Al Wathba National Insurance Company (PJSC)

BOARD OF DIRECTORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

Al Wathba National Insurance Company (PJSC)

BOARD OF DIRECTORS' REPORT

31 DECEMBER 2017

Board of Directors' Report

For the Period Ended 31 December 2017

The Board of Directors of Al Wathba National Insurance Company (the "Company") is pleased to submit the annual report of the Company's activities accompanied by the financial statements reviewed by the external auditors for the period ended 31 December 2017.

The UAE's various economic indicators registered positive growth in 2017 in confirmation of economic recovery. This momentum was driven by the positive performance of non-oil sectors, which also recorded an improvement in performance, as reflected by market indicators of local financial markets in both Abu Dhabi and Dubai.

The country's insurance sector also witnessed continued improvement in performance; this was evident in results announced by operating companies which showed an overall growth in premiums and increase in declared financial results.

The improved performance of the insurance market during the last two years reflects the positive role played by the Insurance Authority from both a supervisory as well as regulatory standpoint through the proper implementation of laws and regulations in governing the sector which contributed to the stability of the insurance market in general.

Al Wathba National Insurance Company achieved total gross written premiums of AED 237 million and net earned premiums of AED 128 million.

A net underwriting income of AED 20.14 million was achieved; this was a significant improvement in insurance business which reflects the strategy adopted by the Board to enhance the level of customer service in order to become a market leader in the country.

The investment portfolio continued its positive performance with a net investment income of AED 52.08 million, generating a net profit of AED 72.22 million.

During the year, shareholders' equity increased to AED 850.7 million, a growth of 3.5% in comparison to the previous year.

This continued positive performance is reflective of the Management's commitment in conjunction with the vision and objectives set by the Board of Directors for the company to provide the market with exemplary products and services, as well as our commitment to our shareholders in ensuring we achieve positive returns on their investments.

Finally, the Board of Directors seizes this opportunity to express its highest thanks and appreciation to H.H Shiekh Khalifa Bin Zayed Al Nahyan, President of UAE and Ruler of Abu Dhabi and H.H Shiekh Mohamed Bin Rashid Al Maktoum, the Vice President , Prime Minister and the ruler of Dubai and H.H Sheikh Mohammed Bin Zayed Al Nahyan, the Crown Prince and to all the rulers of the Emirates for their steadfast support for the progress of this country, all its economic institutions and Al Wathba National Insurance Company.

The Board of Directors likewise extends its appreciation and gratitude to all the company's shareholders and customers for their trust and continued support, and to all staff for their dedication and contribution to the company's performance during the last period.

Board Member

Al Wathba National Insurance Company (PJSC)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

Building a better working world

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF AL WATHBA NATIONAL INSURANCE COMPANY PJSC

Report on the Audit of Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Al Wathba National Insurance Company PJSC and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of income, comprehensive income, changes in equity and consolidated cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group 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 consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF AL WATHBA NATIONAL INSURANCE COMPANY PJSC
continued

Report on the Audit of Consolidated Financial Statements continued

Key audit matters continued

a) Estimates and judgements used in calculation of insurance contract provisions (refer to note 15 in the consolidated financial statements)

The measurement of insurance contract provisions, which includes the following, involves key judgements and estimates over uncertain future outcomes.

- Claims incurred but not reported (IBNR);
- Unexpired risk reserve (URR); and
- Allocated & unallocated loss adjustment expense (ALAE & ULAE).

The insurance contract provisions of the Group are calculated as documented in the consolidated financial statements disclosure under the section "use of estimates and judgements".

We considered the results of an independent actuarial review of the insurance contract provisions as at the reporting date. We involved our actuarial specialists to assist us in performing the audit procedures in this area, which included amongst others, review of methodology, data used as input and estimates and judgements used in the Actuary's valuation. We also assessed the Actuary's independence, qualifications and expertise and read their terms of engagement to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.

Further, we assessed the adequacy of the disclosures regarding these liabilities in the consolidated financial statements in accordance with International Financial Reporting Standards.

b) Estimation of liability against outstanding claims (refer to note 15 in the consolidated financial statements)

The valuation of claim reserving incorporates a significant amount of estimates and judgements. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Group, litigations arising in the ordinary course of business, together with the potential for unforeseen adverse developments, could lead to the ultimate amount paid varying materially from the amount estimated at the reporting date.

We understood, assessed and tested the design and operational effectiveness of key controls over the Group's reserving process, including the review and approval of the reserves and probability of outflow of economic resources and reliability of estimating such outflow. Further, we considered, on a sample basis, the review and results of internal claims department, external third party loss adjustors and internal and external legal counsel to assist us in assessing the reserves recorded by the Group. Certain matters, in particular those involving litigation are subject to many uncertainties and the outcome on timing of closure and outflow of economic resources may vary materially from the amount estimated at the reporting date.

Report on the Audit of Consolidated Financial Statements continued

Key audit matters continued

c) Valuation of investment properties (refer to note 9 in the consolidated financial statements)

The valuation of investment properties involves a degree of complexity and significant judgements and estimates. The property valuations were carried out by external valuers (the "Valuers"). In determining a property's valuation, the Valuers take into account property-specific information such as the current tenancy agreements and rental income and apply assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions, to arrive at valuation.

We read the valuation reports for properties and assessed that the valuation approach for each was in accordance with the established standards for valuation of properties and suitable for use in determining the carrying value for the purpose of the consolidated financial statements.

We assessed the Valuers' independence, qualifications and expertise and read their terms of engagement to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.

We involved our internal valuation specialists in reviewing the valuation of the properties. The review included discussions with management, and consideration of the estimates and judgements used in Valuer's valuation and assessment of valuation against our expectations. Where the assumptions were outside expected range or otherwise unusual, we obtained further audit evidence to support the explanations provided by management.

d) Recoverability of insurance receivables from policy holders, insurance companies and reinsurance companies (refer to note 7 in the consolidated financial statements)

The Group in its normal course of business is exposed to risks of non - recoverability from policyholders, insurance companies and reinsurance companies due to disputes / litigations or due to deterioration of financial conditions of the counter party. The key associated risk is the recoverability of insurance receivables. Management's related provision is subjective and is influenced by assumptions concerning the probability of default and probable losses in the event of default.

We reviewed the past trend of actual amounts written off and the credit ratings of the counter parties (where available) to assess the provision held as at year-end.

Furthermore, we discussed with management and reviewed correspondence, where relevant, to identify any disputes, and assessed whether such matters were considered in the bad debt provision.

Report on the Audit of Consolidated Financial Statements continued

Other information included in the Group's 2017 Annual Report
Other information consists of the information included in the Group's 2017 Annual Report and Board of Directors report, other than the consolidated financial statements and our auditor's report thereon. We obtained the Board of Directors Report prior to the date of our audit report, and we expect to obtain the sections of the Annual Report after the date of our auditor's opinion. Management is responsible for the other information.

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

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

Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Company's Article of Association, the UAE Federal Law No. (2) of 2015, the UAE Federal Law No. (6) of 2007, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

Report on the Audit of Consolidated Financial Statements continued

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements continued
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF AL WATHBA NATIONAL INSURANCE COMPANY PJSC
continued

Report on Other Legal and Regulatory Requirements

We report that:

(i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, the UAE Federal Law No. (6) of 2007, and the Articles of Association of the Company;

(iii) the Group has maintained proper books of account;

(iv) the financial information included in the Directors' report is consistent with the books of account and records of the Group;

(v) investments in shares and stocks are included in notes 4, 5 and 6 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2017;

(vi) note 20 reflects material related party transactions and the terms under which they were conducted; and

(vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened, during the financial year ended 31 December 2017, any of the applicable provisions of the UAE Federal Law No. (2) of 2015, the UAE Federal Law No. (6) of 2007, or of its Articles of Association which would have a material impact on its activities or its consolidated financial position as at 31 December 2017.

Signed by:
Mohammad Mobin Khan
Partner
Ernst & Young
Registration No. 532

27 March 2018
Abu Dhabi

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	31 December 2017 AED 000	31 December 2016 AED 000
ASSETS			
Property and equipment	11	**4,258**	6,145
Intangible asset	29.1	**-**	2,311
Investment in associates	10	**148,005**	132,198
Investments at amortised cost	6	**5,000**	5,000
Investments carried at fair value through other comprehensive income	4	**179,005**	243,686
Investments carried at fair value through profit or loss	5	**423,707**	333,041
Investment properties	9	**353,711**	338,298
Investment property under development	8	**4,543**	-
Statutory deposit	3	**6,000**	6,000
Insurance balances receivable	7	**51,118**	58,702
Reinsurers' share of unearned premium reserve	15	**18,981**	31,352
Reinsurers' share of outstanding claims reserve	15	**124,594**	145,298
Reinsurers' share of claims incurred but not reported reserve	15	**9,677**	21,509
Prepayments and other receivables	7	**6,077**	30,909
Deposits	3	**59,469**	38,497
Bank balances and cash	3	**43,619**	60,985
TOTAL ASSETS		**1,437,764**	1,453,931
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	**207,000**	207,000
Legal reserve	13	**103,500**	103,500
Statutory reserve	13	**51,750**	51,750
General reserve	13	**44,476**	23,323
Capital reserve	13	**9,959**	9,959
Investment revaluation reserve		**(2,736)**	19,267
Retained earnings		**436,735**	406,263
Equity attributable to equity holders of the parent		**850,684**	821,062
Non-controlling interests		**88**	119
Total equity		**850,772**	821,181
LIABILITIES			
Employees' end of service benefits	19	**7,685**	9,056
Bank overdrafts	3	**188,589**	191,506
Trade and other payables	18	**83,153**	103,055
Technical reserves			
Unearned premium reserve	15	**102,346**	97,346
Outstanding claims reserve	15	**169,673**	186,453
Claims incurred but not reported reserve	15	**32,014**	41,840
Allocated and unallocated loss adjustment expense reserve	15	**3,532**	3,494
TOTAL LIABILITIES		**586,992**	632,750
TOTAL EQUITY AND LIABILITIES		**1,437,764**	1,453,931

BOARD MEMBER　　CHIEF EXECUTIVE OFFICER　　CHIEF FINANCIAL OFFICER

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2017

	Notes	2017 AED 000	2016 AED 000
Gross premiums	28.1	**237,169**	294,781
Reinsurance share of ceded premiums	28.1	**(90,937)**	(149,096)
Net premium		**146,232**	145,685
Net change in unearned premium reserve	28.1	**(17,371)**	(3,805)
Net premium earned		**128,861**	141,880
Commission earned		**31,247**	36,127
Commission incurred		**(21,086)**	(24,512)
Gross underwriting income		**139,022**	153,495
Gross claims paid		**(144,547)**	(230,309)
Reinsurance share of claims paid		**70,482**	89,799
Net claims paid		**(74,065)**	(140,510)
Change in outstanding claims reserve		**16,780**	(15,935)
Change in reinsurance share of outstanding claims reserve		**(20,704)**	22,487
(Increase) decrease in incurred but not reported claims reserve		**(2,006)**	2,459
Increase in unallocated loss adjustment expense reserve		**(38)**	(2,229)
Net claims incurred	28.1	**(80,033)**	(133,728)
Underwriting income		**58,989**	19,767
General and administrative expenses relating to underwriting	21	**(38,849)**	(43,986)
Net underwriting income (loss)		**20,140**	(24,219)
Income from investments	22	**44,456**	72,941
Income from investment properties (rental income)		**9,115**	10,581
Share of profit of associates	10	**17,155**	16,077
Total income		**90,866**	75,380
Other expenses	21	**(9,092)**	(14,413)
Finance costs		**(6,413)**	(4,875)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**75,361**	56,092
DISCONTINUING OPERATIONS			
Loss for the year	30	**(3,140)**	(1,715)
PROFIT FOR THE YEAR	23	**72,221**	54,377
Attributable to:			
Equity holders of the parent		**72,252**	54,397
Non-controlling interests		**(31)**	(20)
		72,221	54,377
Basic and diluted earnings per share (AED)	24	**0.35**	0.26

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	*2017* *AED 000*	*2016* *AED 000*
Profit for the year		**72,221**	54,377
Other comprehensive (loss) income			
Items that will not be reclassified to statement of income:			
Share of other comprehensive loss of associates	10	**(814)**	(6,028)
Gain on sale of investments carried at fair value through other comprehensive income		**303**	-
Changes in fair value relating to investments carried at fair value through other comprehensive income, net	4	**(6,569)**	23,059
Board of directors' remuneration		**(4,500)**	(4,500)
Other comprehensive (loss) income for the year		**(11,580)**	12,531
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**60,641**	66,908
Attributable to:			
Equity holders of the parent		**60,672**	66,928
Non-controlling interests		**(31)**	(20)
		60,641	66,908

The attached notes 1 to 31 form part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Share capital AED 000	Legal reserve AED 000	Statutory reserve AED 000	General reserve AED 000	Capital reserve AED 000	Investment revaluation reserve AED 000	Retained earnings AED 000	Equity attributable to equity holders of the parent AED 000	Non-controlling interests AED 000	Total equity AED 000
Balance at 1 January 2016	207,000	76,146	51,750	23,323	9,959	2,236	404,420	774,834	-	774,834
Profit for the year	-	-	-	-	-	-	54,397	54,397	(20)	54,377
Other comprehensive income (loss) for the year	-	-	-	-	-	17,031	(4,500)	12,531	-	12,531
Total comprehensive income (loss) for the year	-	-	-	-	-	17,031	49,897	66,928	(20)	66,908
Transfer to legal reserve (note 13)	-	27,354	-	-	-	-	(27,354)	-	-	-
Acquired as part of a business combination (note 29)	-	-	-	-	-	-	-	-	639	639
Capital reduction of a subsidiary (note 29)	-	-	-	-	-	-	-	-	(500)	(500)
Dividends paid (note 12)	-	-	-	-	-	-	(20,700)	(20,700)	-	(20,700)
Balance at 31 December 2016	207,000	103,500	51,750	23,323	9,959	19,267	406,263	821,062	119	821,181
Balance at 1 January 2017	207,000	103,500	51,750	23,323	9,959	19,267	406,263	821,062	119	821,181
Profit for the year	-	-	-	-	-	-	72,252	72,252	(31)	72,221
Other comprehensive (loss) income for the year	-	-	-	-	-	(7,383)	(4,197)	(11,580)	-	(11,580)
Total comprehensive (loss) income for the year	-	-	-	-	-	(7,383)	68,055	60,672	(31)	60,641
Transfer from retained earnings to general reserve (note 13)	-	-	-	21,153	-	-	(21,153)	-	-	-
Transfer to retained earnings on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	-	(14,620)	14,620	-	-	-
Dividends paid (note 12)	-	-	-	-	-	-	(31,050)	(31,050)	-	(31,050)
Balance at 31 December 2017	**207,000**	**103,500**	**51,750**	**44,476**	**9,959**	**(2,736)**	**436,735**	**850,684**	**88**	**850,772**

The attached notes 1 to 31 form part of these consolidated financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Notes	2017 AED 000	2016 AED 000
OPERATING ACTIVITIES			
Profit for the year from continuing operations		**75,361**	56,092
(Loss) profit for the year from discontinuing operations	30	**(3,140)**	(1,715)
Profit for the year		**72,221**	54,377
Adjustments for:			
Unearned premium reserve, net		**17,371**	3,805
Outstanding claims reserve and claims incurred but not reported reserve		**(26,568)**	28,507
Reinsurance share of outstanding claims reserve and claims incurred but not reported reserve		**32,536**	(35,289)
Depreciation of property and equipment	11&21	**1,921**	2,846
Changes in fair value of investment properties	9&22	**(15,413)**	(281)
Provision on insurance receivable, net of reversals	21	**2,455**	8,184
Write-off of intangible assets	21&29.1	**2,311**	-
Provision for employees end of service benefits	19	**1,149**	1,125
Change in fair value of investments carried at fair value through profit or loss	5&22	**10,831**	(11,226)
Gain on disposal of investments carried at fair value through profit or loss	22	**(6,145)**	(32,106)
Gain on disposal of shares from an investment in associate	22	**(1,349)**	-
Share of profit of associates	10	**(17,155)**	(16,077)
Revaluation gain on associate	10&22	**-**	(1,738)
Dividend income	22	**(30,849)**	(25,485)
Gain on disposal of property and equipment		**-**	(1)
Finance costs		**6,536**	5,094
Interest income	22	**(1,447)**	(1,123)
		48,405	(19,388)
Working capital changes:			
Insurance balances receivable and prepayments		**29,961**	16,018
Trade and other payables		**(24,402)**	(13,125)
Cash from (used in) operations		**53,964**	(16,495)
Finance costs paid		**(6,536)**	(5,094)
Employees' end of service benefits paid	19	**(2,520)**	(1,993)
Net cash from (used in) operating activities		**44,908**	(23,582)
INVESTING ACTIVITIES			
Purchase of property and equipment	11	**(34)**	(1,143)
Proceeds from disposal of property and equipment		**-**	1
Additions to investment property under development	8	**(4,543)**	-
Purchase of investments carried at fair value through other comprehensive income	4	**-**	(30,083)
Proceeds from disposal of investments carried at fair value through other comprehensive income		**58,415**	-
Purchase of investments carried at fair value through profit or loss	5	**(315,041)**	(263,719)
Proceeds from disposal of investments carried at fair value through profit or loss		**219,689**	269,115
Purchase of right issue shares of an associate		**(7,796)**	-
Proceeds from disposal of shares in associate	10	**3,777**	-
Capital reduction of a subsidiary – non-controlling interest		**-**	(500)
Acquisition of a subsidiary, net of cash acquired		**-**	(8,673)
Dividends received from associates	10	**5,902**	5,169
Term deposits		**(20,972)**	(4,048)
Interest received		**1,447**	1,123
Dividends received		**30,849**	25,485
Net cash used in investing activities		**(28,307)**	(7,273)
FINANCING ACTIVITY			
Dividends paid		**(31,050)**	(20,700)
Cash used in financing activity		**(31,050)**	(20,700)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(14,449)**	(51,555)
Cash and cash equivalents at the beginning of the year		**(130,521)**	(78,966)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	**(144,970)**	(130,521)

The attached notes 1 to 31 form part of these consolidated financial statements.

1 GENERAL INFORMATION

Al Wathba National Insurance Company PJSC (the "Company"), incorporated in Abu Dhabi is registered as a public shareholding company in accordance with the UAE Federal Law No. (8) of 1984 (as amended). The Federal Law No. (2) of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. (8) of 1984.

The Company is registered in accordance with UAE Federal Law No. (6) of 2007 Concerning the Establishment of Insurance Authority and Organisation of its Operations and Insurance Authority Board Decision No. (25) of 2014 Pertinent to Financial Regulations for Insurance Companies, and is registered in the Insurance Companies Register under registration No. 10.

The Company's principal activity is the transaction of general insurance and re-insurance business of all classes. The Company operates through its head office in Abu Dhabi and branch offices in Dubai, Al Ain, and Sharjah. The Company is domiciled in the United Arab Emirates and its registered head office is P.O. Box 45154, Abu Dhabi, United Arab Emirates.

The Company's ordinary shares are listed in the Abu Dhabi Securities Exchange.

These consolidated financial statements includes the financial performance and position of the Company and its subsidiary (collectively referred to as the "Group").

The Group's consolidated financial statements were approved for issuance by the Board of Directors on 27 March 2018.

2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention as modified for re-measurement of investment securities and investment properties at fair value.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of UAE Federal Law No. (2) of 2015, UAE Federal law No. (6) of 2007 and Insurance Authority Board Decision No. (25) of 2014.

The consolidated financial statements are presented in United Arab Emirates Dirhams (AED) being the functional currency of the Group.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses will not be offset unless required or permitted by any accounting standard or interpretation.

The Group presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in note 26.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial results of the Company and those of its following subsidiary:

Subsidiary	*Principal activity*	*Country of incorporation*	*Ownership*
Vision Capital Brokerage LLC	Brokerage services	United Arab Emirates	99% (2016: 99%)

2.2 BASIS OF CONSOLIDATION continued

The Subsidiary is fully consolidated from the date on which control is transferred to the Company. The Company exercises control over the subsidiary listed above. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The financial statements of subsidy is prepared for the same reporting year as the Group, using consistent accounting policies.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

During the year the Group has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2017:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendment was issued in January 2016 with the intention to improve disclosures of financing activities and help users to better understand reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their liabilities as a result of financing activities such as changes from cash flows and non-cash items. The amendment does not impact the consolidated financial statements of the Group.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendment does not impact the consolidated financial statements of the Group.

2.4 SIGNIFICANT ACCOUNTING POLICIES

Insurance contract
Classification
The Group issues contracts that transfer either insurance risk or both insurance and financial risks. The Group does not issue contracts that transfer only financial risks.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Group to pay significant additional benefits due to occurrence of the insured event as compared to the non - occurrence. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

Premiums
Gross premiums written reflect amounts recognised during the year to policyholders or other insurers for insurance contracts, and exclude any fees and other amounts calculated based on premiums. These are recognised when the underwriting process is complete.

Premiums include any adjustments in respect of business written in prior accounting periods. The earned portion of premiums is recognised as income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below:

Unearned premium provision
Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a reserve for unearned premiums.

Unexpired risk reserve
Unexpired risk reserve represent the portion of the premium subsequent to the financial statement date and where the premium is expected to be insufficient to cover anticipated claims, expenses and a reasonable profit margin.

2.4 SIGNIFICANT ACCOUNTING POLICIES continued

Insurance contract continued

Provision for premium deficiency / liability adequacy test

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

Claims

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the consolidated financial statements of the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly.

Reinsurance

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

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

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

Commission earned

Commission earned are recognised as revenue over the period in which the related services are performed.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of income.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

2.4 SIGNIFICANT ACCOUNTING POLICIES continued

Insurance contract continued
Insurance contract liabilities
Insurance contract liabilities include claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER), premium deficiency reserve (PDR), outstanding claims (OSLR), provision for unearned premium (UPR), provision for unexpired risk reserve (URR) and the provision for allocated and unallocated loss adjustment expenses (ALAE/ULAE).

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the consolidated statement of financial position date, in addition for claims incurred but not reported.

The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the consolidated statement of financial position date. Unearned premiums are calculated on a time proportion basis over the effective period of the policy. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. The Group provides unearned premium reserve based on actual terms of the policy.

The liability relating to IBNR, IBNER, ALAE/ULAE and PDR reserve 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.

The reinsurers' portion towards the above contract liabilities is classified as reinsurance contract assets in the consolidated financial statements.

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

Rental income
Rental income from investment properties is recognised on a straight-line basis over the term of the lease and is stated net of related expenses.

Interest income
Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable.

Dividend income
Dividend income is recognised when the right to receive dividend is established. Usually this is the ex-dividend date for equity securities.

Investment income
Interest income is recognised in the consolidated statement of income as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established.

Realised and unrealised gain
Net gains/losses on financial assets classified at fair value through profit or loss and fair value through other comprehensive income are described under the accounting policy for financial assets and liabilities.

2.4 SIGNIFICANT ACCOUNTING POLICIES continued

Finance cost
Interest paid is recognised in the consolidated statement of income as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

Financial assets
Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the investments. Financial assets are measured either at amortised cost or fair value.

Debt instruments are measured at amortised cost only if:

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

If either of the two criteria is not met the financial instrument is classified at fair value through profit or loss. Further, even if the asset meets the amortised cost criteria, the Group may choose at initial recognition to designate the financial asset as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. Interest and dividends income on investments classified as fair value through profit or loss are included in 'interest income' and 'dividend income' in the consolidated statement of income.

Investments in equity instruments are classified and measured at fair value through profit or loss except if the equity investment is not held for trading and is designated by the Group at fair value through other comprehensive income. If the equity investment is designated at fair value through other comprehensive income, all gains and losses, except for dividend income recognised in accordance with IAS 18 Revenue, are recognised in consolidated statement of other comprehensive income and are not subsequently reclassified to the consolidated statement of income.

Impairment of financial assets
The Group assesses at each consolidated statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost (such as amounts due from banks and debt instruments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of financial assets continued
Financial assets carried at amortised cost continued
If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. Financial assets at amortised cost together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Other income'.

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

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of assets, as follows:

Building	20 years
Furniture and fixtures	2-4 years
Motor vehicles	4 years
Computer equipments	4 years

Land is not depreciated. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair values less costs to sell and their values in use. Impairment losses are recognised in the consolidated statement of income.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

2.4 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

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

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

2.4 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

Investment in associates
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of income. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

On acquisition of the investment in an associate, any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is accounted for as goodwill (negative goodwill) in accordance with IFRS 3 Business Combinations.

2.4 SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets' or cash-generating units' recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill is allocated. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Fair value measurement
The Group measures financial instruments, such as investments carried at fair value through other comprehensive income and investments carried at fair value through profit or loss and non-financial assets such as investment properties, at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

2.4 SIGNIFICANT ACCOUNTING POLICIES continued

Fair value measurement continued
The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 27.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria for valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

The management, in conjunction with the Group's external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.4 SIGNIFICANT ACCOUNTING POLICIES continued

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and could be reliably measured.

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

With respect to its national employees, the Group makes contributions to the Abu Dhabi Pension and Retirement Fund calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements.

Classification of investments
Management designates at the time of acquisition of securities whether these should be classified as at fair value through other comprehensive income, fair value through profit or loss or amortised cost. In judging whether investments in securities are as at fair value through other comprehensive income, fair value through profit or loss or amortised cost, Management has considered the detailed criteria for determination of such classification as set out in IFRS 9 Financial Instruments. Management is satisfied that its investments in securities are appropriately classified.

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recorded in the statements of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provision for unearned premium reserve and unexpired risk reserve
Unearned premium reserve (UPR) includes unexpired risk reserve (URR), which is estimated 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 carrying value at the consolidated statement of financial position date of UPR and URR reserve (net of related reinsurance asset) is AED 83.4 million (2016: AED 66.0 million).

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Estimation uncertainty continued

Provision for incurred but not reported claims (IBNR)

Estimates are made 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.

The ultimate cost of outstanding claims is estimated by an independent qualified consultant using the chain ladder and Bornhuetter-Ferguson actuarial techniques. The main assumption underlying those techniques are that the Group's past claims development experience which can be used to project future claims development and hence ultimate claims cost.

The carrying value at the consolidated statement of financial position date of IBNR (net of related reinsurance receivable) is AED 22.3 million (2016: AED 20.3 million).

Provision for outstanding claims

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Group generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters along with the Group's internal legal counsel normally estimate such claims.

The carrying value at the consolidated statement of financial position date of provision for outstanding claims (net of related reinsurance receivables) is AED 48.6 million (2016: AED 44.6 million). Further, the Group has made a provision of AED 17.1 million (2016: AED 13.6 million) in respect of claims requiring court or arbitration decisions.

Reinsurance

The Group is exposed to disputes with, and possibility of defaults by its reinsurer. The Group monitors on a monthly basis the evolution of disputes with and the strength of its reinsurer.

Impairment of accounts receivable

An estimate of the collectible amount of policy holders balances is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates. At the consolidated statement of financial position date, gross insurance receivable balances were AED 71.4 million (2016: AED 76.6 million), and the provision for doubtful debts was AED 20.3 million (2016: AED 17.9 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

Estimation of fair value of investment properties

The fair value of investment properties is determined by independent real estate valuation consultants based on Comparative Method of Valuation method.

Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual values realised.

Under the Comparative Method of Valuation the fair value is determined by considering recent prices of similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices.

As a result of the fair value assessment, there was an increase in fair value of AED 15.4 million (2016: AED 0.3 million) recognised in the consolidated income statement for the year.

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 addresses all aspects of financial instruments including classification and measurement, impairment and hedge accounting.

Classification and measurement of financial assets and financial liabilities
The standard requires the Group to recognise financial assets that are within the scope of IFRS 9 to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Based on these criteria, financial instruments are measured at amortised cost, fair value through OCI, or fair value through profit or loss.

Equity investments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a non-trading equity investment, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to profit and loss, while recognising dividend income in profit and loss.

In addition, the Group may, at initial recognition, irrevocably elect to designate a financial asset as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

Effective 1 January 2011, the Group early adopted IFRS 9 'Financial Instruments' in line with the transitional provisions of IFRS 9.

Impairment of financial assets
In relation to the impairment of financial assets, IFRS 9 requires an Expected Credit Loss ("ECL") model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on all classes of financial assets, other than those that are measured as fair value through profit or loss and equity instruments classified and measured as FVOCI. The financial assets subject to impairment requirements of IFRS 9, include; i) debt investments subsequently measured at amortised cost or at FVOCI, ii) lease receivables, iii) contract assets and iv) loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply. In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 month ECL. IFRS 9 provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, and contract assets in certain circumstances.

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

Impairment of financial assets continued
On the date of initial application, management reviewed and assessed the Group's existing financial assets for impairment in accordance with the guidance included in IFRS 9, to determine the credit risk associated with the respective financial assets and concluded that there is no material impact on the Group's financial assets with regards to impairment requirements of IFRS 9.

IFRS 15: Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. This standard is not applicable to the Group, as the Group will adopt IFRS 17 Insurance Contracts, which will become effective for reporting periods beginning on or after 1 January 2021.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group plans to adopt the standard on the required effective date.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. This standard is not applicable to the Group.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. This standard is not applicable to the Group as it does not have share-based payment schemes.

Amendments to IAS 40: Transfers of Investment Property
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. The Group plans to adopt the standard on the required effective date.

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

Annual Improvements 2014-2016 cycle
These improvements include:

IFRS 1 ***First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters***

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 ***Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice***
The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Group.

IFRIC Interpretation 22 ***Foreign Currency Transactions and Advance Consideration***
The Interpretation addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. These amendments are not applicable to the Group.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation

Or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

IFRIC Interpretation 23 ***Uncertainty over Income Tax Treatment***
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group does not expect any effect on its consolidated financial statements.

3 CASH AND CASH EQUIVALENTS

	2017	*2016*
	AED'000	*AED'000*
Bank and cash	**43,619**	60,985
Statutory deposit	**6,000**	6,000
Term deposits	**59,469**	38,497
Cash and bank balances	**109,088**	105,482
Less: bank overdrafts	**(188,589)**	(191,506)
Less: term deposits with original maturity over 3 months	**(59,469)**	(38,497)
Less: statutory deposits	**(6,000)**	(6,000)
Cash and cash equivalents	**(144,970)**	(130,521)

Geographical concentration of cash and bank balances including bank overdrafts is as follows:

	2017	*2016*
	AED'000	*AED'000*
Within UAE	**(79,501)**	(86,024)

Term deposits are held with financial institutions in UAE, with an original maturity of twelve months. Interest is receivable at annual rates ranging from 0.85 % to 3.25% per annum (2016: 0.85% to 3% per annum).

In accordance with the requirements of UAE Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its Operations, the Group maintains a bank deposit of AED 6 million (2016: AED 6 million) which cannot be utilised without the consent of the UAE Insurance Authority.

4 INVESTMENTS CARRIED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group's investments carried at fair value through other comprehensive income at the end of the reporting period are detailed below.

	2017 *AED 000*	*2016* *AED 000*
Quoted securities	**152,321**	217,751
Unquoted securities	**26,684**	25,935
	179,005	243,686

Certain securities are registered in the name of a director on behalf of the Group. The fair value of these securities as at 31 December 2017 was AED 6.5 million (2016: AED 6.2 million).

The movement in investments carried at fair value through other comprehensive income during the year is as follows:

	2017 *AED'000*	*2016* *AED'000*
Fair value at 1 January	**243,686**	190,544
Additions	**-**	30,083
Disposals	**(58,112)**	-
Change in fair value	**(6,569)**	23,059
Fair value at 31 December	**179,005**	243,686

The geographical distribution of investments carried at fair value through other comprehensive income is as follows:

	2017 *AED'000*	*2016* *AED'000*
Within UAE	**171,212**	236,119
Outside UAE	**7,793**	7,567
	179,005	243,686

5 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments at fair value through profit or loss consist of quoted investments in UAE securities.

The movement in investments at fair value through profit or loss is as follows:

	2017 *AED'000*	*2016* *AED'000*
Fair value at 1 January	**333,041**	295,105
Additions	**315,041**	263,719
Disposals	**(213,544)**	(237,009)
Change in fair value (note 22)	**(10,831)**	11,226
Fair value at 31 December	**423,707**	333,041

5 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS continued

The geographical distribution of investments at fair value through profit or loss is as follows:

	2017 *AED'000*	*2016* *AED'000*
Within UAE	**423,707**	333,041

6 INVESTMENTS AT AMORTISED COST

Included in investments at amortised cost is a five-year sukuk amounting to AED 5,000 thousand (31 December 2016: AED 5,000 thousand) which carries interest of 6-month EIBOR + 300 bps or 7.5%, whichever is higher.

7 INSURANCE RECEIVABLES AND PREPAYMENTS

	2017 *AED'000*	*2016* *AED'000*
Due from policyholders	**43,688**	37,243
Due from policyholders – related parties	**15,153**	11,831
Due from insurance and reinsurance companies	**12,579**	27,533
	71,420	76,607
Less: allowance for impaired receivables	**(20,302)**	(17,905)
Insurance balances receivable	**51,118**	58,702
Margin trading receivables	**-**	15,919
Amounts due from securities markets	**-**	6,265
Prepayments	**1,113**	1,727
Accrued income	**1,604**	2,918
Other receivables	**3,360**	4,080
Prepayments and other receivables	**6,077**	30,909
	57,195	89,611

Impaired receivables of AED 39,072 thousand (2016: AED 22,936 thousand) have a provision of AED 20,302 thousand (2016: AED 17,905 thousand) recorded against them.

As at 31 December, the ageing of unimpaired insurance receivables is as follows:

			Past due but not impaired			
	Total *AED '000*	*Neither past due nor impaired* *AED '000*	*31-90 days* *AED '000*	*91 - 180 days* *AED '000*	*180 - 365 days* *AED '000*	*Above 365 days* *AED '000*
31 December 2017						
Insurance receivables	**19,769**	**8,343**	**5,665**	**5,474**	**287**	**-**
31 December 2016						
Insurance receivables	26,138	5,878	6,765	6,096	4,413	2,986

7 INSURANCE RECEIVABLES AND PREPAYMENTS continued

The movement in the allowance for impaired receivables is as follows:

	2017 *AED'000*	*2016* *AED'000*
At 1 January	**17,905**	9,793
Charge for the year	**9,262**	10,766
Amounts written off during the year	**(58)**	(72)
Amounts recovered during the year	**(6,807)**	(2,582)
At 31 December	**20,302**	17,905

8 INVESTMENT PROPERTY UNDER DEVELOPMENT

	2017 *AED'000*	*2016* *AED'000*
At 1 January	-	-
Additions during the year	4,543	-
At 31 December	4,543	-

During the year, management decided to construct a new residential tower on a plot of land located in Dubai which is expected to be completed in 2019. The balance included within investment property under development as at 31 December 2017 relates to architectural design works. The construction work is planned to start during 2018.

9 INVESTMENT PROPERTIES

	Land *AED '000*	*Buildings* *AED '000*	*Total* *AED'000*
2017			
At 1 January 2017	**78,650**	**259,648**	**338,298**
Changes in fair value	**12,884**	**2,529**	**15,413**
At 31 December 2017	**91,534**	**262,177**	**353,711**
2016			
At 1 January 2016	73,000	265,017	338,017
Changes in fair value	5,650	(5,369)	281
At 31 December 2016	78,650	259,648	338,298

9 INVESTMENT PROPERTIES continued

Investment properties include:

(i) Abu Dhabi Head Office building

The Group occupies three floors of the building for its Head Office with the remaining sixteen floors available for letting to third parties. The fair value of this property is estimated to be AED 179.45 million (2016: AED 172.06 million).

(ii) Al Jumeirah Island Commercial villas

This property consists of five villas in Dubai available for letting to third parties. The fair value of this property is estimated to be AED 29.43 million (2016: AED 29.5 million).

(iii) Al Nakheel flat

This property is located at Al Nakheel building, The Greens; Dubai, and is available for letting to third parties. The fair value of this property is estimated to be AED 1.73 million (2016: AED 1.85 million).

(iv) Land in Dubai Technology, Electronic, Commerce and Media Free Zone Authority

The freehold land in Dubai was purchased in 2004. The fair value of this plot of land in Dubai is estimated to be AED 91.53 million (2016: AED 78.65 million).

(v) New York residential condominium units

Three condominium units, being unit no's.11D 14A and 14B located in New York, United States of America. The fair value of these properties are estimated to be AED 51.56 million (2016: AED 56.24 million).

The property rental income earned by the Group from its investment properties, part of which is leased out under operating leases and the direct operating expenses arising on the investment properties are as follows:

	2017 AED'000	*2016 AED'000*
Rental income	**13,472**	15,653
Direct operating expenses	**(4,357)**	(5,072)
	9,115	10,581

The fair value of the Group's investment properties as at 31 December 2017 and 2016 has been arrived by management by reference to valuation carried out on the respective dates by an independent valuer not related to the Group. The independent valuer has appropriate qualifications and recent experience in the valuation of properties in the relevant locations.

The fair value of land and buildings was determined based on the market comparable approach that reflects recent transaction prices for similar properties or quotes/bid prices for same or similar assets. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

10 INVESTMENT IN ASSOCIATES

Details of Group's associates as of 31 December are as follows:

Name of the associate	*Principal activities*	*Place of incorporation*	***2017 Ownership interest %***	*2016 Ownership interest %*
Vision Insurance SAOC	Insurance business	Sultanate of Oman	**17.53%**	20%
UR International Insurance	Insurance business	Iraq	**40%**	40%
FOODCO Holding PJSC	Import and distribution of food stuff	United Arab Emirates	**23%**	23%

The movement on investment in associates during the year is as follows:

	2017 AED'000	*2016 AED'000*
At 1 January	**132,198**	131,918
Share of profit for the year	**17,155**	16,077
Share of other comprehensive loss of associates	**(814)**	(6,028)
Purchase of right issue shares	**7,796**	-
Disposal of shares	**(2,428)**	-
Fair value gain of previously held interest in VCB (note 22)	-	1,738
Less: transfer to investment in subsidiary	-	(6,338)
Less: cash dividends received	**(5,902)**	(5,169)
At 31 December	**148,005**	132,198

During the year, the Group disposed 2,474,100 shares of its investment in Vision Insurance SAOC, for a consideration of AED 3,777 thousand, which resulted in a gain of AED 1,349 thousand being recognised (note 22). The ownership interest of Vision Insurance SAOC as at 31 December 2017 is 17.53% (2016: 20%). The investment continues to be classified as an investment in associate, as significant influence exists as a result of having a representation on the board of directors of the investment.

10 INVESTMENT IN ASSOCIATES continued

The summarised financial information in respect of the Group's associates is set out below:

	FOODCO Holding PJSC AED'000	*Vision Insurance SAOC AED'000*	*UR International Insurance AED'000*	*Total AED'000*
2017				
Total assets	**1,021,539**	**415,428**	**21,716**	**1,458,683**
Total liabilities	**(505,334)**	**(282,559)**	**(4,341)**	**(792,234)**
Net assets	**516,205**	**132,869**	**17,375**	**666,449**
Group's share of associates' net assets	**117,769**	**23,286**	**6,950**	**148,005**
Total revenue	**256,517**	**72,940**	**4,742**	**334,199**
Profit for the year	**61,102**	**15,587**	**1,208**	**77,897**
Group's share of associates' profit for the year	**13,940**	**2,732**	**483**	**17,155**
2016				
Total assets	874,033	189,892	21,579	1,085,504
Total liabilities	(398,505)	(109,266)	(2,341)	(510,112)
Net assets	475,528	80,626	19,238	575,392
Group's share of associates' net assets	108,489	16,125	7,584	132,198
Total revenue	221,011	144,937	5,094	371,042
Profit for the year	56,744	9,527	2,189	68,460
Group's share of associates' profit for the year	13,297	1,905	875	16,077

11 PROPERTY AND EQUIPMENT

	Building and land AED'000	*Furniture and fixtures AED'000*	*Motor vehicles AED'000*	*Computer equipment's AED'000*	*Total AED'000*
31 December 2017					
Cost:					
1 January 2017	4,741	14,172	625	761	20,299
Additions	-	7	27	-	34
Write-off	-	(4,470)	-	-	(4,470)
At 31 December 2017	**4,741**	**9,709**	**652**	**761**	**15,863**
Accumulated depreciation:					
1 January 2017	1,896	11,809	434	15	14,154
Charge for the year	316	1,150	120	335	1,921
Write-off	-	(4,470)	-	-	(4,470)
At 31 December 2017	**2,212**	**8,489**	**554**	**350**	**11,605**
Net carrying amount:					
At 31 December 2017	**2,529**	**1,220**	**98**	**411**	**4,258**
31 December 2016					
Cost:					
1 January 2016	4,741	13,476	634	-	18,851
Additions	-	272	110	761	1,143
Acquisition of a subsidiary (note 29)	-	424	119	-	543
Disposals	-	-	(238)	-	(238)
At 31 December 2016	4,741	14,172	625	761	20,299
Accumulated depreciation:					
1 January 2016	1,580	9,367	599	-	11,546
Charge for the year	316	2,442	73	15	2,846
Disposals	-	-	(238)	-	(238)
At 31 December 2016	1,896	11,809	434	15	14,154
Net carrying amount:					
At 31 December 2016	2,845	2,363	191	746	6,145

12 SHARE CAPITAL

	2017 AED'000	*2016 AED'000*
Authorised, issued and fully paid		
207,000,000 (31 December 2016: 207,000,000) ordinary shares of AED 1 each	**207,000**	207,000

At the Annual General Meeting held on 17 April 2017, the shareholders approved the distribution of cash dividends of AED 0.15 per share amounting to AED 31,050,000 (31 December 2016: AED 0.10 per share amounting to AED 20,700,000).

13 RESERVES

Legal reserve
As required by the U.A.E. Federal Law No. (2) of 2015, 10% of the profit for the year has been transferred to the legal reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of the issued share capital. This reserve is not available for distribution.

At the Annual General Meeting held on 20 April 2016, the shareholders approved the transfer of AED 27,354 thousand to legal reserve in order to equal it to 50% of the issued share capital.

Statutory reserve
As required by the Company's Articles of Association, 10% of the profit for the year is required to be transferred to the statutory reserve until the balance of the statutory reserve equals 25% of the Company paid up share capital. This reserve is not available for distribution. The Company has resolved to discontinue such annual transfers since the reserve totals 25% of the issued share capital.

General reserve
Transfers to and from the general reserve are made at the discretion of the Board of Directors as per the authority granted to them in the Company's Articles of Association. This reserve may be used for such purposes as they deem fit.

The Board of Directors proposed a transfer of AED 21,153 thousand from retained earnings to general reserve, which was approved in the Annual General Meeting held on 17 April 2017.

Capital reserve
In accordance with the Board of Directors' resolution which was adopted by the Shareholders in their Annual General Meeting held on 19 May 1999, this reserve is earmarked for the settlement of any claims with respect to compensating the previous non-national shareholders of the Company. There was no payment made to these shareholders during the year (2016: nil).

14 PROPOSED CASH DIVIDENDS

In respect of the current year, the Board of Directors propose a cash dividend of AED 0.15 per share (2016: AED 0.15 per share) amounting to AED 31.05 million (2016: AED 31.05 million). The cash dividend are subject to the approval of the Shareholders at the Annual General Meeting.

15 INSURANCE CONTRACT LIABILITIES AND RE-INSURANCE CONTRACT ASSETS

Gross outstanding claims reserve, claims incurred but not reported reserve (IBNR), unearned premiums reserve, and related reinsurers' share is as follows:

	2017 *AED'000*	*2016* *AED'000*
Insurance contract liabilities		
Outstanding claims reserve (i) (note 17)	**173,205**	189,947
Claims incurred but not reported reserve (note 17)	**32,014**	41,840
Unearned premium reserve (ii) (note 16)	**102,346**	97,346
	307,565	329,133
Re-insurance contract assets		
Outstanding claims reserve (note 17)	**124,594**	145,298
Claims incurred but not reported reserve (note 17)	**9,677**	21,509
Unearned premium reserve (note 16)	**18,981**	31,352
	153,252	198,159
Insurance liabilities - net		
Outstanding claims reserve (i) (note 17)	**48,611**	44,649
Claims incurred but not reported reserve (note 17)	**22,337**	20,331
Unearned premium reserve (ii) (note 16)	**83,365**	65,994
	154,313	130,974

(i) Outstanding claims reserve includes allocated and unallocated loss adjustment expenses reserve of AED 3,532 thousand (2016: AED 3,494 thousand).

(ii) Unearned premium reserve includes gross unexpired risk reserve of AED 1,506 thousand (2016: AED 1,671 thousand) and AED 172 thousand net of reinsurance (2016: AED 308 thousand).

Actuarial valuation for Incurred But Not Reported Reserve (IBNR), Allocated and Unallocated Loss Adjustment Expenses Reserve (ALAE/ULAE), Premium Deficiency Reserve (PDR), Unexpired Risk Reserve (URR) and related assumptions.

Incurred but not reported (IBNR) reserve and allocated and unallocated loss adjustment expenses reserves (ALAE/ULAE) are calculated by external actuaries using a selection of actuarial methods. The analysis is segmented by line of business to provide enough credible and homogeneous claims data and different methods are used to take into account different claim development trends for each line of business. IBNR and ALAE /ULAE are calculated both gross and net of reinsurance using actual reinsurance data to ensure the correct impact of reinsurance is reflected in the reserves.

Premium Deficiency Reserve (PDR) and Unexpired risk reserve (URR) is calculated by external actuaries using a selection of actuarial methods on those lines of business where the unearned premiums is not adequate to meet the expected future liabilities from claims, commissions and expenses. Actuaries analyzed the expected losses on the in-force policies separately for each of these lines of business using a selection of actuarial method. Actual commission payouts and expected expenses on the in-force portfolio were used to calculate premium deficiency reserves. PDR also includes consideration of cost of capital or other profit loadings. Additional URR is held for lines of business where the risk is not linear across the policy term.

16 UNEARNED PREMIUM RESERVE

The movement in the unearned premium reserve, and the related reinsurers share, was as follows:

	2017			*2016*		
	Gross AED '000	***Reinsurers' share AED '000***	***Net AED '000***	*Gross AED '000*	*Reinsurers' share AED '000*	*Net AED '000*
Unearned Premium reserve						
At 1 January	**97,346**	**(31,352)**	**65,994**	93,597	(31,408)	62,189
Earned during the year	**(232,169)**	**103,308**	**(128,861)**	(291,032)	149,152	(141,880)
Written during the year	**237,169**	**(90,937)**	**146,232**	294,781	(149,096)	145,685
At 31 December	**102,346**	**(18,981)**	**83,365**	97,346	(31,352)	65,994

17 OUTSTANDING CLAIMS RESERVE AND CLAIMS INCURRED BUT NOT REPORTED RESERVE

The movement in the provision for outstanding claims reserve, claims reported but not reported reserve and the related reinsurers share, was as follows:

	31 December 2017			*31 December 2016*		
	Gross AED'000	***Re-insurance AED'000***	***Net AED'000***	*Gross AED'000*	*Re-insurance AED'000*	*Net AED'000*
Claims						
Outstanding claims reserve	**189,947**	**(145,298)**	**44,649**	171,783	(122,811)	48,972
Claims incurred but not reported reserve	**41,840**	**(21,509)**	**20,331**	31,497	(8,707)	22,790
Total at 1 January	**231,787**	**(166,807)**	**64,980**	203,280	(131,518)	71,762
Claims paid during the year	**(144,547)**	**70,482**	**(74,065)**	(230,309)	89,799	(140,510)
Increase (decrease) in liabilities	**117,979**	**(37,946)**	**80,033**	258,816	(125,088)	133,728
Total at 31 December	**205,219**	**(134,271)**	**70,948**	231,787	(166,807)	64,980
Outstanding claims reserve including ALAE and ULAE	**173,205**	**(124,594)**	**48,611**	189,947	(145,298)	44,649
Claims incurred but not reported reserve	**32,014**	**(9,677)**	**22,337**	41,840	(21,509)	20,331
Total at 31 December	**205,219**	**(134,271)**	**70,948**	231,787	(166,807)	64,980

18 TRADE AND OTHER PAYABLES

	2017 AED'000	*2016 AED'000*
Trade payables	**21,025**	25,835
Due to related parties (note 20)	**6,787**	3,877
Insurance and reinsurance balances payable	**14,242**	31,224
Accrued expenses	**20,214**	21,339
Dividends payable	**6,500**	6,604
Other payables	**14,385**	14,176
	83,153	103,055

Accounts payable are non-interest bearing and are normally settled on 60 to 90 days terms.

19 EMPLOYEES' END OF SERVICE BENEFITS

	2017 AED'000	*2016 AED'000*
Balance at 1 January	**9,056**	9,147
Acquired from subsidiary (note 29)	**-**	777
Charge for the year	**1,149**	1,125
Paid during the year	**(2,520)**	(1,993)
Balance at 31 December	**7,685**	9,056

20 RELATED PARTIES

Related parties represent major shareholders, directors and key management personnel of the Group, and the companies of which they are principal owners and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Compensation of key management personnel
Compensation of key management personnel of the Group, consisting of salaries and benefits, was AED 7.9 million (2016: AED 9.9 million) made up as follows:

	2017 AED'000	*2016 AED'000*
Short term benefits	**3,684**	3,923
Bonus	**4,000**	5,750
Employees' end of service benefits	**178**	179
	7,862	9,852

Transactions with related parties

Gross premiums written:		
Directors and related companies	**38,030**	36,332
Claims paid:		
Directors and related companies	**(8,910)**	(7,649)
Board remuneration	**(4,500)**	(4,500)

Balances with related parties

Due from related parties:		
Directors and related companies (note 7)	**15,153**	11,831
Due to related parties:		
Directors and related companies (note 18)	**(6,787)**	(3,877)

21 GENERAL AND ADMINISTRATIVE EXPENSES

	2017 AED'000	*2016 AED'000*
Staff costs (note 23)	**30,651**	33,871
Fees and licenses	**2,280**	3,548
Rent	**1,535**	1,814
Depreciation of property and equipment (note 11 & 23)	**1,921**	2,846
Provision for impaired receivables, net of reversals (note 7)	**2,455**	8,184
Write-off of intangible asset (note 29.1)	**2,311**	-
Others	**9,981**	11,524
	51,134	61,787
Allocated to:		
Underwriting	**38,849**	43,986
Other expenses	**12,285**	17,801
	51,134	61,787
Other expenses is allocated as follows:		
Other expenses from continuing operations	**9,092**	14,413
Other expenses from discontinuing operations (note 30)	**3,193**	3,388
	12,285	17,801

22 NET INVESTMENT INCOME

	2017 AED'000	*2016 AED'000*
Changes in fair value of investment properties (note 9)	**15,413**	281
Gain on disposal of investments at fair value through profit or loss	**6,145**	32,106
Changes in fair value of investments at fair value through profit or loss (note 5)	**(10,831)**	11,226
Gain on disposal of shares from an investment in associate (note 10)	**1,349**	-
Dividend income	**30,849**	25,485
Interest income	**1,447**	1,123
Fair value gain on acquirer's previously held equity interest (note 10)	-	1,738
Other income	**84**	982
	44,456	72,941

23 PROFIT FOR THE YEAR

Profit for the year was arrived at after charging:

	2017 AED'000	*2016 AED'000*
Staff costs (note 21)	**30,651**	33,871
Depreciation of property and equipment (note 11 & 21)	**1,921**	2,846

24 EARNINGS PER SHARE

Basic earnings per share amounts for the year are calculated by dividing profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

The following reflects the income and share data used in the earnings per share computations:

	2017	*2016*
Profit for the year attributable to equity holders of the parent (AED '000)	**72,252**	54,397
Weighted number of shares in issue throughout the year	**207,000,000**	207,000,000
Basic and diluted earnings per share (AED)	**0.35**	0.26

As of 31 December 2017 and 2016, the Group has not issued any instruments that have a dilutive impact on earnings per share when exercised.

25 RISK MANAGEMENT

Governance framework

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

Capital management objectives, policies and approach

The Group has established the following capital management objectives, policies and approach to manage the risks that affect its capital position.

The capital management objectives are:

- To maintain the required level of stability of the Group thereby providing a degree of security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To retain financial flexibility by maintaining strong liquidity;
- To align the profile of assets and liabilities taking account of risks inherent in the business;
- To hold sufficient capital to cover the statutory requirements;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders; and
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.

The operations of the Group are also subject to regulatory requirements within the United Arab Emirates where it operates.

25 RISK MANAGEMENT continued

Approach to capital management
The Group seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders.

The Group's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Group in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Group is equity funds provided by shareholders.

The Group has had no significant changes in its policies and processes relating to its capital structure during the past year from previous years.

No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016. Capital comprises share capital, legal reserve, statutory reserve, general reserve, capital reserve, investment revaluation reserve and retained earnings, and is measured at AED 851 million as at 31 December 2017 (2016: AED 821 million).

On 28 December 2014, the United Arab Emirates (UAE) Insurance Authority issued Financial Regulations for Insurance Companies and were then subsequently published in the UAE Official Gazette No. 575 on 28 January 2015 and came into force on 29 January 2015. The Group is subject to local insurance solvency regulations. The Group has incorporated in its policies and procedures the necessary tests to ensure compliance with such regulations. Insurance Authority allows an alignment period of up to three years for the insurance companies to be in compliance with the regulations.

As per the Federal Law No. (6) of 2007 Concerning the Establishment of the Insurance Authority & Organization of the Insurance Operations, the minimum capital requirement remains at AED 100 million for Insurance companies.

The table below summarises the Minimum Capital Requirement of the Company and the total capital held by the Group.

	2017	*2016*
	AED'000	*AED'000*
Total capital held by the Company	**207,000**	207,000
Minimum regulatory capital	**100,000**	100,000

26 INSURANCE AND FINANCIAL RISK

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

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

The chairman of the Insurance Authority vide Board of Directors' Decision No. (25) of 2014 dated 28th December 2014, issued Financial Regulation for Insurance Companies (FRIC) applicable to insurance companies incorporated in the UAE and the foreign insurance companies licensed to practice the activity in the UAE.

26 INSURANCE AND FINANCIAL RISK continued

Regulatory framework continued

The major highlights of the new regulation is summarized in the below table:

Regulation

1. Basis of Investing the Rights of the Policy Holders
2. Solvency Margin and Minimum Guarantee Fund
3. Basis of calculating the technical reserves
4. Determining the Group's assets that meet the accrued insurance liabilities
5. Records which the Group shall be obligated to organise and maintain as well as the data and documents that shall be made available to the Authority
6. Principles of organising accounting books and records of the Group, agents and brokers and determining data to be maintained in these books and records
7. Accounting policies to be adopted and the necessary forms needed to be prepare and present reports and financial statements

Insurance risk

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

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

Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders. The Group 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 reinsurance strategy of the Group is designed to protect exposures to individual risks and events based in current risk exposures through cost effective insurance agreements.

Frequency and amounts of claims

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

Fire and general accident

Property

For property insurance contracts the main risks are fire and business interruption.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Group has obtained necessary reinsurance covers to limit losses from individual claims.

Motor

For motor contracts, the main risks are claims for death and bodily injury and the replacement or repair of vehicles.

The level of court awards for deaths and to injured parties and the replacement costs of, and repairs to motor vehicles are the key factors that influence the level of claims. The Group has excess of loss protection to limit losses from individual claims.

26 INSURANCE AND FINANCIAL RISK continued

Insurance risk continued

Fire and general accident continued
Medical
For medical insurance, the main risks are claims for in-patient which includes the non-excluded cases of medical conditions or bodily injuries requiring hospitalization and claims for out-patient which includes physician consultation, diagnostic procedures, pharmaceuticals, therapies and minor day care surgery.

During the year, management decided to discontinue Medical insurance, where only one policy was written during the year, relating to the Group's employees. The policy has a facultative reinsurance arrangement of 50% to limit the losses (2016: excess of loss and treaty protection and necessary reinsurance covers to limit losses from individual claims).

Marine and aviation
For marine and aviation insurance, the main risks are loss or damage to marine hull, aviation craft and accidents resulting in the total or partial loss of cargoes. The underwriting strategy for the marine and aviation class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Group has obtained necessary reinsurance covers to limit losses from individual claims.

Concentration of insurance risk
The Group does not have any single insurance contract or small number of related contracts that cover low frequency, high-severity risks such as earthquakes, or insurance contracts covering risks for single incidents that expose the Group to multiple insurance risks. The Group has adequately reinsured for insurance risks that many involve significant litigation. The segmental concentration of insurance risk is set out in note 28.

Managing reinsurance risk
In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group 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.

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

Accident year	*2013 and earlier AED '000*	*2014 AED '000*	*2015 AED '000*	*2016 AED '000*	*2017 AED '000*	*Total AED '000*
Non-Motor- Gross:						
At the end of the accident year	501,802	114,722	58,923	99,120	41,531	816,098
One year later	502,377	128,536	68,994	111,921		811,828
Two year later	388,942	133,985	69,742			592,669
Three year later	333,767	136,095				469,862
Four year later	280,411					280,411
Current estimate of cumulative claims	280,411	136,095	69,742	111,921	41,531	639,700
Cumulative payments to date	(235,742)	(108,141)	(49,359)	(89,785)	(19,731)	(502,758)
Liability recognised in the statement of financial position	44,669	27,954	20,383	22,136	21,800	136,942

26 INSURANCE AND FINANCIAL RISK continued

Insurance risk continued

Claims development process continued

Accident year	*2013 and earlier AED '000*	*2014 AED '000*	*2015 AED '000*	*2016 AED '000*	*2017 AED '000*	*Total AED '000*
Motor- Gross:						
At the end of the accident year	566,180	83,074	81,276	87,515	105,427	923,472
One year later	566,441	93,237	89,356	95,251		844,285
Two year later	470,019	94,114	90,580			654,713
Three year later	375,677	94,217				469,894
Four year later	314,310					314,310
Current estimate of cumulative claims	314,310	94,217	90,580	95,251	105,427	699,785
Cumulative payments to date	(286,584)	(85,865)	(86,151)	(93,403)	(79,505)	(631,508)
Liability recognised in the statement of financial position	27,726	8,352	4,429	1,848	25,922	68,277

Financial risk
The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, market price risk and liquidity risk. Senior management reviews and agrees policies for managing each of these risks.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties.

The Group's five largest customers account for 26% of outstanding accounts receivable at 31 December 2017 (2016: 20%).

With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group manages credit risk on its cash deposits and investments by ensuring that counter parties have a good credit rating. The Group does not have an internal credit rating of counter parties and consider all counter parties with which the Group deals to be of the same high credit quality.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the Board of Directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

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

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

26 INSURANCE AND FINANCIAL RISK continued

Financial risk continued

Equity price risk continued
The following table estimates the sensitivity to a possible change in equity markets on the Group's total comprehensive income for the year, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

Market index	*Change in variables*	***31 December 2017 Impact on comprehensive income AED '000***	*31 December 2016 Impact on comprehensive income AED '000*
Abu Dhabi Securities Exchange	5%	**16,779**	18,690
Dubai Financial Market	5%	**11,990**	8,813
Other Markets	5%	**33**	37

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is not excessively exposed to interest rate risk as its interest sensitive assets are repriced frequently.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit based on interest bearing financial assets held at 31 December.

	Effect on profit AED '000
2017	
100 decrease in basis points	**1,231**
100 increase in basis points	**(1,231)**
2016	
100 decrease in basis points	1,470
100 increase in basis points	(1,470)

Currency risk
Foreign currency risk is the risk that financial instrument will fluctuate due to change in foreign exchange rates. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Management believes that there is a minimal risk of significant loss due to exchange rate fluctuations and consequently the Group does not hedge its foreign currency exposure.

The Group's major transactions in foreign currencies are in US Dollars. As the exchange rates of the UAE Dirham is pegged to the US Dollar, the Group is not subject to significant currency risk.

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

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

26 INSURANCE AND FINANCIAL RISK continued

Financial risk continued

Liquidity risk continued

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December 2017 and 31 December 2016, based on contractual payment dates and current market interest rates.

	Current Up to 1 year AED '000	*Non-current >1 year AED '000*	*Total AED '000*
31 December 2017			
Trade and other payables	**62,939**	**-**	**62,939**
Insurance contract liabilities	**307,565**	**-**	**307,565**
Total	**370,504**	**-**	**370,504**
31 December 2016			
Trade and other payables	81,716	-	81,716
Insurance contract liabilities	329,133	-	329,133
Total	410,849	-	410,849

The expected maturity profile of the assets at 31 December 2017 and 2016 is as follows:

	Current AED '000	*Non-current AED '000*	*Total AED '000*
31 December 2017			
Cash and bank balances	**103,088**	**6,000**	**109,088**
Investments carried at fair value through other comprehensive income	**-**	**179,005**	**179,005**
Investments carried at fair value through profit or loss	**423,707**	**-**	**423,707**
Investments at amortised cost	**-**	**5,000**	**5,000**
Insurance receivables and prepayments	**57,195**	**-**	**57,195**
Reinsurance contracts assets	**153,252**	**-**	**153,252**
Investment properties	**-**	**353,711**	**353,711**
Investment property under development	**-**	**4,543**	**4,543**
Investment in associates	**-**	**148,005**	**148,005**
Property and equipment	**-**	**4,258**	**4,258**
	737,242	**700,522**	**1,437,764**
31 December 2016			
Cash and bank balances	99,482	6,000	105,482
Investments carried at fair value through other comprehensive income	-	243,686	243,686
Investments carried at fair value through profit or loss	333,041	-	333,041
Investments at amortised cost	-	5,000	5,000
Insurance receivables and prepayments	89,611	-	89,611
Reinsurance contracts assets	198,159	-	198,159
Investment properties	-	338,298	338,298
Investment in associates	-	132,198	132,198
Property and equipment	672	5,473	6,145
Intangible assets	289	2,022	2,311
	721,254	732,677	1,453,931

Except for end of service benefits of AED 7,685 thousand (2016: AED 9,056 thousand), the Group expects its liabilities of AED 579,307 thousand (2016: AED 623,694 thousand) to mature in less than twelve months from the date of the consolidated statement of financial position.

26 INSURANCE AND FINANCIAL RISK continued

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

27 FAIR VALUES

Fair value of financial instruments and non-financial assets
Financial instruments comprise of financial assets and financial liabilities.

The fair values of the financial assets and liabilities of the Group are not materially different from their carrying values at the reporting date.

The following table shows the analysis of financial instruments and non-financial assets recorded at fair value by level of the fair value hierarchy:

	Level 1 AED '000	*Level 2 AED '000*	*Level 3 AED '000*	*Total AED '000*
At 31 December 2017				
Investments carried at fair value through profit or loss	**423,707**	-	-	**423,707**
Investments carried through other comprehensive income	**152,321**	-	**26,684**	**179,005**
	576,028	-	**26,684**	**602,712**
At 31 December 2016				
Investments carried at fair value through profit or loss	333,041	-	-	333,041
Investments carried through other comprehensive income	217,751	-	25,935	243,686
	550,792	-	25,935	576,727

During the reporting periods ended 31 December 2017 and 31 December 2016, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

Movement in level 3 for investments carried at fair value through other comprehensive income is as follows:

	2017 AED'000	*2016 AED'000*
Balance as at 1 January	**25,935**	25,785
Change in fair value	**749**	150
Balance at 31 December	**26,684**	25,935

The fair value of the financial assets is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values of non-financial assets:

The fair value of land and buildings (note 9) was determined based on the market comparable approach that reflects recent transaction prices for similar properties or quotes/bid prices for same or similar assets. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

28 SEGMENT REPORTING

For management purposes the Group is organised into departments based on the classes of insured risks. The reportable operating segments of the Group are fire and general accident, medical, marine, aviation and investments.

Management monitors the underwriting results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on underwriting profit. The following table presents disclosure of segment revenues, measurement of segment profit for the year and their reconciliation to the Group's income and profit for the year.

28.1 Segment revenue and results

	2017					*2016*				
	Marine and aviation AED'000	***Fire and general accident AED'000***	***Medical AED'000***	***Investments AED'000***	***Total AED'000***	*Marine and aviation AED'000*	*Fire and general accident AED'000*	*Medical AED'000*	*Investments AED'000*	*Total AED'000*
Gross premiums written	**8,654**	**226,757**	**1,758**	**-**	**237,169**	13,322	215,795	65,664	-	294,781
Reinsurance share of ceded premiums	**(7,129)**	**(82,829)**	**(979)**	**-**	**(90,937)**	(11,695)	(93,691)	(43,710)	-	(149,096)
Net change in unearned premium reserve	**91**	**(18,887)**	**1,425**	**-**	**(17,371)**	8	(11,729)	7,916	-	(3,805)
Net claims incurred	**(385)**	**(82,273)**	**2,625**	**-**	**(80,033)**	(812)	(76,202)	(56,714)	-	(133,728)
Net commission earned	**2,782**	**6,910**	**469**	**-**	**10,161**	2,627	9,580	(592)	-	11,615
Rental income	**-**	**-**	**-**	**9,115**	**9,115**	-	-	-	10,581	10,581
Share of profit of associates	**-**	**-**	**-**	**17,155**	**17,155**	-	-	-	16,077	16,077
Income from investments, net of finance costs	**-**	**-**	**-**	**38,043**	**38,043**	-	-	-	67,847	67,847
Net (loss) income from discontinued operations	**-**	**-**	**-**	**(3,140)**	**(3,140)**	-	-	-	1,892	1,892
Segment profit (loss) before allocated expenses	**4,013**	**49,678**	**5,298**	**61,173**	**120,162**	3,450	43,753	(27,436)	96,397	116,164
Allocated expenses	**(1,840)**	**(35,194)**	**(1,815)**	**-**	**(38,849)**	(2,239)	(34,721)	(7,026)	-	(43,986)
Segment profit (loss)	**2,173**	**14,484**	**3,483**	**61,173**	**81,313**	1,211	9,032	(34,462)	96,397	72,178
Unallocated expenses					**(9,092)**					(17,801)
Profit for the year					**72,221**					54,377

28 SEGMENT REPORTING continued

28.2 Segment assets and liabilities

	31 December 2017			*31 December 2016*		
	Underwriting AED '000	***Investments AED '000***	***Total AED '000***	*Underwriting AED '000*	*Investments AED '000*	*Total AED '000*
Segment assets	**245,940**	**1,183,873**	**1,429,813**	315,178	1,132,314	1,447,492
Unallocated assets			**7,951**			6,439
Total assets			**1,437,764**			1,453,931
Segment liabilities	**355,825**	**205,063**	**560,888**	390,991	214,616	605,607
Unallocated liabilities			**26,104**			27,143
Total liabilities			**586,992**			632,750
Capital expenditure	**34**	**-**	**34**	1,143	-	1,143

28.3 Segment revenue from underwriting departments

The following is an analysis of the Group's revenues (representing gross premiums and commission earned) classified by major underwriting departments.

	2017 AED'000	*2016 AED'000*
Motor	**182,382**	158,161
Engineering	**22,570**	21,204
Fire and general accidents	**49,059**	59,185
Marine and aviation	**11,590**	16,238
Life, medical and personal assurance	**2,815**	76,120
	268,416	330,908

28.4 Geographical segment

The Group's underwriting business is based entirely within UAE, except for treaty re-insurance arrangements which are held with companies based primarily in Europe. All the investments of the Group are held in the UAE except for certain investments in securities which are held in other countries and investment properties which are held in the United States of America (USA).

Total revenues (representing gross premiums and commission earned) and total assets by geographical location are detailed below:

	Revenue		***Total assets***	
	2017 AED'000	*2016 AED'000*	***2017 AED'000***	*2016 AED'000*
UAE	**255,339**	313,964	**1,271,282**	1,276,106
Europe	**13,077**	16,944	**65,228**	76,766
USA	**-**	-	**51,564**	56,243
Other countries	**-**	-	**49,690**	44,816
	268,416	330,908	**1,437,764**	1,453,931

29 BUSINESS COMBINATION

During 2016, the shareholders, at the Annual General Meeting held on 20 April 2016, approved the Company's acquisition of an additional 89% interest in the voting shares of Vision Capital Brokerage Company LLC (VCB), increasing its ownership interest to 99%. Consideration of AED 56.4 million was paid for the acquisition. Subsequent to the acquisition, the share capital of VCB was reduced from AED 60,000 thousand to AED 10,000 thousand, with the non-controlling interest of the reduction amounting to AED 500 thousand.

	Fair value recognised on acquisition AED'000
Furniture, equipment and vehicles (note 10)	543
Intangible assets – customer relations	2,581
Accounts receivable and prepayments	58,620
Bank and cash balances	6,539
Total assets	68,283
Employees' end of service benefits (note 18)	777
Accounts payable and accruals	4,129
Total liabilities	4,906
Total identifiable net assets at fair value	63,377
Non-controlling interest measured at fair value	(639)
Fair value of acquirer's previously held equity interest (note 9)	(6,338)
Purchase consideration	56,400

During 2017, based on the "Administrative Decision No.69 of 2017" dated 23 January 2017, the Company's Board of Directors resolved to liquidate VCB, which was approved by the shareholders in the Annual General Meeting held on 17 April 2017. As a result, the financial results of VCB have been presented in the consolidated financial statements as discontinued operations, and the intangible asset recognised on acquisition has been written off in full during the year.

29.1 INTANGIBLE ASSET

Intangible assets comprise the value of customer relations from the acquisition of VCB, which represents the value attributable to the business expected to be generated from customers that existed at the acquisition date.

Amortisation is recognised on a straight-line basis over the estimated useful life of eight years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. During the year, management decided to write-off the intangible asset balance, as a result of the decision to liquidate VCB.

	AED'000
2017	
At 1 January 2017	**2,311**
Write-off (note 21)	**(2,311)**
At 31 December 2017	-
2016	
Intangible asset recognised on acquisition of business	2,581
Amortisation during the year	(270)
At 31 December 2016	2,311

30 DISCONTINUING OPERATION

During the year ended 31 December 2017, the Company's Board of Directors have resolved to liquidate the subsidiary, Vision Capital Brokerage Company LLC (VCB). The Group expects to realise an amount equivalent to the net assets of VCB.

The results of VCB for the period ended 31 December 2017 is as follows:

a) Results for the period

	2017 *AED'000*	*2016* *AED'000*
Net commission income	**137**	1,031
Income from margin trading	**39**	861
Other expenses (note 21)	**(3,193)**	(3,388)
Finance costs	**(123)**	(219)
LOSS FOR THE YEAR	**(3,140)**	(1,715)

b) The carrying values of the identifiable assets and liabilities as at 31 December 2017 are as follows:

	2017 *AED '000*
ASSETS	
Current assets	
Accounts receivable, prepayments and other receivables	**303**
Bank balances and cash	**2,019**
TOTAL ASSETS	**2,322**
Current liabilities	
Employees' end of service benefits	**265**
Accounts payable and accruals	**115**
TOTAL LIABILITIES	**380**
NET ASSETS	**1,942**

31 COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities

At 31 December 2017, the Group had contingent liabilities in respect of outstanding letters of guarantee issued in the normal course of business, amounting to AED 7.5 million (2016: AED 7.5 million).

Legal claims

The Group, in common with the significant majority of insurers, is subject to litigation in the normal course of the business. The management, based on advice from independent loss adjusters and internal legal counsel, has made a provision of AED 17.1 million (2016: AED 13.6 million) representing amounts expected to result in a probable outflow of economic resources.