	(27,754)	27,754	-
Mudarib fees	(188)	188	-	-	-	-
Other income	778	-	778	176	-	176
	(30,901)	34,529	3,628	(17,509)	21,843	4,334
<i>Investment</i>						
Investment income	-	46,064	46,064	-	18,568	18,568
Other income	-	201	201	-	902	902
Unallocated other income and expenses	-	(19,147)	(19,147)	-	(16,874)	(16,874)
Profit for the year before Zakat	(30,901)	61,647	30,746	(17,509)	24,439	6,930

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

30. Segmental information (continued)

Other information

	Takaful		Investment		Total	
	2016	2015	2016	2015	2016	2015
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
		(Restated)		(Restated)		(Restated)
Segment assets	158,699	106,293	375,729	347,899	534,428	454,192
Segment liabilities	207,111	123,801	11,583	33,622	218,694	157,423
Capital expenditure		-	573	35	573	35
Depreciation		-	166	147	166	147

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

31. Capital risk management

The Company's objectives when managing capital are:

- to comply with the takaful capital requirements required by UAE Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its operations. The Company manages its capital on a basis of its minimum regulatory capital position presented in the table below:
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing takaful contracts commensurately with the level of risk.

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

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

	2016 AED	2015 AED
Minimum regulatory capital	100,000,000	100,000,000
Share capital held	154,000,000	154,000,000

The UAE Insurance Authority has issued Resolution No. 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing takaful firms and AED 250 million for re-insurance firms. The resolution also stipulates that at least 75 percent of the capital of the takaful companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies.

32. Financial instruments

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

These risks arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and financial liabilities are profit rate risk and equity price risk.

(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 recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

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

32. Financial instruments (continued)

(b) Categories of financial instruments

	2016 AED'000	2015 AED'000
Financial assets		
Other financial assets measured at FVTOCI	2,306	2,729
Other financial assets measured at FVTPL	30,109	43,203
Statutory deposits	10,000	10,000
Takaful and retakaful receivables	25,279	18,991
Due from related parties	9,561	5,446
Cash and bank balances	105,995	50,290
Total financial assets	183,250	130,659
Financial liabilities		
Takaful and retakaful payables	43,580	24,809
Due to related parties	14	5
Total financial liabilities	43,594	24,814

Management considers that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

33. Risk management

33.1 Takaful risk

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

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

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

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

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

33. Risk management (continued)

33.1 Takaful risk (continued)

33.1.1 Frequency and severity of claims

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

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

The retakaful arrangements include excess and catastrophe coverage. The effect of such retakaful arrangements is that the Company should not suffer net takaful losses of a set limit of AED 200,000, AED 2,500 and AED 400,000 in any one policy for motor, medical and other non-motor respectively. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually every year and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

33.1.2 Sources of uncertainty in the estimation of future claim payments

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

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

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

33. Risk management (continued)

33.1 Takaful risk (continued)

33.1.2 Sources of uncertainty in the estimation of future claim payments (continued)

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

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

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

Type of risk

	2016	2015
Motor	91%	90%
Non motor	85%	52%

33.1.3 Process used to decide on assumptions

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

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

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

33. Risk management (continued)

33.1 Takaful risk (continued)

33.1.4 Concentration of risks

The Takaful risk arising from Takaful contracts is concentrated mainly in the United Arab Emirates.

The table below sets out the concentration of contract liabilities by type of contract:

31 December 2016

	Gross liabilities AED'000	Retakaful share of liabilities AED'000	Net liabilities AED'000
Motor	22,133	(12,829)	9,304
Non-Motor	9,370	(7,862)	1,508
Total	31,503	(20,691)	10,812

31 December 2015

	Gross liabilities AED'000	Reinsurance share of liabilities AED'000	Net liabilities AED'000
Motor	8,922	(1,380)	7,542
Non- Motor	9,160	(7,137)	2,023
Total	18,082	(8,517)	9,565

33.1.5 Retakaful risk

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

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

33.2 Financial risk

33.2.1 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, profit rates and equity price risk.

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

33. Risk management (continued)

33.2 Financial risk (continued)

33.2.2 Foreign currency risk

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

33.2.3 Credit risk

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

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

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

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

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

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

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

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristic, other than takaful receivables at the end of reporting period amounting to AED 2,649,439 (2015: AED 461,146). The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks registered in the United Arab Emirates.

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

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

33. Risk management (continued)

33.2 Financial risk (continued)

33.2.4 Liquidity risk

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

The table below summarises the maturity profile of the Company's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the end of the reporting period to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of the financial assets and financial liabilities at the reporting date based on contractual repayment arrangements was as follows:

31 December 2016

	Less than 90 days AED'000	91-180 days AED'000	181-365 days AED'000	Above 365 days AED'000	Total AED'000
Financial assets					
At fair value through OCI	-	-	-	2,306	2,306
At fair value through profit or loss	30,109	-	-	-	30,109
Statutory deposits	-	-	-	10,000	10,000
Takaful and retakaful receivables	12,295	5,164	7,820	-	25,279
Due from related parties	3,011	2,774	3,776	-	9,561
Cash and bank balances - profit bearing	5,000	40,000	10,000	-	55,000
Cash and bank balances - non-profit bearing	50,995	-	-	-	50,995
	<u>101,410</u>	<u>47,938</u>	<u>21,596</u>	<u>12,306</u>	<u>183,250</u>
Financial liabilities					
Takaful and retakaful payables	20,658	4,163	18,759	-	43,580
Due to related parties	14	-	-	-	14
	<u>20,672</u>	<u>4,163</u>	<u>18,759</u>	<u>-</u>	<u>43,594</u>

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

33. Risk management (continued)

33.2 Financial risk (continued)

33.2.4 Liquidity risk (continued)

31 December 2015

	Less than 90 days AED'000	91-180 days AED'000	181-365 days AED'000	Above 365 days AED'000	Total AED'000
Financial assets					
At fair value through OCI	-	-	-	2,729	2,729
At fair value through profit or loss	43,203	-	-	-	43,203
Statutory deposits	-	-	-	10,000	10,000
Takaful and retakaful receivables	11,484	4,403	3,104	-	18,991
Due from related parties	5,446	-	-	-	5,446
Cash and bank balances - profit bearing	10,000	10,000	-	-	20,000
Cash and bank balances - non-profit bearing	30,290	-	-	-	30,290
	<u>100,423</u>	<u>14,403</u>	<u>3,104</u>	<u>12,729</u>	<u>130,659</u>
Financial liabilities					
Takaful and retakaful payables	7,151	1,454	16,204	-	24,809
Due to related parties	5	-	-	-	5
	<u>7,156</u>	<u>1,454</u>	<u>16,204</u>	<u>-</u>	<u>24,814</u>

33.2.5 Profit rate risk

The Company's exposure to profit rate risk relates to its wakala deposits. At 31 December 2016, wakala deposit with banks profit rate range from of 1.50%% to 2.00% per annum (2015: 0.75% to 1.00% per annum).

If profit rates had been 50 basis points lower throughout the year and all other variables were held constant, the Company's profit for the year ended 31 December 2016 and equity as at 31 December 2016 would decrease by approximately AED 275,500 (2015: AED 50,000).

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

33. Risk management (continued)

33.2 Financial risk (continued)

33.2.6 Equity price risk

Sensitivity analysis

At the reporting date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Company's statement of income/comprehensive income would have increased/decreased by AED 3.2 million (2015: AED 4.6 million).

Method and assumptions for sensitivity analysis

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

34. Fair value measurements

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. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Fair value of financial instruments carried at amortised cost

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

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the audited annual financial statements for the year ended 31 December 2015.

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

34. Fair value measurements (continued)

Fair value measurements recognised in the statement of financial position

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); and
- 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).

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 AED'000	31 December 2015 AED'000				
Financial assets at FVTOCI						
Quoted equity securities	-	306	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	2,306	2,423	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of the investees, higher the fair value.
Financial assets at FVTPL						
Quoted equity securities	29,594	42,688	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	515	515	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 level during the year. There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table.

The movement in level 3 financial assets were due to change in fair value of investments classified as FVOCI.

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

35. Contingent liabilities

	2016 AED'000	2015 AED'000
Letters of guarantees	10,341	10,441

36. Fatwa and Shari'a Supervisory Board

The Company'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 Company are conducted in accordance with Sharia'a rules and principles.

According to the Company's Fatwa and Sharia'a Supervisory Board, the Company is required to identify any income deemed to be derived from transactions not acceptable under Islamic Sharia'a principles, as interpreted by Fatwa and Sharia'a Supervisory Board, and to set aside such amount in a separate account for Shareholders who may resolve to pay the same for local charitable causes and activities.

37. Directors' remuneration

For the year ended 31 December 2015, the shareholders approved the Board of Directors' remuneration of AED 0.8 million (2014: AED 0.8 million). The directors' remuneration for the year 2016 shall be decided at the Annual General Meeting.

38. Dividend paid and proposed

- (a) At the Annual General Meeting held on 21 March 2016, the shareholders approved a cash dividend of 7% of share capital, AED 7 fils per share, amounting to AED 10.78 million for the year 2015 (2015: cash dividend of 15% of share capital, AED 15 fils per share, amounting to AED 23.1 million for the year 2014).
- (b) The Board of Directors has proposed 17% cash dividend at their meeting held on 27 February 2017. The proposals are subject to approval by the Shareholders at the Annual General Meeting.

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

39. Effect of changes in accounting policy

As disclosed in Note 3, the Company has changed its policy relating to the accounting for UPR, IBNR, URR, ULAE, DAC and UCI related to underwriting activities.

- (a) Impact of change in accounting policies on the statement of financial position as at 31 December 2014

	As previously reported	Adjustment	As Restated
	AED'000	AED'000	AED'000
Re-insurance contract assets	20,197	(812)	19,385
Insurance and reinsurance receivables	14,675	3,449	18,124
Insurance contract liabilities	58,264	9,075	67,339
Insurance and reinsurance payables	18,972	1,923	20,895
Retained earnings	63,217	(8,361)	54,856

- (b) Impact of change in accounting policies on the statement of financial position as at 31 December 2015

	As previously reported	Adjustment	As Restated
	AED'000	AED'000	AED'000
Due from shareholders	19,861	4,616	24,477
Takaful and retakaful receivables	16,834	7,195	24,029
Retakaful contract assets	19,360	4,583	23,943
Takaful contract liabilities	66,087	24,919	91,006
Takaful and retakaful payables	24,809	2,965	27,774
Other liabilities	12,742	(415)	12,327
Due to policyholders	19,861	4,616	24,477
Deficit in policyholders' fund	(6,018)	(11,491)	(17,509)
Qard Hassan from shareholders	6,018	11,491	17,509
Retained earnings	50,885	(15,691)	35,194

- (c) Impact of change in accounting policies on the statement of profit or loss for the year ended 31 December 2015

	As previously reported	Adjustment	As Restated
	AED'000	AED'000	AED'000
Movement in unearned contributions	(6,582)	(8,776)	(15,358)
Movement in retakaful share of unearned contributions	1,569	(621)	948
Discount received on retakaful contributions	7,007	(1,042)	5,965
Gross claims incurred	(70,850)	(7,068)	(77,918)
Retakaful share of claims incurred	19,053	6,017	25,070
Policy acquisition costs	(9,657)	3,746	(5,911)
Provision against Qard Hassan to policyholders	(6,018)	(11,491)	(17,509)
Zakat expenses	(1,215)	415	(800)

The change in accounting policy has resulted in decrease in previously reported profit for the year ended 31 December 2015 by AED 15.69 million and consequently reduced basic earnings per share by AED 0.101.

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

40. Approval of financial statements

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