

Al-Sagr National Insurance Company
(Public Shareholding Company)
and its subsidiary

Consolidated financial statements
for the year ended 31 December 2016

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Consolidated financial statements
for the year ended 31 December 2016

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Al-Sagr National Insurance Company (Public Shareholding Company)
and its subsidiary
Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of Al-Sagr National Insurance Company (Public Shareholding Company); and its subsidiary ("the Group") for the year ended 31 December 2016.

Financial Highlights

The Group has reported a premium of AED 378.7 million for year ended 31 December 2016 compared to AED 384.7 million for the corresponding prior year, The Group has reported an underwriting profit of AED 39.4 million for the year ended 31 December 2016 compared to AED 65.6 million for the corresponding prior year. the group reported for the year ended 2016 a net profit of AED 20.8 million compared to a net loss of AED 105 million in 2015 .

Directors:-

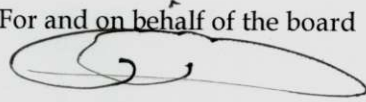
Mr. Majid Abdulla Al Sari
Mr. Khalid Abdulla Omran Tariam
Mr. Amjad Mohd Yusri Al Dweik
Mr. Mohamed Ali Al Sari
Mr. Sami Shakhshir

Chairman
Vice Chairman
Director
Director
Director & CEO

Auditors:-

KPMG were appointed as auditors of the Al Sagr National Insurance Company for the year 2016 at the Annual General Meeting held on 25 April 2016.

For and on behalf of the board


Sami Shakhshir
Director & CEO
23 March 2017



KPMG Lower Gulf Limited
Level 13, Boulevard Plaza Tower One
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Independent Auditors' Report

To the Shareholders of Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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

Key Audit Matters

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



Key Audit Matters (continued)

1. Insurance contract liabilities

Refer to note 5 and 12 of the consolidated financial statements.

Valuation of these liabilities involves significant judgement, and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims that have occurred, but have not yet been reported ("IBNR") to the Group. IBNR and life assurance fund is calculated by an independent qualified external actuary for the Group.

Small changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to a material impact on the valuation of these liabilities and a corresponding effect on profit or loss. The key assumptions that drive the reserve calculations include loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business.

The valuation of these liabilities depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of these liabilities may arise.

Our response:

Our audit procedures, supported by our actuarial specialists, included:

- evaluating and testing of key controls around the claims handling and case reserve setting processes of the Group. Examining evidence of the operation of controls over the valuation of individual reserve for outstanding claims and consider if the amount recorded in the consolidated financial statements is valued appropriately;
- obtaining an understanding of and assessing the methodology and key assumptions applied by the management. Independently re-projecting the reserve balances for certain classes of business;
- assessing the experience and competence of the Group's actuary and degree of challenge applied through the reserving process;
- checking sample of reserves for outstanding claims through comparing the estimated amount of the reserves for outstanding claims to appropriate documentation, such as reports from loss adjusters; and
- assessing the Group's disclosure in relation to these liabilities including claims development table is appropriate.



Key Audit Matters (continued)

2. Insurance and other receivables

Refer to note 5 and 13 of the consolidated financial statements.

The Group has significant premium and insurance receivables against written premium policies. There is a risk over the recoverability of these receivables. The determination of the related impairment allowance is subjective and is influenced by judgements relating to the probability of default and probable losses in the event of default.

Our response:

- our procedure on the recoverability of insurance and other receivables included evaluating and testing key controls over the processes designed to record and monitor insurance receivables;
- testing the ageing of trade receivables to assess if these have been accurately determined. Testing samples of long outstanding trade receivables where no impairment allowance is made with the management's evidences to support the recoverability of these balances;
- obtaining balance confirmations from the respective counterparties such as policyholders, agents and brokers;
- verifying payments received from such counterparties post year end;
- considering the adequacy of provisions for bad debts for significant customers, taking into account specific credit risk assessments for each customer based on period overdue, existence of any disputes over the balance outstanding, history of settlement of receivables against liabilities with the same counterparties; and
- discussing with management and reviewing correspondence, where relevant, to identify any disputes and assessing whether these were appropriately considered in determining the impairment allowance.

3. Valuation of investment properties and Development work in progress

Refer to note 5 and 9 of the consolidated financial statements.

The valuation of investment properties and development work in progress are determined through the application of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates.

Due to the significance of investment properties and development work in progress and the related estimation uncertainty, this is considered a key audit matter.

Investment properties and development work in progress are held at fair value through profit or loss in the Group's statement of financial position and qualify under Level 3 of the fair value hierarchy as at 31 December 2016.



Key Audit Matters (continued)

3. Valuation of investment properties and Development work in progress (continued)

Our response:

- We assessed the competence, independence and integrity of the external valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;
- We obtained the external valuation reports for all properties and confirmed that the valuation approach is in accordance with RICS' standards and is suitable for use in determining the fair value in the consolidated statement of financial position;
- We carried out procedures to test whether property specific standing data supplied to the external valuers by management is appropriate and reliable; and
- Based on the outcome of our evaluation, we determined the adequacy of the disclosure in the consolidated financial statements.

4. Accounting treatment of investment in an associate

Refer to note 11.2 of the consolidated financial statements.

The Group has an investment in Al Sagr Cooperative Insurance Company as at 31 December 2016. Accounting for business combinations can be complex as it involves judgments in assessing whether the investor has control or significant influence over the investee which determines the accounting treatment. It also requires assumptions and judgments to be made relating to the fair value of assets and liabilities acquired of the investee. As at 31 December 2016, the Group has an investment of AED 173.6 million in Al Sagr Cooperative Insurance Company (2015: Nil).

Our response:

- We reviewed management's assessment of significant influence over the investee by taking into consideration relevant factors including:
 - The Group's percentage holding in the investee;
 - The Group's representation on the board of directors of the investee; and
 - The Group's ability to influence the operational decisions of the investee.
- We reviewed management's calculation of fair value of the net assets of the investee and challenged management's assessment;
- We obtained the audited financial statements of the associate as at 31 December 2016 and assessed whether the Group appropriately recorded its share of profit/loss of the associate in the consolidated financial statements; and
- We considered the adequacy of the disclosures in respect of both the associate and its acquisition.



Other Information

Management is responsible for the other information. The other information comprises the Report of the board of directors, but does not include the consolidated financial statements and our auditors' report thereon.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015 and UAE Federal Law No. 6 of 2007, and for such internal control as management determines is necessary to enable the preparation of 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.

Auditors' 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 auditors' 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.



**Al-Sagr National Insurance Company
(Public Shareholding Company) and its subsidiary**

*Independent Auditors' Report on the
consolidated financial statements (continued)
31 December 2016*

*Auditors' Responsibilities for the Audit of the Consolidated Financial
Statements (continued)*

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 auditors' 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 auditors' 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.

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the



*Auditors' Responsibilities for the Audit of the Consolidated Financial
Statements (continued)*

consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless 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 and explanations 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 Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) as disclosed in notes 10 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2016;
- vi) note 26 to the consolidated financial statements discloses 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 UAE Federal Law No. (2) of 2015 or in respect of the Company its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2016; and
- viii) note 22 to the consolidated financial statements discloses the social contributions made during the year.

Further, as required by the UAE Federal Law No. 6 of 2007, as amended, we report that we have obtained all the information and explanation we considered necessary for the purposes of our audit.

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates
Date: 23 MAR 2017

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

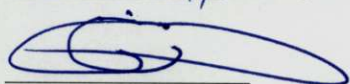
Consolidated statement of financial position

as at 31 December 2016

		31 December 2016 AED	31 December 2015 AED
	Note		
ASSETS			
Property and equipment	8	7,660,109	9,133,879
Investment properties	9	172,934,241	172,856,118
Investments	10	64,072,979	214,379,787
Investment in associates	11	173,581,343	166,341
Reinsurance contract assets	12	207,571,036	238,228,389
Insurance and other receivables	13	214,351,559	232,036,207
Due from related parties	26	104,671,938	98,411,277
Cash and bank balances	14	268,268,460	297,824,545
TOTAL ASSETS		1,213,111,665	1,263,036,543
EQUITY AND LIABILITIES			
Equity			
Share capital	15	230,000,000	230,000,000
Statutory reserve	16	65,220,938	63,115,259
General reserve	17	200,000,000	200,000,000
Investments revaluation reserve		(1,379,079)	(1,361,523)
Accumulated losses		(46,589,876)	(65,301,132)
Equity attributable to shareholders of the Company		447,251,983	426,452,604
Non-controlling interests	25	570,543	650,230
Total equity		447,822,526	427,102,834
Liabilities			
Due to related parties		104,752	519,307
Provision for employees' end of service indemnity	18	14,328,526	13,367,614
Insurance contract liabilities	12	452,457,435	491,212,881
Bank borrowings	19	145,909,069	164,370,379
Insurance and other payables	20	152,489,357	166,463,528
Total liabilities		765,289,139	835,933,709
Total equity and liabilities		1,213,111,665	1,263,036,543

The notes from 1 to 30 form an integral part of these consolidated financial statements.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 23-03-2017 and signed on their behalf by:



Director and CEO

The independent auditors' report is set out on pages 2 -8.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

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

	Note	2016 AED	2015 AED
UNDERWRITING RESULTS			
Underwriting income			
Gross insurance premium		378,776,098	384,750,436
Less: insurance premium ceded to reinsurers		(142,412,632)	(131,817,635)
Net retained premium		236,363,466	252,932,801
Net change in unearned premium reserve		13,352,082	15,746,055
Net insurance premium		249,715,548	268,678,856
Gross claims paid		(355,672,004)	(345,755,415)
Insurance claims recovered from reinsurers		116,918,503	83,488,788
Net claims paid		(238,753,501)	(262,266,627)
Net change in outstanding claims		(5,253,989)	6,130,891
Net claims incurred		(244,007,490)	(256,135,736)
Net commission income	21	33,695,013	53,101,418
Underwriting profit		39,403,071	65,644,538
Net investments loss	22	(8,416,617)	(121,266,474)
Share of profits / (loss) from equity accounted investees	11	30,027,127	(87,328)
General and administrative expenses		(40,293,889)	(49,323,902)
Profit / (loss) for the year		20,719,692	(105,033,166)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss :</i>			
Net change in investment in financial assets at fair value through other comprehensive income		-	-
Other comprehensive income for the year		-	-
Total comprehensive income / (loss) for the year		20,719,692	(105,033,166)
Attributable to:			
Shareholders of the Company		21,056,787	(104,576,286)
Non-controlling interest		(337,095)	(456,880)
		20,719,692	(105,033,166)
Earning / (loss) per share (AED)	24	0.09	(0.45)

The notes from 1 to 30 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 2 -8.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Attributable to the equity holders of the Company					Total AED	Non- controlling interest AED	Total equity AED
	Share capital AED	Statutory reserve AED	General reserve AED	Investments revaluation reserve AED	Retained earning / accumulated loss AED			
Balance at 1 January 2015 (As previously reported)	230,000,000	63,115,259	200,000,000	(1,361,523)	169,794,298	661,548,034	1,107,110	662,655,144
Effect of changes in accounting policies	-	-	-	-	(106,919,144)	(106,919,144)	-	(106,919,144)
Balance at 1 January 2015 (restated)	230,000,000	63,115,259	200,000,000	(1,361,523)	62,875,154	554,628,890	1,107,110	555,736,000
Total comprehensive income for the year								
Loss for the year	-	-	-	-	(104,576,286)	(104,576,286)	(456,880)	(105,033,166)
Other comprehensive income								
Movement in net change in investment in financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(104,576,286)	(104,576,286)	(456,880)	-105,033,166
Transactions with owners directly recorded in equity								
Dividend paid	-	-	-	-	(23,000,000)	(23,000,000)	-	(23,000,000)
Directors' fee paid during the year	-	-	-	-	(600,000)	(600,000)	-	(600,000)
Balance at 31 December 2015	<u>230,000,000</u>	<u>63,115,259</u>	<u>200,000,000</u>	<u>(1,361,523)</u>	<u>(65,301,132)</u>	<u>426,452,604</u>	<u>650,230</u>	<u>427,102,834</u>

The notes from 1 to 30 form an integral part of these consolidated financial statements.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Attributable to the equity holders of the Company							
	Share capital AED	Statutory reserve AED	General reserve AED	Investments revaluation reserve AED	Accumulated losses AED	Total AED	Non-controlling interest AED	Total equity AED
Balance at 1 January 2016	230,000,000	63,115,259	200,000,000	(1,361,523)	(65,301,132)	426,452,604	650,230	427,102,834
Total comprehensive income for the year								
Profit / (loss) for the year	-	-	-	-	21,056,787	21,056,787	(337,095)	20,719,692
Other comprehensive income								
Movement in net change in investment in financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income / (loss) for the year	-	-	-	-	21,056,787	21,056,787	(337,095)	20,719,692
Transactions with owners directly recorded in equity								
Transfer to statutory reserve	-	2,105,679	-	-	(2,105,679)	-	-	-
Change in non-controlling interest	-	-	-	(17,556)	(239,852)	(257,408)	257,408	-
Balance at 31 December 2016	230,000,000	65,220,938	200,000,000	(1,379,079)	(46,589,876)	447,251,983	570,543	447,822,526

The notes from 1 to 30 form an integral part of these consolidated financial statements.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Consolidated statement of cash flows

for the year ended 31 December 2016

	Note	2016 AED	2015 AED
Cash flows from operating activities			
Profit / (loss) for the year		20,719,692	(105,033,166)
<i>Adjustment for:</i>			
Depreciation	8	2,076,397	2,062,706
Loss on revaluation of investments - FVTPL	22	228,793	21,290,867
Interest income	22	(7,735,154)	(10,191,150)
Dividend income	22	(2,055,916)	(4,382,629)
Loss on disposal of property and equipment	22	3,586	-
Share of (profits) / loss from equity accounted investees	11	(30,027,127)	87,328
Provision for employees' end of service indemnity	18	1,173,227	929,214
Allowance for doubtful recovery from a related party	22	-	93,489,375
Finance costs	22	5,653,658	8,833,739
Operating cash flows before movements in working capital		(9,962,844)	7,086,284
Decrease / (increase) in reinsurance contract assets		30,657,353	(39,681,782)
Decrease in insurance and other receivables		17,285,216	12,935,115
Increase in due from related parties		(6,260,661)	(8,514,661)
(Decrease) / increase in insurance contract liabilities		(38,755,446)	17,804,836
(Decrease) / increase in insurance and other payables		(13,974,171)	59,539,167
Decrease in due to related parties		(414,555)	(1,517)
Net cash (used in) / generated from operations		(21,425,108)	49,167,442
Interest paid	22	(5,653,658)	(8,833,739)
Employees' end of service indemnity paid	18	(212,315)	(963,349)
Payment of directors' fees		-	(600,000)
Net cash (used in) / generated from operating activities		(27,291,081)	38,770,354
Cash flows from investing activities			
Net proceeds from sale of investment		6,690,140	4,207,096
Acquisition of investment properties; net	9	(78,123)	(46,980)
Purchase of property and equipment	8	(619,263)	(682,085)
Disposal of property and equipment		13,050	-
Dividends received	22	2,055,916	4,382,629
Interest received		8,134,586	10,666,658
Net cash generated from investing activities		16,196,306	18,527,318
Cash flows from financing activity			
Dividend paid		-	(23,000,000)
Net cash used in financing activity		-	(23,000,000)
Net (decrease) / increase in cash and cash equivalents		(11,094,775)	34,297,672
Cash and cash equivalents at 1 January		133,454,166	99,156,494
Cash and cash equivalents at 31 December (note 14)		122,359,391	133,454,166

The notes from 1 to 30 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 2 -8.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements

(forming part of the consolidated financial statements)

1 Legal status and activities

Al-Sagr National Insurance Company (Public Share holding Company), Dubai (the "Company") was incorporated on 25 December 1979 as a public shareholding company by an Emiri Decree from His Highness, The Ruler of Dubai, and is registered with the Ministry of Economy of the United Arab Emirates under registration No. (16). The Company's address in Dubai is P.O. Box 14614, Dubai, U.A.E. The Company is a subsidiary of Gulf General Investments Company (the "Parent Company"), a public company incorporated in U.A. E.

The principal activity of the Company is the writing of insurance of all types. The Company operates through its Head Office in Dubai and its branches in Dubai, Sharjah, Abu Dhabi, Al Ain, Ras Al Khaima and Ajman in the U.A.E.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary (collectively referred to as "the Group"). Details of subsidiary are as follows:

Name of subsidiary	Activity	Group's Ownership		Country of incorporation
		31 December 2016	31 December 2015	
Jordan Emirates Insurance Company PSC	Underwriting of insurance of all types	94.03%	92.83%	Jordan

2 Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by International Accounting Standards Board ("IASB") and applicable requirements of UAE Law.

On 1 April 2015, a new UAE Federal Law No. 2 of 2015 for the Commercial Companies ("UAE Companies Law of 2015") was issued with effective date on 1 July 2015. As per the transitional provisions of the new law, companies are to ensure compliance by 30 June 2017. The Group is in the process of adopting the new Federal Law and will be fully compliant before the transitional provisions deadline.

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

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

2 Basis of preparation (*continued*)

b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following which are measured at fair value.

- i) financial instruments at fair value through profit and loss ("FVTPL");
- ii) derivative financial instruments;
- iii) financial instruments at fair value through other comprehensive income ("FVTOCI"); and
- iv) investment properties.

c) Functional and presentation currency

These consolidated financial statements are presented in UAE Dirham (AED), which is the functional currency. Except as otherwise indicated, financial information is presented in AED.

d) Use of estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on a ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in the future periods effected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 5.

e) Changes in accounting policy

A number of new standards, amendments to standards and interpretations that are issued and are effective for accounting periods starting 1 January 2016 have been applied in the preparation of these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods:

- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards; and
- Disclosure Initiative (Amendments to IAS 1)

3 Summary of significant accounting policies

The accounting policy set out below have been applied consistently to all periods presented in these consolidated financial statements, except as explained in note 2(e).

a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The consolidated financial statements of the subsidiary are included in the Group's consolidated financial statements from the date that control commences until the date that control ceases.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

3 Summary of significant accounting policies (*continued*)

a) Basis of consolidation (*continued*)

Subsidiaries (continued)

Non controlling interest in the equity and results of the entities that are controlled by the Group are shown separately as a part of consolidated statements of changes in equity in the Group's consolidated financial statements.

Any contribution or discounts on subsequent acquisition, after control is obtained, of equity instruments from (or sale of equity instruments to) non controlling interest is recognised directly in consolidated statement of changes in equity.

Investment in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the Group's consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated, wherever practicable, to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisition from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any gain/loss arising is recognised directly in equity.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

3 Summary of significant accounting policies (*continued*)

b) Insurance contracts

i) Classification

The Group issues contracts that transfer either insurance risk or both insurance and financial risks.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Group to pay significant additional benefits due to happening of the insured event compared to its non happening.

Insurance contracts may also transfer some financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts where insurance risk is not significant are classified as investment contracts.

Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

ii) Recognition and measurement

Premiums

Gross premiums written reflect business incepted during the year, and exclude any fees and other amounts collected with and calculated based on premiums. These are recognised when underwriting process is complete and policies are issued.

The earned proportion of premiums is recognised as income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below:

Unearned premium provision

The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the statement of financial position date. UPR are calculated using the 1/365 method except for marine cargo and general accident. The UPR for marine cargo is recognised as fixed proportion of the written premiums as required in the financial regulation and UPR for general accident assumes a linear increase in risk with the duration of the project such that the risk faced is 100% at the expiry of the contract. The rate at which the premium is earned is deemed to increase at the same rate at which the risk faced increases over the lifetime of the policy.

iii) Claims

Claims incurred comprise the settlement and the internal and external handling costs paid and changes in the provisions for outstanding claims arising from events occurring during the financial period. Where applicable, deductions are made for salvage and their recoveries.

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expense reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the consolidated financial statements of the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. Provision is also made for any claims incurred but not reported ("IBNR") at the date of statement of financial position using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation as required by the new regulations. The basis of estimating outstanding claims and IBNR are detailed "font-size

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

3 Summary of significant accounting policies (*continued*)

b) Insurance contracts (*continued*)

iv) Provision for premium deficiency / liability adequacy test

Provision is made for premium deficiency arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

v) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the related insurance policies and in accordance with the relevant reinsurance contracts. Reinsurance premiums are deferred and expensed using the same basis as used to calculate unearned premium reserves for related insurance policies. The deferred portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in statement of income in the period in which they are incurred.

Profit commission in respect of reinsurance contracts is recognised on an accrual basis.

vi) Deferred acquisition cost

For general insurance contracts, the deferred acquisition cost asset represents the portion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the reporting date. Commission income related to underwriting activities are recognised on a time proportion basis over the effective period of policy using the same basis as described for unexpired risk premium.

vii) Insurance receivables and payables

Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

viii) Insurance contract provision and reinsurance assets

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the consolidated statement of financial position date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the consolidated statement of financial position date.

The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the consolidated financial statements.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

3 Summary of significant accounting policies (*continued*)

c) Revenue (other than insurance revenue)

Revenue (other than insurance revenue) comprises the following:

i) Fee and commission income

Fee and commissions received or receivable which do not require the Group to render further service are recognised as revenue by the Group on the effective commencement or renewal dates of the related policies.

ii) Investment income

Investment income comprises income from financial assets, rental income from investment properties, realised and unrealised fair value gains/losses on investment property and financial assets at FVTPL.

Income from financial assets comprises interest and dividend income, net gains/losses on financial assets classified at fair value through profit or loss (FVTPL), and realised gains/losses on other financial assets.

Interest income is recognised on a time proportion basis using effective interest rate method. Dividend income is recognised when the right to receive dividend is established. Usually this is the ex-dividend date for equity securities. Basis of recognition of net gains/losses on financial assets classified at fair value through profit or loss and realised gains on other financial assets is described in note 3 (g).

Fair value gains/losses on investment property are included in the consolidated statement of profit or loss in the period these gains/losses are determined. Details of valuations during the year are included in note 9.

d) Property and equipment

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property and equipment, and is recognised net within other income/other expenses in consolidated profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in consolidated statement of profit or loss as incurred.

iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

3 Summary of significant accounting policies (*continued*)

d) Property and equipment (*continued*)

iii) Depreciation

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate. No depreciation is charged on freehold land and capital-work-in-progress. Land is not depreciated and is stated at cost.

The estimated useful lives for various categories of property and equipment is as follows :

Office premises (Jordan)	50 years
Office fixture	4 years
Furniture and equipment	4 to 11 years
Motor vehicles	4 to 6 years

e) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in consolidated statement of profit or loss.

The Group determines fair value on the basis of valuation provided by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

f) Capital work in progress

Capital work-in-progress consists of property being developed for sale on completion and is measured at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of the business, less cost of completion and selling expenses.

g) Financial assets and liabilities

The Group had adopted IFRS 9, Financial instruments in 2014 in advance of its effective date. The Group had chosen 1 January 2014 as its date of initial application.

i) Non-derivative financial assets

Recognition

The Group initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

A financial assets or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

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

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

3 Summary of significant accounting policies (*continued*)

g) Financial assets and liabilities (*continued*)

i) Non-derivative financial assets (*continued*)

Classification

At inception a financial asset is classified as measured at amortised cost or fair value.

Financial assets measured at amortised cost

A financial asset qualifies for amortised cost measurement only if it meets both of the following two conditions :

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

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflect the best way the business is managed and information is provided to the management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focus on earning contractual interest revenue;
- the degree of frequency of any expected asset sales;
- the reason of any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets measured at FVTPL

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

The Group has designated certain financial assets at fair value through profit or loss because designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial assets measured at FVTOCI

At initial recognition the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in certain equity instruments as at FVTOCI (fair value through other comprehensive income). Designation to FVTOCI is not permitted if the equity instrument is held for trading.

Dividend in these investments in equity instruments are recognised in the consolidated profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represents a recovery of part of the cost of the investment.

Gains and losses on such equity instruments are never reclassified to income statement and no impairment is recognised in consolidated profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, except when the Group changes its business model for managing financial assets.

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these are measured at amortised cost using the effective interest method.

Loans and receivables comprise mainly trade and other receivables, deposits and other receivables.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

3 Summary of significant accounting policies (*continued*)

g) Financial assets and liabilities (*continued*)

i) Non-derivative financial assets (*continued*)

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, balances with the Banks and fixed deposits with original maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

ii) Derivative financial assets

The Group holds derivative financial instruments to hedge its FVTPL investment. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

iii) Equity securities

Ordinary shares of the Group are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

iv) Non-derivate financial liabilities

All financial liabilities (including liabilities designated at fair value through consolidated statement of other comprehensive income) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

v) De-recognition of financial assets and financial liabilities

The Group derecognises a financial asset when the contractual right to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risk and rewards of the ownership are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control over the transferred asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Group is recognised as separate asset or liability in the consolidated statement of financial position. On derecognition of financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in consolidated statement of profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the financial assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfer of assets with retention of all or substantially all risks and rewards include, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the services.

The Group derecognises a financial liability when its contractual obligation are discharged or cancelled or expire.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

3 Summary of significant accounting policies (*continued*)

h) Impairment

Impairment of financial assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost are impaired. A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be estimated reliably. The Group considers evidence of impairment at both a specific and collective level.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of an amount due to the Group on terms that the Group would not otherwise consider, indication that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Group of assets such as adverse change in the payment status of borrowers or issuers, or economic conditions that correlate with defaults in the Group.

Impairment of loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by comparing together loans and receivables with similar risk characteristics.

At each reporting date, the Group assesses on a case-by-case basis whether there is any objective evidence that an asset is impaired. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and/or any event resulting in a reduction in impairment loss, decreases the amount of the provision for loan impairment in the consolidated profit or loss.

Impairment losses are recognised in the consolidated profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated profit or loss.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

3 Summary of significant accounting policies (*continued*)

h) Impairment (*continued*)

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

Impairment losses are recognised in consolidated profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) Fair value measurement principle

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the consolidated profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

j) Foreign currency transactions

Transactions denominated in foreign currencies are translated to AED at the spot exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the spot exchange rates ruling at the date of consolidated statement of financial position. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to AED at the foreign exchange rates ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the consolidated statement of profit or loss. The assets and liabilities of foreign subsidiary and the equity of associates are translated at the rate of exchange ruling at the reporting date.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

3 Summary of significant accounting policies (*continued*)

j) Foreign currency transactions (*continued*)

The consolidated statements of profit or loss of foreign subsidiary and the results of associates are translated at the average exchange rates for the year. The exchange differences on the retranslation are taken directly to the consolidated other comprehensive income.

k) Provision

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

l) Employee terminal benefits

Defined benefit plan

The Group provides for staff terminal benefits based on an estimation of the amount of future benefits that employees have earned in return for their service until their retirement. This calculation is performed on a projected unit credit method.

Defined contribution plan

The Group contributes to the pension scheme for nationals under the pension and social security law. This is a defined contribution pension plan and the Group's contribution are charged to the statement of profit or loss in the period in which they relate. In respect of this scheme, the Group has a legal and constructive obligation to pay the fund contribution as they fall due and no obligations exists to pay the future benefits.

m) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities.

o) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when, and only when, the Group has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or of gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

3 Summary of significant accounting policies (*continued*)

p) Directors' remuneration

Pursuant to Article 169 of Federal Law No. 2 of 2015 and in accordance with the Articles of Association of the Group, the Directors are entitled for remuneration which shall not exceed 10% of the net profits after deducting depreciation and reserves.

q) New standards and interpretations not yet adopted

A number of new standards and amendments to standards applicable to the Group are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

Accounting Standard	Description	Effective Date
IAS 7 Amendments	Disclosure Initiative	(effective 1 January 2017)
IFRS 9	Financial Instruments (2014)	(effective 1 January 2018)
IFRS 15	Revenue from Contracts with Customers	(effective 1 January 2018)
IFRS 16	Leases	(effective 1 January 2019)

IAS 7 Amendments Disclosure Initiative

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 (2009) which sets out guidelines for the classification and measurement of financial assets.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases- Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group is assessing the potential impact on its financial statements resulting from the application of these standards.

4. Risk management

The Group issues contracts that transfer either insurance risk or both insurance and financial risks. The Group does not issue contracts that transfer only financial risks. This section summarises these risk and the way the Group manages them:

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

4. Risk management (*continued*)

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 the set financial performance objectives. Management recognises the critical importance of having efficient and effective risk management systems in place.

ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

iii) Capital management framework

The Group has an internal risk management framework for identifying risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on economic capital.

iv) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and shareholders and monitor 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 UAE. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

v) Asset liability management ("ALM")

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Group faces due to the nature of its investments and liabilities is interest rate risk and equity price risk. The Group manages these positions within an ALM framework that has been developed by management to achieve long-term investment returns in excess of its obligations under insurance and investment contracts.

The Group's ALM is also integrated with the management of the financial risks associated with the Group's other financial assets and liabilities not directly associated with insurance and investment liabilities.

The Group's ALM also forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

4. Risk management (*continued*)

v) Asset liability management (“ALM”) (*continued*)

a) Insurance risks

The Group accepts insurance risk through its written insurance contracts. The Group is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts. The Group writes the following types of general insurance and life insurance contracts:

General insurance contracts

- Liability insurance
- Property insurance
- Motor insurance
- Fire insurance
- Medical insurance
- Marine insurance
- Engineering insurance

Life insurance contracts

- Group life insurance
- Credit life insurance

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Group only issue short term insurance contracts in connection with property, motor, marine and casualty risks.

Two key elements of the Group’s insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

Underwriting strategy

The Group’s underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome.

The underwriting strategy is set out by the Group that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Group is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. All general insurance contracts except marine, are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

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

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

Frequency and amounts of claims

The Group has developed their underwriting strategy to diversify the type of insurance risks accepted and within each of the categories to achieve sufficiently large populations of risk to reduce the variability of the expected outcome. The frequency and amounts of claims can be affected by several factors. The Group underwrite mainly property, motor, casualty, medical and marine risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

4. Risk management (*continued*)

v) Asset liability management (“ALM”) (*continued*)

a) Insurance risks (*continued*)

Frequency and amounts of claims (*continued*)

Property

Property insurance covers a diverse collection of risks and therefore property insurance contracts are subdivided into four risks groups, fire, business interruption, weather damage and theft.

These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured. The cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruptions are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, flood damage or other weather related incidents.

Motor

Motor insurance contracts are designed to compensate policies holders for damage suffered to vehicles, disability to third parties arising through accidents and fire or theft of their vehicles.

Underwriting limits and guidelines are in place to enforce appropriate risk selection criteria.

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

Marine

Marine insurance 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 insurance, 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.

Casualty

For casualty class of business, such as workmen's compensation, personal accident, general third party liability and loss of money, the extent of loss or damage and the potential court awards are the main factors that influence the level of claims.

The Group manage these risks through their underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk. Underwriting limits are in place to enforce appropriate risk selections.

The Group proactively manage and pursue early settlement of claims to reduce their exposure to unpredictable developments.

The Group have adequate reinsurance arrangements to protect their financial viability against such claims for all classes of business.

The Group have obtained adequate non-proportionate reinsurance cover for all classes of business to limit losses to an amount considered appropriate by the management.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

4. Risk management (*continued*)

v) Asset liability management (“ALM”) (*continued*)

a) Insurance risks (*continued*)

Frequency and amounts of claims (*continued*)

Medical

Medical selection is part of the Group's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual result from what was expected. This confirms the appropriateness of assumption and in underwriting and pricing.

Concentration of risk

The Group's underwriting activities are carried out in the United Arab Emirates and other Middle East countries.

Reinsurance strategy

The Group reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Group has a Reinsurance department that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy.

The Group buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Group. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchases of facultative reinsurance are subject to business unit pre-approval and the total expenditure on facultative reinsurance is monitored regularly by reinsurance department.

b) Financial risk

The Group has exposure to the following primary risks from its use of financial instruments and operations:

- i) Credit risk;
- ii) Liquidity risk;
- iii) Market risk; and
- iv) Operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Compliance with the policy is monitored and exposures and breaches are regularly reviewed for pertinence and for changes in the risk environment.

For all classes of financial assets held by the Group the maximum credit risk exposure to the Company is the carrying value as disclosed in the consolidated financial statements at the reporting date.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

4. Risk management (*continued*)

v) Asset liability management (“ALM”) (*continued*)

b) Financial risk (*continued*)

i) Credit risk (*continued*)

Reinsurance is placed with reinsurers’ approved by the management, which are generally international reputed companies.

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

At each reporting date, management performs an assessment of creditworthiness of reinsurers’ and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment if required.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows:

	2016 AED	2015 AED
Financial assets		
Reinsurance contract assets	160,255,398	194,318,473
Insurance and other receivable	213,315,349	231,304,296
Due from related parties	104,671,938	98,411,277
Bank balances	267,770,071	295,367,262
	746,012,756	819,401,308

The age analysis of insurance and other receivables (excluding accrued interest, prepayments, refundable deposits and other receivables) are as follows:

	Gross 2016 AED	Impairment provision 2016 AED	Gross 2015 AED	Impairment provision 2015 AED
Less than 90 days	73,902,200	-	87,643,337	-
From 91-180 days	20,805,669	-	35,066,356	-
From 181-270 days	20,302,819	-	19,753,680	-
From 271-365 days	13,120,014	-	12,219,600	-
More than 365 days	89,421,854	(27,988,284)	93,229,521	(30,427,923)
	217,552,556	(27,988,284)	247,912,494	(30,427,923)

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

4. Risk management (*continued*)

v) Asset liability management (“ALM”) (*continued*)

b) Financial risk (*continued*)

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements are monitored on a daily basis and management ensures that sufficient funds are available to meet any commitments as they arise.

Maturity profiles

The table below summarizes the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

31 December 2016	Carrying amount AED	Contractual cash flows AED	Less than 180 days AED	180 days to 1 year AED	Total AED
Liabilities					
Due to related parties	104,752	(104,752)	(104,752)	-	(104,752)
Outstanding claims reserve	238,733,824	(238,733,824)	-	(238,733,824)	(238,733,824)
Bank borrowings	145,909,069	(145,909,069)	(145,909,069)	-	(145,909,069)
Insurance and other payables	152,489,357	(152,489,357)	(152,489,357)	-	(152,489,357)
Total liabilities	537,237,002	(537,237,002)	(298,503,178)	(238,733,824)	(537,237,002)

31 December 2015	Carrying amount AED	Contractual cash flows AED	Less than 180 days AED	180 days to 1 year AED	Total AED
Liabilities					
Due to related parties	519,307	(519,307)	(519,307)	-	(519,307)
Outstanding claims reserve	255,322,763	(255,322,763)	-	(255,322,763)	(255,322,763)
Bank borrowings	164,370,379	(164,370,379)	(164,370,379)	-	(164,370,379)
Insurance and other payables	166,463,528	(166,463,528)	(166,463,528)	-	(166,463,528)
Total liabilities	586,675,977	(586,675,977)	(331,353,214)	(255,322,763)	(586,675,977)

iii) Market risk

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

a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham.

The Group's major exposures are in USD, which is pegged with AED and the Group's exposure to currency risk is limited to that extent. Since almost all reinsurance arrangements are denominated in USD.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

4. Risk management (*continued*)

v) Asset liability management (“ALM”) (*continued*)

b) Financial risk (*continued*)

iii) Market risk (*continued*)

b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk relates to its bank deposits. At 31 December 2016, fixed deposits carried interest rates ranging from 2.5% to 5% per annum (*2015: 2.5% to 5.9% per annum*).

If interest rates had been 100 basis points lower throughout the year and all other variables were held constant, the Group's net profit for the year ended 31 December 2016 would decrease by approximately AED 2.62 million (*2015: AED 2.82 million*). Similarly increase in interest by 100 basis points would result in equal and opposite effect on profit for the year.

c) Equity price risk

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

The Group's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices.

The Group's equity price risk policy requires is to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, sector and market. The fair values of financial assets are not different from their carrying values.

Sensitivities

The table below shows the results of sensitivity testing on the Group's profit or loss and equity by type of business. The sensitivity analysis indicates the effect of changes in price risk factors arising from the impact of the changes in these factors on the Group's investments:

	10% increase in price		10% decrease in price	
	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
	AED	AED	AED	AED
31 December 2016				
Fair value through OCI	-	253,815	-	(253,815)
Fair value through profit or loss	6,153,483	-	(6,153,483)	-
31 December 2015				
Fair value through OCI	-	253,815	-	(253,815)
Fair value through profit or loss	21,184,164	-	(21,184,164)	-

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

4. Risk management (*continued*)

v) Asset liability management (“ALM”) (*continued*)

b) Financial risk (*continued*)

iv) Operational risk

Operational risk is the risk of loss arising from system 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 can lead to financial loss.

The Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks.

The Group has detailed systems and procedures manuals with effective segregation of duties, access controls, authorization and reconciliation procedures, staff training and assessment processes etc. with a compliance and internal audit framework. Business risks such as changes in environment, technology and the industry are monitored through the Group’s strategic planning and budgeting process.

5. Use of estimates and judgements

The areas of the Group’s business containing key sources of estimation uncertainty include the measurement of insurance contract provisions and the determination of the fair values of financial instruments.

Measurement of insurance contract provisions

The Group’s accounting policy in respect of insurance contract accounting is discussed in more detail in note 3(b). The key assumptions made in respect of insurance contract liabilities are included in note 12.

Insurance contract classification

Contracts are classified as insurance contracts where they transfer significant insurance risk from the holder of the contract to the Group.

There are a number of contracts sold where the Group exercises judgement about the level of insurance risk transferred. The level of insurance risk is assessed by considering whether there are any scenarios with commercial substance in which the Group is required to pay significant additional benefits. These benefits are those which exceed the amounts payable if no insured event were to occur. These additional amounts include claims liability and assessment costs, but exclude the loss of the ability to charge the holder of the contract for future services.

Provision for outstanding claims, whether reported or not

Considerable judgment by the management is required in the estimation of amounts due to the contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment 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 date of statement of financial position and for the expected ultimate cost of claims incurred but not reported (“IBNR”) at the date of statement of financial position. Estimates are made for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR) using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation and are presented in Note 12.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims regularly.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

5. Use of estimates and judgements (*continued*)

Impairment of insurance receivables

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Group evaluating the credit and liquidity position of the policy holders and the insurance and reinsurance companies, historical recovery rates and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised as an expense in the consolidated profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the consolidated profit or loss at the time of collection.

Provision made for doubtful debts on insurance receivables at 31 December 2016 was AED 27.99 million (2015: AED 30.43 million).

Liability Adequacy Test

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

Valuation of Financial Instruments

The Fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, these are tested before they are used. In case of options, management consider market conditions of those options together with the probability of their exercise. Where appropriate, management applied marketability discounts in order to arrive at a value that reflects the market conditions associated with those options. The fair value estimates presented herein are not necessarily indicative of an amount that the Group would realise in a current transaction, and because of the inherent uncertainty of valuations, do not represent amounts that will be ultimately realised, since such amounts depend on future circumstances and the differences could be material.

Valuation of investment properties

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's investment property portfolio annually.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

The Group has taken the highest and best use fair values for the fair value measurement of its investment properties.

Valuation technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurements
1) Income valuation approach	-Expected market rental growth rate	The estimated fair value increase/decrease if: -Expected market rental growth rate were higher -The risk adjusted discount rates were lower / higher -The property is not free hold -The property is subject to any covenants, rights and obligations -The property is subject to any adverse legal notices / judgment -The property is subject to any defect / damages -The property is subject to sales value fluctuations of surrounding properties in the area.
2) Sales comparative valuation approach	-Risk adjusted discount rates	
3) Market value approach	-Free hold property	
	-Free of covenants , third party rights and obligations	
	-Statutory and legal validity	
	-Condition of the property	
	-Sales value of comparable properties	

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

6 Accounting classification of financial assets and financial liabilities

The table below shows a reconciliation between line items in the consolidated statement of financial position and categories of financial instruments.

At 31 December 2016

<u>Financial assets</u>	<u>FVTPL</u>	<u>FVTOCI</u>	<u>Amortised</u> <u>cost</u>	<u>Total</u>
	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>
Investments	61,534,832	2,538,147	-	64,072,979
Reinsurance contract assets	-	-	160,255,398	160,255,398
Insurance and other receivables	-	-	213,315,349	213,315,349
Due from related parties	-	-	104,671,938	104,671,938
Cash and bank balances	-	-	268,268,460	268,268,460
	<u>61,534,832</u>	<u>2,538,147</u>	<u>746,511,145</u>	<u>810,584,124</u>

<u>Financial liabilities</u>	<u>FVTPL</u>	<u>FVTOCI</u>	<u>Amortised</u> <u>cost</u>	<u>Total</u>
	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>
Due to related parties	-	-	104,752	104,752
Insurance contract liabilities	-	-	452,457,435	452,457,435
Bank borrowings	-	-	145,909,069	145,909,069
Insurance and other payables	-	-	152,489,357	152,489,357
	<u>-</u>	<u>-</u>	<u>750,960,613</u>	<u>750,960,613</u>

At 31 December 2015

<u>Financial assets</u>	<u>FVTPL</u>	<u>FVTOCI</u>	<u>Amortised</u> <u>cost</u>	<u>Total</u>
	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>
Investments	211,841,640	2,538,147	-	214,379,787
Reinsurance contract assets	-	-	194,318,473	194,318,473
Insurance and other receivables	-	-	231,304,296	231,304,296
Due from related parties	-	-	98,411,277	98,411,277
Cash and bank balances	-	-	297,824,545	297,824,545
	<u>211,841,640</u>	<u>2,538,147</u>	<u>821,858,591</u>	<u>1,036,238,378</u>

<u>Financial liabilities</u>	<u>FVTPL</u>	<u>FVTOCI</u>	<u>Amortised</u> <u>cost</u>	<u>Total</u>
	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>
Due to related parties	-	-	519,307	519,307
Insurance contract liabilities	-	-	491,212,881	491,212,881
Bank borrowings	-	-	164,370,379	164,370,379
Insurance and other payables	-	-	166,463,528	166,463,528
	<u>-</u>	<u>-</u>	<u>822,566,095</u>	<u>822,566,095</u>

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

7 Fair value of financial instruments

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

a) Fair value hierarchy of assets/liabilities measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position.

As at 31 December 2016

<u>Financial assets</u>	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
FVTPL - financial assets	61,534,832	-	-	61,534,832
FVTOCI - financial assets	-	-	2,538,147	2,538,147
	61,534,832	-	2,538,147	64,072,979
<u>Non financial assets</u>				
Investment properties	-	-	172,934,241	172,934,241
	61,534,832	-	175,472,388	237,007,220

As at 31 December 2015

<u>Financial assets</u>	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
FVTPL - financial assets	211,841,640	-	-	211,841,640
FVTOCI - financial assets	-	-	2,538,147	2,538,147
	211,841,640	-	2,538,147	214,379,787
<u>Non financial assets</u>				
Investment properties	-	-	172,856,118	172,856,118
	211,841,640	-	175,394,265	387,235,905

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

7 Fair value of financial instruments (*continued*)

a) Fair value hierarchy of assets/liabilities measured at fair value (*continued*)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

	2016 AED	2015 AED
Balance at 1 January	175,394,265	210,347,285
Write off of investment in derivative financial instrument at fair value through profit or loss ("FVTPL")	-	(35,000,000)
Addition in investment property	78,123	46,980
Balance at 31 December	175,472,388	175,394,265

b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

As at 31 December 2016

<u>Financial assets</u>	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Reinsurance contract assets	-	-	160,255,398	160,255,398
Insurance and other receivables	-	-	213,315,349	213,315,349
Due from related parties	-	-	104,671,938	104,671,938
Cash and bank balances	-	268,268,460	-	268,268,460
	-	268,268,460	478,242,685	746,511,145
<u>Financial liabilities</u>				
Due to related parties	-	-	104,752	104,752
Insurance contract liabilities	-	-	452,457,435	452,457,435
Bank borrowings	-	-	145,909,069	145,909,069
Insurance and other payables	-	-	152,489,357	152,489,357
	-	-	750,960,613	750,960,613

As at 31 December 2015

<u>Financial assets</u>	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Reinsurance contract assets	-	-	194,318,473	194,318,473
Insurance and other receivables	-	-	231,304,296	231,304,296
Due from related parties	-	-	98,411,277	98,411,277
Cash and bank balances	-	297,824,545	-	297,824,545
	-	297,824,545	524,034,046	821,858,591
<u>Financial liabilities</u>				
Due to related parties	-	-	519,307	519,307
Insurance contract liabilities	-	-	491,212,881	491,212,881
Bank borrowings	-	-	164,370,379	164,370,379
Insurance and other payables	-	-	166,463,528	166,463,528
	-	-	822,566,095	822,566,095

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

8 Property and equipment

	Office premises AED	Office fixture AED	Furniture and equipment AED	Motor vehicles AED	Total AED
Cost					
At 1 January 2015	463,275	7,244,781	13,266,715	1,036,672	22,011,443
Additions	-	285,435	396,650	-	682,085
At 31 December 2015	463,275	7,530,216	13,663,365	1,036,672	22,693,528
At 1 January 2016	463,275	7,530,216	13,663,365	1,036,672	22,693,528
Additions	-	-	587,263	32,000	619,263
Disposal	-	-	-	(26,100)	(26,100)
At 31 December 2016	463,275	7,530,216	14,250,628	1,042,572	23,286,691
Depreciation					
At 1 January 2015	43,239	1,525,163	9,141,698	786,843	11,496,943
Charge for the year	9,260	795,438	1,176,050	81,958	2,062,706
At 31 December 2015	52,499	2,320,601	10,317,748	868,801	13,559,649
At 1 January 2016	52,499	2,320,601	10,317,748	868,801	13,559,649
Charge for the year	9,259	797,055	1,191,382	78,701	2,076,397
On disposals	-	-	-	(9,464)	(9,464)
At 31 December 2016	61,758	3,117,656	11,509,130	938,038	15,626,582
Carrying amounts					
At 31 December 2015	410,776	5,209,615	3,345,617	167,871	9,133,879
At 31 December 2016	401,517	4,412,560	2,741,498	104,534	7,660,109

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (continued)

9 Investment properties

	2016 AED	2015 AED
At the beginning of the year	172,856,118	172,809,138
Additions during the year	78,123	46,980
At the end of the year	<u>172,934,241</u>	<u>172,856,118</u>

As at 31 December 2016, the Group has three investment properties out of which one property is Meydan Tower (property is under development but construction has not started), located in Dubai controlled by GGICO Real Estate Development Co. L.L.C. in which the Group has 10% ownership. The carrying value of the property is AED 80 million (10% share of AED 800 million) as at 31 December 2016 (31 December 2015: AED 80 million). Another property located in Al Barsha First, Dubai has a carrying value of AED 90 million (31 December 2015: AED 90 million). The third property is located in Jordan and the addition during the year pertains to that property. The Group assessed the fair value of the investment properties during 2016 externally. As at 31 December 2016, the fair value of investment properties portfolio is not significantly different from its carrying value.

10 Investments

	2016 AED	2015 AED
Investment in financial assets at fair value through profit or loss ("FVTPL") (note 10.1)	61,534,832	211,841,640
Investment in financial asset at fair value through other comprehensive income ("FVTOCI")	<u>2,538,147</u>	<u>2,538,147</u>
Total	<u>64,072,979</u>	<u>214,379,787</u>

During the year ended 31 December 2016, the Group has purchased shares worth of AED 10.7 million (2015: AED 11.04 million) measured at fair value through profit or loss.

10.1 Following is the movement of investments in FVTPL during the year:

	2016 AED	2015 AED
Fair value at beginning of the year	211,841,640	237,339,603
Transfer to investment in associates (note 11.2)	(152,650,000)	-
Net additions / (disposals) during the year	2,571,985	(4,207,096)
Decrease in fair value	(228,793)	(21,290,867)
Fair value at end of the year	<u>61,534,832</u>	<u>211,841,640</u>

Investments in financial assets at fair value through profit or loss ("FVTPL") includes investment in funds with a related party amounting to AED 3.3 million (2015: AED 3.3 million) and investment in a company with a related party amounting to AED 8.05 million (2015: nil).

All investments are held within U.A.E. except for investments in FVTPL and investments in FVTOCI amounting to AED 0.39 million (2015: AED 153.04 million) and AED 2.57 million (2015: AED 2.57 million), respectively, which are invested in securities listed in Kingdom of Saudi Arabia, Kuwait and Jordan.

11 Investment in associates

	2016 AED	2015 AED
Green Air Technology L.L.C., United Arab Emirates (note 11.1)	16,716	16,341
Sogour Al Khaleej General Trading L.L.C., United Arab Emirates (Note 11.1)	150,000	150,000
Al Sagr Cooperative Insurance Company (note 11.2)	<u>173,414,627</u>	<u>-</u>
	<u>173,581,343</u>	<u>166,341</u>

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

11 Investment in associates (*continued*)

- 11.1** The Group holds 50% ownership in Green Air Technology L.L.C., a limited liability company incorporated in Dubai, United Arab Emirates. The remaining 50% ownership is owned equally by the Parent Company and the CEO of the Company.

The Group holds 50% ownership in Sogour Al Khaleej General Trading L.L.C., a limited liability company incorporated in Dubai, United Arab Emirates. The main activity of the Company is general trading. The remaining 50% ownership is owned by the Parent Company.

Although, the Group holds 50% equity in 2 associates, these are controlled by the Parent Company. The Group's voting rights in these entities do not give it control over these entities.

- 11.2** As at 31 December 2015, the Group hold 26% shares of Al Sagr Cooperative Insurance Company ("Al Sagr Cooperative"). Out of the 26% shares, the Group holds 6% shares for the beneficial interest of other individuals. Furthermore, the Group had entered into a sale purchase agreement for 1% of shares with a third party. Accordingly, the Group had been accounting for only 19% shares in Al Sagr Cooperative up until 31 December 2015. However, on 1 January 2016, the Group has reacquired 1% of the shares which it had previously sold. This resulted in an increase in the Group's holding percentage to 20%, thereby giving the Group significant influence over Al Sagr Cooperative. Accordingly, the Group has now reclassified its investment in Al Sagr Cooperative to an investment in associate.

	2016	2015
	AED	AED
Initial cost of investment (note 10.1)	152,650,000	-
Group share of net profits for the year	30,027,127	-
Dividend received during the year	(9,262,500)	-
Investment in associate	<u>173,414,627</u>	<u>-</u>

Percentage of interest

	20%
	31 December 2016
	AED
Assets	1,061,537,696
Liabilities	(562,965,305)
Net assets	<u>498,572,391</u>
Group's share in net assets at 20%	99,714,478
Goodwill and other intangibles at acquisition	73,700,149
Investment in associate	<u>173,414,627</u>
Revenue for the year	494,367,642
Profit for the year	150,135,639
Group's share of profit for the year at 20%	<u>30,027,127</u>

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

12 Insurance contract liabilities and reinsurance contract assets

	2016 AED	2015 AED
Gross		
Reserve for outstanding claims	238,733,824	255,322,763
Reserve for incurred but not reported claims (IBNR)	42,141,174	54,361,321
Reserve for outstanding claims (including IBNR)	280,874,998	309,684,084
Unearned premium reserve	171,582,437	181,528,797
Total insurance contract liabilities (gross)	452,457,435	491,212,881
Less: Recoverable from reinsurers		
Reinsurer share of outstanding claims	(150,434,398)	(169,700,906)
Reinsurer share of incurred but not reported claims (IBNR)	(9,821,000)	(24,617,567)
Reinsurer share of outstanding claims (including IBNR)	(160,255,398)	(194,318,473)
Unamortised reinsurance premium reserve	(47,315,638)	(43,909,916)
Total reinsurance contract assets	(207,571,036)	(238,228,389)
Net insurance contract liabilities as at 31 December	244,886,399	252,984,492

Movement in outstanding claims and reinsurance contract assets

	2016		
	Gross AED	Reinsurance AED	Net AED
Total at the beginning of the year	309,684,084	(194,318,473)	115,365,611
Less: settled during the year	(355,672,004)	116,918,503	(238,753,501)
Add: provision made during the year	326,862,918	(82,855,428)	244,007,490
At 31 December	280,874,998	(160,255,398)	120,619,600
	2015		
	Gross AED	Reinsurance AED	Net AED
Total at the beginning of the year	271,988,419	(150,491,917)	121,496,502
Less: settled during the year	(345,755,415)	83,488,788	(262,266,627)
Add: provision made during the year	383,451,080	(127,315,344)	256,135,736
At 31 December	309,684,084	(194,318,473)	115,365,611

Movement in unearned premium reserve

	2016		
	Gross AED	Reinsurance AED	Net AED
Total at the beginning of the year	181,528,797	(43,909,916)	137,618,881
Provision made during the year	171,582,437	(47,315,638)	124,266,799
Provision released during the year	(181,528,797)	43,909,916	(137,618,881)
At 31 December	171,582,437	(47,315,638)	124,266,799
	2015		
	Gross AED	Reinsurance AED	Net AED
Total at the beginning of the year	201,419,626	(48,054,690)	153,364,936
Provision made during the year	181,528,797	(43,909,916)	137,618,881
Provision released during the year	(201,419,626)	48,054,690	(153,364,936)
At 31 December	181,528,797	(43,909,916)	137,618,881

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (continued)

12 Insurance contracts liabilities and reinsurance contract assets (continued)

Assumptions and sensitivities

Process used to determine the assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market practices or other published information.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises.

The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate.

The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The method used by the Group for provision of IBNR takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries. Estimates are made for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR) using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation.

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent accident years.

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Group's estimation process. The Group believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims are finally settled.

Claim development table

	Underwriting year				
	2013	2014	2015	2016	Total
	AED	AED	AED	AED	AED
Gross					
Estimate of net incurred claims costs					
- At the end of underwriting year	215,039,345	261,756,617	284,797,892	286,983,674	-
- One year later	263,243,199	319,134,843	334,482,099	-	-
- Two years later	268,595,052	308,840,341	-	-	-
- Three years later	268,987,116	-	-	-	-
Current estimate of incurred claims	268,987,116	308,840,341	334,482,099	286,983,674	1,199,293,230
Cumulative payments to date	(212,457,456)	(310,704,405)	(320,035,914)	(185,243,531)	(1,028,441,306)
Liability recognised	56,529,660	(1,864,064)	14,446,185	101,740,143	170,851,924
Expected Recoveries					48,899,980
Liability in respect of prior years					18,981,920
Total liability included in the statement of financial position					238,733,824
Net					
Estimate of net incurred claims costs					
- At the end of underwriting year	135,009,565	179,502,231	223,736,452	188,175,798	-
- One year later	188,514,559	239,726,437	268,262,928	-	-
- Two years later	187,993,588	237,895,079	-	-	-
- Three years later	186,909,759	-	-	-	-
Current estimate of incurred claims	186,909,759	237,895,079	268,262,928	188,175,798	881,243,564
Cumulative payments to date	(183,204,648)	(243,695,273)	(261,996,304)	(153,291,330)	(842,187,555)
Liability recognised	3,705,111	(5,800,194)	6,266,624	34,884,468	39,056,009
Expected Recoveries					48,899,980
Liability in respect of prior years					343,437
Total liability included in the statement of financial position					88,299,426

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

12 Insurance contracts liabilities and reinsurance contract assets (*continued*)

Summary of the Actuary's report on the Technical Provisions

Gross Reserves	As at 31 December 2016		
	Life	General	Total
	insurance	insurance	
	AED	AED	AED
Reserve for outstanding claims (including IBNR)	9,155,439	271,719,559	280,874,998
Unearned premium reserve	3,131,000	168,451,437	171,582,437
Total	12,286,439	440,170,996	452,457,435

Net Reserves	As at 31 December 2016		
	Life	General	Total
	insurance	insurance	
	AED	AED	AED
Reserve for outstanding claims (including IBNR)	755,275	119,864,325	120,619,600
Unearned premium reserve	172,000	124,094,799	124,266,799
Total	927,275	243,959,124	244,886,399

Gross Reserves	As at 31 December 2015		
	Life	General	Total
	insurance	insurance	
	AED	AED	AED
Reserve for outstanding claims (including IBNR)	7,822,000	301,862,084	309,684,084
Unearned premium reserve	3,291,000	178,237,797	181,528,797
Total	11,113,000	480,099,881	491,212,881

Net Reserves	As at 31 December 2015		
	Life	General	Total
	insurance	insurance	
	AED	AED	AED
Reserve for outstanding claims (including IBNR)	591,000	114,774,611	115,365,611
Unearned premium reserve	147,000	137,471,881	137,618,881
Total	738,000	252,246,492	252,984,492

Actuarial estimation of the insurance liabilities has been performed by the independent actuary in accordance with the requirement of new financial regulations issued under Federal Law No.6 of 2007 pertaining to the insurance companies and agents. Estimates are made for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR) using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

13 Insurance and other receivables

	2016 AED	2015 AED
Receivable arising from insurance and reinsurance contracts		
Due from policy holders	44,903,045	64,156,395
Due from insurance and reinsurance companies	118,577,054	102,603,865
Due from agents and brokers	53,381,434	80,603,047
Staff advances	691,023	549,187
Allowance for doubtful receivables (note 13.1)	(27,988,284)	(30,427,923)
	<u>189,564,272</u>	<u>217,484,571</u>
Accrued interest income	2,447,814	2,847,246
Prepaid expenses and refundable deposits	3,264,767	3,105,111
Other receivables	19,074,706	8,599,279
	<u>214,351,559</u>	<u>232,036,207</u>

13.1 Allowance for doubtful receivables

Movement in the allowance for doubtful receivables

	2016 AED	2015 AED
Balance at beginning of the year	30,427,923	21,383,923
Write-off during the year	(3,483,639)	-
Charged during the year	1,044,000	9,044,000
Balance at end of the year	<u>27,988,284</u>	<u>30,427,923</u>

14 Cash and bank balances

	2016 AED	2015 AED
Cash in hand	498,389	2,457,283
Bank balances:		
Current accounts	5,982,211	12,996,554
Fixed deposits	261,787,860	282,370,708
	<u>268,268,460</u>	<u>297,824,545</u>

Fixed deposits with banks as at 31 December 2016 include AED 10.3 million (*2015: AED 10.3 million*) deposited in the name of the Group to the order of the Ministry of Economy and Trade of the United Arab Emirates as required by the Federal Law Number (6) of 2007 relating to Insurance Authority.

Fixed deposits amounting to AED 229.7 million (*2015: AED 253.3 million*) are under lien in respect of bank credit facilities granted to the Group.

All fixed deposits with banks carry interest rates between 2.5% to 5% per annum (31 December 2015: 2.5% to 5.9% per annum).

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

14 Cash and bank balances (*continued*)

Cash and cash equivalents for the purpose of cashflows are analysed as follows;

	2016 AED	2015 AED
Bank balances and cash	268,268,460	297,824,545
Bank borrowings	(145,909,069)	(164,370,379)
Cash and cash equivalents	122,359,391	133,454,166

15 Share capital

	2016 AED	2015 AED
Issued and fully paid: 230,000,000 shares of AED 1 each	230,000,000	230,000,000

16 Statutory reserve

In accordance with U.A.E. Federal Commercial Companies Law Number 8 of 1984, as amended, the Group has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law.

17 General reserve

The general reserve is established through transfers from profit for the year as recommended by the Board of Directors and approved by the Shareholders at the Annual General Meeting. The reserve is distributable based on a recommendation by the Board of Directors approved by a Shareholders' resolution.

18 Provision for employees' end of service indemnity

Movement in the net liability is as follows:

	2016 AED	2015 AED
At 1 January	13,367,614	13,401,749
Charge for the year	1,173,227	929,214
Paid during the year	(212,315)	(963,349)
At 31 December	14,328,526	13,367,614

19 Bank borrowings

	2016 AED	2015 AED
Bank overdrafts	145,909,069	164,370,379

The Group has bank facilities in the form of overdrafts repayable upon demand and bearing interest ranging from 3.05% to 4.25% per annum (2015: 3.55% to 3.9%). These facilities are secured by lien on fixed deposits amounting to AED 229.7 million (2015: AED 253.3 million). The bank overdraft limit provided under the facilities is AED 275.4 million (2015: AED 354.7 million).

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

20 Insurance and other payables

	2016 AED	2015 AED
Due to insurance and reinsurance companies	60,778,923	80,162,147
Other payable:		
Insurance customer payables	79,812,135	72,271,539
Accrued expenses and provisions	3,187,044	2,653,445
Other	8,711,255	11,376,397
	<u>152,489,357</u>	<u>166,463,528</u>

21 Commission income - net

	2016 AED	2015 AED
Gross commission earned	65,613,968	76,904,607
Less: commission incurred	(31,918,955)	(23,803,189)
	<u>33,695,013</u>	<u>53,101,418</u>

22 Investment loss - net

	2016 AED	2015 AED
Net gain on sale of investment in securities	1,334,784	3,780,408
Rental income	-	17,250
Interest income	7,735,154	10,191,150
Dividend income	2,055,916	4,382,629
Loss on revaluation of investments - FVTPL (note 10.1)	(228,793)	(21,290,867)
Loss on disposal of property and equipment	(3,586)	-
Write-off of receivable from a related party (note 26)	-	(93,489,375)
Other income	40,688	99,416
Finance costs	(5,653,658)	(8,833,739)
Unallocated general and administrative expenses	(13,697,122)	(16,123,346)
	<u>(8,416,617)</u>	<u>(121,266,474)</u>

Unallocated general administrative expenses include social contribution made by the Group of AED 0.342 million (2015: 0.342 million).

23 Profit / (loss) for the year

Profit / (loss) for the year has been arrived at after charging the following expenses which are included in the general and administrative expenses and unallocated general and administrative expenses.

	2016 AED	2015 AED
Staff cost	33,497,193	34,108,243
Depreciation of property and equipment (note 8)	2,076,397	2,062,706
Allowance for doubtful receivables (reversal) / charged (note 13.1)	<u>1,044,000</u>	<u>9,044,000</u>

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

24 Earnings / (loss) per share	2016	2015
Profit / (loss) for the year attributable to equity holders of the Parent (AED)	21,056,787	(104,576,286)
Weighted average number of shares	230,000,000	230,000,000
Earning / (loss) per share (AED)	0.09	(0.45)

Basic earning / (loss) per share are calculated by dividing the profit for the year attributable to shareholders by the weighted average number of shares outstanding at reporting date. There is no dilution impact on basic earnings / (loss) per share.

25 Investment in subsidiary

- (a) Financial details of non-wholly owned subsidiary of the Group are as follows:

Name of Subsidiary	Loss allocated to non-controlling interest		Accumulated non-controlling interest	
	2016	2015	2016	2015
	AED	AED	AED	AED
Jordan Emirates Insurance Company (PSC)	(337,095)	(456,880)	570,543	650,230

- (b) Below is the summarised financial information of Jordan Emirates Insurance Company (PSC), the subsidiary that has material non-controlling interest. The financial information represents balances before intra-group eliminations.

	2016	2015
	AED	AED

Statement of financial position

Total assets	61,788,560	70,698,812
Total liabilities	52,231,774	61,623,603
Net equity	9,556,786	9,075,209

Statement of comprehensive income

Net insurance premium revenue	38,579,423	37,917,777
Net claims incurred	(32,507,477)	(35,632,566)
Net commission and other (expense) / income	(2,015,369)	1,333,125
Net investment loss	(1,092,379)	(801,385)
General and administrative expenses	(7,702,622)	(9,189,064)
Loss for the year	(4,738,424)	(6,372,113)
Other comprehensive income	-	-
Total comprehensive loss	(4,738,424)	(6,372,113)

Statement of cash flows

Net cash used in operating activities	(5,270,096)	(5,004,952)
Net cash flows generated from investing activities	2,712,975	5,425,621
Net cash flows generated from financing activities	526,755	-
Net cash flows (used) / generated during the year	(2,030,366)	420,669

On 1 October 2016, the Company shareholding in the subsidiary increased from 92.83% to 94.03% by additionally invested AED 5.22 million in the share capital, resultng in a change in non-controlling interest shares by AED 257,408.

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

26 Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard (IAS) 24: Related Party Disclosures. Related parties comprise companies and entities under common ownership and/or common management and control, shareholders, directors and key management personnel of the Group, their close family members and entities controlled, jointly controlled or significantly influenced by such parties. The Group's management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

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

	2016 AED	2015 AED
Included in due from related parties		
Due from related parties - net of write off	101,463,712	96,674,043
Due from shareholders	3,208,226	1,737,234
	<u>104,671,938</u>	<u>98,411,277</u>
Included in insurance contract liabilities		
Gross outstanding claims	622,084	975,473
	<u>622,084</u>	<u>975,473</u>

These amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

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

	2016 AED	2015 AED
Gross premium	11,413,813	13,503,127
Claims paid	1,606,951	1,802,150
	<u>11,413,813</u>	<u>13,503,127</u>
Compensation of key management personnel		
	2016 AED	2015 AED
Salaries and benefits	9,023,390	8,493,917
	<u>9,023,390</u>	<u>8,493,917</u>

Al-Sagr National Insurance Company (Public Shareholding Company)

and its subsidiary

Notes to the consolidated financial statements *(continued)*

27 Segment information

Operating segment information

For management purposes the Group is organised into two operating segments, general insurance and life insurance. These segments are the basis on which the Group reports its primary segment information

	General insurance		Life insurance		Total	
	2016	2015	2016	2015	2016	2015
	AED	AED	AED	AED	AED	AED
Underwriting income						
Gross insurance premium	368,528,626	374,129,671	10,247,472	10,620,765	378,776,098	384,750,436
Less: insurance premium ceded to reinsurers	(132,303,860)	(121,757,356)	(10,108,772)	(10,060,279)	(142,412,632)	(131,817,635)
Net retained premium	236,224,766	252,372,315	138,700	560,486	236,363,466	252,932,801
Net change in unearned premium reserve	13,377,082	15,741,045	(25,000)	5,010	13,352,082	15,746,055
Net insurance premium	249,601,848	268,113,360	113,700	565,496	249,715,548	268,678,856
Gross claims paid	(353,681,908)	(341,358,556)	(1,990,096)	(4,396,859)	(355,672,004)	(345,755,415)
Insurance claims recovered from reinsurers	115,168,913	79,377,791	1,749,590	4,110,997	116,918,503	83,488,788
Net claims paid	(238,512,995)	(261,980,765)	(240,506)	(285,862)	(238,753,501)	(262,266,627)
Net change in outstanding claims	(5,089,840)	6,360,913	(164,149)	(230,022)	(5,253,989)	6,130,891
Net claims incurred	(243,602,835)	(255,619,852)	(404,655)	(515,884)	(244,007,490)	(256,135,736)
Net commission income	28,609,505	48,524,278	5,085,508	4,577,140	33,695,013	53,101,418
Underwriting profit	34,608,518	61,017,786	4,794,553	4,626,752	39,403,071	65,644,538
Net investments loss					(8,416,617)	(121,266,474)
Share of profits / (loss) from equity accounted investees					30,027,127	(87,328)
General and administrative expenses					(40,293,889)	(49,323,902)
Profit / (loss) for the year					20,719,692	(105,033,166)

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

27.1 Segment information (*continued*)

Operating segment information

	General insurance		Life insurance		Total	
	2016	2015	2016	2015	2016	2015
	AED	AED	AED	AED	AED	AED
ASSETS						
Property and equipment	7,499,961	8,973,731	160,148	160,148	7,660,109	9,133,879
Investment properties	172,934,241	172,856,118	-	-	172,934,241	172,856,118
Investments	64,072,979	214,379,787	-	-	64,072,979	214,379,787
Investment in associates	173,581,343	166,341	-	-	173,581,343	166,341
Reinsurance contract assets	196,211,872	227,853,389	11,359,164	10,375,000	207,571,036	238,228,389
Insurance and other receivables	210,449,212	229,751,069	3,902,347	2,285,138	214,351,559	232,036,207
Due from related parties	104,671,938	98,411,277	-	-	104,671,938	98,411,277
Cash and bank balances	259,768,460	289,324,545	8,500,000	8,500,000	268,268,460	297,824,545
Total assets	1,189,190,006	1,241,716,257	23,921,659	21,320,286	1,213,111,665	1,263,036,543
LIABILITIES						
Due to related parties	104,752	519,307	-	-	104,752	519,307
Provision for employees' end of service indemnity	14,056,270	13,193,430	272,256	174,184	14,328,526	13,367,614
Insurance contract liabilities	440,170,996	480,099,881	12,286,439	11,113,000	452,457,435	491,212,881
Bank borrowings	145,909,069	164,370,379	-	-	145,909,069	164,370,379
Insurance and other payables	151,581,409	164,130,877	907,948	2,332,651	152,489,357	166,463,528
Total liabilities	751,822,496	822,313,874	13,466,643	13,619,835	765,289,139	835,933,709
EQUITY						
Share capital	-	-	-	-	230,000,000	230,000,000
Legal reserve	-	-	-	-	65,220,938	63,115,259
General reserve	-	-	-	-	200,000,000	200,000,000
Fair value reserve	-	-	-	-	(1,379,079)	(1,361,523)
Accumulated losses	-	-	-	-	(46,589,876)	(65,301,132)
Equity attributable to shareholders of the Company					447,251,983	426,452,604
Non-controlling interests	-	-	-	-	570,543	650,230
Total equity					447,822,526	427,102,834
Total liabilities and equity					1,213,111,665	1,263,036,543

Al-Sagr National Insurance Company (Public Shareholding Company) and its subsidiary

Notes to the consolidated financial statements (*continued*)

28 Contingent liabilities and commitments

	2016 AED	2015 AED
Letters of guarantee	<u>68,227,682</u>	<u>12,433,401</u>

29 Operating lease arrangements

Operating lease payments represent rentals payable by the Group for its office premises. At reporting date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2016 AED	2015 AED
Less than one year	2,491,942	3,287,495
Between one and five years	<u>1,503,608</u>	<u>6,574,990</u>
	<u>3,995,550</u>	<u>9,862,485</u>

30 Comparative figures

Certain comparative figures have been reclassified where appropriate to conform with the presentation and accounting policies adopted in these consolidated financial statements.