

**AL DHAFRA INSURANCE
COMPANY P.S.C.**

**Reports and financial
statements for the year
ended 31 December 2017**

AL DHAFRA INSURANCE COMPANY P.S.C.

**Reports and financial statements
for the year ended 31 December 2017**

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BOARD OF DIRECTORS

Chairman	H.E. Sheikh Mohamed Sultan Al Dhahiri
Deputy Chairman	H.E. Yousef Mohammad Al Nowais
Directors	H.E. Sheikh Ahmed Mohd. Sultan Al Daheri
	Mr. Ahmad Saeed Ahmad Ghobash
	Mr. Saleem Rashed Abdullah Al Naoimi
	H.E. Sheikh Sultan Bin Saeed Bin Sultan Al Dhaheri
	Mr. Saif Saeed Bin Ahmed Ghobash
	H.E. Saif Mubarak Saif Al Reyami
	Mr. Mohammad Saeed Ahmed Omran Al Mazrouei
General Manager	Mr. Kamal Sartawi
Auditors	Deloitte & Touche (M.E.)

BOARD OF DIRECTORS (continued)

HEAD OFFICE

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DUBAI BRANCH

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AL AIN BRANCH

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BIDA ZAYED BRANCH

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**THE BOARD OF DIRECTORS' 38th ANNUAL REPORT
FOR THE YEAR ENDED 31 December 2017**

Dear Shareholders,

The Board of Directors have the pleasure to welcome you to the Ordinary General Assembly of Al Dhafra Insurance Company P.S.C. (the "Company") and present to you the 38th Annual Report regarding the business activities of the Company during 2017 as well as the financial statements for the year ended 31st December 2017 along with its Auditor's Report.

At the outset, the Board of Directors would like to express their appreciation and utmost respect to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the President of the United Arab Emirates and His Brothers, the Rulers of other Emirates and His Highness Sheikh Mohamad Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi for their continuous limitless support and patronage for National institutions and Companies. All credits for the progress and stability achieved by the Country go to our wise leadership.

The bold strategic decision initiated by your Company in 2015 and continued in 2016 to reposition the business focus of the Company and pursue a well-balanced profitable and sustainable business model with high stability oriented reinsurance protection to ensure safe business result has been continued more professionally in the year 2017 which has resulted in achieving all time high business volume of AED 415 million and net profit of AED 51.5 million despite the comparatively flat economic situation influenced by regional and international economic and political factors.

The results appearing in the statement of financial position and statement of profit or loss illustrate the achievements which are summarized as below:

- The gross insurance premium increased to AED 415,280,854 (2016: AED 336,262,673), an increase of 23.5%.
- Net underwriting income increased to AED 68,776,126 (2016: AED 29,281,726), an increase of 134.8%.
- Net operational profit (net underwriting income less expenses) increased to AED 32,273,240 (2016: loss of AED 5,152,838), an increase of 726%.
- Net investment and other income reduced to AED 19,276,226 (2016: AED 26,957,977), a decrease of 28.5%.
- Profit increased to AED 51,549,466 (2016: AED 21,805,139), an increase of 136%.
- Shareholders' equity increased to AED 341,882,052 (2016: AED 310,960,478), an increase of 9.9%.
- Total assets increased to AED 1,065,087,813 (2016: AED 1,013,906,843), an increase of 5%.

Gross and net premium

The gross premium written for the year ended 31 December 2017 amounted to AED 415,280,854 (2016: AED 336,262,673), depicting an increase of 23.5%.

The net retained premium for the year ended 31 December 2017 amounted to AED 124,040,929 (2016: AED 134,012,666), depicting a decrease of 7.4%.

**THE BOARD OF DIRECTORS' 38th ANNUAL REPORT
FOR THE YEAR ENDED 31 December 2017 (continued)**

Gross and net claims

The gross claims paid by the Company during the year amounted to AED 271,223,051 (2016: AED 269,912,696), depicting an increase of 0.5%.

Net claims paid during the year amounted to AED 126,247,993 (2016: AED 188,227,791), depicting a decrease of 32.9%.

Technical provisions

The net technical provisions (excluding deferred acquisition costs and unearned commission income) at 31 December 2017 amounted to AED 155,890,506 (2016: AED 196,320,486).

The net technical provision for the current year is hence 126% of the retained premium (2016: 146%). The reasons for reduction in net technical provision are the change of reinsurance structure of the major portfolios, i.e., fire, motor and medical and intentional drastic reduction of medical premium.

Figures relating to different classes of business

Gross written premiums	2017 AED	2016 AED
Marine	30,167,785	27,072,587
Other classes of business	385,113,069	309,190,086
Total	415,280,854	336,262,673
Gross claims paid		
Marine	15,744,146	17,237,960
Other classes of business	255,478,905	252,674,736
	271,223,051	269,912,696
Net technical provisions		
Marine	4,709,757	4,506,254
Other classes of business	151,180,749	191,814,232
Total	155,890,506	196,320,486

THE BOARD OF DIRECTORS' 38th ANNUAL REPORT FOR THE YEAR ENDED 31 December 2017 (continued)

Investments:

The total investments including investment properties of the Company stand at AED 359,724,377 as at 31 December 2017 (2016: AED 366,665,794), showing a decrease of 1.89%.

Net investment and other income during the year amounted to AED 19,276,226 (2016: AED 26,957,977), showing a decrease of 28.5%.

It is worth mentioning that most of the investments of company are within the U.A.E. The Company has no investments in United States of America or in Europe and all available cash are deposited in the banks within the U.A.E.

General, administrative and other operating expenses

The general, administrative and other expenses for the year amounted to AED 36,502,886 (2016: AED 34,434,564), depicting an increase of 6%.

Profit for the year

The profit of the Company from insurance and investment activities for the year under review is AED 51,549,466 (2016: AED 21,805,139), showing an increase of 136%.

The Company's branches and offices

The Company has branches and point of sales in most residential areas and service centers in Abu Dhabi, Al Ain, Baniyas, Al Rahba, Mussafah, and in the Traffic Department of Abu Dhabi in addition to branches in Dubai and Sharjah.

Distribution of profit

The net profit for the year of AED 51,549,466 achieved by the Company with the retained profit from the previous years amounted to a distributable income of AED 61,631,469 .We recommend appropriation of the above profit as follows:

Details of appropriations	AED
Distribution of cash dividend of AED 0.35 per share	35,000,000
To be carried forwarded to the subsequent year	26,631,469

Plan for the year 2018

The Company will continue its efforts to improve the business results irrespective of the ongoing market conditions.

**THE BOARD OF DIRECTORS' 38th ANNUAL REPORT
FOR THE YEAR ENDED 31 December 2017 (continued)**

Recommendations of the Board of Directors to the Shareholders

The Board of Directors is pleased to present the following recommendations to the Ordinary General Assembly of the Shareholders of the Company for their approval.

1. To approve the report of the Board of Directors' annual report for 2017;
2. To approve the Auditor's Report for 2017;
3. To approve the financial statements of the Company for the year ended 31 December 2017;
4. To approve distribution of AED 0.35 per share (total of AED 35,000,000) as cash dividend as proposed by Board of Directors;
5. To discharge the Chairman and Members of the Board of Directors from liabilities related to the performance of their duties during the year under review;
6. To discharge the external auditors from liabilities related to the performance of their duties for the year ended 31 December 2017;
7. To approve remuneration to the Board of Directors; and
8. To appoint external auditors for the year ending 31 December 2018 and determine their fees.

Conclusion

The Board of Directors would like to praise Company's clients, reinsurance companies and brokers for their strong support and confidence in the Company and also the persistent efforts of the management and staff of the Company who did their best to serve the Company.

On behalf of the Board of Directors


Chairman
13 February 2018



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Al Dhafra Insurance Company P.S.C.
Abu Dhabi
United Arab Emirates

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Al Dhafra Insurance Company P.S.C. (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") together with the other ethical requirements that are relevant to our audit of the Company's 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 financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matters
Valuation of technical provisions At 31 December 2017, the Company had the following technical provisions reserve as required by the UAE Insurance Authority as per the Financial Regulations for Insurance Companies: <ul style="list-style-type: none"> • Unearned premium reserve – AED 180 million (gross), AED 56 million (net) • Outstanding claims reserve – AED 199 million (gross), AED 66 million (net) • Claims incurred but not reported reserve (IBNR) – AED 84 million (gross), AED 28 million (net) • Unallocated loss adjustment expense reserve – AED 5 million (gross), AED 5 million (net) • Unexpired risk reserve – AED 54 thousand (gross), AED 54 thousand (net) Refer to note 3.3 (accounting policy), note 4.2 (key sources of estimation uncertainty) and note 11 (financial disclosures)	
<p>The technical provisions are a material balance within the financial statements. Valuation of these technical provisions is highly judgmental, and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those provisions that are recognised in respect of claims that have occurred, but have not yet been reported to the Company (IBNR). Certain lines of business also contain greater inherent uncertainty, for example, those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts.</p> <p>The key assumptions that drive the reserving calculations include loss ratios, estimates of the frequency and severity of claims and, where appropriate, discount rates for longer tail classes of business by territory and line of business.</p> <p>The valuation of technical provisions depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating technical provisions, or for forming judgements over key assumptions, is not complete and accurate, then material impacts on the valuation of technical provisions may arise.</p>	<p>Our audit procedures were as follows:</p> <ul style="list-style-type: none"> • Understanding, assessing and testing the design and implementation of the relevant controls in the Company's reserving process, including the review and approval of reserves, and controls over the extraction of data from the underwriting systems. • Verifying samples of claims reserves through comparing the estimated amount of the specific case reserve to appropriate documentation, such as reports from loss adjusters. • Evaluation and testing of relevant controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data). • Re-performing reconciliations between claims data recorded in the Company's systems and data used in the actuarial reserving calculations. • Considering the results of the third-party actuarial valuation of the technical provisions as at the reporting date, to identify and understand any significant differences in the reserves as compared to management estimates and prior period amounts. • Evaluating the competence, capabilities and objectivity of the external actuaries used by the Company based on our knowledge of the actuaries' qualifications and the professional standards that their work is subject to, and by challenging their analysis.

INDEPENDENT AUDITOR'S REPORT (continued)**Key Audit Matters (continued)**

Key audit matters	How our audit addressed the key audit matters
Valuation of technical provisions (continued)	
<p>The calculation of the technical provisions involves complex and subjective judgments about future events, both internal and external to the business. Any small change in the assumptions used can lead to material impacts on the valuation of the technical provisions.</p> <p>In addition, the valuation of re-insurers' share of outstanding claims is dependent on, but not directly correlated to, the valuation of the underlying claims outstanding. There is judgement involved in ascertaining the level of reinsurance share of IBNR held, which depends on the specific terms of the reinsurance contracts in place.</p>	<p>In addition, with the assistance of our internal actuarial specialists, we conducted a review of the actuarial report prepared by the actuaries and calculations underlying these provisions, paying particular attention to the following areas:</p> <ul style="list-style-type: none">• Appropriateness of the calculation methods and approach;• Review of key assumptions;• Consistency of methodologies and assumptions between valuation periods; and• General application of financial and mathematical rules. <p>Finally, we also assessed the Company's disclosures in relation to the technical provisions.</p>

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p>Valuation of investment properties</p> <p>Investment properties represent the fair value of land and building of AED 81.6 million (2016: AED 82 million) owned by the Company in Abu Dhabi and Al Ain.</p> <p>Refer to note 3.7 (accounting policy), note 4.1 (key sources of estimation uncertainty) and note 6 (financial disclosures)</p> <p>Under the fair value model of accounting, investment property is remeasured at fair value at the reporting date, which is the amount for which the properties could be exchanged between knowledgeable, willing parties in an arm's length transactions. Gains or losses arising from changes in the fair value of investment property must be included in profit or loss for the period in which it arises.</p> <p>The valuation of investment properties requires significant judgement and estimates by management and the independent external valuers.</p> <p>We consider this as key audit matter because of the existence of significant estimation and judgement uncertainty, coupled with the fact that only a small change in underlying parameters and assumptions could result in a material misstatement of the statements of profit or loss and financial position.</p>	<p>As part of our audit procedures, we have:</p> <ul style="list-style-type: none"> • Perused the valuation reports for all properties and confirmed that the valuation approach for each property was in accordance with IFRS and RICS and suitable for use in determining the carrying value to be disclosed in the financial statements; • Assessed the external valuers' competence, capabilities and objectivity by assessing their terms of engagement with the Company to determine whether there were any matters that might have affected their objectivity or may have imposed any scope limitations in their work; • Gained an understanding of the external valuers' valuation methodologies (e.g., income capitalisation approach, residual value method) and their assumptions applied such as rental yields, discount rates etc. by comparing yields on a sample of similar properties and by evaluating the extent to which the movements in valuations were consistent with our industry knowledge and comparable market transactions; • Compared a sample of key inputs used in the valuation model, such as rental income, occupancy levels and current tenancy contracts to ensure the accuracy of the information supplied by management; and • Assessed the adequacy of the Company's disclosures in accordance with the requirements of IFRS 13 for fair value measurements, valuation techniques, changes in estimates during the year, significant unobservable inputs and the sensitivities to the key assumptions.



INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

The Board of Directors' and Management are responsible for the other information. The other information comprises the Board of Directors' Annual Report, which we obtained prior to the date of this auditor's report, and the Corporate Governance Report 2017 and the Annual Report 2017, which will be made available to us after the auditor's report date. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance or conclusion thereon.

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

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

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

When we will read the Corporate Governance Report 2017 and the Annual Report 2017, if we conclude that there is a material misstatement therein, we will be required to communicate the matter to those charged with governance and consider whether a reportable irregularity exists in terms of the auditing standards, which must be reported.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Board of Directors' Annual Report is consistent with the books of account of the Company;
- v) note 9 to the financial statements discloses the shares purchased or invested by the Company during the financial year ended 31 December 2017;
- vi) note 14 to the financial statements discloses material related party transactions and balances, the terms under which they were conducted and principles of managing conflicts of interests; and
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2017.

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

Deloitte & Touche (M.E.)



Signed by:
Mohammad Khamees Al Tah
Registration No. 717
13 February 2018
Abu Dhabi
United Arab Emirates

**Statement of financial position
as at 31 December 2017**

	Notes	2017 AED	2016 AED
ASSETS			
Property and equipment	5	820,042	1,052,616
Investment properties	6	81,600,000	82,000,000
Intangible assets	7	1,369,193	2,075,313
Statutory deposit	8	10,000,000	10,000,000
Deferred acquisition costs		21,608,489	8,825,995
Investments at amortised cost	9	8,002,739	8,002,739
Investments carried at fair value through other comprehensive income (FVTOCI)	9	177,652,331	183,280,223
Investments carried at fair value through profit or loss (FVTPL)	9	92,469,307	93,382,832
Insurance receivables	10	99,511,923	105,546,223
<i>Reinsurers' share of technical provisions</i>			
Unearned premium reserve	11	123,738,416	85,709,080
Claims under settlement reserve	11	132,706,318	153,355,517
Claims incurred but not reported reserve	11	55,237,187	44,956,586
Unexpired risk reserve	11	-	2,947,416
Other receivables and prepayments	12	6,803,270	6,938,253
Term deposits	13	239,575,886	195,693,832
Cash and cash equivalents	13	13,992,712	30,140,218
Total assets		1,065,087,813	1,013,906,843
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	100,000,000	100,000,000
Legal reserve	16	50,000,000	50,000,000
General reserve	16	145,000,000	145,000,000
Investment revaluation reserve	16	(14,749,417)	(9,121,525)
Retained earnings		61,631,469	25,082,003
Total equity		341,882,052	310,960,478
Liabilities			
Provision for employees' end of service benefit	18	7,101,840	7,998,361
Other payables	19	22,297,532	26,318,602
<i>Insurance liabilities</i>			
Insurance payables	20	197,364,274	166,043,585
Unearned commission income		28,869,688	19,296,732
<i>Gross technical provisions</i>			
Unearned premium reserve	11	179,867,116	146,593,104
Claims under settlement reserve	11	198,669,217	258,738,492
Claims incurred but not reported reserve	11	83,690,344	69,457,819
Unallocated loss adjustment expense	11	5,291,886	5,552,254
Unexpired risk reserve	11	53,864	2,947,416
Total liabilities		723,205,761	702,946,365
Total equity and liabilities		1,065,087,813	1,013,906,843



Assistant General Manager - Finance

General Manager

Chairman

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

**Statement of profit or loss
for the year ended 31 December 2017**

	Notes	2017 AED	2016 AED
Gross written premium	21	415,280,854	336,262,673
Reinsurance premium ceded	21	(287,271,495)	(199,248,808)
Reinsurance share of ceded business premium	21	(3,968,430)	(3,001,199)
Net premium	21	124,040,929	134,012,666
Net transfer to unearned premium reserve		4,755,324	25,631,875
Net premium earned		128,796,253	159,644,541
Gross commission earned		74,727,981	52,702,828
Less: commission incurred		(47,384,308)	(23,683,756)
Change in unearned commission income		(9,572,957)	(5,324,923)
Change in deferred acquisition costs		12,782,494	5,238,255
Gross underwriting income		159,349,463	188,576,945
Gross claims incurred	22	(271,223,051)	(269,912,696)
Reinsurance share of insurance claims	22	141,596,411	74,807,187
Reinsurance share of ceded business claims	22	3,378,647	6,877,718
Net claims paid	22	(126,247,993)	(188,227,791)
Change in provision for outstanding claims		60,069,275	(38,670,982)
Change in reinsurance share for outstanding claims		(20,649,199)	64,462,878
Change in claims incurred but not reported reserve		(3,951,924)	(3,839,611)
Change in unallocated loss adjustment expense		260,368	(1,352,713)
Change in unexpired risk reserve		(53,864)	8,333,000
Net claims incurred		(90,573,337)	(159,295,219)
Net underwriting income		68,776,126	29,281,726
Net investment income	23	14,756,249	21,328,557
Income from investment properties, net	6	2,827,189	3,241,657
Other income, net		1,692,788	2,387,763
Total		88,052,352	56,239,703
General and administrative expenses		(28,746,412)	(26,221,813)
Other operating expenses		(7,756,474)	(8,212,751)
Profit for the year	24	51,549,466	21,805,139
Basic and diluted earnings per share	25	0.52	0.22

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

**Statement of profit or loss and other comprehensive income
for the year ended 31 December 2017**

	Note	2017 AED	2016 AED
Profit for the year		51,549,466	21,805,139
Other comprehensive income:			
<i>Items that may not to be reclassified subsequently to profit or loss</i>			
Net fair value changes on investments carried at FVTOCI	9	(5,627,892)	19,458,666
Other comprehensive (loss)/income		(5,627,892)	19,458,666
Total comprehensive income for the year		45,921,574	41,263,805

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

AL DHAFRA INSURANCE COMPANY P.S.C.

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Statement of changes in equity for the year ended 31 December 2017

	Share capital AED	Legal reserve AED	General reserve AED	Investment revaluation reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2016	100,000,000	50,000,000	145,000,000	(28,580,191)	3,276,864	269,696,673
Profit for the year	-	-	-	-	21,805,139	21,805,139
Other comprehensive income for the year	-	-	-	19,458,666	-	19,458,666
Total comprehensive income for the year	-	-	-	19,458,666	21,805,139	41,263,805
Balance at 1 January 2017	100,000,000	50,000,000	145,000,000	(9,121,525)	25,082,003	310,960,478
Profit for the year	-	-	-	-	51,549,466	51,549,466
Other comprehensive loss for the year	-	-	-	(5,627,892)	-	(5,627,892)
Total comprehensive (loss)/income for the year	-	-	-	(5,627,892)	51,549,466	45,921,574
Dividends paid	-	-	-	-	(15,000,000)	(15,000,000)
Balance at 31 December 2017	100,000,000	50,000,000	145,000,000	(14,749,417)	61,631,469	341,882,052

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

Statement of cash flows
for the year ended 31 December 2017

	Notes	2017 AED	2016 AED
Cash flows from operating activities			
Profit for the year		51,549,466	21,805,139
Adjustments for:			
Depreciation of property and equipment	5	536,755	832,206
Amortisation of intangible assets	7	1,089,864	1,349,591
Net investment income		(15,156,249)	(21,328,557)
Gain on disposal of property and equipment		-	(16,376)
Provision for employees' end of service benefit	18	658,423	548,576
Income from investment properties, net	6	(2,827,189)	(3,241,657)
Reversal for impairment on trade receivables		-	676,660
Decrease in fair value of investment properties	6	400,000	-
Operating cash flows before movements in working capital		36,251,070	625,582
Increase in reinsurance share of technical provisions		(24,713,322)	(124,907,240)
Decrease in insurance receivables		6,034,300	11,295,688
Decrease in other receivables and prepayments		6,681,789	1,000,174
(Decrease)/increase in gross technical provisions		(15,716,658)	70,342,793
Increase in insurance payables		31,320,689	18,748,502
(Decrease)/increase in other payables		(4,021,070)	12,189,023
Increase in deferred acquisition cost		(12,782,494)	(5,238,255)
Increase in unearned commission income		9,572,956	5,324,923
Cash from operations		32,627,260	(10,618,810)
Payment of employees' end of service benefit	18	(1,554,944)	(97,455)
Net cash generated from/(used in) operating activities		31,072,316	(10,716,265)
Cash flows from investing activities			
Movement in bank deposits with original maturities of greater than three months		(43,882,054)	(33,769,876)
Interest received		116,472	5,076,230
Dividends received		10,007,880	10,269,536
Net rental proceeds on investment properties	6	2,827,189	3,241,657
Proceeds from disposal of investments at FVTPL	9	38,905,331	77,428,501
Proceeds from disposal of property and equipment		-	36,800
Payment of investment expenses		(618,452)	(644,848)
Payments for purchase of property and equipment		(304,181)	(221,423)
Payments for purchase of intangible assets		(383,744)	(495,613)
Payments for purchase of investments at FVTPL	9	(38,888,263)	(64,952,722)
Payments for purchase of investments at FVTOCI	9	-	(418,947)
Net cash used in investing activities		(32,219,822)	(4,450,705)
Cash flows from financing activities			
Dividends paid		(15,000,000)	-
Net decrease in cash and cash equivalents		(16,147,506)	(15,166,970)
Cash and cash equivalents at the beginning of the year		30,140,218	45,307,188
Cash and cash equivalents at the end of the year	13	13,992,712	30,140,218

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

**Notes to the financial statements
for the year ended 31 December 2017****1 General information**

Al Dhafra Insurance Company P.S.C. (the “Company”) is a public shareholding company incorporated in Abu Dhabi by Emiri Decree No. 8 of 1979.

The Company is domiciled in the United Arab Emirates and its registered office address is PO Box 319, Abu Dhabi.

The Company’s ordinary shares are listed on the Abu Dhabi Securities Exchange.

The Company is engaged in insurance and reinsurance of all classes of business with the exception of endowments and annuities.

2 Application of new and revised International Financial Reporting Standards (IFRS)**2.1 New and revised IFRSs applied with no material effect on the financial statements**

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these financial statements.

Amendments to IAS 12 Income Taxes Recognition of Deferred Tax Assets for Unrealised Losses

The Company has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Company’s financial statements.

Amendments to IAS 7 Disclosure Initiative

The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The application of these amendments has had no impact on the Company’s financial statements.

Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12

The Company has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Company (see note 2.2).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no impact on the Company’s financial statements.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

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

2.2 New and revised IFRS in issue but not yet effective

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.	1 January 2018
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> The interpretation addresses foreign currency transactions or parts of transactions where: <ul style="list-style-type: none"> • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary. 	1 January 2018
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances. 	1 January 2019
Amendments to IFRS 2 <i>Share Based Payment</i> regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 <i>Insurance Contracts</i> : Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 <i>Investment Property</i> : Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

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

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

New and revised IFRSs

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

IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014) (a)

1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

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

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

New and revised IFRSs

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

Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

1 January 2019

IFRS 15 *Revenue from Contracts with Customers*

1 January 2018

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

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

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

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

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

1 January 2018

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

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

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

New and revised IFRSs

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

IFRS 16 Leases

1 January 2019

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

1 January 2019

Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9.

When IFRS 9 is first applied

IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.

When IFRS 9 is first applied

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

Management anticipates that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning 1 January 2018. The application of IFRS 9 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of Company's financial assets and financial liabilities.

The detailed assessment is as follows:

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

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

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

Impact assessment of IFRS 9 *Financial Instruments*

Based on an analysis of the Company's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the Company has assessed the impact of IFRS 9 to the Company's financial statements as follows:

Classification and measurement of financial assets and liabilities:

There will be no change to the classification and measurement as the Company had already adopted IFRS 9 *Financial Instruments* (2009) in advance of its effective date in 2009.

Impairment of financial assets:

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortised cost, and off balance sheet lending commitments such as financial guarantees (hereafter collectively referred to in this note as financial assets)

Financial assets measured at amortised cost, amounts due from policyholders, insurance companies, brokers and reinsurance companies will be subject to the impairment provisions of IFRS 9.

The Company expects to apply the simplified approach to recognise lifetime expected credit losses for its insurance receivables and other financial assets which do not have a significant financing component as required or permitted by IFRS 9.

In general, the management anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items.

Impact assessment of IFRS 16 *Leases*

The Management has assessed that there will be no impact on the application of IFRS 16 on the financial statements of the Company as all the leases are for one year only.

2.3 Standards adopted before effective date

During 2009, the Company adopted IFRS 9 *Financial Instruments* (2009) in advance of its effective date. Refer to Notes 3.12 and 3.13 for the accounting policies regarding financial instruments.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies

3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and applicable requirements of United Arab Emirates (UAE) Federal Law No. 2 of 2015 and Federal Law No. 6 of 2007, concerning the formation of Insurance Authority of UAE.

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

3.2 Basis of preparation

These financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values as at the end of each reporting date, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (no more than 12 months) and more than 12 months after the reporting date (more than 12 months) is presented in note 30.

The principal accounting policies are set out below.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts

Product classification

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

Investment contracts are those contracts that transfer significant financial risk, but not significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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

As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Recognition and measurement

Insurance contracts are classified into two main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

These contracts are casualty and property insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Claims and loss adjustment expenses are charged to the profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Reinsurance ceded to reinsurance counterparties

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss.

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

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance assumed

The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to insurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Insurance contract liabilities

Non-life insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date 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 liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed in accordance with IFRS to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant nonlife insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency (unexpired risk reserve).

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

Deferred acquisition costs (DAC)

Those direct and indirect costs incurred during the financial period arising from acquiring or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums from insurance contract. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, this DAC asset are amortised over the period in the same way that the related revenues are earned. The deferred acquisition costs for reinsurers are amortised in the same manner as the underlying asset amortisation and is recorded in the statement of profit or loss.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. DACs are also considered in the liability adequacy test for each reporting period. DACs are derecognised when the related contracts are either settled or expired.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Salvage and subrogation reimbursements

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the profit or loss initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due and measured on initial recognition at the fair value of the consideration receivable/payable. Subsequent to initial recognition, insurance receivables and payables are measured at amortised cost, using the Effective Interest Rate ("EIR") method. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss.

3.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business.

Gross premiums

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.4 Revenue recognition (continued)

Gross premiums (continued)

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. The UPR is calculated as follows:

- For marine cargo line of business, it is assumed that each policy is earned fully in the quarter following the quarter in which it was written. Hence the total UPR at the end of a particular quarter will be equal to the written premium in that quarter;
- For engineering line of business, it is assumed that the pattern of risk is non-uniform, and accordingly, premiums are allocated and earned on a daily increasing basis over the term of policy period. The UPR is calculated as the sum of earned premiums across all months after the valuation date; and
- For the remaining lines of businesses, the premiums are assumed to be earned evenly over time and the unearned premium reserve is calculated on a daily pro rata basis.

The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums ceded

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

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

Reinsurance premiums and claims on the face of the statement of profit or loss have been presented as negative items within premiums and net claims, respectively, because this is consistent with how the business is managed.

Commission income and expenses

Insurance contract policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

Commission expenses are recognised when the policies are issued based on the terms and percentages agreed with other insurance companies and/or brokers.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.4 Revenue recognition (continued)

Rental, dividend and interest income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease and is stated net of related property expenses. Dividend income is recognised when the Company's right to receive the payment has been established. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable. For investments held until maturity which have variable rates of return, the minimum guaranteed return is recognised in the profit or loss using the effective interest rate method. Returns in excess of the minimum guaranteed return, if any, are recognised on maturity.

3.5 Foreign currencies

For the purpose of these financial statements UAE Dirhams (AED) is the functional and the presentation currency of the Company.

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

Exchange differences are recognised in the profit or loss in the period in which they arise.

3.6 Property and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the profit or loss in the period in which they are incurred.

Depreciation is calculated so as to write off the cost of property and equipment on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Furniture and fittings	25
Motor vehicles	33.33
Computer equipment and accessories	20

The estimated useful lives, residual values and depreciation method reviewed at the end of each annual reporting period with the effect of any changes accounted for on a prospective basis.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.6 Property and equipment (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

3.7 Investment properties

Investment property is the property held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Company's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

If an investment property becomes owner occupied, it is reclassified under property and equipment and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. When an item of property and equipment is transferred to investment property following a change in use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to the transfer and its fair value is recognised directly in equity if it is a gain and charged to profit or loss if it is a loss.

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

3.8 Intangible assets

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Cost includes purchase cost, together with any incidental expenses of acquisition. The amortisation charge is calculated so as to write off the cost of the intangible asset on a straight-line basis over the expected useful economic life of 6 years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period with the effect of any changes in estimation accounted for on a prospective basis.

3.9 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.9 Impairment of non-financial assets (continued)

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3.10 Provisions

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

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

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

3.11 Employee benefits

Accrual is made for the full amount of end of service benefits due to non-UAE national employees in accordance with UAE Labour Law, for their period of service up to the end of the reporting period.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (2), 2000 for Pension and Social Security. Such contributions are charged to the profit or loss during the employees' period of service.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.12 Financial assets

The Company initially recognises financial assets held for trading, financial assets designated at fair value through profit or loss, financial assets designated at fair value through other comprehensive income on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial assets carried at amortised cost are recognised on the day they are originated.

Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

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

3.12.1 Classification of financial assets

The Company classifies its financial assets under the following categories: 'financial assets at amortised cost', 'financial assets at fair value through profit or loss (FVTPL)' and 'financial assets at fair value through other comprehensive income (FVTOCI)'.

3.12.2 Financial assets at amortised cost and the effective interest method

Cash and cash equivalents

Cash and cash equivalents are comprised of bank and cash balances and highly liquid assets with known amounts and original maturities of less than three months, which are subject to insignificant risk of change in fair value, and are used by the Company in management of its short term commitments.

Insurance receivables

Insurance receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial assets at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Investments at amortised cost

Debt instruments are measured at amortised cost if both of the following conditions are met:

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

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at FVTPL – see note 3.12.3 below). They are subsequently measured at amortised cost using the effective interest method less any impairment (see note 3.12.5 below).

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.2 Financial assets at amortised cost and the effective interest method (continued)

Investments at amortised cost (continued)

Subsequent to initial recognition, the Company is required to reclassify debt instruments from amortised cost to FVTPL if the objective of the business model changes so that the amortised cost criteria are no longer met.

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

The Company may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

3.12.3 Financial assets at FVTPL

Debt instrument financial assets that do not meet the amortised cost criteria described in note 3.12.2, or that meet the criteria but the entity has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL. The Company has not designated a debt instrument financial asset as at FVTPL.

Subsequent to initial recognition, the Company is required to reclassify debt instruments from FVTPL to amortised cost if the objective of the business model changes so that the amortised cost criteria starts to be met and the instrument's contractual cash flows meet the amortised cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition (see note 3.12.2) is not permitted.

Investments in equity instruments are mandatorily classified as at FVTPL, unless the Company designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition as described in note 3.12.4 below.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in profit or loss.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.4 Financial assets at FVTOCI

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

A financial asset is held for trading if:

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

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

3.12.5 Impairment of financial assets at amortised cost

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.6 Derecognition of financial assets

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

3.13 Financial liabilities and equity instruments issued by the Company

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

3.13.1 Equity instruments

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

3.13.2 Financial liabilities

Financial liabilities comprise insurance payables and other liabilities, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term liabilities when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.13.3 Derecognition of financial liabilities

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

3.14 Dividend distribution

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

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

4 Critical accounting judgments and key sources of estimation uncertainty

While applying the accounting policies as stated in Note 3, management of the Company has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The significant judgments and estimates made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

4.1 Significant accounting judgements

Classification of investments

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

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, property, plant and equipment and/or property held for resale. The Company develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property, plant and equipment and property held for resale. In making its judgment, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*, and in particular, the intended usage of property as determined by management.

Operating lease commitments – Company as lessor

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

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

4.2 Key sources of estimation uncertainty

Impairment of amounts due from insurance and reinsurance companies

Management regularly reviews the collectability of amounts due from insurance and reinsurance companies. The majority of these receivables are due from reputable local and international insurance and reinsurance companies. Such balances are regularly reconciled by both parties and are settled by on account payments on a regular basis. Based on the above evaluation, management is satisfied that no impairment is necessary on receivables from insurance and re-insurance companies.

Impairment of amounts due from policyholders

An estimate of the collectible amounts from policyholders is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired entails management's evaluation of the specific credit and liquidity position of the policy holders and their historical recovery rates including detailed investigations carried out during the year and feedback received from the legal department. Impairment allowance balance of amounts due from policy holders at 31 December 2017 amounted to AED 7,634,139 (2016: AED 7,634,139).

Impairment of investments at amortised cost

Management regularly reviews indicators of impairment for investments at amortised cost and considers the criteria as set out in IFRS 9 *Financial Instruments*. Management evaluated the basis, particularly instances of default or delinquency in interest or principal payments. During the year the management assessed that there is no impairment of investment at amortised cost (2016: reversal of AED 1,422,461).

Estimate of fair value of investment properties

The Company measures its investment properties at fair value for financial reporting purposes. In estimating the fair value of investment properties, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Note 6 contains information about the valuation technique and inputs used in determining the fair value of investment properties.

The ultimate liability arising from claims made under insurance contracts

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

IBNR is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder, Expected Claims/Loss Ratio (ELR), Cape Cod (CC) and Bornheutter-Ferguson methods.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

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

4.2 Key sources of estimation uncertainty (continued)

The ultimate liability arising from claims made under insurance contracts (continued)

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claim costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years and quarters as well as by significant business lines. For motor and medical line of businesses, large claims may exhibit a development pattern different to that of attritional claims, however these are not removed from the claims models since their impact is expected to be negligible. Based on the actuarial judgement, the credibility attached to a link ratio is removed if impacted materially by large claims based on a comparison of this ratio across all loss origins. For non-motor and non-medical line of businesses, the effect of outliers on net IBNR is minimised based on lower retentions (and removed completely on non-quota share arrangements). In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

The carrying value at the reporting date of gross technical provision is AED 467,572,427 (2016: AED 483,289,085).

Liability adequacy test

The Company maintains a provision in respect of premium deficiency for the line of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance, from claims and other supplementary expenses expected to be incurred after the reporting date in respect of the unexpired policies in that line of business at the reporting date. The Company makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of the liability. The movement in the premium deficiency reserve (unexpired risk reserve) is recorded as an expense / income in profit or loss for the year.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

5 Property and equipment

	Furniture and fittings AED	Motor vehicles AED	Computer equipment and accessories AED	Total AED
Cost				
1 January 2016	3,022,366	1,260,400	2,357,963	6,640,729
Additions	67,981	-	153,442	221,423
Disposals	(336,999)	(136,000)	(140,522)	(613,521)
1 January 2017	2,753,348	1,124,400	2,370,883	6,248,631
Additions	99,161	-	205,020	304,181
Disposals	(74,710)	-	(105,980)	(180,690)
31 December 2017	2,777,799	1,124,400	2,469,923	6,372,122
Accumulated depreciation				
1 January 2016	2,595,816	943,875	1,417,215	4,956,906
Charge for the year	237,078	238,943	356,185	832,206
Eliminated upon disposal	(336,384)	(136,000)	(120,713)	(593,097)
1 January 2017	2,496,510	1,046,818	1,652,687	5,196,015
Charge for the year	208,773	61,648	266,334	536,755
Eliminated upon disposal	(74,710)	-	(105,980)	(180,690)
31 December 2017	2,630,573	1,108,466	1,813,041	5,552,080
Carrying amount				
31 December 2017	147,226	15,934	656,882	820,042
31 December 2016	256,838	77,582	718,196	1,052,616

6 Investment properties

	Abu Dhabi land and building AED	Al Ain land and building AED	Total AED
Fair value as at 31 December 2016	69,500,000	12,500,000	82,000,000
Change in fair value	(1,750,000)	1,350,000	(400,000)
Fair value as at 31 December 2017	67,750,000	13,850,000	81,600,000

The plots of land in Abu Dhabi and Al Ain on which investment properties are constructed were awarded to the Company free of cost by the Executive Council of the Government of Abu Dhabi on 21 June 1981 and 27 August 1983, respectively.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

6 Investment properties (continued)

The Company assessed the fair value of the investment properties as at 31 December 2017 which resulted a decrease in the value of AED 400,000 (2016: AED nil).

Fair values of the Company's investment properties in Abu Dhabi and Al Ain as at 31 December 2017 have been arrived on the basis of valuation carried out by M/s. Arab Loss Adjusters Co. L.L.C, an independent external valuer not related to the Company.

The valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations.

The fair values were determined based on the capitalisation of net income method, where the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuer for similar properties in the locality and adjusted based on the valuer's knowledge of the factors specific to the respective properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Company occupies three floors of the building for its Head Office in Abu Dhabi with the remaining fourteen floors available for letting to third parties. For Al Ain Building, the Company is utilizing the first and mezzanine floors for housing its Al Ain Branch office with the remaining space available for letting to third parties.

The investment properties are classified as Level 3. There were no transfers between Level 1 and 2 or to level 3 during current and previous year.

For investment properties categorised into Level 3 of the fair value hierarchy, the following information is relevant:

Property	Valuation technique	Significant unobservable inputs
Abu Dhabi and Al Ain property	Income approach	<p>Estimated rental value per annum, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property, as following:</p> <ul style="list-style-type: none"> • Abu Dhabi property AED 4,500,000; and • Al Ain property AED 1,080,000. <p>Discount rate, taking into consideration the risk premium between prime and sub-prime properties and the capacity to earn rentals, range from 6% to 10%.</p>

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

6 Investment properties (continued)

The Company enters into operating leases for all of its investment properties. Amounts recognised in profit or loss in respect of investments properties are as follows:

	2017	2016
	AED	AED
Rental income from investment properties	3,670,512	3,930,841
Operating expenses for properties generating rental income	(843,323)	(689,184)
	<hr/>	<hr/>
Profit arising from investment properties	2,827,189	3,241,657
	<hr/>	<hr/>

The following table demonstrates the sensitivity of the fair value of investment properties to the reasonably possible changes in the significant unobservable inputs, namely discount rates and market rents, with all other variables held constant:

	2017
	AED
Impact on profit and loss	
Increase in discount rate by 1%	(4,829,356)
Decrease in discount rate by 1%	2,139,879
 Increase in market rent by 5%	 2,585,971
Decrease in market rent by 5%	(5,350,298)

There are no restrictions on the realisability of investment properties. The Company has no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance or enhancements.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

7 Intangible assets

	2017 AED	2016 AED
Computer software		
Cost		
1 January	9,384,188	9,333,685
Additions	383,744	495,613
Disposal	(711,998)	(445,110)
31 December	9,055,934	9,384,188
Accumulated amortisation		
1 January	7,308,875	6,404,394
Charge for the year	1,089,864	1,349,591
Eliminated on disposal	(711,998)	(445,110)
31 December	7,686,741	7,308,875
Carrying amount		
31 December	1,369,193	2,075,313

8 Statutory deposit

In accordance with the requirements of Federal Law No. 6 of 2007 concerning the formation of Insurance Authority of UAE, the Company maintains a bank deposit of AED 10,000,000 (2016: AED 10,000,000) which cannot be utilised without the consent of the UAE Insurance Authority.

9 Investments

The Company's investments at the end of reporting date are detailed below.

	2017 AED	2016 AED
Investments at FVTOCI		
Quoted UAE equity securities	177,652,331	183,280,223
Investments at FVTPL		
Quoted UAE equity securities	26,784,369	27,558,408
Quoted debt securities	65,684,938	65,824,424
	92,469,307	93,382,832
Investments at amortised cost	8,002,739	8,002,739

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

9 Investments (continued)

Movement in investments:

Investments at fair value	at FVTOCI AED	at FVTPL AED	Total AED
Fair value at 1 January 2016	163,402,610	101,478,339	264,880,949
Additions during the year	418,947	64,952,722	65,371,669
Proceeds from disposals during the year	-	(77,428,501)	(77,428,501)
<i>Increase in fair value taken to:</i>			
Profit or loss (note 23)	-	4,380,272	4,380,272
Other comprehensive income	19,458,666	-	19,458,666
Fair value at 1 January 2017	183,280,223	93,382,832	276,663,055
Additions during the year	-	38,888,263	38,888,263
Proceeds from disposals during the year	-	(38,905,331)	(38,905,331)
<i>Decrease in fair value taken to:</i>			
Profit or loss (note 23)	-	(896,457)	(896,457)
Other comprehensive income	(5,627,892)	-	(5,627,892)
Fair value at 31 December 2017	177,652,331	92,469,307	270,121,638

	2017 AED	2016 AED
Investments at amortised cost		
At 1 January	8,002,739	6,580,278
Reversal of impairment (note 23)	-	1,422,461
At 31 December	8,002,739	8,002,739

10 Insurance receivables

	2017 AED	2016 AED
Due from policyholders	84,473,854	99,480,054
Due from related party policyholders (note 14)	479,984	479,288
Less: allowance for doubtful debts	(7,634,139)	(7,634,139)
Net due from policyholders	77,319,699	92,325,203
Due from insurance companies, brokers and agents	17,882,391	6,883,326
Due from reinsurance companies	4,309,833	6,337,694
	99,511,923	105,546,223

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

10 Insurance receivables (continued)

Movement in the allowance for doubtful debts (inside and outside United Arab Emirates):

	2017 AED	2016 AED
Balance at beginning of the year	7,634,139	6,957,479
Charge for the year	-	676,660
Balance at end of the year	<u>7,634,139</u>	<u>7,634,139</u>

The average credit period on due from policy holders is 90 to 180 days. No interest is charged and no collateral is taken on trade and other receivables. The Company has adopted a policy of only dealing with creditworthy counterparties. Adequate credit assessment is made before accepting an insurance contract from any counterparty.

As at 31 December 2017, AED 24,278,114 (2016: AED 29,299,136) was due from the Company's 5 largest policyholders (2016: 5). No single customer represented 10% or more of the Company's insurance receivables as at 31 December 2017 and 2016.

Included in the Company's total due from policy holders are balances amounting to AED 48,819,828 (2016: AED 48,092,151) which are past due at the reporting date for which no allowance has been provided for, as there was no significant change in credit quality of these policy holders and the amounts are still considered recoverable.

Ageing of insurance receivables

	2017 AED	2016 AED
Neither past due nor impaired	50,692,095	57,454,072
<i>Past due but not impaired</i>		
181 to 365 days	25,337,917	24,537,304
More than 365 days	23,481,911	23,554,847
	<u>48,819,828</u>	<u>48,092,151</u>
<i>Past due and impaired</i>		
More than 1 year but less than 2 years	-	56,803
More than 2 years but less than 3 years	56,803	739,038
More than 3 years	7,577,336	6,838,298
	<u>7,634,139</u>	<u>7,634,139</u>
Total insurance receivables	<u>107,146,062</u>	<u>113,180,362</u>

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

10 Insurance receivables (continued)

The Company has provided for certain receivables above 181 days based on estimated irrecoverable amounts, determined after review of specific credit quality of customers and past default experience. In determining the recoverability of insurance receivable, the Company considers any change in the credit quality of the customer from the date credit was initially granted up to the reporting date. Accordingly, management believes that there is no further provision required in excess of the allowance for doubtful debts.

Inside United Arab Emirates:

	2017 AED	2016 AED
Due from policy holders	84,159,191	99,480,054
Due from policy holders – related parties	479,984	479,288
	<hr/>	<hr/>
	84,639,175	99,959,342
Less: Allowance for doubtful debts	(7,634,139)	(7,634,139)
	<hr/>	<hr/>
	77,005,036	92,325,203
Due from insurance companies, brokers and agents	14,052,875	4,920,901
Due from reinsurance companies	1,135,501	803,503
	<hr/>	<hr/>
	92,193,412	98,049,607
	<hr/>	<hr/>
<u>Ageing of insurance receivables</u>	2017 AED	2016 AED
Not past due	48,064,286	55,558,775
	<hr/>	<hr/>
<i>Past due but not impaired:</i>		
181 to 365 days	21,545,704	27,025,289
More than 365 days	22,583,422	15,465,543
	<hr/>	<hr/>
	44,129,126	42,490,832
<i>Past due and impaired:</i>		
More than 1 year but less than 2 years	-	56,803
More than 2 years but less than 3 years	56,803	739,038
More than 3 years	7,577,336	6,838,298
	<hr/>	<hr/>
	7,634,139	7,634,139
	<hr/>	<hr/>
Total insurance receivables	99,827,551	105,683,746
	<hr/>	<hr/>

Notes to the financial statements
for the year ended 31 December 2017 (continued)

10 Insurance receivables (continued)

Outside United Arab Emirates:

	2017 AED	2016 AED
Due from policy holders	314,663	-
Due from insurance companies, brokers and agents	3,837,548	1,962,425
Due from reinsurance companies	3,043,238	5,534,191
	<u>7,195,449</u>	<u>7,496,616</u>
<u>Ageing of insurance receivables</u>	2017 AED	2016 AED
Not past due	2,239,128	2,151,406
<i>Past due but not impaired:</i>		
181 to 365 days	3,462,801	4,101,171
More than 365 days	1,493,520	1,244,039
	<u>4,956,321</u>	<u>5,345,210</u>
<i>Total insurance receivables</i>	<u>7,195,449</u>	<u>7,496,616</u>

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

11 Technical Provisions

	2017 AED	2016 AED
Technical provisions – Gross		
Unearned premium reserve (UPR)	179,867,116	146,593,104
Claims under settlement reserve (OSLR)	198,669,217	258,738,492
Claims incurred but not reported reserve (IBNR)	83,690,344	69,457,819
Unallocated loss adjustment expense reserve (ULAE)	5,291,886	5,552,254
Unexpired risk reserve (URR)	53,864	2,947,416
	<u>467,572,427</u>	<u>483,289,085</u>
Reinsurers' share of technical provisions		
Unearned premium reserve (UPR)	123,738,416	85,709,080
Claims under settlement reserve (OSLR)	132,706,318	153,355,517
Claims incurred but not reported reserve (IBNR)	55,237,187	44,956,586
Unexpired risk reserve (URR)	-	2,947,416
	<u>311,681,921</u>	<u>286,968,599</u>
Technical provisions – Net		
Unearned premium reserve (UPR)	56,128,700	60,884,024
Claims under settlement reserve (OSLR)	65,962,899	105,382,975
Claims incurred but not reported reserve (IBNR)	28,453,157	24,501,233
Unallocated loss adjustment expense reserve (ULAE)	5,291,886	5,552,254
Unexpired risk reserve (URR)	53,864	-
	<u>155,890,506</u>	<u>196,320,486</u>

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

11 Technical Provisions (continued)

	31 December 2017 (gross)					
	Claims under settlement reserve AED	Claims incurred but not reported reserve AED	Unearned premium reserve AED	Unallocated loss adjustment expense reserve AED	Unexpired risk reserve AED	Total AED
Motor	86,095,088	42,195,270	114,162,441	2,557,284	-	245,010,083
Fire	29,062,167	15,975,948	14,126,749	915,211	-	60,080,075
Medical	21,716,075	9,028,299	19,067,599	397,727	-	50,209,700
Engineering	32,262,121	9,089,243	17,338,399	756,609	-	59,446,372
Marine	20,050,551	3,989,140	10,319,585	420,433	53,864	34,833,573
Workman compensation and third party liability	6,214,910	2,482,005	4,237,685	167,684	-	13,102,284
Other line of businesses	3,268,305	930,439	614,658	76,938	-	4,890,340
	<u>198,669,217</u>	<u>83,690,344</u>	<u>179,867,116</u>	<u>5,291,886</u>	<u>53,864</u>	<u>467,572,427</u>
	31 December 2016 (gross)					
	Claims under settlement reserve AED	Claims incurred but not reported reserve AED	Unearned premium reserve AED	Unallocated loss adjustment expense reserve AED	Unexpired risk reserve AED	Total AED
Motor	66,462,890	21,949,392	61,757,001	1,655,425	1,628,493	153,453,201
Fire	65,672,050	13,907,231	9,174,863	1,402,298	1,318,923	91,475,365
Medical	50,501,356	16,005,085	34,592,653	825,115	-	101,924,209
Engineering	36,424,145	10,495,214	26,103,233	861,219	-	73,883,811
Marine	28,438,444	5,160,369	9,753,595	581,388	-	43,933,796
Workman compensation and third party liability	6,416,140	1,661,375	4,171,370	146,083	-	12,394,968
Other line of businesses	4,823,467	279,153	1,040,389	80,726	-	6,223,735
	<u>258,738,492</u>	<u>69,457,819</u>	<u>146,593,104</u>	<u>5,552,254</u>	<u>2,947,416</u>	<u>483,289,085</u>

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

11 Technical Provisions (continued)

Movement in the insurance contract liabilities and reinsurance contract assets during the year is as follows:

	2017			2016		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
CLAIMS						
Claims under settlement at 1 January	258,738,492	153,355,517	105,382,975	220,067,510	88,892,639	131,174,871
Incurred but not reported at 1 January	69,457,819	44,956,586	24,501,233	45,267,948	24,606,326	20,661,622
Total at 1 January	328,196,311	198,312,103	129,884,208	265,335,458	113,498,965	151,836,493
Claims settled	(271,223,049)	(141,596,411)	(129,626,638)	(269,912,696)	(74,807,187)	(195,105,509)
Increase in liabilities	225,386,299	131,227,813	94,158,486	332,773,549	159,620,325	173,153,224
Total at 31 December	282,359,561	187,943,505	94,416,056	328,196,311	198,312,103	129,884,208
Claims under settlement	198,669,217	132,706,318	65,962,899	258,738,492	153,355,517	105,382,975
Incurred but not reported	83,690,344	55,237,187	28,453,157	69,457,819	44,956,586	24,501,233
Total at 31 December	282,359,561	187,943,505	94,416,056	328,196,311	198,312,103	129,884,208
UNEARNED PREMIUM						
Total at 1 January	146,593,104	85,709,080	60,884,024	135,078,293	48,562,394	86,515,899
Increase during the year	179,867,116	123,738,416	56,128,700	146,593,104	85,709,080	60,884,024
Release during the year	(146,593,104)	(85,709,080)	(60,884,024)	(135,078,293)	(48,562,394)	(86,515,899)
Net increase/(decrease) during the year	33,274,012	38,029,336	(4,755,324)	11,514,811	37,146,686	(25,631,875)
Total at 31 December	179,867,116	123,738,416	56,128,700	146,593,104	85,709,080	60,884,024

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

11 Technical Provisions (continued)

Summary of actuary's report on technical provisions:

Property and liability insurance

This category includes health and other general insurance lines of business (LOBs). No discounting of technical provisions was employed.

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by claims technicians and established case setting procedures. Ultimate claims are estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that the past claims development experience can be used to project future claims development and hence ultimate claims. As such, these methods extrapolate the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period. IBNR claims are estimated by subtracting outstanding claims provisions from ultimate claims estimates.

Claim development is separately analysed for each LOB. The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

12 Other receivables and prepayments

	2017	2016
	AED	AED
Interest receivable	2,859,340	2,742,868
Prepayments	1,862,925	2,271,703
Other receivables	2,081,005	1,923,682
	<hr/> 6,803,270 <hr/>	<hr/> 6,938,253 <hr/>

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

13 Cash and cash equivalents

	2017 AED	2016 AED
Cash on hand	16,469	15,856
Current accounts	13,976,243	30,124,362
Term deposits	239,575,886	195,693,832
	<hr/>	<hr/>
Bank balances and cash	253,568,598	225,834,050
Less: deposits with original maturities of more than three months	(239,575,886)	(195,693,832)
	<hr/>	<hr/>
	13,992,712	30,140,218
	<hr/>	<hr/>

The interest rate on fixed deposits and current accounts with banks ranges between 0.55% and 3.20% (2016: 0.66% and 3%) per annum. All bank deposits are held in local banks in the United Arab Emirates.

14 Related parties

Related parties comprise the Directors and major Shareholders of the Company and those entities in which they have the ability to control or exercise significant influence in financial and operational decisions. The Company maintains balances with these related parties which arise from commercial transactions.

Directors are expected to avoid any action, position or interest that conflict with an interest of the Company. Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors for their review and approval. When a potential conflict of interest arises, Directors concerned neither participates in the discussions nor exercise any influence over other members of the Board. If a major shareholder or a Director has any conflict of interests with any matter to be considered by the Board of Director and the Board of Directors determines that such a matter is significant, the decision thereon by the Board of Directors shall be made in the presence of all Directors and in the absence of the interested Director's vote.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, being the directors, managing director and his direct reports.

The following balances were outstanding at the end of the reporting period:

	<i>Nature of relationship</i>	2017 AED	2016 AED
Due from related party policyholders (note 10)	Affiliates	479,984	479,288
		<hr/>	<hr/>
Due to related party policyholders (note 20)	Affiliates	-	16,427
		<hr/>	<hr/>
Remuneration of the Directors (note 19)		3,000,000	2,000,000
		<hr/>	<hr/>

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

14 Related parties (continued)

Transactions with related parties during the year are as follows:

	<i>Nature of relationship</i>	2017 AED	2016 AED
Premiums written	Affiliates	1,702,646	1,009,803
Claims paid	Affiliates	236,145	126,361
Remuneration of the Directors		3,000,000	2,000,000

The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions.

Remuneration of key management personnel:

	2017 AED	2016 AED
Short term benefits	2,146,096	1,630,596
Post-employment benefits	109,580	109,580
	2,255,676	1,740,176

The remuneration of key management personnel is based on the remuneration agreed in their employment contracts as approved by the Board of Directors.

15 Share capital

	2017 AED	2016 AED
Authorised, issue and fully paid:		
100,000,000 (2016: 100,000,000) ordinary shares of AED 1 each	100,000,000	100,000,000

16 Reserves

Legal reserve

In accordance with the UAE Federal Law Number (2) of 2015 concerning Commercial Companies and the Company's Articles of Association, 10% of profit is to be transferred to a non-distributable legal reserve until the balance of the legal reserve equals 50% of the Company's paid up share capital. This reserve is not available for dividend distribution.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

16 Reserves (continued)

General reserve

Transfers to and from the general reserve are made at the discretion of the Board of Directors and approved by the shareholders. This reserve may be used for such purposes as they deem fit.

Investment revaluation reserve

Investments revaluation reserve represents the net unreleased gains or losses that are recognised on the financial assets carried at FVTOCI.

17 Dividends

Dividends, amounting to AED 15,000,000 for the year ended 31 December 2016, were approved by the Shareholders at the Annual General Meeting held on 21 March 2017.

In respect of the year ended 31 December 2017, the Board of Directors in their meeting held on 13 February 2018 has proposed a cash dividend of AED 0.35 per share (total of AED 35 million) to be paid to the Shareholders. The cash dividend is subject to approval of the Shareholders at their forthcoming Annual General Meeting.

18 Provision for employees' end of service benefit

	2017 AED	2016 AED
Balance at the beginning of the year	7,998,361	7,547,240
Charge for the year	658,423	548,576
Paid during the year	(1,554,944)	(97,455)
	<hr/>	<hr/>
Balance at the end of the year	7,101,840	7,998,361
	<hr/>	<hr/>

During the year, the Company paid pension contributions in respect of UAE national employees amounting to AED 132,226 (2016: AED 34,575).

19 Other payables

	2017 AED	2016 AED
Deferred income	1,646,194	1,512,608
Fee payable to insurance authority	1,867,155	1,484,165
Dividend payable	6,050,344	6,380,592
Remuneration of the Directors	3,000,000	2,000,000
Other payables	9,733,839	14,941,237
	<hr/>	<hr/>
	22,297,532	26,318,602
	<hr/>	<hr/>

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

20 Insurance payables

	2017 AED	2016 AED
Due to policyholders	49,411,091	36,764,970
Due to insurance companies	44,605,306	40,640,361
Due to reinsurance companies	20,092,075	31,174,892
Due to related party policyholders	-	16,427
Premium reserve withheld	83,255,802	57,446,935
	<u>197,364,274</u>	<u>166,043,585</u>

The average credit period is 60 to 90 days. The Company has financial risk management policies in place to ensure that all payables are paid within credit time frame.

Inside United Arab Emirates:

	2017 AED	2016 AED
Due to policyholders	41,891,153	25,922,971
Due to insurance companies	43,311,559	39,134,125
Due to reinsurance companies	1,219,416	3,062,099
	<u>86,422,128</u>	<u>68,119,195</u>

Outside United Arab Emirates:

	2017 AED	2016 AED
Payable to policyholders	7,519,938	10,858,426
Payable to insurance companies	1,293,747	1,506,236
Payable to reinsurance companies	18,872,659	28,112,793
	<u>27,686,344</u>	<u>40,477,455</u>

Notes to the financial statements
for the year ended 31 December 2017 (continued)

21 Net premium

	2017 AED	2016 AED
<i>Gross written premium:</i>		
Motor	251,556,277	136,488,681
Fire	49,338,574	34,706,450
Medical	46,320,826	84,690,820
Engineering	22,733,047	36,539,685
Marine	30,167,785	27,072,587
Workman compensation and third party liability	11,679,942	11,826,222
Other line of businesses	3,484,403	4,938,228
	415,280,854	336,262,673
<i>Reinsurance share of premium (ceded and assumed):</i>		
Motor	167,424,268	98,551,708
Fire	48,050,242	33,618,753
Medical	22,751,780	3,650,001
Engineering	21,242,133	34,547,915
Marine	24,433,434	21,801,090
Workman compensation and third party liability	4,002,574	5,549,285
Other line of businesses	3,335,494	4,531,255
	291,239,925	202,250,007
<i>Net premium:</i>		
Motor	84,132,009	37,936,973
Fire	1,288,332	1,087,697
Medical	23,569,046	81,040,819
Engineering	1,490,914	1,991,770
Marine	5,734,351	5,271,497
Workman compensation and third party liability	7,677,368	6,276,937
Other line of businesses	148,909	406,973
	124,040,929	134,012,666

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

22 Net claims paid

	2017 AED	2016 AED
<i>Gross claims incurred:</i>		
Motor	105,513,259	83,332,765
Fire	44,321,631	12,358,833
Medical	91,773,501	137,529,944
Engineering	9,003,449	16,968,625
Marine	15,744,146	17,237,960
Workman compensation and third party liability	1,581,782	1,237,331
Other line of businesses	3,285,283	1,247,238
	<hr/> 271,223,051 <hr/>	<hr/> 269,912,696 <hr/>
<i>Reinsurance share of claims (ceded and assumed):</i>		
Motor	66,261,176	27,847,289
Fire	43,256,678	12,159,821
Medical	7,689,036	5,464,435
Engineering	8,937,081	16,876,656
Marine	15,412,426	17,898,101
Workman compensation and third party liability	366,339	210,338
Other line of businesses	3,052,322	1,228,265
	<hr/> 144,975,058 <hr/>	<hr/> 81,684,905 <hr/>
<i>Net claims paid:</i>		
Motor	39,252,083	55,485,476
Fire	1,064,953	199,012
Medical	84,084,465	132,065,509
Engineering	66,368	91,969
Marine	331,720	(660,141)
Workman compensation and third party liability	1,215,443	1,026,993
Other line of businesses	232,961	18,973
	<hr/> 126,247,993 <hr/>	<hr/> 188,227,791 <hr/>

Notes to the financial statements
for the year ended 31 December 2017 (continued)

23 Net investment income

	2017	2016
	AED	AED
Interest income on bank deposits and bonds	6,663,278	5,901,136
<i>Dividend income:</i>		
Investments at FVTOCI	8,877,818	9,079,191
Investments at FVTPL	1,130,062	1,190,345
(Decrease)/increase in fair value of investments at FVTPL (note 9)	(896,457)	4,380,272
Reversal of impairment on financial assets at amortised cost	-	1,422,461
Investment expenses	(618,452)	(644,848)
Decrease in fair value of investment properties	(400,000)	-
	14,756,249	21,328,557

24 Profit for the year

Profit for the year is stated after charging:

	2017	2016
	AED	AED
Staff costs	22,436,429	20,801,272
Depreciation of property and equipment (note 5)	536,755	832,206
Amortisation of intangible assets (note 7)	1,089,864	1,349,591
Foreign exchange gain	417	327

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

25 Basic and diluted earnings per share

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

	2017	2016
Profit for the year (AED)	51,549,466	21,805,139
Weighted average number of ordinary shares in issue throughout the year	100,000,000	100,000,000
Basic and diluted earnings per share (AED)	0.52	0.22

As of 31 December 2017 and 2016, the Company has not issued any instruments that have an impact on the basic and diluted earnings per share when exercised.

26 Segment information

The Company has two reportable segments, as described below, which are the Company's strategic business units. The strategic business units are managed separately because they require different approach, technology and marketing strategies. For each of the strategic business units, the Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis.

The following summary describes the two main business segments:

- Underwriting of general insurance business – incorporating all classes of general insurance such as fire, marine, motor, medical, general accident and miscellaneous.
- Investments – incorporating investments in marketable equity securities and investment funds, development bonds, term deposits with banks and investment properties and other securities.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

26 Segment information (continued)

26.1 Segment revenue and results

Information regarding the Company's reportable segments is presented below:

	Year ended 31 December 2017			Year ended 31 December 2016		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Direct revenues	490,008,835	21,470,365	511,479,200	388,965,501	20,894,728	409,860,229
Direct costs	(421,232,709)	(2,590,469)	(423,823,178)	(359,683,775)	(2,127,247)	(361,811,022)
Administrative expenses	(27,119,793)	-	(27,119,793)	(26,221,813)	-	(26,221,813)
Depreciation expense	(536,755)	-	(536,755)	(832,206)	-	(832,206)
Amortisation expense	(1,089,864)	-	(1,089,864)	(1,349,591)	-	(1,349,591)
Other expenses	(7,756,474)	-	(7,756,474)	(4,030,954)	-	(4,030,954)
Non-cash investment (loss)/gain, net	-	(1,296,458)	(1,296,458)	-	5,802,733	5,802,733
Segment profit/(loss)	32,273,240	17,583,438	49,856,678	(3,152,838)	24,570,214	21,417,376
Other income, net	-	-	1,692,788	-	-	387,763
Profit/(loss) for the year	32,273,240	17,583,438	51,549,466	(3,152,838)	24,570,214	21,805,139

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues during 2017 and 2016.

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3.

Notes to the financial statements
for the year ended 31 December 2017 (continued)

26 Segment information (continued)

26.2 Segment assets and liabilities

	As at 31 December 2017			As at 31 December 2016		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment assets						
Unallocated assets	441,794,838	609,300,263	1,051,095,101	411,406,999	572,359,626	983,766,625
	-	-	13,992,712	-	-	30,140,218
Total assets	441,794,838	609,300,263	1,065,087,013	411,406,999	572,359,626	1,013,906,843
Segment liabilities						
Unallocated liabilities	712,360,032	1,795,385	714,155,417	692,960,263	1,605,510	694,565,773
	-	-	9,050,344	-	-	8,380,592
Total liabilities	712,360,032	1,795,385	723,205,761	692,960,263	1,605,510	702,946,365
Capital expenditure	687,925	-	687,925	717,036	-	717,036

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

26 Segment information (continued)

26.3 Revenue from underwriting departments

The following is an analysis of the Company's revenues classified by major underwriting departments.

	2017	2016
	AED	AED
Motor	291,258,437	159,318,459
Medical	29,286,652	84,690,820
Engineering	49,467,470	48,242,224
Fire	65,558,260	45,100,003
Workmen's compensation and third party liability	12,002,986	13,331,531
Others	42,435,030	38,282,464
	490,008,835	388,965,501

26.4 Geographical information

The Company's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe. All the investments of the Company are held in the UAE and other GCC countries.

Total revenues and total assets of the underwriting and investment segments by geographical location are detailed below:

	Revenue	Revenue	Total assets	Total assets
	2017	2016	2017	2016
	AED	AED	AED	AED
United Arab Emirates	488,988,862	385,889,940	1,061,204,087	1,007,245,314
Other GCC countries	517,112	2,946,203	2,385,768	1,609,236
Others	502,861	129,358	1,497,958	5,052,293
	490,008,835	388,965,501	1,065,087,813	1,013,906,843

27 Contingencies

(a) Legal proceedings and regulations

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

27 Contingencies (continued)

(a) Legal proceedings and regulations (continued)

The Company is also subject to insurance solvency regulations and has complied with all the solvency regulations. There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

(b) Guarantees

	2017 AED	2016 AED
Bank guarantees	16,341,922	16,232,922

The above bank guarantees were issued in the normal course of business.

28 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

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

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

The Company manages risks through its underwriting strategy, adequate 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, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

28 Insurance risk (continued)

Frequency and severity of claims

The Company has the right not to renew individual policies, re-price the risk, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Company's strategy limits the total exposure to any one territory and the exposure to any one industry.

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set minimum limit of AED 500,000 for motor and AED 75,000 for medical and WC/TPL AED 300,000 in any one event. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments

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

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

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

28 Insurance risk (continued)

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

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

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

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

The initial estimate of the loss ratios used for the current year before and after reinsurance are analysed below by type of risk where the insured operates for current and prior year premiums earned.

<u>Type of risk</u>	<u>Year ended 31 December 2017</u>		<u>Year ended 31 December 2016</u>	
	Gross Loss Ratio	Net Loss Ratio	Gross Loss Ratio	Net Loss Ratio
Motor	42%	47%	61%	146%
Non-Motor	101%	218%	93%	138%

Process used to decide on assumptions

The risks associated with the insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

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

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

28 Insurance risk (continued)

Claims development process

The following schedules reflect the actual claims (based on year end estimates) compared to the previous estimates for the last five years on an underwriting year basis for motor and non-motor:

Underwriting year	2013 AED'000	2014 AED'000	2015 AED'000	2016 AED'000	2017 AED'000	Total AED'000
<u>Motor - Gross:</u>						
At the end of the underwriting year	859,382	69,526	66,127	12,454	61,644	
One year later	36,382	87,985	89,801	81,698	-	
Two years later	38,214	127,869	103,372	-	-	
Three years later	50,295	121,515	-	-	-	
Four years later	517,416	-	-	-	-	
Current estimate of cumulative claims	517,416	121,515	103,372	81,698	61,644	885,645
Cumulative payments to date	(512,658)	(107,716)	(90,358)	(58,217)	(30,601)	(799,550)
Liability recognised in the statement of financial position	4,758	13,799	13,014	23,481	31,043	86,095
<u>Non-motor - Gross:</u>						
At the end of the underwriting year	744,702	49,693	118,143	73,339	42,257	
One year later	178,094	80,025	169,239	90,244	-	
Two years later	284,211	110,357	176,049	-	-	
Three years later	349,934	117,455	-	-	-	
Four years later	828,561	-	-	-	-	
Current estimate of cumulative claims	828,561	117,455	176,049	90,244	42,257	1,254,566
Cumulative payments to date	(786,378)	(102,910)	(148,048)	(75,559)	(29,097)	(1,141,992)
Liability recognised in the statement of financial position	42,183	14,545	28,001	14,685	13,160	112,574

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

28 Insurance risk (continued)

Concentration of insurance risk

The Company's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe and Asia.

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

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

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarised below:

<u>Type of risk</u>	<u>Year ended 31 December 2017</u>		<u>Year ended 31 December 2016</u>	
	<u>Gross</u> AED	<u>Net</u> AED	<u>Gross</u> AED	<u>Net</u> AED
<u>Motor</u>				
UAE	24,809,597,520	6,202,399,380	37,398,003,657	9,349,500,914
<u>Non-Motor</u>				
UAE	148,619,755,437	5,290,927,757	115,125,080,187	8,216,873,014
GCC countries	11,365,580,526	3,968,259,859	9,005,259,700	3,714,887,508
	159,985,335,963	9,259,187,616	124,130,339,887	11,931,760,522
Grand total	184,794,933,483	15,461,586,996	161,528,343,544	21,281,261,436

Sensitivity of underwriting profit and losses

The insurance operations of the Company resulted in a profit of AED 32,273,247 during the year as compared to a loss of AED 5,152,838 in the prior year.

- The Company has an overall risk retention level in the region of 8.37 % (2016: 13.17%) and the Company is adequately covered by proportional and non-proportional programs to guard against major financial impact.
- The Company has net commission earnings of AED 30,553,212 during the year against AED 28,932,405 in 2016 from underwriting operation predominantly from the reinsurance placement which remains as a comfortable source of income.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

29 Financial instruments

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term, its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The risks that the Company primarily faces due to the nature of its investments and underwriting business are interest rate risk, foreign currency risk, and market price risk, credit risk and liquidity risk.

29.1 Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. (6) of 2007 concerning the formation of Insurance Authority of UAE;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The table below summarizes the Minimum Capital Requirement, Minimum Guarantee Fund and Solvency Capital Requirement of the Company and the total capital held to meet these required Solvency Margins.

	2017 AED	2016 AED
Minimum Capital Requirement (MCR)	100,000,000	100,000,000
Solvency Capital Requirement (SCR)	137,442,971	139,397,900
Minimum Guarantee Fund (MGF)	48,002,730	60,330,316
<i>Own funds</i>		
- Basic funds	260,438,766	222,965,492
- Ancillary own funds	-	-
Own funds eligible to meet the MCR	260,438,766	222,965,492
MCR Solvency Margin – Surplus	160,438,766	122,965,492
SCR Solvency Margin – Surplus	122,995,795	83,567,593
MGF Solvency Margin – Surplus	212,436,036	162,635,176

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

29.2 Significant accounting policies

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

29.3 Categories of financial instruments

	2017 AED	2016 AED
Financial assets		
Investments designated at FVTOCI	177,652,331	183,280,223
Investments designated at FVTPL	92,469,307	93,382,832
Investments at amortised cost	8,002,739	8,002,739
Statutory deposit	10,000,000	10,000,000
Insurance receivables	99,511,923	105,546,223
Other receivables	4,940,345	4,666,550
Term deposits	239,575,886	195,693,832
Cash and cash equivalents	13,992,712	30,140,218
	646,145,243	630,712,617
Financial liabilities		
Insurance payables	197,364,274	166,043,585
Other payables	20,651,338	24,805,994
	218,015,612	190,849,579

29.4 Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Company. The Company is exposed to interest rate risk on its investment in bonds and term deposits that carry fixed interest rates which are detailed in Notes 8 and 22, respectively.

The Company generally tries to minimise the interest rate risk by closely monitoring the market interest rates and investing in those financial assets in which such risk is expected to be minimal.

Interest rate sensitivity analysis

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

As all the interest bearing financial assets and liabilities of the Company carry fixed interest rates, therefore the Company is not subject to fluctuation of interest rate at the reporting date.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

29 Financial instruments (continued)

29.5 Foreign currency risk management

The Company could incur foreign currency risk on transactions that are denominated in a currency other than AED. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2017	2016	2017	2016
	AED	AED	AED	AED
US Dollar	1,838,730	6,853,686	2,946,247	14,860,557
Oman Riyal	1,040	29,308	365	3,480
Pound Sterling	23,690	107,394	34,223	379,149
Euro	18,003	74,551	18,793	282,954
	1,881,463	7,064,939	2,999,628	15,526,140

There is no impact on US Dollar balances as the AED is pegged to the US Dollar. Based on the sensitivity analysis to a 20% increase/decrease in the AED against the relevant foreign currencies (assumed outstanding for the whole year):

- (a) there is AED nil (2016 AED 5 thousand) net revaluation gain/loss on the Omani Riyal outstanding balances.
- (b) there is AED 2 thousand (2016: AED 54 thousand) net revaluation gain/loss on the Pound Sterling outstanding balances.
- (c) there is AED nil (2016: AED 42 thousand) net revaluation gain/loss on the Euro outstanding balances.

Management believes that the possible loss due to exchange rate fluctuation is minimal and consequently this risk is not hedged.

29.6 Market price risk management

Market price 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 Company is exposed to market price risk with respect to its quoted investments. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Company actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

29 Financial instruments (continued)

29.6 Market price risk management (continued)

Equity price risk sensitivity analysis

At the end of the reporting period, if the equity prices are 5% higher/lower as per the assumptions mentioned below and all the other variables were held constant,:

- The Company's profit or loss would increase/(decrease) by AED 1.33 million (2016: AED 1.4 million) as a result of the Company's portfolio classified under fair value through profit and loss (FVTPL).
- The Company's equity reserves would increase/(decrease) by AED 8.88 million (2016: AED 9.16 million) as a result of the Company's portfolio classified under fair value through other comprehensive income (FVTOCI).

29.7 Credit risk management

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

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from banks for its bank balances and fixed deposits and bonds.

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

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

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company. Details on concentration of amounts due from policyholders is disclosed in Note 10. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policy holders.

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

29 Financial instruments (continued)

29.7 Credit risk management (continued)

At 31 December 2017 and 2016, virtually all of the deposits were placed with 8 banks. Management is confident that this concentration of liquid assets at year end does not result in any credit risk to the Company as the banks are major banks operating in the UAE and are highly regulated by the Central Bank.

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

29.8 Liquidity risk management

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. Bank facilities, the policy holders and the reinsurers, are the major sources of funding for the Company and the liquidity risk for the Company is assessed to be low.

The table below summarises the maturity profile of the Company's financial liabilities with maturities determined on the basis of the remaining period from the end of the reporting period to the contractual maturity/repayment date. The maturity profile is monitored by Management to ensure adequate liquidity is maintained.

	Carrying amount AED	0-180 days AED	181-365 days AED
Financial liabilities at 31 December 2017			
Insurance payables	197,364,274	52,845,972	144,518,302
Other payables	20,651,338	-	20,651,338
	218,015,612	52,845,972	165,169,640
Financial liabilities at 31 December 2016			
Insurance payables	166,043,585	166,043,585	-
Other payables	24,805,994	-	24,805,994
	190,849,579	166,043,585	24,805,994

29.9 Fair value of financial assets and liabilities

Some of the Company's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular and the valuation techniques).

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

29 Financial instruments (continued)

29.9 Fair value of financial assets and liabilities (continued)

	Fair value as at 31 December		Fair value hierarchy	Valuation technique
	2017 AED	2016 AED		
Financial assets				
Investments at FVTOCI – Quoted equity investments	177,652,331	183,280,223	Level 1	Quoted bid prices in an active market
Investments at FVTPL – Quoted equity investments	26,784,369	27,558,408	Level 1	Quoted bid prices in an active market
Investments at FVTPL – Quoted debt securities	65,684,938	65,824,424	Level 1	Quoted bid prices in an active market

During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

The Company's management considers that the fair values of financial assets and financial liabilities that are not measured at fair value approximates to their carrying amounts as stated in the statement of financial position.

Notes to the financial statements
for the year ended 31 December 2017 (continued)

30 Maturity analysis of assets and liabilities

The following table provides the maturity profile of the Company's asset and liabilities as of the end of the reporting period based on their expected recovery or settlement within and after twelve months:

<u>31 December 2017</u>	Within 12 months AED	After 12 months AED	Carrying value AED
Assets			
Property and equipment	-	820,042	820,042
Investment properties	-	81,600,000	81,600,000
Intangible assets	-	1,369,193	1,369,193
Statutory deposits	-	10,000,000	10,000,000
Deferred acquisition costs	-	21,608,489	21,608,489
Investments at amortised cost	-	8,002,739	8,002,739
Investments carried at FVTOCI	-	177,652,331	177,652,331
Investments carried at FVTPL	92,469,307	-	92,469,307
Insurance receivables	99,511,923	-	99,511,923
<i>Reinsurers' share of technical provisions</i>			
Unearned premium reserve	123,738,416	-	123,738,416
Claims under settlement reserve	132,706,318	-	132,706,318
Claims incurred but not reported reserve	55,237,187	-	55,237,187
Other receivables and prepayments	6,803,270	-	6,803,270
Term deposits	228,552,345	11,023,541	239,575,886
Cash and cash equivalents	13,992,712	-	13,992,712
Total assets	753,011,478	312,076,335	1,065,087,813
Liabilities			
Provision for employees' end of service benefit	-	7,101,840	7,101,840
Other payables	22,297,532	-	22,297,532
<i>Insurance liabilities</i>			
Insurance payables	197,364,274	-	197,364,274
Unearned commission income	28,869,688	-	28,869,688
<i>Gross technical provisions</i>			
Unearned premium reserve	179,867,116	-	179,867,116
Claims under settlement reserve	198,669,217	-	198,669,217
Claims incurred but not reported reserve	83,690,344	-	83,690,344
Unallocated loss adjustment expense	5,291,886	-	5,291,886
Unexpired risk reserve	53,864	-	53,864
Total liabilities	716,103,921	7,101,840	723,205,761

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

30 Maturity analysis of assets and liabilities (continued)

<u>31 December 2016</u>	Within 12 months AED	After 12 months AED	Carrying value AED
Assets			
Property and equipment	-	1,052,616	1,052,616
Investment properties	-	82,000,000	82,000,000
Intangible assets	-	2,075,313	2,075,313
Statutory deposits	-	10,000,000	10,000,000
Deferred acquisition costs	-	8,825,995	8,825,995
Investments at amortised cost	-	8,002,739	8,002,739
Investments carried at FVTOCI	-	183,280,223	183,280,223
Investments carried at FVTPL	93,382,832	-	93,382,832
Insurance receivables	105,546,223	-	105,546,223
<i>Reinsurers' share of technical provisions</i>			
Unearned premium reserve	85,709,080	-	85,709,080
Claims under settlement reserve	153,355,517	-	153,355,517
Claims incurred but not reported reserve	44,956,586	-	44,956,586
Unexpired risk reserve	2,947,416	-	2,947,416
Other receivables and prepayments	6,938,253	-	6,938,253
Term deposits	195,693,832	-	195,693,832
Cash and cash equivalents	30,140,218	-	30,140,218
Total assets	718,669,957	295,236,886	1,013,906,843
Liabilities			
Provision for employees' end of service benefit	-	7,998,361	7,998,361
Other payables	26,318,602	-	26,318,602
<i>Insurance liabilities</i>			
Insurance payables	166,043,585	-	166,043,585
Unearned commission income	19,296,732	-	19,296,732
<i>Gross technical provisions</i>			
Unearned premium reserve	146,593,104	-	146,593,104
Claims under settlement reserve	258,738,492	-	258,738,492
Claims incurred but not reported reserve	69,457,819	-	69,457,819
Unallocated loss adjustment expense	5,552,254	-	5,552,254
Unexpired risk reserve	2,947,416	-	2,947,416
Total liabilities	694,948,004	7,998,361	702,946,365

**Notes to the financial statements
for the year ended 31 December 2017 (continued)**

31 Events after reporting period

Effective 1 January 2018, the United Arab Emirates has implemented Value Added Tax (“VAT”) based on the Federal Law No. 8 of 2017 on VAT. During the year, the Company has completed its VAT impact assessment and VAT registration and it will start applying VAT starting 1 January 2018.

32 Approval of financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 13 February 2018.