

Dar Al Takaful PJSC
Dubai - United Arab Emirates

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

Dar Al Takaful PJSC

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Dar Al Takaful PJSC

Board of Directors' report

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

Incorporation and registered offices

Dar Al Takaful PJSC was incorporated as a public joint stock company. The Company carries out general takaful (Insurance), retakaful (reinsurance) and investments in accordance with the teachings of Islamic Shari'a and within the provisions of U.A.E. Federal Law no. 6 of 2007 relating to takaful companies and takaful agents and the Memorandum and Articles of Association of the Company. The address of the Company is P.O. Box 235353, Dubai, United Arab Emirates.

Principal activities

The Group mainly issues short term takaful contracts in connection with non-life takaful such as motor, marine, fire, engineering, medical and general accident risks (collectively known as general takaful). The Group also invests its funds in investment securities.

Financial position and results

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

Directors

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

Mr. Abdulaziz Mohammed Abdulla Al Bannai	Chairman
Mr. Saleh Abdulghaffar Al Hashimi	Deputy Chairman
Mr. Ali Humaid Ali Abdalla Al Owais	Member
Mr. Salah Ibrahim Sayed Mohammad Sharaf	Member
Mr. Yagub Bin Eisa Bin Nasser Al Serkal	Member
Mr. Osama Ibrahim Ahmad Seddiqi	Member
Mr. Shahab Ahmed Lutfi Ali Harmoozi	Member

Auditors

The consolidated 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



INDEPENDENT AUDITOR'S REPORT

**The Shareholders
Dar Al Takaful PJSC
Dubai
United Arab Emirates**

Report on the audit of the consolidated financial statements

Opinion

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

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

Basis for opinion

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

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Valuation of takaful contract liabilities and retakaful contract assets	
As at 31 December 2016, takaful contract liabilities and retakaful contract assets amounted to AED 240 million and AED 112 million respectively, as detailed in note 7 to these consolidated 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 Group is entitled to receive under the retakaful contracts and, more specifically, the share of the retakaful in the takaful contract liabilities recorded by the Group. 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.	Our audit procedures included: • Testing the underlying Group data to source documentation. • Evaluating and testing of key controls around the claims handling and case reserve setting processes of the Group including allocation of retakaful portion of the claims. • 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 Group'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 Group and calculations underlying these provisions, particularly the following areas: • Appropriateness of the calculation methods and approach (actuarial best practice) • Review of assumptions • Sensitivities to key assumptions • Risk profiles • Consistency between valuation periods • General application of financial and mathematical rules

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Valuation of Investment properties	
Under fair value model, investment properties are 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 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.	The Group has involved an external valuer in order to value the investment properties for the purpose of determining the fair value for inclusion in the consolidated financial statements. As part of our audit procedures, we assessed the competence, capabilities, objectivity and verified the qualifications of the external valuer. Also we have tested for reasonableness of the valuation assumptions used by the external independent valuer.

Other information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Group. We obtained Board of Directors' report prior to the date of this auditor's report, 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 consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not and we will not express any form of assurance conclusion thereon.

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

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

When we read the remaining information of the annual report of the Group, 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 those charged with governance for the consolidated financial statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Group and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

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 consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the report of the Directors is consistent with the books of accounts of the Group;
- v) as disclosed in Note 5 to the consolidated financial statements, the Group has purchased or invested in shares during the financial year ended 31 December 2016;
- vi) Note 29 to the consolidated financial statements reflects material related party transactions, and the terms under which they were conducted;
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the U.A.E. Federal Law No. (2) of 2015, the UAE Federal Law No. (6) of 2007 concerning the establishment of the Insurance Authority and Organisation of its operation or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016; and
- viii) Note 39 to the consolidated financial statements reflects the social contributions made during the year.

Further, as required by the UAE Federal Law No. 6 of 2007 and the related Financial Regulations for Insurance Companies as discussed in statement of compliance footnote to the consolidated financial statements, the Group is in the process of complying with the requirements of the Financial Regulations for Insurance Companies issued by the Insurance Authority especially pertaining to Article (1) of Section (7) and Appendix (1) relating to presentation of financial statements and disclosures and calculation disclosure in respect of the solvency margin.

Deloitte & Touche (M.E.)



Cynthia Corby
Registration No. 995
12 March 2017
Dubai, United Arab Emirates

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

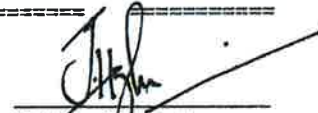
	Notes	2016 AED	2015 AED
ASSETS			
Takaful operations' assets			
Investment in securities	5	584,414	440,344
Deferred policy cost	6	13,758,261	7,442,077
Retakaful assets	7	111,674,691	57,286,760
Takaful and other receivables	8	130,989,067	111,745,767
Cash and cash equivalents	9	31,313,240	6,996,999
Total takaful operations' assets		288,319,673	183,911,947
Shareholders' assets			
Property and equipment	10	13,110,991	14,159,646
Intangible assets	11	633,017	666,371
Investment properties	12	51,770,001	51,610,001
Investment in securities	5	27,822,197	13,488,389
Restricted deposits	13	6,000,000	6,000,000
Wakala deposits	14	24,754,163	13,622,951
Due from participants		8,194,897	20,658,173
Prepayments and other receivables	15	5,017,096	3,677,920
Cash and cash equivalents	9	8,962,705	16,496,903
Total shareholders' assets		146,265,067	140,380,354
Total assets		434,584,740	324,292,301

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

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

	Notes	2016 AED	2015 AED
TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS/(DEFICIT)			
Takaful operations' liabilities			
Deferred discount		3,570,039	3,406,218
Takaful contract liabilities	7	239,607,681	163,030,071
Takaful payables	16	119,179,148	80,119,733
Due to shareholders		8,194,897	20,658,173
Total takaful operations' liabilities		370,551,765	267,214,195
Takaful operations' surplus/(deficit)			
Qard Hassan against deficit in participants' fund	17(i)	(82,246,063)	(83,184,437)
Less: Provision against Qard Hassan to participants' fund	17(ii)	82,246,063	83,184,437
Available-for-sale investments reserve	28	13,970	(117,814)
Total surplus/(deficit) from takaful operations		13,970	(117,814)
Total takaful operations' liabilities and surplus/(deficit)		370,565,735	267,096,381
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Other liabilities	18	8,241,745	6,820,765
Total shareholders' liabilities		8,241,745	6,820,765
Shareholders' equity			
Share capital	20	100,000,000	100,000,000
Statutory reserve	21	1,042,700	540,483
Accumulated losses		(45,099,191)	(49,619,140)
Available-for-sale investments reserve	28	(166,249)	(546,188)
Total shareholders' equity		55,777,260	50,375,155
Total shareholders' liabilities and equity		64,019,005	57,195,920
Total takaful operations' liabilities and surplus/(deficit), shareholders' liabilities and equity		434,584,740	324,292,301


Abdul Aziz Al Bannai
Chairman


Saleh Al Hashimi
Managing Director

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

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

	Notes	2016 AED	2015 AED
Attributable to participants'			
Underwriting income			
Gross contribution written	22	300,005,029	208,318,301
Movement in unearned contributions	22	(44,517,462)	(7,716,290)
Takaful contributions revenue		<u>255,487,567</u>	<u>200,602,011</u>
Retakaful share of contributions	22	(144,639,778)	(89,665,273)
Movement in retakaful share of unearned contributions	22	<u>27,482,323</u>	<u>8,158,469</u>
Net retakaful share of contributions		<u>(117,157,455)</u>	<u>(81,506,804)</u>
Net takaful revenue	22	138,330,112	119,095,207
Policy and other fees		975,901	872,647
Discount received on retakaful contributions		<u>10,787,352</u>	<u>13,878,162</u>
Total underwriting income		<u>150,093,365</u>	<u>133,846,016</u>
Underwriting expenses			
Claims incurred	23	(184,538,366)	(159,724,320)
Retakaful share of claims incurred	23	<u>96,427,778</u>	<u>67,029,340</u>
Net claims incurred	23	<u>(88,110,588)</u>	<u>(92,694,980)</u>
Policy acquisition cost	6	-	(18,185,942)
Excess of loss retakaful		(2,042,963)	(2,455,117)
Other underwriting expenses		<u>(1,311,956)</u>	<u>(948,094)</u>
Total underwriting expenses		<u>(91,465,507)</u>	<u>(114,284,133)</u>
Net underwriting income		<u>58,627,858</u>	<u>19,561,883</u>
Wakala fees	24	(57,438,179)	(36,971,414)
Expenses allocated to participants	25	<u>(794,981)</u>	<u>(2,308,467)</u>
Net surplus/(deficit) from takaful operations		<u>394,698</u>	<u>(19,717,998)</u>
Investment and other income	26	551,266	467,874
Mudarib's fee	24	<u>(7,590)</u>	<u>(2,931)</u>
Surplus/(deficit) for the year attributable to participants'		<u>938,374</u>	<u>(19,253,055)</u>

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

**Consolidated income statement
for the year ended 31 December 2016 (continued)**

	Notes	2016 AED	2015 AED
Attributable to Shareholders			
Income			
Wakala fees from participants'	24	57,438,179	36,971,414
Mudarib's fee	24	7,590	2,931
Investment and other income	26	4,581,456	3,008,258
		<u>62,027,225</u>	<u>39,982,603</u>
Expenses			
General and administrative expenses	25	(32,193,697)	(27,871,158)
Policy acquisition cost	6	(25,749,736)	-
		<u></u>	<u></u>
Profit for the year before Qard Hassan		4,083,792	12,111,445
Recovery from/(provision against) Qard Hassan to participants'	17	938,374	(19,253,055)
		<u>5,022,166</u>	<u>(7,141,610)</u>
Profit/(loss) for the year attributable to shareholders'			
		<u>5,022,166</u>	<u>(7,141,610)</u>
Earnings/(loss) per share	27	0.05	(0.071)
		<u>0.05</u>	<u>(0.071)</u>

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

**Consolidated statement of profit or loss and comprehensive income
for the year ended 31 December 2016**

	2016 AED	2015 AED
Attributable to participants		
Profit/(loss) for the year	938,374	(19,253,055)
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Unrealized gain on available-for-sale-investments	131,783	169,932
Other comprehensive income for the year	131,783	169,932
Total comprehensive income/(loss) for the year attributable to participants	1,070,157	(19,083,123)
Attributable to Shareholders		
Profit/(loss) for the year	5,022,166	(7,141,610)
Other comprehensive income/(loss)		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Unrealized gain/(loss) on available-for-sale-investments	379,939	(370,783)
Reclassification adjustments relating to available for sale financial assets disposed of in the year	-	835,398
Recycled on impairment of available for sale financial assets	-	608,352
Other comprehensive income for the year	379,939	1,072,967
Total comprehensive income/(loss) for the year attributable to shareholders	5,402,105	(6,068,643)

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

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

	Share capital AED	Statutory reserve AED	Accumulated losses AED	Available- for-sale investments reserve AED	Total AED
Balance at 1 January 2015	100,000,000	540,483	(42,477,530)	(1,619,155)	56,443,798
Loss for the year	-	-	(7,141,610)	-	(7,141,610)
Other comprehensive income for the year	-	-	-	1,072,967	1,072,967
Total comprehensive loss for the year	-	-	(7,141,610)	1,072,967	(6,068,643)
Balance at 31 December 2015	100,000,000	540,483	(49,619,140)	(546,188)	50,375,155
Profit for the year	-	-	5,022,166	-	5,022,166
Other comprehensive income for the year	-	-	-	379,939	379,939
Total comprehensive income for the year	-	-	5,022,166	379,939	5,402,105
Transfer to statutory reserve	-	502,217	(502,217)	-	-
Balance at 31 December 2016	100,000,000	1,042,700	(45,099,191)	(166,249)	55,777,260

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

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

	2016 AED	2015 AED
Cash flows from operating activities		
Profit/(loss) for the year	5,022,166	(7,141,610)
Adjustments for:		
Depreciation of property and equipment	1,993,120	1,938,039
Amortisation of intangible assets	331,718	247,481
Write off of intangible assets	53,041	-
Provision for doubtful receivables	803,056	340,940
Changes in the fair value of financial assets carried at FVTPL	(37,440)	19,850
Change in fair value of investment properties	(160,000)	(1,413,189)
Realised gain on sale of available-for-sale investments	-	(1,453,812)
Realised (gain)/loss on sale of financial assets carried at FVTPL	(209,212)	1,498,858
Impairment of available-for-sale investments	-	608,352
Income from wakala deposits	(409,246)	(200,097)
Income from debt securities	(629,353)	(246,551)
Dividend income on securities	(54,175)	(185,236)
Rental income	(2,973,636)	(2,201,488)
Loss on disposal of investment properties	-	419,981
(Recovery from)/provision against Qard Hassan to participants' fund	(938,374)	19,253,055
Provision for employees' end of service benefits	436,268	480,208
Operating cash flows before changes in operating assets and liabilities	3,227,933	11,964,781
Increase in takaful and other receivables	(20,046,356)	(40,299,123)
(Increase)/decrease in prepayments and other receivables	(1,339,175)	14,940,056
(Increase)/decrease in deferred policy costs	(6,316,184)	125,575
Increase in retakaful assets	(54,387,931)	(16,128,528)
Increase/(decrease) in deferred discount received	163,821	(1,161,865)
Increase in takaful contract liabilities	76,577,610	31,817,200
Increase in takaful payables	39,059,415	39,081,784
Recovery from/(provision against) Qard Hassan to participants' fund	938,374	(19,253,055)
Increase/(decrease) in other liabilities	1,191,480	(3,090,843)
Cash generated from operations	39,068,987	17,995,982
End of service benefits paid	(206,768)	(35,595)
Net cash generated from operating activities	38,862,219	17,960,387
Cash flows from investing activities		
Purchase of property and equipment	(1,273,870)	(2,937,909)
Acquisition of intangible assets	(22,000)	(197,685)
Purchase of investment properties	-	(12,150,908)
Proceeds from disposal of investment properties	-	3,333,051
Purchase of investment securities	(18,928,716)	(9,252,407)
Proceeds from sale of investment securities	5,209,212	11,402,040
Income received on Wakala deposits	409,246	200,097
Income received from debt securities	629,353	246,551
Dividend income received	54,175	185,236
Wakala deposits (made)/encashed during the year - net	(11,131,212)	2,944,924
Rental income	2,973,636	2,201,488
Net cash used in investing activities	(22,080,176)	(4,025,522)
Net increase in cash and cash equivalents	16,782,043	13,934,865
Cash and cash equivalents at the beginning of the year	23,493,902	9,559,037
Cash and cash equivalents at the end of the year (Note 9)	40,275,945	23,493,902

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

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

1. General information

Dar Al Takaful PJSC was incorporated as a public joint stock company. The Group carries out general takaful (Insurance), retakaful (reinsurance) and investments in accordance with the teachings of Islamic Shari'a and within the provisions of U.A.E. Federal Law no. 6 of 2007 relating to takaful companies and takaful agents and the Memorandum and Articles of Association of the Company. The address of the Company is PO Box 235353, Dubai, United Arab Emirates.

The Company obtained its commercial license on 23 July 2008 and commenced operations on 1 September 2008.

The Group mainly issues short term takaful contracts in connection with non-life takaful such as motor, marine, fire, engineering, medical and general accident risks (collectively known as general takaful). The Group also invests its funds in investment securities.

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

Name of Subsidiary	Proportion of ownership interest		Country of incorporation	Principal activities
	2016	2015		
Ararat Auto Repairing Workshop LLC	100%	100%	UAE	Auto Mechanical repairing workshop

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

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

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

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

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

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

2.2 New and revised IFRS in issue but not yet effective

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
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 <i>Income Taxes</i> relating to the recognition of deferred tax assets for unrealised losses.	1 January 2017
Amendments to IAS 7 <i>Statement of Cash Flows</i> to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	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 <i>Share Based Payment</i> regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 <i>Insurance Contracts</i> : Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018

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

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IAS 40 <i>Investment Property</i> : Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 <i>Financial Instruments: Disclosures</i> relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018
IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.	
A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . The standard contains requirements in the following areas:	
• Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.	

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

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014) (continued) • Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised • Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. • Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i> 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 <i>Revenue</i>, IAS 11 <i>Construction Contracts</i> and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	1 January 2018

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

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 15 <i>Revenue from Contracts</i> 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 <i>Leases</i>	1 January 2019
IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

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

Management anticipates that these standards, interpretations and amendments will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2018. The application of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group’s consolidated financial statements in respect of the Group’s financial assets and financial liabilities and IFRS 15 in respect of revenue from contracts with customers. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

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

3. Significant accounting policies

Statement of compliance

These consolidated 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. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations.

The articles of association of the Company require that separate accounts be maintained for Takaful operations on behalf of the policyholders. Accordingly, the Directors have resolved to present the consolidated financial statements on that basis and comply with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) to the extent that these are compatible with International Financial Reporting Standards.

The Group is in the process of complying with the requirements of the Financial Regulations for Insurance Companies issued by the Insurance Authority especially pertaining to Article (1) of Section (7) and Appendix (1) relating to presentation of financial statements and disclosures and calculation disclosure in respect of the solvency margin.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investment properties which are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Basis of consolidation

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

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

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

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

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

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

3. Significant accounting policies (continued)

Basis of consolidation (continued)

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

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

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

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

Business combinations

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

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

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

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

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

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

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

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

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

Presentation

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

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

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

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

Unearned contributions are those proportions of contributions written in a year that relate to period of risk after the reporting date. Unearned contribution is calculated as the higher of the amount determined on a daily prorated basis or "1/365" method. 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 insurance policies for risks-attaching contracts and over the term of the retakaful contract for losses occurring contracts.

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

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.

Wakala fees

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

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 consolidated statement of income.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****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 consolidated 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 consolidated statement of income of shareholders' fund. Expenses related to participants are allocated to consolidated statement of income of participant's fund on the basis of guidelines issued by the Sharia'a and Supervisory board.

Liability adequacy test

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

The Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

Retakaful

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

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

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

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

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

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

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

Receivables and payables related to Takaful contracts

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

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

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

The Group as lessor

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Leases (continued)***The Group as lessee*

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

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

Product classification

Takaful contracts are those contracts where a group of participants (the policyholders) mutually guarantee one another against prescribed uncertain future events of loss or damage, where the Group acts as a Wakil (agent) on their behalf in managing the Islamic insurance operations in consideration for a Wakala fee. The contribution amounts (premiums) paid net of the Wakala fee are considered as funds available for Mudarba, where the Group 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 participants further donate their contribution to those other participants who suffer a prescribed event of loss or damage, payable per the policies of the Group, in its capacity as an agent. As a general guideline, the Group 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 participants operation, such deficit is funded by the shareholders as a Qard Hassan loan.

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

Surplus/deficit in participants' fund

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

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

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

3. Significant accounting policies (continued)

Surplus/deficit in participants' fund (continued)

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

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

Financial instruments

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

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, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'other financial assets'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition

Financial assets

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.

'Other financial assets' comprise of: cash and cash equivalents, takaful and other receivables.

Cash and cash equivalent

Cash and cash equivalent include cash on hand and deposits held with banks (excluding deposits held under lien) with original maturities of three months or less.

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or profit earned on the financial asset and is included in the statement of comprehensive income.

Available-for-sale' (AFS) financial assets

The Group has investments that are not traded in an active market and are classified as AFS financial assets and stated at fair value because management considers that fair value can be reliably measured. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the cumulative change in fair values with the exception of impairment losses, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the cumulative change in fair values is reclassified to profit or loss.

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

Held-to-maturity (HTM)

Held-to-maturity (HTM) assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, where the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost using the effective profit method less any impairment.

Other financial assets

Other financial assets are measured at amortised costs 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.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

For certain categories of financial assets, such as takaful 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 Group'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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective profit rate. For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of takaful receivables, where the carrying amount is reduced through the use of an allowance account. When a takaful 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 consolidated statement of income.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to consolidated statement of income in the period.

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

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit rate method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Group, and commitments issued by the Group to provide an Islamic financing at below market profit rate are measured in accordance with the specific accounting policies set out below.

Takaful, retakaful and other payables

Takaful, retakaful and other payables and due to shareholders are initially measured at fair value, plus transaction costs and are subsequently measured at amortised cost using the effective profit method.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held for trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit method. Profit expense that is not capitalised as part of costs of an asset is included in the consolidated income statement.

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

Foreign exchange gains and losses

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

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

De-recognition of financial liabilities

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

Property and equipment

Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Capital work-in-progress (CWIP) is not depreciated.

Depreciation is provided on a straight line basis over the useful lives of the following classes of assets:

Building	40 years
Leasehold improvement	10 years
Furniture and fixtures	4 years
Office equipment	3-5 years
Vehicles	5 years

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

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate at each financial year end.

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

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are amortised over the useful economic life of three years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income.

Amortisation is calculated on a straight line basis over the estimated useful lives of the assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

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. Unearned contribution is calculated as the higher of the amount determined on a daily pro-rata basis ("1/365" method).

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.

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

3. Significant accounting policies (continued)

Takaful contract liabilities (continued)

(iii) Claims incurred but not reported

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

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

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

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is stated at its fair value at the end of each reporting period. Gains or losses arising from changes in the fair value of investment property are included in the consolidated statement of income.

Impairment of tangible and intangible assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated 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 (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated 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 consolidated financial statements
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Provisions**

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

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

Foreign currencies

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

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

All foreign exchange differences are taken to the consolidated statement of income, except when it relates to items where gains or losses are recognised directly in comprehensive income. The gain or loss is then recognised net of the exchange component in other comprehensive income.

Provision for employees' end of service indemnity

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service year. The expected costs of these benefits are accrued over the year of employment.

With respect to its national employees and employees from other GCC countries, the Group makes contributions to the Government Social Insurance Scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

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

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

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

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

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Impairment of financial assets

The Group determines whether AFS financial assets are impaired when there has been a decline in their fair value below cost. In making this judgment and to record whether impairment occurred, the Group evaluates among other factors, the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

Provision for claims unsettled, whether reported or not

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the financial position date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

Key sources of estimation uncertainty

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

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

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

Key sources of estimation uncertainty (continued)

Fair value of investment properties

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

Useful lives of property and equipment

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

Impairment losses on Takaful receivables

The Group reviews its Takaful receivables on a regular basis to assess whether a provision for impairment should be recorded in the consolidated 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 Group also makes a collective impairment provision against Takaful receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for Takaful receivables within each grade and is adjusted to reflect current economic changes.

Retakaful

The Group is exposed to disputes with, and possibility of defaults by, its retakaful providers. The Group 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.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for the items and with similar terms and risk characteristics; or
- Other valuation models

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Group calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument or from other available observable market data.

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

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

Key sources of estimation uncertainty (continued)

Liability adequacy test

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

5. Investment in securities

a) Available-for-sale investments

Available-for-sale investments comprise the following:

	2016 AED	2015 AED
Quoted equity securities in U.A.E.	2,708,971	2,197,249
Quoted debt securities in U.A.E.	6,134,248	3,680,683
Unquoted equity securities in U.A.E.	4,461,429	3,890,000
Unquoted debt securities in U.A.E.	6,090,490	4,029,110
(A)	<u>19,395,138</u>	<u>13,797,042</u>

b) Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprises the following:

	2016 AED	2015 AED
Quoted equity securities in U.A.E.	5,336,473	131,691
(B)	<u>5,336,473</u>	<u>131,691</u>

c) Held to maturity

Financial assets held to maturity comprises the following:

	2016 AED	2015 AED
Unquoted debt securities outside UAE.	3,675,000	-
(C)	<u>3,675,000</u>	<u>-</u>

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

5. Investment in securities (continued)

	2016 AED	2015 AED
Attributable to:		
Participants	584,414	440,344
Shareholders	27,822,197	13,488,389
(A + B + C)	<u>28,406,611</u>	<u>13,928,733</u>

Available-for-sale investments with fair value of AED 5 million (31 December 2015: AED 3 million) are registered in the name of a related party in trust and for the benefit of the Group.

	Available- for-sale AED	Fair value through profit or loss AED	At amortised cost AED	Total AED
At 1 January 2016	13,797,042	131,691	-	13,928,733
Purchases during the year	5,086,374	10,167,342	3,675,000	18,928,716
Disposal during the year	-	(5,000,000)	-	(5,000,000)
Fair value gain recorded in the consolidated statement of income (Note 26)	-	37,440	-	37,440
Fair value gain recorded in the consolidated statement of comprehensive income	511,722	-	-	511,722
At 31 December 2016	<u>19,395,138</u>	<u>5,336,473</u>	<u>3,675,000</u>	<u>28,406,611</u>
At 1 January 2015	14,391,574	1,117,141	-	15,508,715
Purchases during the year	7,753,546	1,498,861	-	9,252,407
Disposal during the year	(8,147,227)	(2,464,461)	-	(10,611,688)
Fair value loss recorded in the consolidated statement of income (Note 26)	-	(19,850)	-	(19,850)
Fair value loss recorded in the consolidated statement of comprehensive income	(200,851)	-	-	(200,851)
At 31 December 2015	<u>13,797,042</u>	<u>131,691</u>	<u>-</u>	<u>13,928,733</u>

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

6. Deferred policy cost

	2016 AED	2015 AED
At 1 January	7,442,077	7,567,652
Booked during the year	32,065,920	18,060,367
Charged to consolidated statement of income	(25,749,736)	(18,185,942)
	<u>13,758,261</u>	<u>7,442,077</u>

As per Article (3) of Section 7 to the Financial Regulation of Takaful Insurance Companies, the shareholder account should bear all operational, administrative and general expenses for takaful insurance business. Accordingly effective 1 January 2016, the policy acquisition cost has been classified in the consolidated statement of income as attributable to shareholder.

7. Takaful contract liabilities and retakaful assets

	2016 AED	2015 AED
Gross		
Takaful contract liabilities:		
Unearned contribution	134,398,086	89,880,624
Claims reported unsettled	85,811,472	44,481,605
Claims incurred but not reported	17,916,415	28,178,920
Unallocated loss adjustment expenses	1,110,589	488,922
Contribution deficiency reserve	371,119	-
Total takaful contract liabilities, gross	<u>239,607,681</u>	<u>163,030,071</u>
Recoverable from retakaful		
Retakaful contract assets:		
Unearned contribution	60,280,097	32,797,774
Claims reported unsettled	42,779,742	6,062,595
Claims incurred but not reported	8,614,852	18,426,391
Total retakaful share of takaful liabilities	<u>111,674,691</u>	<u>57,286,760</u>
Net		
Unearned contribution	74,117,989	57,082,850
Claims reported unsettled	43,031,730	38,419,010
Claims incurred but not reported	9,301,563	9,752,529
Unallocated loss adjustment expenses	1,110,589	488,922
Contribution deficiency reserve	371,119	-
	<u>127,932,990</u>	<u>105,743,311</u>

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

8. Takaful and other receivables

	2016 AED	2015 AED
Contributions receivable	113,914,168	83,951,639
Receivable from retakaful and other takaful companies	21,673,207	32,822,246
Prepayments	226,866	-
Other receivables	1,006,000	-
	<u>136,820,241</u>	<u>116,773,885</u>
Less: Provisions for doubtful receivables	(5,831,174)	(5,028,118)
	<u><u>130,989,067</u></u>	<u><u>111,745,767</u></u>

The amounts due from retakaful are settled on a quarterly basis.

As at 31 December 2016, contribution and takaful companies' balances receivable at nominal value of AED 6 million (2015: AED 5 million) were impaired. Movements in provision for doubtful receivable was as follows:

	2016 AED	2015 AED
As at 1 January	5,028,118	4,687,178
Charge for the year (Note 25)	803,056	340,940
	<u><u>5,831,174</u></u>	<u><u>5,028,118</u></u>

	2016 AED	2015 AED
Takaful and other receivables - Inside UAE		
Contribution receivables	113,906,978	83,951,639
Less: Provision for doubtful receivables	(5,831,174)	(5,028,118)
	<u>108,075,804</u>	<u>78,923,521</u>
Receivables from retakaful and other takaful companies	21,673,207	32,822,246
Prepayments	226,866	-
Other receivables	1,006,000	-
	<u><u>130,981,877</u></u>	<u><u>111,745,767</u></u>
Takaful and other receivables - Outside UAE		
Receivable from retakaful and other takaful companies	7,190	-
	<u><u>7,190</u></u>	<u><u>-</u></u>
Total Takaful and other receivables	<u><u>130,989,067</u></u>	<u><u>111,745,767</u></u>

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

8. Takaful and other receivables (continued)

Ageing of takaful and other receivables (excluding prepayments)

	Contribution receivables AED	Receivable from retakaful and other takaful companies AED	Other receivables AED	Total AED
2016				
<i>Takaful and other receivables - inside UAE</i>				
Less than 30 days	25,294,251	2,675,612	1,006,000	28,975,863
30 - 90 days	18,023,143	5,423,429	-	23,446,572
91 - 180 days	31,215,045	2,756,763	-	33,971,808
181 - 360 days	24,797,479	5,612,249	-	30,409,728
More than 360 days	14,577,060	5,205,154	-	19,782,214
Less: Provision for doubtful receivables	(5,831,174)	-	-	(5,831,174)
Total	108,075,804	21,673,207	1,006,000	130,755,011
<i>Takaful and other receivables - outside UAE</i>				
Less than 30 days	7,190	-	-	7,190
Total	7,190	-	-	7,190
Total Takaful and other receivables	108,082,994	21,673,207	1,006,000	130,762,201
2015				
<i>Takaful and other receivables - inside UAE</i>				
Less than 30 days	31,258,043	4,032,785	-	35,290,828
30 - 90 days	3,021,749	7,174,239	-	10,195,988
91 - 180 days	28,925,824	8,760,012	-	37,685,836
181 - 360 days	11,159,969	6,307,804	-	17,467,773
More than 360 days	9,586,054	6,547,406	-	16,133,460
Less: Provision for doubtful receivables	(5,028,118)	-	-	(5,028,118)
Total	78,923,521	32,822,246	-	111,745,767

As at 31 December 2015, The Group takaful and other receivables were located inside UAE.

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

9. Cash and cash equivalents

	2016 AED	2015 AED
Cash on hand	202,345	51,482
Bank balances		
Current accounts	33,290,933	14,119,714
Call accounts	6,782,667	9,322,706
	<u>40,275,945</u>	<u>23,493,902</u>
Attributable to:		
Participants	31,313,240	6,996,999
Shareholders	8,962,705	16,496,903
	<u>40,275,945</u>	<u>23,493,902</u>

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

10. Property and equipment

Cost	Building AED	Leasehold improvement AED	Furniture and fixtures AED	Office equipment AED	Vehicles AED	Capital work in progress AED	Total AED
At 1 January 2015	10,226,500	-	4,425,872	2,543,424	858,500	2,884,325	20,938,621
Additions	-	1,344,000	197,277	824,942	119,000	452,690	2,937,909
Transfer	-	-	2,372,622	95,954	-	(2,468,576)	-
Transfer to intangible assets	-	-	-	-	-	(251,034)	(251,034)
At 31 December 2015	10,226,500	1,344,000	6,995,771	3,464,320	977,500	617,405	23,625,496
Additions	-	622,593	14,510	207,520	45,500	383,747	1,273,870
Transfer	-	-	258,772	153,000	-	(411,772)	-
Transfer to intangible assets	-	-	-	-	-	(329,404)	(329,404)
At 31 December 2016	10,226,500	1,966,593	7,269,053	3,824,840	1,023,000	259,976	24,569,961
Accumulated depreciation							
At 1 January 2015	1,512,684	-	3,683,451	2,191,576	140,100	-	7,527,811
Charge for the year	255,672	77,423	1,033,940	389,388	181,616	-	1,938,039
At 31 December 2015	1,768,356	77,423	4,717,391	2,580,964	321,716	-	9,465,850
Charge for the year	255,639	144,776	932,982	459,669	200,054	-	1,993,120
At 31 December 2016	2,023,995	222,199	5,650,373	3,040,633	521,770	-	11,458,970
Carrying amount							
At 31 December 2016	8,202,505	1,744,394	1,618,680	784,207	501,230	259,976	13,110,991
At 31 December 2015	8,458,144	1,266,577	2,278,380	883,356	655,784	617,405	14,159,646

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

11. Intangible assets

	2016 AED	2015 AED
Cost		
At the beginning of the year	2,743,539	2,294,820
Additions during the year	22,000	197,685
Transfer from property and equipment	329,404	251,034
Write off	(89,874)	-
At 31 December	3,005,069	2,743,539
Accumulated amortization		
At the beginning of the year	2,077,168	1,829,687
Amortisation during the year	331,718	247,481
Write off	(36,834)	-
At 31 December	2,372,052	2,077,168
Net carrying amount	633,017	666,371

Intangible assets represent ERP solution software acquired by the Group for its takaful business and key money.

12. Investment properties

	2016 AED	2015 AED
Balance at 1 January	51,610,001	41,798,936
Additions during the year	-	12,150,908
Disposal during the year	-	(3,753,032)
Increase in fair value during the year (Note 26)	160,000	1,413,189
Balance at 31 December	51,770,001	51,610,001

The investment properties represent the fair value of the properties located in U.A.E.

The fair value of the Group'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 Group and have appropriate qualification 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.

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

12. Investment properties (continued)

The property rental income earned by the Group from its investment properties which are leased under operating leases and the direct operating expenses arising in the management of investment properties were as follows:

	2016 AED	2015 AED
Rental income	4,120,964	3,180,303
Direct operating expenses	(1,147,328)	(978,815)
Income from investment property (Note 26)	<u>2,973,636</u>	<u>2,201,488</u>

13. Restricted deposits

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

These deposits have a fixed maturity of one year from the date of deposit and yield a profit rate of 2.6 % p.a. (2015: 1% p.a.).

14. Wakala deposits

Wakala deposits have a fixed maturity of 6 months and yield a profit rate of 2.0 % p.a. to 2.9% p.a. (2015: 0.84% p.a. to 0.95 % p.a.).

15. Prepayments and other receivables

	2016 AED	2015 AED
Deposits	517,684	525,133
Prepaid expenses	2,682,328	2,359,431
Advance	-	22,000
Other receivables	1,817,084	771,356
	<u>5,017,096</u>	<u>3,677,920</u>

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

16. Takaful payables

	2016 AED	2015 AED
Due to takaful companies, garages and other third parties	43,996,018	47,755,112
Due to retakaful companies	72,532,179	30,362,211
Accrued expenses	1,333,798	953,293
Other payables	1,317,153	1,049,117
	<u><u>119,179,148</u></u>	<u><u>80,119,733</u></u>

Takaful payables inside/outside UAE

	2016 AED	2015 AED
Inside UAE	114,364,100	76,787,738
Outside UAE	4,815,048	3,331,995
	<u><u>119,179,148</u></u>	<u><u>80,119,733</u></u>

Takaful payables - Inside UAE

Due to takaful companies, garages and other third parties	43,996,018	47,755,112
Due to retakaful companies	67,717,131	27,030,216
Accrued expenses	1,333,798	953,293
Other payables	1,317,153	1,049,117
	<u><u>114,364,100</u></u>	<u><u>76,787,738</u></u>

Takaful payables - Outside UAE

Due to retakaful companies	4,815,048	3,331,995
	<u><u>4,815,048</u></u>	<u><u>3,331,995</u></u>

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

17. Qard Hassan

	2016 AED	2015 AED
(i) Qard Hassan:		
As at 1 January	(83,184,437)	(63,931,382)
Surplus/(deficit) during the year	<u>938,374</u>	<u>(19,253,055)</u>
As at 31 December	<u><u>(82,246,063)</u></u>	<u><u>(83,184,437)</u></u>
(ii) Provision against Qard Hassan		
As at 1 January	83,184,437	63,931,382
(Recovery)/provision during the year	<u>(938,374)</u>	<u>19,253,055</u>
As at 31 December	<u><u>82,246,063</u></u>	<u><u>83,184,437</u></u>

The shareholders have funded the deficit in the participants' fund in accordance with the Group's policy through a Qard Hassan (free of finance charge with no repayment terms). During the current year the participant fund reported a surplus amounting to AED 938,374 (2015: deficit of AED 19,253,055).

18. Other liabilities

	2016 AED	2015 AED
Trade and other payables	5,758,386	4,701,818
End of service benefits (Note 19)	1,804,968	1,575,468
Accrued leave salary	<u>678,391</u>	<u>543,479</u>
	<u><u>8,241,745</u></u>	<u><u>6,820,765</u></u>

19. End of service benefits

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

	2016 AED	2015 AED
Balance at beginning of the year	1,575,468	1,130,855
Amounts charged during the year	436,268	480,208
Amounts paid during the year	<u>(206,768)</u>	<u>(35,595)</u>
Balance at end of the year (Note 18)	<u><u>1,804,968</u></u>	<u><u>1,575,468</u></u>

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

20. Share capital

	2016 AED	2015 AED
Issued and fully paid:		
100,000,000 ordinary shares of AED 1 each		
(31 December 2015: 100,000,000 ordinary shares)	<u>100,000,000</u>	<u>100,000,000</u>

21. Statutory reserve

In accordance with the Commercial Companies Law and the Company's Articles of Association, 10% of profit for the year is required to be transferred to statutory reserve. The Group may resolve to discontinue such annual transfers when the statutory reserve is equal to 50% of the paid up share capital. The reserve is not available for distribution except in the circumstances stipulated by the law. For the year ended 31 December 2016, AED 502,217 (2015: AED Nil) was transferred to statutory reserve.

22. Net contributions

	Gross AED	Retakaful Share AED	Net AED
31 December 2016			
Takaful contracts: Gross contributions written	300,005,029	(144,639,778)	155,365,251
Movement in unearned contributions	(44,517,462)	27,482,323	(17,035,139)
	<u>255,487,567</u>	<u>(117,157,455)</u>	<u>138,330,112</u>
31 December 2015			
Takaful contracts: Gross contributions written	208,318,301	(89,665,273)	118,653,028
Movement in unearned contributions	(7,716,290)	8,158,469	442,179
	<u>200,602,011</u>	<u>(81,506,804)</u>	<u>119,095,207</u>

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

23. Claims incurred

	Gross AED	Retakaful Share AED	Net AED
31 December 2016			
Takaful claims paid	152,478,218	(69,522,170)	82,956,048
Movement in provision for claims reported unsettled	41,329,867	(36,717,147)	4,612,720
Movement in provision for claims incurred but not reported	(10,262,505)	9,811,539	(450,966)
Movement in provision for Unallocated loss adjustment expenses	621,667	-	621,667
Movement in Contribution deficiency reserve	371,119	-	371,119
	<u>184,538,366</u>	<u>(96,427,778)</u>	<u>88,110,588</u>
Claims recorded in the consolidated statement of income			
	<u>184,538,366</u>	<u>(96,427,778)</u>	<u>88,110,588</u>
31 December 2015			
Takaful claims paid	135,623,410	(59,059,281)	76,564,129
Movement in provision for claims reported unsettled	12,011,020	876,367	12,887,387
Movement in provision for claims incurred but not reported	11,871,740	(8,846,426)	3,025,314
Movement in provision for Unallocated loss adjustment expenses	218,150	-	218,150
	<u>159,724,320</u>	<u>(67,029,340)</u>	<u>92,694,980</u>
Claims recorded in the consolidated statement of income			
	<u>159,724,320</u>	<u>(67,029,340)</u>	<u>92,694,980</u>

24. Wakala fees and Mudarib's fee

Wakala fees

Wakala fee for the year ended 31 December 2016 amounted to AED 57,438,179 (2015: AED 36,971,414). The fee is calculated at maximum of 30% of gross contribution of AED 300,005,029 (2015: AED 208,318,301) without any deduction of policy acquisition cost. Wakala fee is charged to the consolidated statement of income when incurred.

Mudarib's fee

The shareholders also manage the participants' investment funds and charge Mudarib's fee. Mudarib fee is charged at 50% of realised investment income. During the year, Mudarib's fee amounted to AED 7,590 (2015: AED 2,931) and was charged on total realised investment income amounting to AED 15,180 (2015: AED 5,862).

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

25. General and administrative expenses

	2016 AED	2015 AED
Staff cost	21,910,625	20,492,038
Marketing expenses	370,752	517,958
Administrative expenses	7,223,938	6,142,099
Depreciation and amortisation	2,324,836	2,185,520
Provision for doubtful debts (Note 8)	803,056	340,940
Other expenses	355,471	501,070
	32,988,678	30,179,625
	2016 AED	2015 AED
<i>Allocated to:</i>		
Shareholders	32,193,697	27,871,158
Participants	794,981	2,308,467
	32,988,678	30,179,625

26. Investment and other income

	31 December 2016		
	Participant AED	Shareholders AED	Total AED
Fair value gains			
Financial assets carried at FVTPL (Note 5)	12,287	25,153	37,440
Fair value gain on investment properties (Note 12)	-	160,000	160,000
Realised gain			
Gain on sale of financial assets carried at FVTPL	-	209,212	209,212
Other investment income			
Income from Wakala deposits	-	409,246	409,246
Dividend income	15,180	38,995	54,175
Income from debt securities	-	629,353	629,353
Rental income from investments properties (Note 12)	-	2,973,636	2,973,636
Other income	523,799	135,861	659,660
	551,266	4,581,456	5,132,722

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

26. Investment and other income (continued)

	Participant AED	31 December 2015 Shareholders AED	Total AED
Fair value (losses)/gains			
Financial assets carried at FVTPL (Note 5)	(19,850)	-	(19,850)
Fair value gain on investment properties (Note 12)	-	1,413,189	1,413,189
Realised (losses)/gains			
Loss on sale of financial assets carried at FVTPL	-	(1,498,858)	(1,498,858)
Impairment of AFS transferred to consolidated statement of income	-	(608,352)	(608,352)
Gain on sale of AFS investments	-	1,453,812	1,453,812
Other investment income			
Income from Wakala deposits	-	200,097	200,097
Dividend income	5,862	179,374	185,236
Income from debt securities	-	246,551	246,551
Rental income from investments properties (Note 12)	-	2,201,488	2,201,488
Loss on disposal of investments properties	-	(419,981)	(419,981)
Other income	481,862	(159,062)	322,800
	<u>467,874</u>	<u>3,008,258</u>	<u>3,476,132</u>

Investment income has been allocated to the shareholders and participants on the basis of investments held by each fund.

27. Earnings/(loss) per share

Earnings/(loss) per share are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year as follows:

	2016	2015
Profit/(loss) for the year attributable to shareholders (in AED)	<u>5,022,166</u>	<u>(7,141,610)</u>
Weighted average number of shares outstanding during the year	<u>100,000,000</u>	<u>100,000,000</u>
Basic and diluted earnings/(loss) per share (in AED)	<u>0.05</u>	<u>(0.071)</u>

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

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

28. Available-for-sale investments reserve

This reserve records gains and losses arising from changes in fair value of available-for-sale investments (AFS).

29. Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard 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 the major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

a) Balances with related parties

Balances with related parties included in the consolidated statement of financial position are as follows:

	2016 AED	2015 AED
<i>Takaful and other receivables</i>		
<i>Major Shareholders</i>	51,132	11,194
<i>Takaful and other payables</i>		
<i>Major Shareholders</i>	92,742	10,255

b) Transactions with related parties

Transactions with related parties included in the consolidated financial statements are as follows:

	2016 AED	2015 AED
<i>Contributions earned</i>		
<i>Major Shareholders</i>	2,069,698	552,278
<i>Other related parties</i>	2,267,751	301,215
	4,337,449	853,493
<i>Claims paid</i>		
<i>Major Shareholders</i>	813,879	527,111
<i>Other related parties</i>	2,224,409	615,732
	3,038,288	1,142,843
<i>Management charges paid</i>		
<i>Major Shareholders</i>	450,000	450,000

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

29. Related party transactions (continued)

c) Compensation of key management personnel

	2016 AED	2015 AED
Short-term benefits	4,778,024	4,743,670
Employees' end of service benefits	263,650	244,890
	<u>5,041,674</u>	<u>4,988,560</u>

Outstanding balances at the year-end arise in the normal course of business. For the years ended 31 December 2016 and 31 December 2015, the Group has not recorded any impairment of amounts owed by related parties.

30. Fatwa and Sharia'a supervisory board

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

31. Zakat

Zakat as approved by the Group's Sharia'a Supervisory Board amounted to AED 0.01364 per share (2015: 0.01355 per share).

The Management has opted to communicate the amount of Zakat payable to each shareholder, requiring them to pay their share of Zakat directly.

32. Segmental information

For management purposes the Group is organised into two business segments; general takaful management and investment. The general takaful segment comprises the takaful business undertaken by the Group on behalf of Participants. Investment comprises investment and cash management for the Group'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 consolidated financial statements.

Except for Wakala fees, Mudarib's 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. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation as shown below.

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

32. Segmental information (continued)

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

	2016		2015			
	Attributable to participants AED	Attributable to shareholders AED	Total AED	Attributable to participants AED	Attributable to shareholders AED	Total AED
<i>Takaful</i>						
Total underwriting income	150,093,365	-	150,093,365	133,846,016	-	133,846,016
Total underwriting expenses	(91,465,507)	-	(91,465,507)	(114,284,133)	-	(114,284,133)
Net underwriting income	58,627,858	-	58,627,858	19,561,883	-	19,561,883
Wakala fees	(57,438,179)	57,438,179	-	(36,971,414)	36,971,414	-
Expenses allocated to participants	(794,981)	-	(794,981)	(2,308,467)	-	(2,308,467)
	394,698	57,438,179	57,832,877	(19,717,998)	36,971,414	17,253,416
<i>Investment</i>						
Investment income	551,266	4,581,456	5,132,722	467,874	3,008,258	3,476,132
Unallocated other income and expenses	-	(57,943,433)	(57,943,433)	-	(27,871,158)	(27,871,158)
Mudarib's fees	(7,590)	7,590	-	(2,931)	2,931	-
Profit/(loss) for the year	938,374	4,083,792	5,022,166	(19,253,055)	12,111,445	(7,141,610)

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

32. Segmental information (continued)

Other information

	Takaful		Investment		Total	
	2016 AED	2015 AED	2016 AED	2015 AED	2016 AED	2015 AED
Segment assets	288,319,673	183,911,947	146,265,067	140,380,354	434,584,740	324,292,301
Segment liabilities	370,551,765	267,214,195	8,241,745	6,820,765	378,793,510	274,034,960
Capital expenditure	-	-	1,295,870	3,135,594	1,295,870	3,135,594
Depreciation and amortisation	-	-	2,324,839	2,185,520	2,324,839	2,185,520

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

33. Capital management

(i) Governance framework

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

The Group's risk management function is carried out by the Board of Directors, with its associated committees. This is supplemented with a clear organisational structure with delegated authorities and responsibilities from the Board of Directors to the Managing Director.

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

(ii) Capital management framework

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

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

(iii) Regulatory framework

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

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

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

34. Financial instruments

(a) Significant accounting policies

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

(b) Categories of financial instruments

	2016	2015
	AED	AED
Financial assets		
At amortised cost	207,802,077	156,159,109
At fair value	24,731,611	13,928,733
	232,533,688	170,087,842
Financial liabilities		
At amortised cost	123,603,736	83,868,258

35. Risk management

(i) Asset liability management (ALM) framework

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

The Managing Director actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from Takaful contracts.

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

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

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

35. Risk management (continued)

35A Takaful risk

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

Takaful risk is basically concentrated in the motor class of business. However, the variability of risks is improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements.

Frequency and amounts of claims

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

Motor

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

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Group has retakaful cover for such claims to limit losses for any individual claim to AED 350,000 (2015: AED 350,000).

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

Property

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

For property takaful contracts the main risks are fire and business interruption. The Group's policies aim careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements.

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

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

35. Risk management (continued)

35A Takaful risk (continued)

Frequency and amounts of claims (continued)

Liability

For miscellaneous accident classes of insurance such as loss of money, infidelity of employees, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten. The Group has retakaful to limit losses for any individual claim to AED 350,000 (2015: AED 350,000).

Medical

Medical takaful is designed to compensate the contract holders for medical costs. Personal accident insurance entitles the contract holders or their beneficiaries to specified amounts in case of death or permanent or partial disability.

For medical takaful, the main risks are illness and related healthcare costs. The Group generally does not offer medical takaful to walk-in customers and is mainly offered to corporate customers with large population to be covered under the policy. The Group has retakaful to limit losses for any individual claim to 75%-80% of the claim amount.

Marine

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

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

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

Fire

Fire takaful is designed to compensate contract holders for damage and liability arising through loss or damage to the insured assets.

The Group's policies aim careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements. The Group has retakaful to limit losses for any individual claim to AED 350,000 (2015: AED 350,000).

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

35. Risk management (continued)

35A Takaful risk (continued)

Concentration of risks

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

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

	Gross liabilities AED	Retakaful share of liabilities AED	Net liabilities AED
31 December 2016			
Motor	36,472,818	(2,044,672)	34,428,146
Marine	11,714,250	(11,593,593)	120,657
Engineering	3,118,965	(2,957,501)	161,464
Fire	3,725,270	(2,996,285)	728,985
Liability	841,339	(440,500)	400,839
Others	29,938,830	(22,747,191)	7,191,639
Total	85,811,472	(42,779,742)	43,031,730
31 December 2015			
Motor	38,600,164	(1,315,647)	37,284,517
Marine	105,500	(98,129)	7,371
Engineering	3,238,998	(3,012,207)	226,791
Fire	1,876,633	(1,189,810)	686,823
Liability	221,308	(70,000)	151,308
Others	439,002	(376,802)	62,200
Total	44,481,605	(6,062,595)	38,419,010

Retakaful risk

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

To minimise its exposure to significant losses from retakaful insolvencies, the Group evaluates the financial condition of its retakaful and ensure diversification of retakaful providers. The Group deals with retakaful approved by the Board of Directors.

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

35. Risk management (continued)

35B Financial risk

The Group's principal financial instruments are investment securities, wakala deposits, takaful receivables, other receivables and cash and cash equivalents.

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

The Group does not enter into any derivative transactions.

Credit risk

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

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

- The Group only enters into Takaful and retakaful contracts with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from Takaful and retakaful contracts are monitored on an ongoing basis in order to reduce the Group's exposure against defaults.
- The Group seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Group's investments are managed by the Managing Director in accordance with the guidance of the investment committee and the supervision of the Board of Directors.
- The Group's bank balances are maintained with a range of international and local banks in accordance with limits set by the management.

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

	2016 AED	2015 AED
Financial instruments - Debt securities	15,899,738	7,709,793
Restricted deposits	6,000,000	6,000,000
Wakala deposits	24,754,163	13,622,951
Takaful receivables	129,756,201	111,745,767
Other receivables	3,340,768	1,296,489
Bank balances and wakala deposits	40,073,600	23,442,420
	<u>219,824,470</u>	<u>163,817,420</u>

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

35. Risk management (continued)

35B Financial risk (continued)

Credit risk (continued)

Takaful receivables comprise a large number of customers and takaful companies mainly within the United Arab Emirates. Retakaful receivables are from the retakaful companies based mainly in the UAE and some of the retakaful payable in Europe (rest of the world).

The following table provides an age analysis of takaful receivables arising from takaful and retakaful contracts:

	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>		<i>Unimpaired</i>		
	<i>Up to 60 days AED</i>	<i>60 to 120 days AED</i>	<i>Above 120 days AED</i>	<i>Total AED</i>	<i>Past due and impaired AED</i>	<i>Total AED</i>
31 December 2016	48,760,862	20,200,186	60,795,153	129,756,201	5,831,174	135,587,375
31 December 2015	31,258,043	42,920,519	37,567,205	111,745,767	5,028,118	116,773,885

For assets to be classified as 'past due and impaired' contractual payments in arrears are more than 180 days and impairment adjustment is recorded in the consolidated statement of income. When the credit exposure is adequately secured or when the management is confident of recovery, arrears more than 180 days might still be classified as 'past due but not impaired', with no impairment adjustment recorded.

There are no significant concentrations of credit risk to receivables outside the industry in which the Group operates.

Impaired financial assets

At 31 December 2016, there are impaired contribution receivables and retakaful receivable of AED 5,831,174 (2015: AED 5,028,118). The Group records impairment allowances in a separate impairment allowance account.

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Collateral is mainly obtained in the form of postdated cheques and guarantees.

(a) Financial instruments - investments

Investments in financial assets represent investments in quoted and unquoted equity and debt instruments of companies incorporated in the United Arab Emirates, and outside United Arab Emirates (Note 5).

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

35. Risk management (continued)

35B Financial risk (continued)

(b) Cash and cash equivalents

Cash and cash equivalents of the Group are with Banks and other financial institutions registered and operate in the United Arab Emirates.

Liquidity risk

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

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

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

	Less than one year AED	More than one year AED	No Term AED	Total AED
31 December 2016				
Assets				
Investment securities	-	15,899,738	12,506,873	28,406,611
Restricted deposits	6,000,000	-	-	6,000,000
Wakala deposits	24,754,163	-	-	24,754,163
Takaful receivables	129,756,201	-	-	129,756,201
Other assets	3,340,768	-	-	3,340,768
Cash and cash equivalents	40,275,945	-	-	40,275,945
	<u>204,127,077</u>	<u>15,899,738</u>	<u>12,506,873</u>	<u>232,533,688</u>
Liabilities				
Takaful payables	117,845,350	-	-	117,845,350
Other liabilities	5,758,386	-	-	5,758,386
	<u>123,603,736</u>	<u>-</u>	<u>-</u>	<u>123,603,736</u>

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

35. Risk management (continued)

35B Financial risk (continued)

Liquidity risk (continued)

	Less than one year AED	More than one year AED	No Term AED	Total AED
31 December 2015				
Assets				
Investment securities	-	7,709,793	6,218,940	13,928,733
Restricted deposits	6,000,000	-	-	6,000,000
Wakala deposits	13,622,951	-	-	13,622,951
Takaful receivables	111,745,767	-	-	111,745,767
Other assets	1,296,489	-	-	1,296,489
Cash and cash equivalents	23,493,902	-	-	23,493,902
	<u>156,159,109</u>	<u>7,709,793</u>	<u>6,218,940</u>	<u>170,087,842</u>
Liabilities				
Takaful payables	79,166,440	-	-	79,166,440
Other liabilities	4,701,818	-	-	4,701,818
	<u>83,868,258</u>	<u>-</u>	<u>-</u>	<u>83,868,258</u>

Market risk

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

Foreign currency risk

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

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

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in U.A.E. Dirhams or US Dollars to which the Dirham is fixed.

Profit rate risk

Profit rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market rates. Floating rate instruments expose the Group to cash flow risk.

The Group is exposed to profit rate risk on certain of its investments and bank balances and cash. The Group limits its risk by monitoring changes in such rates.

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

35. Risk management (continued)

35B Financial risk (continued)

Profit rate risk (continued)

The sensitivity analysis below have been determined based on the exposure to profit rates for profit-bearing financial assets assuming the amount of assets at the end of the reporting period were outstanding for the whole year:

	Increase in basis points	Effect on profit for the year AED
2016		
Profit bearing assets	+100	466,539
2015		
Profit bearing assets	+100	273,327

Any movement in profit rates in the opposite direction will produce exactly opposite results.

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

Equity price risk

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

The Group has no significant concentration of price risk. The price risk is managed by outsourcing the trading of securities held by the Group to professional brokers. However the activities of brokers are also monitored and supervised by the management.

The following table shows the sensitivity of fair values to 20% increase or decrease as at 31 December:

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favorable change AED	Unfavorable change AED	Favorable change AED	Unfavorable change AED
2016				
Equity securities	1,067,295	(1,067,295)	1,434,080	(1,434,080)
2015				
Equity securities	26,338	(26,338)	1,217,450	(1,217,450)

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

35. Risk management (continued)

35B Financial risk (continued)

Operational risk

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

36. 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 Group 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 consolidated 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 consolidated financial statements for the year ended 31 December 2015.

Fair value of the Group's financial assets that are measured at fair value on recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, Group 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).

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

36. Fair value measurements (continued)

Fair value of the Group's financial assets that are measured at fair value on recurring basis (continued)

Financial assets	Fair value as at 31 December 2016 AED	31 December 2015 AED	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Available for sale						
Quoted equity securities	2,708,971	2,197,249	Level 1	Quoted bid prices in an active market.	None	N/A
Quoted debt Securities	6,134,248	3,680,683	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	4,461,429	3,890,000	Level 3	Discounted cash flow method and Net assets valuation method.	Estimated future cash flow and Net assets value	Higher the Discounted cash flow and net assets value of the investees, higher the fair value.
Unquoted debt securities	6,090,490	4,029,110	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	5,336,473	131,691	Level 1	Quoted bid prices in an active market.	None	N/A

The management considers that the carrying amounts of financial assets held to maturity in the consolidated financial statements approximate their fair values. The fair value is mainly based on unobservable inputs (i.e. Level 3).

There were no changes 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.

37. Contingencies and commitments

Commitments

The Group has the following capital expenditure commitment at the reporting date:

	2016 AED	2015 AED
Software development	-	11,928
Document management system	43,750	-

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

37. Contingencies and commitments (continued)

Guarantees

As at 31 December 2016, the Group has bank guarantees against labour and third party commitments for AED 347,020 (2015: AED 341,020).

Legal claims

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

Operating lease commitments

At the reporting date, the Company had non-cancellable operating lease and are payable as the follows:

	2016	2015
	AED	AED
Less than one year	2,314,380	2,371,654
Between one year to five years	1,485,000	1,800,000
	3,799,380	4,171,654

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

38. Subsidiary

During the year 2015, the Group has acquired a subsidiary, at fair value for AED 2 million in which 51% is registered in the name of a related party in trust and for the benefit of the Group which has been consolidated in these consolidated financial statements in compliance with IFRS 10.

Below is the subsidiary consolidated by the Company based on an assessment of control as follows:

Name of Subsidiary	Proportion of ownership interest		Country of incorporation	Principal activities
	2016	2015		
Ararat Auto Repairing Workshop LLC	100%	100%	UAE	Auto mechanical repairing workshop

Ararat Auto Repairing Workshop LLC is registered as Limited Liability Company (LLC) in Dubai, United Arab Emirates. Its principal activities consists of the following:

- Auto mechanical repairing
- Auto electric repairing
- Auto denting and painting
- Auto lube centres
- Auto exhaust repairing
- Auto radiators repairing and maintenance
- Vehicles recovery

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

38. Subsidiary (continued)

- (a) Ararat Auto Repairing Workshop LLC, summarised statements of financial position, comprehensive income and cash flows as at and for the year ended 31 December 2016:

	2016	2015
	AED	AED
<i>Statement of financial position</i>		
Total assets	4,364,253	3,052,762
Total liabilities	2,855,179	1,387,131
Equity	1,509,074	1,665,631
<i>Statement of comprehensive income</i>		
Revenue	5,508,277	2,380,360
Loss for the period	(156,556)	(384,369)
Total comprehensive loss	(156,556)	(384,369)

39. Social contribution

The social contribution (including donations and charities) made during the year 2016 and 2015 amounted to AED Nil.

40. Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2016 were approved by the Board of Directors and authorised for issue on 12 March 2017.