OMAN INSURANCE COMPANY P.S.C.
AND SUBSIDIARIES

Consolidated financial statements and
independent auditor's report
for the year ended 31 December 2017

OMAN INSURANCE COMPANY P.S.C. AND SUBSIDIARIES

Contents

Report of the Board of Directors

Dear Shareholders,

We have the pleasure in presenting you the 41st Annual Report of Oman Insurance Company for the year-ended 31 December 2017.

In brief, the gross written premium increased by 4.58% reaching AED 3.72 billion against AED 3.56 billion in 2016.

The 2017 technical profits were AED 116.9 million against AED 105.9 million in 2016.

Net incurred claims increased to AED 1,035 million against AED 949 million in 2016.

Net technical reserves reached AED 1.63 billion compared to AED 1.55 billion in 2016.

Net profit attributable to the owners of the company increased to AED 106.32 million in 2017 as against AED 80.82 million in 2016.

The segment analysis of the results are detailed as follows.

1) *General Insurance*:

Total premiums written in this division amounted to AED 1,958,010 thousand against AED 1,766,078 thousand in 2016, an increase of 10.87%. The net incurred claims amounted to AED 502,169 thousand against AED 418,047 thousand in 2016.

The division's share in the General and Administration expenses amounted AED 188,940 thousand against AED 169,043 thousand in 2016.

The division realized a net underwriting profit of AED 36,965 thousand against AED 75,706 thousand in 2016.

2) *Life Assurance*:

Premiums written in the Life and Medical Insurance division amounted to AED 1,760,231 thousand against AED 1,789,204 thousand in 2016, a decrease of 1.62%. The net incurred claims amounted to AED 532,502 thousand against AED 531,114 thousand in 2016.

The division's share of General and Administration expenses amounted to AED 102,922 thousand against AED 120,986 thousand in 2016.

The division realized a net underwriting profit of AED 79,925 thousand against profit of AED 30,176 thousand in 2016.

3) *Cash and Investments*:

The Company's cash and investments for this year stood at AED 3,004,462 thousand against AED 2,946,403 thousand in 2016 and the investment income was AED 76,377 thousand against AED 73,290 thousand in 2016.

Report of the Board of Directors (continued)

4) *Assets and shareholders equity:*

Shareholders equity reached AED 2,060,827 thousand against AED 1,957,093 thousand in 2016.

The total assets of the Company at the end of year 2017 stood at AED 7,404,690 thousand as against AED 7,255,936 thousand at the end of year 2016.

Profit and Loss and Appropriation Account:

The net profit attributable to owners of the Company for the year 2017 is AED 106,321 thousand against AED 80,822 thousand in 2016 and further detailed below:

	2017 AED'000	2016 AED'000
Profits brought forward	**352,729**	376,362
Net profit for the year attributable to owners of the company	**106,321**	80,822
	459,050	457,184
Other comprehensive loss	**(50,267)**	(37,887)
Transfer to general reserve	-	(19,724)
Cash dividends paid	**(46,187)**	(46,187)
Transfer to contingency reserve	**(1,957)**	(657)
Retained earnings	**360,639**	352,729

Board of Directors Recommendations:

The Board of Directors recommends shareholders do the following:

1. Approve the Board of Directors' Report.
2. Approve the Balance Sheet and Profit and Loss Account for the year ended 31 December 2017 and approve the auditors' report thereon for the mentioned period.
3. Discharge the Auditors from their liabilities arising out of audit work and re-appoint M/s Deloitte and Touche (M.E) as auditors for financial year 2018 and approve their remuneration.
4. Discharge the Board of Directors from their liabilities for their management of the Company during 2017.
5. Approve the Board's recommendation regarding the remuneration of the Board members.
6. Approve the Board's recommendation to distribute dividends for the financial year 2017.

Report of the Board of Directors (continued)

Standard & Poor's (S&P) Ratings Services continues to retain its A- stable outlook rating on Oman Insurance Company (P.S.C.). According to S&P's report dated 18 August 2017, the "stable outlook reflects the view that OIC's capital adequacy will remain at the 'AAA' level and support its growth and diversification plans over the next two years".

In conclusion, the members of the Board of Directors are happy with the performance of the Company during 2017 considering the challenging year for both the global economy and local insurance industry. We would like to put on record our sincere appreciation and gratitude towards all stakeholders of OIC. We continue to draw inspiration and guidance from our valued customers and business partners whose trust and confidence helps us to continue the journey untiringly.

We express our special thanks to the management and staff of the Company for their sincere and dedicated contribution to the successful growth of the Company and wish them all the best for continued success.

May God; the Almighty; guide our steps.

On behalf of the Board,

Abdul Aziz Abdulla Al Ghurair
Chairman

12 February 2018

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Oman Insurance Company P.S.C.
Dubai
United Arab Emirates

Report on the audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Oman Insurance Company P.S.C. (the "Company") and its Subsidiaries (together the "Group"), Dubai, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Oman Insurance Company P.S.C. and its Subsidiaries, Dubai, United Arab Emirates** as at 31 December 2017, and their consolidated financial performance and their consolidated 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 (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in United Arab Emirates, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matters	**How our audit addressed the key audit matters**
Valuation of Investment properties	
Under fair value model, investment properties is remeasured at fair value, which is the amount for which the properties could be exchanged between knowledgeable, willing parties in an arm's length transaction. Gains or losses arising from changes in the fair value of investment properties are included in net profit or loss for the period in which they arise. The valuation of investment properties, as detailed in note 7, requires significant judgement and estimates by management and the independent external valuers. The existence of significant estimation and judgement, coupled with change in valuation assumption used could result in material misstatement. We consider the valuation of investment properties a key audit matter, given the significant assumptions and judgements involved.	The Group has involved independent external valuer in order to value the investment properties for the purpose of determining the fair value for inclusion in the consolidated financial statements. As part of our audit procedures, we assessed the competence, capabilities, objectivity and verified the qualifications of the independent external valuer. In addition to above, we made use of our internal experts to review the reasonableness of the valuation. • Methodologies used and the appropriateness of the key assumptions, and • Accuracy and relevance of the input data used for deriving fair values.
Valuation of Unquoted investments	
As disclosed in note 9, financial investments include unquoted equity investments, the carrying value of which incorporates certain assumptions and judgements, the valuation of these investments were carried out by independent external valuer. We consider the valuation of these unquoted investments a key audit matter, given the significant measurement uncertainty and judgements involved.	Management has involved independent external valuer to perform valuation of these unquoted investments, we assessed the competence, capabilities and objectivity of independent external valuer, and verified the qualifications of the valuer. In addition, we discussed the scope of his work with management and reviewed the terms of engagement to determine that there were no matters that affected objectivity or imposed scope limitations. We made use of our internal experts to evaluate on a sample basis the independent external valuer's judgments, in particular: • The models used for valuation; and • Ensured that the valuation was done in accordance with the applicable standards and suitable for use in determining the carrying value for the purpose of the consolidated financial statements.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Valuation of Insurance contract liabilities and reinsurance contract assets As at 31 December 2017, insurance contract liabilities and reinsurance contract assets amounted to AED 4.15 billion and AED 2.52 billion respectively, as detailed in note 11 to these consolidated financial statements. As set out in note 3.6 and note 4.2, valuation of these liabilities requires professional judgment and also involve number of assumptions made by management. Reinsurance contract assets includes amounts that the Group is entitled to receive under the reinsurance contracts and, more specifically, the share of the reinsurer in the insurance contract liabilities recorded by the Group. This is particularly the case for those liabilities that are based on the best-estimate of technical reserves that includes ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and related technical reserves along with their reinsurance recoveries. A range of methods are used by management and the internal actuary/independent external actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Furthermore, valuation of life insurance contract liabilities involves complex and subjective judgement made by management and the internal actuary/independent external actuary about variety of uncertain future outcomes, including the estimation of economic assumptions, such as investment return, discount rates, and operating assumptions, such as expense, mortality and persistency. Changes in these assumptions can result in material impacts to the valuation of these liabilities. As a result of all the above factors, we consider the valuation of insurance contract liabilities and reinsurance contract assets as key audit matter.	Our audit procedures included: •Testing the underlying Group data to source documentation. •Evaluating and testing of key controls around the claims handling and case reserve setting processes of the Group including allocation of reinsurance portion of the claims. •Evaluating and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process. •Checking samples of claims case reserves through comparing the estimated amount of the case reserve to appropriate documentation, such as reports from loss adjuster and reinsurance contracts. •Re-performing reconciliations between the claims data recorded in the Group's systems and the data used in the actuarial reserving calculations. •Recalculating the unearned premium reserve based on the earning period on insurance contracts existing as of 31 December 2017. •Obtaining the reinsurance treaty summary for the year and verifying the details in the summary to the respective agreements on samples basis. In addition, with the assistance of our actuarial specialists, we: •performed necessary reviews to ascertain whether the results are appropriate for financial disclosure. •reviewed the actuarial report compiled by the independent external actuaries of the Group and calculations underlying these provisions, particularly the following areas; • Appropriateness of the calculation methods and approach (actuarial best practice) • Review of assumptions • Sensitivities to key assumptions • Risk profiles • Consistency between valuation periods • General application of financial and mathematical rules

INDEPENDENT AUDITOR'S REPORT (continued)

Other information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of the Management and the Those Charged with Governance for the consolidated financial statements

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

As part of an audit in accordance with ISA's, we exercise professional judgment and maintain professional scepticism 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 risk, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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 represents 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 and regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on other legal and regulatory requirements

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

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

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

iii) the Group has maintained proper books of account;

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

v) as disclosed in Note 9 to the consolidated financial statements, the Group has purchased and invested in shares during the financial year ended 31 December 2017;

vi) Note 24 to the consolidated financial statements discloses material related party transactions and balances, and the terms under which they were conducted; and

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

Further, as required by the U.A.E. Federal Law No. 6 of 2007 and the related Financial Regulations for Insurance Companies, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

Signed by:
Musa Ramahi
Registration Number 872
12 February 2018
Sharjah, United Arab Emirates

Consolidated statement of financial position
At 31 December 2017

	Notes	2017 AED'000	2016 AED'000
ASSETS			
Property and equipment	5	15,133	21,255
Intangible assets	6	84,675	78,197
Investment properties	7	510,791	511,364
Goodwill		14,414	15,365
Deferred tax assets	8.2	1,820	9,126
Financial investments	9	1,959,572	1,847,946
Statutory deposits	10	157,486	121,715
Reinsurance contract assets	11	2,518,249	2,407,487
Insurance receivables	12	1,462,250	1,531,259
Deferred acquisition costs		148,180	128,630
Prepayments and other receivables	13	155,507	118,214
Deposits with banks with maturity over three months	14	138,487	169,988
Bank balances and cash	14	238,126	295,390
Total assets		7,404,690	7,255,936
EQUITY AND LIABILITIES			
Equity			
Share capital	15	461,872	461,872
Reserves	16	1,479,294	1,477,337
Cumulative changes in fair value of securities		(233,219)	(332,402)
Foreign currency translation reserve		(29,378)	(27,100)
Retained earnings		360,639	352,729
Equity attributable to the Owners of the Company		2,039,208	1,932,436
Non-controlling interests		21,619	24,657
Total equity		2,060,827	1,957,093
Liabilities			
End of service benefits	17	36,805	32,769
Insurance contract liabilities	11	4,153,247	3,956,799
Bank borrowings	18	240,927	367,732
Insurance payables	19.1	651,630	680,223
Other payables	19.2	82,758	98,365
Deferred commission income		108,216	95,633
Re-insurance deposits retained		70,280	67,322
Total liabilities		5,343,863	5,298,843
Total equity and liabilities		7,404,690	7,255,936

....
Abdul Aziz Abdulla Al Ghurair
Chairman

....
Christos Adamantiadis
Chief Executive Officer

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

Consolidated income statement
for the year ended 31 December 2017

	Notes	2017 AED'000	2016 AED'000
Gross insurance premium	25.1	3,718,241	3,555,282
Less: Insurance premium ceded to reinsurers	25.1	(2,213,250)	(2,184,325)
Net retained premium		1,504,991	1,370,957
Net change in unearned premium	25.1	(51,092)	(41,389)
Net earned insurance premium		1,453,899	1,329,568
Gross claims settled	25.2	(2,508,918)	(2,287,096)
Insurance claims recovered from reinsurers	25.2	1,478,686	1,287,320
Net claims settled		(1,030,232)	(999,776)
Net change in outstanding claims and additional reserve		(4,439)	50,615
Net claims incurred		(1,034,671)	(949,161)
Reinsurance commission income		327,951	320,466
Commission expenses		(381,950)	(348,826)
Other income relating to underwriting activities		43,523	43,864
Net commission and other income		(10,476)	15,504
General and administrative expenses relating to underwriting activities		(291,862)	(290,029)
Net underwriting profit		116,890	105,882

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

Consolidated income statement
for the year ended 31 December 2017 (continued)

	Notes	2017 AED'000	2016 AED'000
Net underwriting profit		**116,890**	105,882
Net investment income	20	**76,377**	73,290
Finance costs		**(2,481)**	(2,961)
Allowance for doubtful debts	12.3	**(36,126)**	(37,282)
Other expenses	21	**(42,862)**	(53,573)
Profit before tax		**111,798**	85,356
Tax expenses	8.1	**(7,313)**	(6,461)
Profit for the year	22	**104,485**	78,895
Attributable to:			
Owners of the Company		**106,321**	80,822
Non-controlling interests		**(1,836)**	(1,927)
		104,485	78,895
Earnings per share (AED)	23	**0.23**	0.17

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

Consolidated statement of comprehensive income for the year ended 31 December 2017

	2017 AED '000	2016 AED '000
Profit for the year	**104,485**	78,895
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Net fair value gains on revaluation of investments designated at FVTOCI	**48,916**	17,652
Items that may be reclassified subsequently to profit or loss:		
Exchange loss on translation of foreign operations	**(3,480)**	(8,135)
Total other comprehensive income	**45,436**	9,517
Total comprehensive income for the year	**149,921**	88,412
Total comprehensive income attributable to:		
Owners of the Company	**152,959**	95,532
Non-controlling interests	**(3,038)**	(7,120)
	149,921	88,412

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

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital AED '000	Reserves AED '000	Cumulative changes in fair value of securities AED '000	Foreign currency translation reserve AED '000	Retained earnings AED '000	Equity attributable to the Owners of the Company AED '000	Non-controlling interests AED '000	Total AED '000
Balance at 31 December 2015	461,872	1,456,956	(387,941)	(24,158)	376,362	1,883,091	31,777	1,914,868
Profit for the year	-	-	-	-	80,822	80,822	(1,927)	78,895
Other comprehensive income/(loss) for the year	-	-	17,652	(2,942)	-	14,710	(5,193)	9,517
Total comprehensive income/(loss) for the year	-	-	17,652	(2,942)	80,822	95,532	(7,120)	88,412
Transfer to general reserve	-	19,724	-	-	(19,724)	-	-	-
Transfer to contingency reserve	-	657	-	-	(657)	-	-	-
Dividends paid (Note 35)	-	-	-	-	(46,187)	(46,187)	-	(46,187)
Transfer to retained earnings on disposal of investments at FVTOCI	-	-	37,887	-	(37,887)	-	-	-
Balance at 31 December 2016	461,872	1,477,337	(332,402)	(27,100)	352,729	1,932,436	24,657	1,957,093

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

Consolidated statement of changes in equity
for the year ended 31 December 2017 (continued)

	Share capital AED '000	Reserves AED '000	Cumulative changes in fair value of securities AED '000	Foreign currency translation reserve AED '000	Retained earnings AED '000	Equity attributable to the Owners of the Company AED '000	Non-controlling interests AED '000	Total AED '000
Balance at 31 December 2016	461,872	1,477,337	(332,402)	(27,100)	352,729	1,932,436	24,657	1,957,093
Profit for the year	-	-	-	-	106,321	106,321	(1,836)	104,485
Other comprehensive income/(loss) for the year	-	-	48,916	(2,278)	-	46,638	(1,202)	45,436
Total comprehensive income/(loss) for the year	-	-	48,916	(2,278)	106,321	152,959	(3,038)	149,921
Transfer to contingency reserve	-	1,957	-	-	(1,957)	-	-	-
Dividends paid (Note 35)	-	-	-	-	(46,187)	(46,187)	-	(46,187)
Transfer to retained earnings on disposal of investments at FVTOCI	-	-	50,267	-	(50,267)	-	-	-
Balance at 31 December 2017	**461,872**	**1,479,294**	**(233,219)**	**(29,378)**	**360,639**	**2,039,208**	**21,619**	**2,060,827**

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

Consolidated statement of cash flows for the year ended 31 December 2017

	2017 AED'000	2016 AED'000
Cash flows from operating activities		
Profit for the year before tax	**111,798**	85,356
Adjustments for:		
Depreciation and amortisation	**19,029**	18,931
Fair value adjustments on investment properties	**573**	2,361
Unrealised gains on financial investments at FVTPL	**(48,825)**	(9,884)
Loss on sale/write off of fixed assets	**222**	2,851
Provision for end of service benefits	**9,338**	7,753
Allowance for doubtful receivables	**36,126**	37,282
Dividends income from financial investments at FVTPL and FVTOCI	**(20,090)**	(24,086)
Interest income from financial assets	**(57,555)**	(68,844)
Amortization of financial assets	**3,946**	2,230
Realised losses on sale of financial investments at FVTPL	**271**	2,369
Realised (gains)/losses on sale of financial investments at amortised cost	**(9,072)**	7,465
Finance costs	**2,481**	2,961
Other investment expenses	**23,745**	19,044
Rental income from investment properties	**(10,689)**	(8,821)
Unrealised gains on fair valuation of derivatives	**-**	(480)
Operating cash flows before changes in operating assets and liabilities	**61,298**	76,488
Increase in reinsurance contract assets	**(110,762)**	(615,788)
Increase in insurance and other receivables	**(8,759)**	(243,389)
Increase in deferred acquisition costs	**(19,550)**	(10,743)
Increase in insurance contract liabilities	**155,706**	606,562
(Decrease)/increase in insurance and other payables	**(44,530)**	148,862
Increase/(decrease) in reinsurance deposits retained	**2,958**	(7,563)
Increase in deferred commission income	**12,583**	2,101
Net cash generated from/(used in) operations	**48,944**	(43,470)
End of service benefits paid	**(5,302)**	(5,176)
Finance costs paid	**(2,481)**	(2,961)
Net cash generated from/(used in) operating activities	**41,161**	(51,607)

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

Consolidated statement of cash flows
for the year ended 31 December 2017 (continued)

	2017 AED'000	2016 AED'000
Cash flows from investing activities		
Purchases of financial investments at FVTOCI	**(126,270)**	(217,288)
Proceeds from sale of financial investments at FVTOCI	**297,658**	121,378
Purchases of financial investments at FVTPL	**(129,618)**	(135,638)
Proceeds from sale of financial investments at FVTPL	**150,583**	157,200
Increase/(decrease) in unit linked liabilities	**40,742**	(35,516)
Proceeds from sale of financial investments at amortised cost	**654,585**	141,102
Purchases of financial investments at amortised cost	**(855,968)**	(161,040)
Dividends received from financial investments at FVTPL and FVTOCI	**22,506**	22,041
Interest received from financial assets	**59,325**	73,081
Rental income from investment properties	**10,852**	8,840
Other investment expenses	**(23,415)**	(19,433)
Purchase of property and equipment	**(3,333)**	(2,545)
Purchase of intangible assets	**(16,127)**	(13,397)
Decrease/(increase) in term deposits maturing after 3 months	**31,501**	(40,890)
Increase in statutory deposits	**(35,771)**	(14,672)
Net cash generated from/(used in) investing activities	**77,250**	(116,777)
Cash flows from financing activities		
Dividends paid	**(46,187)**	(46,187)
(Decrease)/increase in bank borrowings	**(126,805)**	334,243
Net cash (used in)/generated from financing activities	**(172,992)**	288,056
Net (decrease)/increase in cash and cash equivalents	**(54,581)**	119,672
Cash and cash equivalents at the beginning of the year	**295,390**	179,435
Effects of exchange rate changes on the balances of cash held in foreign currency	**(2,683)**	(3,717)
Cash and cash equivalents at the end of the year (Note 14)	**238,126**	295,390

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

Notes to the consolidated financial statements
for the year ended 31 December 2017

1. General information

Oman Insurance Company P.S.C., (the "Company") which was established by an Amiri Decree issued by His Highness, The Ruler of Dubai, is a public shareholding company. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations and is registered in the Insurance Companies Register of Insurance Authority of the U.A.E. under registration number 9. The Company is a subsidiary of Mashreq Bank (PSC) incorporated in the Emirate of Dubai. The Company's registered head office is at P.O. Box 5209, Dubai, United Arab Emirates. The Group comprises Oman Insurance Company P.S.C and its subsidiaries (see note 31). The Company's ordinary shares are listed on the Dubai Financial Market, United Arab Emirates.

The licensed activities of the Company are issuing short term and long term insurance contracts and trading in securities. The insurance contracts are issued in connection with property, motor, aviation and marine risks (collectively known as general insurance) and individual life (participating and non-participating), group life, personal accident, medical and investment linked products.

The Company also operates in Sultanate of Oman, State of Qatar, and Republic of Turkey.

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

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

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses.
- Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 *Disclosure of Interests in Other Entities.*

2.2 New and revised IFRS in issue but not yet effective

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

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures (2011).*	1 January 2018

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IFRS 2 *Share-Based Payment* regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
Finalised version of IFRS 9 [IFRS 9 Financial Instruments (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. ➢ **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.	1 January 2018

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

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

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

<u>New and revised IFRSs</u>	**Effective for annual periods** <u>**beginning on or after**</u>
Finalised version of IFRS 9 [IFRS 9 Financial Instruments (2014)] (continued)	

- **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition**: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.

IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018

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

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 15 *Revenue from Contracts with Customers (continued)*	
The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.	
Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:	

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 23 *Uncertainty over Income Tax Treatments (continued)*	1 January 2019

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

IFRS 16 *Leases*	1 January 2019
IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	
Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
IFRS 17 *Insurance Contracts*	1 January 2021
IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.	

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 17, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 17 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2021. The application of IFRS 17 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its insurance contracts. However, it is not practicable to provide a reasonable estimate of the effects of the application of this standard until the Group performs a detailed review.

The IASB issued the final version of IFRS 9 Financial Instruments in July 2014, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group has in previous years adopted the first phase of the IFRS 9 with regards to classification and measurement of financial instruments and plans to adopt the final phase of IFRS 9 (impairment and hedge accounting) on the required effective date from 1 January 2018.

Based on an analysis of the Group financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, Directors of the Group have assessed the impact of IFRS 9 to the Group's consolidated financial statements.

Based on 31 December 2017 data, the Group has performed a preliminary assessment of potential impact of adopting IFRS 9 based on the financial instruments as at the date of initial application of IFRS 9 (1 January 2018). The Group estimates the adoption of IFRS 9 to lead to an overall reduction in the Group total shareholders' equity of approximately AED 222 million. This reduction is predominately driven by the impairment requirements of IFRS 9.

This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group until the Group presents its first consolidated financial statements that include the date of initial application.

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

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

Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group's assessment included an analysis to identify data gaps against current process and the Group has implemented the system and controls changes that it believes will be necessary to capture the required data.

3. Summary of significant accounting policies

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

3.1 Statement of compliance

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

3.2 Basis of preparation

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

3. Summary of significant accounting policies (continued)

3.2 Basis of preparation (continued)

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

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

The Group presents its consolidated statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current), presented in the notes.

The amounts in the consolidated financial statements are rounded to nearest thousand ("AED '000") except when otherwise indicated.

The principal accounting policies are set out below.

3.3 Basis of consolidation

The consolidated financial statements of Oman Insurance P.S.C. and Subsidiaries (the "Group") incorporate the financial statements of the Company and the entities controlled by the Company (its Subsidiaries).

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

3. Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company 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 intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3.4 Business combinations

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

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

3. Summary of significant accounting policies (continued)

3.4 Business combinations (continued)

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from 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 measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

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

3. Summary of significant accounting policies (continued)

3.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note 3.4 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

3.6 Insurance contracts

3.6.1 Product classification

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

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

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

Some insurance contracts and investment contracts contain discretionary participating features (DPF) which entitle the contract holder to receive, as a supplement to the standard guaranteed benefits, additional benefits;

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

3. Summary of significant accounting policies (continued)

3.6 Insurance contracts (continued)

3.6.1 Product classification (continued)

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer;
- that are contractually based on;
  - (i) the performance of a specified pool of contracts or a specified type of contract,
  - (ii) realised/unrealised investment returns on a specified pool of assets held by the issuer or,
  - (iii) the profit or loss of the Company, fund or other entity that issues that contract.

Under IFRS 4, DPF can be either treated as an element of equity or as a liability, or can be split between the two elements. The Group policy is to treat all DPF as a liability within insurance or investment contract liabilities.

The policyholder bears the financial risks relating to some insurance contracts or investment contracts. Such products are usually unit-linked contracts.

3.6.2 Recognition and measurement

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

These contracts are general insurance contracts and life assurance contracts.

3.6.3 General insurance contracts

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown in the profit and loss before deduction of commission.

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

3.6.4 Life assurance contracts

In respect of the short term life assurance contracts, premiums are recognised as revenue (earned premiums) proportionately over the period of coverage. The portion of the premium received in respect of in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before the deduction of the commission.

In respect of long term life assurance contracts, premium are recognised as revenue (earned premiums) when they become payable by the contract holder. Premiums are shown before deduction of commission.

Premiums for group credit life policies are recognised when it is paid by the contract holder.

3. Summary of significant accounting policies (continued)

3.6 Insurance contracts (continued)

3.6.4 Life assurance contracts (continued)

A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums are recognised. The liability is based on the assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions.

Where a life assurance contract has a single premium or limited number of premium payments due over a significantly shorter period than the period during which the benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contract in-force or for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at the end of each reporting period using the assumptions established at the inception of the contract.

Claims and benefits payable to contract holders are recorded as expenses when they are incurred.

3.6.5 Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are recognised as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer, are included in insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance contract assets.

The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract assets are impaired, the Group reduces the carrying amount of the reinsurance contract assets to their recoverable amounts and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

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

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

3. Summary of significant accounting policies (continued)

3.6 Insurance contracts (continued)

3.6.6 Insurance contract liabilities

3.6.6.1 Unearned premium reserve

At the end of the reporting period, proportions of net retained premium of the general insurance and medical insurance are provided to cover portions of risks which have not expired. The reserves are calculated on time-proportion basis, with the exception of marine, where the unearned premium is recognised as fixed proportion of the written premiums and engineering where UPR is calculated on uniform risk basis. Unearned premium for group life and individual life classes of business is estimated by the Group's actuary in the calculation of the insurance contracts liabilities for life assurance business.

3.6.6.2 Additional reserve

The additional reserve comprises of the provisions made for;

- the estimated excess of potential claims over unearned premiums (premium deficiency),
- the claims incurred but not reported at the end of the reporting period (IBNR) and,
- the potential shortfall in the estimated amounts of the unpaid reported claims.

The reserve represents management's best estimates of the potential liabilities at the end of the reporting period. The liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group. Management estimates IBNR based on past claims settlement trends for the claims incurred but not reported using actuarial valuation method. At the end of each reporting period, prior year claims estimates are reassessed for adequacy by the Group's actuary and changes are made to the provision.

3.6.6.3 Life assurance fund

The life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience and industry mortality tables. Adjustments to the balance of the fund are effected by charging to profit or loss.

3.6.6.4 Unit linked liabilities

For unit linked policies, liability is equal to the policy account values. The account value is the number of units times the bid price.

3.6.6.5 Outstanding claims

Insurance contract liabilities towards outstanding claims are recognised for all claims intimated and unpaid at the end of the reporting period. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when it is expired, discharged or cancelled.

3. Summary of significant accounting policies (continued)

3.6 Insurance contracts (continued)

3.6.7 Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised as follows:

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;
- For long-term insurance contracts, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and
- For long-term investment contracts, DAC is amortised over a period of four years.

3.6.8 Salvage and subrogation reimbursements

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

3.6.9 Liability adequacy test

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

3.6.10 Receivables and payables related to insurance contracts

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

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss.

3.7 Revenue recognition

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

3.7.1 Revenue from insurance contracts

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these consolidated financial statements (see note 3.6).

3. Summary of significant accounting policies (continued)

3.7 Revenue recognition (continued)

3.7.2 Deferred commission income

Commission received when the reinsurance premium is ceded based on the terms and percentages agreed with the reinsurers is recognised as deferred commission income. These commissions are recognised as commission income using the same methodology adopted for the amortization of DAC.

3.7.3 Dividend income

Dividend income is recognised when the Group's right to receive the payment has been established.

3.7.4 Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.7.5 Rental income

Rental income from investment property which are leased under operating leases are recognised on a straight-line basis over the term of the relevant lease.

3.8 General and administrative expenses

Direct expenses are charged to the respective departmental revenue accounts. Indirect expenses are allocated to departmental revenue accounts on the basis of gross written premiums of each department. Other administration expenses are charged to profit or loss as unallocated general and administrative expenses.

3.9 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

3.9.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. The tax currently payable is calculated in accordance with fiscal regulations of Sultanate of Oman and Turkey.

3. Summary of significant accounting policies (continued)

3.9 Income tax (continued)

3.9.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill.

The carrying of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.9.3 Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.10 Foreign currencies

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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

3. Summary of significant accounting policies (continued)

3.10 Foreign currencies (continued)

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in United Arab Emirates Dirhams ("AED"), using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in the equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates or jointly controlled entities not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each period. Exchange differences arising are recognized in other comprehensive income and accumulated in equity.

3. Summary of significant accounting policies (continued)

3.11. Non-financial assets

3.11.1 Property and equipment

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

Other property and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

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

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

The useful lives considered in the calculation of depreciation Furniture and equipment is 3 – 5 years and motor vehicles is 5 years.

3.11.2 Intangible assets

Intangible assets are reported at cost less accumulated amortisation and identified impairment losses, if any. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful lives considered in the calculation of amortisation is 3 - 10 years.

3.12 Investment properties

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

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

3. Summary of significant accounting policies (continued)

3.12 Investment properties (continued)

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation or commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use. Fair value is determined by open market values based on valuations performed by independent surveyors and consultants or broker's quotes.

3.13 Impairment of non-financial assets

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

3.14 Provisions

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

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

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

3. Summary of significant accounting policies (continued)

3.15 Employee benefits

3.15.1 Defined contribution plan

UAE national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Group is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the "contribution calculation salary" respectively, to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to profit or loss.

3.15.2 Annual leave and leave passage

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

3.15.3 Provision for employees' end of service benefits

Provision is made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law and is based on current remuneration and their period of service at the end of the reporting period. Provisions for employees' end of service indemnity for the employees working with the entities domiciled in other countries are made in accordance with local laws and regulations applicable in these countries.

3.16 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.17 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group has no finance leases.

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

3. Summary of significant accounting policies (continued)

3.18 Financial instruments

Recognition and measurement

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss (FVTPL) are recognised immediately in profit or loss.

A financial asset and financial liability is offset and the net amount is reported in the consolidated financial statements only when there is legally enforceable right to set off the recognised amount and the Group intends either to settle on a net basis or realise the assets and settle the liabilities simultaneously.

3.19 Financial assets

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

3.19.1 Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under IAS 32 Financial Instruments: Presentation) except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

3.19.2 Financial assets at amortised cost and the effective interest method

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

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

3. Summary of significant accounting policies (continued)

3.19 Financial assets (continued)

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

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at FVTPL – see below). They are subsequently measured at amortised cost using the effective interest method less any impairment (see 3.19.6 below), with interest income recognised on an effective yield basis (note 3.7.4).

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

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

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

3.19.2.1 Cash and cash equivalents

Cash and cash equivalents, which include cash on hand and deposits held with banks with original maturities of three months or less, are classified as financial assets at amortised cost.

3.19.2.2 Insurance receivables, other receivables and statutory deposits

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

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

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

A financial asset is held for trading if:

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

3. Summary of significant accounting policies (continued)

3.19 Financial assets (continued)

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

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

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

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

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

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

Investment linked components of insurance contracts are classified as at FVTPL. Any gains or losses arising on remeasurement of these assets and equivalent movements in reserves attributable to policyholders are offset within the same line in the consolidated income statement.

Debt instruments that do not meet the amortised cost criteria (see above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 30.3.

Dividend income on investments in equity instruments at FVTPL is recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

3. Summary of significant accounting policies (continued)

3.19 Financial assets (continued)

3.19.5 Foreign exchange gains and losses

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

The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in profit or loss; and

- for financial assets that designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the profit or loss.

3.19.6 Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

3. Summary of significant accounting policies (continued)

3.19 Financial assets (continued)

3.19.6 Impairment of financial assets (continued)

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

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

3.19.7 Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost or measured at FVTPL, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair value of securities reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

3.20 Financial liabilities and equity instruments issued by the Group

3.20.1 Classification as debt or equity

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

3. Summary of significant accounting policies (continued)

3.21 Equity instruments

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

3.22 Financial liabilities

All financial liabilities are initially measured at fair value net of transactions costs except financial liabilities at fair value through profit or loss (FVTPL) which are initially measured at fair value. All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL. The Group does not have any financial liabilities measured at FVTPL.

3.22.1 Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of the reporting period. The Group's financial liabilities measured at amortised costs include bank borrowings, reinsurance deposits retained, insurance payables, trade and other payables excluding the advances to suppliers.

The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method with interest expense that is not capitalised as part of the cost of an asset, is recognised in profit or loss except for short term payables where the recognition of interest would be immaterial.

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

3.22.2 Foreign exchange gains and losses

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

3.22.3 Derecognition of financial liabilities

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

3. Summary of significant accounting policies (continued)

3.23 Derivative financial instruments

Derivatives financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. All the derivatives financial instruments are carried at their fair values as financial assets where the fair values are positive and as financial liabilities where the fair values are negative. A derivative financial instrument is presented as non-current assets or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivative financial instruments are presented as current assets or current liabilities. Fair values of the derivatives are carried out by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. Interest rate swap and total return swap contracts represent Level 2 and Level 1 financial instruments under the fair value hierarchy.

3.24 Dividend distribution

Dividend distribution to the Shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Shareholders.

4. Critical accounting judgements and key sources of estimation of uncertainty

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

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

4.1 Critical judgements in applying accounting policies

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

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

4.1 Critical judgements in applying accounting policies (continued)

4.1.1 Classification of investments

Management determines at the time of acquisition of securities whether these should be classified as at FVTOCI, FVTPL or amortised cost. In determining whether investments in securities are classified as at FVTOCI, FVTPL 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 the Group's investments in securities are appropriately classified.

4.1.2 Classification of properties

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

4.1.3 Consolidation of Qatar Operations

The Company established operations in Qatar on 6 January 2008 through an agency agreement entered into with the local sponsor valid for an indefinite period. The financial performance and the financial position of Qatar operations are consolidated in these consolidated financial statements on the basis of the control as the operations are managed and supervised by the Company from the inception to date. At the end of the each reporting period, management assesses the Company's ability to manage and supervise the financial and operating policies of the Qatar Operations for the benefit of the Company and determines if the financial performance and financial position be consolidated with the Company. Based on such assessment, the Company continues to consolidate Qatar operations in the consolidated financial statements of the Group as at 31 December 2017 and for the year then ended. If the assumptions and judgments made by management in making this decision change in future, significant adjustments may be required for these consolidated financial statements in respect of the financial performance and financial position of Qatar operations consolidated thereof.

4.1.4. Financial investments at amortized costs

Management has reviewed the Group's financial assets measured at amortized cost in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intent and ability to hold these assets until their maturity so as to collect the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The carrying amount of financial assets measured at amortized cost is AED 1,179,374 thousand at 31 December 2017 (2016: AED 972,865 thousand). Details of these assets are set out in note 9.

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

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

4.1 Critical judgements in applying accounting policies (continued)

4.1.5 Deferred tax asset

For the purpose of measuring the deferred tax asset that substantially pertaining to carried forward unused tax losses of a subsidiary, management has reviewed the future forecast and profitability of the subsidiary over the period in which tax losses should be utilized and concluded that it is probable that taxable profits will be available against which those unused tax losses can be utilized. Details of deferred tax asset calculation are set out in note 8.

4.2 Key sources of estimation uncertainty

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

4.2.1 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

4.2.2 Impairment of insurance receivables

An estimate of the collectible amounts of insurance receivable is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired entails management's evaluation of the specific credit and liquidity position of the contract holders and their historical recovery rates including detailed reviews carried out during 2017 and feedback received from the legal department. Based on this estimate, an impairment loss of AED 36,126 thousand (2016: 37,282 thousand) has been recognised in the current year.

4.2.3 Liability adequacy test

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

4.2.4 Actuarial valuation of life assurance fund

Mortality and withdrawal rate assumptions used in actuarial valuation of life fund are based on experience and the most current industry standard mortality table.

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

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

4.2 Key sources of estimation uncertainty (continued)

4.2.5 Additional reserve

This reserve represents management's best estimates of potential liabilities at the end of the reporting period in respect of premium deficiency, IBNR and shortfall in the estimated amounts of the unpaid reported claims. This reserve is estimated by the Group's actuary.

4.2.6 Valuation of unquoted equity instruments

Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models. The Group engages independent third party qualified valuers to establish the appropriate valuation techniques and inputs to the model. In the absence of an active market for these investments or any recent transactions that could provide evidence of the current fair value, management estimates the fair value of these instruments using expected cash flows discounted at current rates for similar instruments or other valuation models. Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed in Note 30.3.2.

4.2.7 Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash generating units to which goodwill is allocated. Estimating the value-in-use required the Group to make an estimate of the expected future cash flows from each cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

4.2.7.1 Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to cash generating units for impairment testing as follows:

	2017 AED'000	2016 AED'000
Dubai Starr Sigorta A.S.	**12,514**	13,465
ITACO Bahrain Co W.L.L	**1,900**	1,900
	14,414	15,365

Management has carried out an impairment test for goodwill at the year end and has concluded that no impairment has taken place. For this purpose, the recoverable amount of each cash generating unit has been determined based on a value-in-use calculation using cash flow projections, based on financial budgets approved by senior management, covering a five year period. Cash flows beyond the five-year period are extrapolated using a growth rate, which management believes approximates the long term growth rate for the industry in which the cash generating unit operates.

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

4.2 Key sources of estimation uncertainty (continued)

4.2.7 Impairment of goodwill (continued)

4.2.7.2 Key assumption used for the calculation of value-in-use

The calculation of value-in-use is sensitive to the following assumptions:

a. Growth rate

Growth rates are based on the management's assessment of the market share having regard to the forecasted growth and demand for the products offered. Growth rates of 12% - 21% per annum have been applied in the calculation.

b. Profit margins

Profit margins are based on the management's assessment of achieving a stabilized level of performance based on the approved business plan of the cash generating unit for the next five years.

c. Discount rates

Management has used the discount rate of 13.55% - 18.2% per annum throughout the assessment period, reflecting the estimated weighted average cost of capital of the Group and specific market risk profile.

4.2.8 Amortization of deferred acquisition costs ("DAC") and deferred commission income

Deferred acquisition costs are amortized using methods that provide the most appropriate bases of recognizing acquisition costs as expenses in line with the recognition of revenue from related insurance contracts. The various assumptions, inputs and estimates are used in these calculations by management.

4.2.9 Impairment of intangible assets

The period of amortisation of the intangible assets is determined based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group and technological obsolescence. Management has concluded that no impairment of intangible assets is required based on impairment test performed by the Group as of the reporting date.

4.2.10 Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. Management has not considered any residual value as it is deemed immaterial.

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

5. Property and equipment

	Furniture and equipment AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost				
Balance at 31 December 2015	102,877	1,391	-	104,268
Additions during the year	2,545	-	-	2,545
Written off/disposals during the year	(7,042)	(385)	-	(7,427)
Effect of foreign currency exchange differences	(305)	(22)	-	(327)
Balance at 31 December 2016	98,075	984	-	99,059
Additions during the year	3,024	72	237	3,333
Transfers	237	-	(237)	-
Written off/disposals during the year	(937)	(309)	-	(1,246)
Effect of foreign currency exchange differences	291	8	-	299
Balance at 31 December 2017	**100,690**	**755**	-	**101,445**
Accumulated depreciation				
Balance at 31 December 2015	70,902	646	-	71,548
Charge for the year	10,945	148	-	11,093
Written off/disposals during the year	(4,191)	(385)	-	(4,576)
Effect of foreign currency exchange differences	(359)	98	-	(261)
Balance at 31 December 2016	77,297	507	-	77,804
Charge for the year	9,222	158	-	9,380
Written off/disposals during the year	(824)	(200)	-	(1,024)
Effect of foreign currency exchange differences	148	4	-	152
Balance at 31 December 2017	**85,843**	**469**	-	**86,312**
Carrying amounts				
Balance at 31 December 2017	**14,847**	**286**	-	**15,133**
Balance at 31 December 2016	20,778	477	-	21,255

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

6. Intangible assets

	Computer software AED'000	Capital work in progress AED'000	Total AED'000
Cost			
31 December 2015	36,190	43,638	79,828
Additions during the year	66	13,331	13,397
Transfers	19,134	(19,134)	-
Effect of foreign exchange differences	(508)	-	(508)
31 December 2016	54,882	37,835	92,717
Additions during the year	4,124	12,003	16,127
Transfers	31,454	(31,454)	-
31 December 2017	**90,460**	**18,384**	**108,844**
Amortisation			
31 December 2015	6,805	-	6,805
Charge for the year	7,838	-	7,838
Effect of foreign exchange differences	(123)	-	(123)
31 December 2016	14,520	-	14,520
Charge for the year	9,649	-	9,649
31 December 2017	**24,169**	-	**24,169**
Carrying amount			
31 December 2017	**66,291**	**18,384**	**84,675**
31 December 2016	40,362	37,835	78,197

Capital work-in-progress includes advances paid to consultants and providers of information technology solutions for the improvements to computer software of Group's IT infrastructure.

7. Investment properties

	2017 AED'000	2016 AED'000
Balance at the beginning of the year	**511,364**	513,725
Net decrease in fair value during the year	**(573)**	(2,361)
Balance at the end of the year	**510,791**	511,364

Investment properties include plots of land and buildings.

7. Investment properties (continued)

The fair value of the Group's investments properties as at 31 December 2017 and 2016 has been arrived at on the basis of valuations carried on the respective dates by independent valuers who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

The fair value was determined based on the acceptable approaches that reflects recent transactions prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

At 31 December 2017 and 2016, the Group's investment properties are classified as level 3 in the fair value hierarchy and there are no transfers between level 1, 2 and 3 during the year 2017 and 2016.

Details of the Group's investment properties and their fair values are as follows:

	2017 **AED '000**	2016 AED '000
Plots of land located in Dubai, UAE	**373,540**	373,200
Units of a building located in DIFC, Dubai, UAE	**69,976**	70,795
Units of a building located in Motor City, Dubai, UAE	**67,275**	67,369
	510,791	511,364

8. Income tax

Foreign operations of the Group are liable for the corporate taxes of the respective jurisdictions at prevailing tax rates. The effective tax rates during the year were 15% to 22% (2016: 12% to 20%). The corporate taxes are payable on the total income of the foreign operations after making the adjustments for certain disallowable expenses, exempt income and investment and other allowances. During the year, the provision for corporate tax liabilities is made only for the Group's Oman operations as other foreign operating entities have incurred taxable losses.

8.1 Income tax expenses recognized in profit or loss

	2017 **AED '000**	2016 AED '000
Current tax		
In respect of the current year	**691**	1,199
Deferred tax		
In respect of current year	**6,622**	5,262
Total income tax charge recognised in the current year	**7,313**	6,461

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

8. Income tax (continued)

8.1 Income tax expenses recognized in profit or loss (continued)

Income tax expense for the year can be reconciled to the accounting profit as follows:

	2017 AED '000	2016 AED '000
Profit before tax for the year	**111,798**	85,356
Adjustments for:		
Profit not subject to income tax	**(107,884)**	(75,083)
Allowable expenses	**(56)**	(335)
Statutory allowance	-	(286)
Unallowable expenses	**750**	335
Taxable profit for the year	**4,608**	9,987
Income tax payable for the current year	**691**	1,199

8.2 Deferred tax assets

Following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position;

	2017 AED '000	2016 AED '000
Deferred tax assets	**1,924**	9,229
Deferred tax liabilities	**(104)**	(103)
Deferred tax assets - net	**1,820**	9,126

Deferred tax assets/liabilities given above relate to the following:

	2017 AED '000	2016 AED '000
Accumulated losses	**876**	8,424
Insurance contract liabilities	**198**	10
Accruals	**681**	289
Provision for employees' benefits	**169**	506
Difference in valuation of fixed assets	**(104)**	(103)
	1,820	9,126

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

9. Financial investments

9.1 Composition of financial investments

The Group's financial investments at the end of reporting period are detailed below.

	2017 AED '000	2016 AED '000
At fair value through profit or loss (note 9.2)	**322,497**	294,908
At fair value through other comprehensive income (note 9.3)	**457,701**	580,173
Measured at amortised cost (note 9.4)	**1,179,374**	972,865
	1,959,572	1,847,946

9.2 Financial investments at fair value through profit or loss

	Domestic 2017 AED '000	Domestic 2016 AED '000	International 2017 AED '000	International 2016 AED '000	Total 2017 AED '000	Total 2016 AED '000
Investment in bonds	-	-	**23,194**	37,549	**23,194**	37,549
Unit linked investments	**5,121**	3,079	**294,182**	254,280	**299,303**	257,359
	5,121	3,079	**317,376**	291,829	**322,497**	294,908

9.3 Financial investments at fair value through other comprehensive income

	Domestic 2017 AED '000	Domestic 2016 AED '000	International 2017 AED '000	International 2016 AED '000	Total 2017 AED '000	Total 2016 AED '000
Shares						
- Quoted	**129,292**	140,300	**146,954**	173,775	**276,246**	314,075
- Unquoted	**48,373**	186,131	**133,082**	79,967	**181,455**	266,098
	177,665	326,431	**280,036**	253,742	**457,701**	580,173

9.4 Financial investments measured at amortised cost

	Domestic 2017 AED '000	Domestic 2016 AED '000	International 2017 AED '000	International 2016 AED '000	Total 2017 AED '000	Total 2016 AED '000
Investments in bonds						
- Quoted	**893,944**	507,120	**268,830**	449,213	**1,162,774**	956,333
- Unquoted	**16,600**	16,532	-	-	**16,600**	16,532
	910,544	523,652	**268,830**	449,213	**1,179,374**	972,865

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

9. Financial investments (continued)

9.4 Financial investments measured at amortised cost (continued)

These bonds carry interests at the rates of 1.81% to 7.88% per annum. The Group holds these investments with the objective of receiving the contractual cash flows over the instruments life. The bonds are redeemable at par from 2018 to 2035 based on their maturity dates. The fair value of these bonds at 31 December 2017 is AED 1,178,979 thousand (2016: AED 973,682 thousand).

9.5 Movements in financial investments

The movements in financial investments are as follows:

	Fair value through profit or loss AED'000	Fair value through OCI AED'000	Amortised cost AED'000	Total AED'000
At 31 December 2015	308,955	466,611	962,622	1,738,188
Purchases	135,638	217,288	161,040	513,966
Disposals	(159,569)	(121,378)	(148,567)	(429,514)
Amortisation	-	-	(2,230)	(2,230)
Changes in fair value	9,884	17,652	-	27,536
At 31 December 2016	294,908	580,173	972,865	1,847,946
Purchases	129,618	126,270	855,968	1,111,856
Disposals	(150,854)	(297,658)	(645,513)	(1,094,025)
Amortisation	-	-	(3,946)	(3,946)
Changes in fair value	48,825	48,916	-	97,741
At 31 December 2017	**322,497**	**457,701**	**1,179,374**	**1,959,572**

9.5.1 Reclassification of financial investments measured at FVTPL

On 28 March 2013, management revisited the Group's business model for managing the financial investments and changed its business model for managing investments in debt instruments. Accordingly, the Group reclassified AED 352,391 thousand from FVTPL to amortised cost from 1 April 2013. The business model has been changed from realizing the fair value by disposing of the investment to hold the asset until its maturity so as to collect the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

These bonds carry effective interests at the rates of 2% to 9% per annum at the date of reclassification. The interest income recognized on these investments for the year ended 31 December 2017 is AED 2,945 thousand (2016: AED 4,626 thousand).

The fair value loss recognised in profit or loss during the year would have been increased by AED 1,510 thousand (2016: AED 127 thousand) if these financial assets had not been reclassified.

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

10. Statutory deposits

	2017 AED '000	2016 AED '000
Bank deposit maintained in accordance with Article 42 of U.A.E. Federal Law No. 6 of 2007	**10,000**	10,000
Amount under lien with Capital Market Authority – Sultanate of Oman	**97,532**	95,576
Amounts under lien with the Qatar Central Bank	**34,955**	-
Amounts under lien with Turkish Treasury, Turkey	**14,999**	16,139
	157,486	121,715

11. Insurance contract liabilities and reinsurance contract assets

	2017 AED '000	2016 AED '000
Insurance contract liabilities		
Outstanding claims	**1,896,312**	1,867,591
Additional reserve	**340,062**	317,739
Life assurance fund (note 11.1)	**208,045**	235,138
Unearned premium (note 25.1)	**1,403,432**	1,271,277
Unit linked liabilities (note 11.2)	**296,293**	255,551
Unallocated loss adjustment expenses reserve	**9,103**	9,503
	4,153,247	3,956,799
Recoverable from re-insurers		
Outstanding claims	**1,509,940**	1,483,302
Additional reserve	**225,044**	205,477
Unearned premiums (note 25.1)	**783,265**	718,708
	2,518,249	2,407,487
Insurance contract liabilities – net		
Outstanding claims	**386,372**	384,289
Additional reserve	**115,018**	112,262
Life assurance fund (note 11.1)	**208,045**	235,138
Unearned premiums (note 25.1)	**620,167**	552,569
Unit linked liabilities (note 11.2)	**296,293**	255,551
Unallocated loss adjustment expenses reserve	**9,103**	9,503
	1,634,998	1,549,312

The technical reserves have been certified by the Appointed Actuary of the Company according to the Financial Regulations issued by Insurance Authority. A summary of the actuary's report on the technical provisions is disclosed in note 32 to the consolidated financial statements.

11. Insurance contract liabilities and reinsurance contract assets (continued)

11.1 Life assurance fund	**AED '000**
31 December 2015	232,466
Increase	2,672
31 December 2016	235,138
Decrease	(27,093)
31 December 2017	**208,045**

11.2 Unit linked liabilities	**AED '000**
31 December 2015	291,067
Decrease	(35,516)
31 December 2016	255,551
Increase	40,742
31 December 2017	**296,293**

The following table presents the sensitivity of the value of insurance contract liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance contract liabilities. For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No losses arose in either 2017 or 2016, based on the results of the liability adequacy test. The table below indicates the level of the respective variable that will trigger an adjustment and then indicates the liability adjustment required as a result of a further deterioration in the variable.

		Impact on net liability	
		2017	2016
Scenario	**Change in assumptions**	**AED'000**	AED'000
Mortality/morbidity	+10%	**1,120**	1,480
Discount rate	+75bps	**(7,147)**	(10,036)
Mortality/morbidity	-10%	**(1,127)**	(1,487)
Discount rate	-75bps	**8,075**	11,542

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

12. Insurance receivables

	2017 AED'000	2016 AED'000
Due from policyholders and brokers	**922,510**	941,003
Less: allowance for doubtful debts	**(97,690)**	(79,412)
Net due from policyholders and brokers	**824,820**	861,591
Due from insurance/reinsurance companies	**678,369**	707,944
Less: allowance for doubtful debts	**(40,939)**	(38,276)
Net due from insurance/reinsurance companies	**637,430**	669,668
Total insurance receivables	**1,462,250**	1,531,259

The average credit period of insurance receivables is 30 to 120 days. No interest is charged on overdue balances and no collateral is taken on insurance receivables.

The Group has adopted a policy of dealing with creditworthy counterparties. Adequate credit assessment is made before accepting an insurance contract from any counterparty. The Group does not have any single counterparty whose outstanding balance at the end of the period exceeds 5% of the total receivable balance.

Included in the Group's total insurance receivables are balances amounting to AED 1.15 billion (2016: AED 1.20 billion) which are past due at the end of the reporting period for which no allowance has been provided for, as there was no significant change in credit quality of these insurance receivables and the amounts are considered recoverable.

12.1 Insurance receivables by location

Inside UAE	2017 AED'000	2016 AED'000
Due from policyholders and brokers	**759,654**	736,388
Less: allowance for doubtful debts	**(75,272)**	(62,013)
Net due from policyholders and brokers	**684,382**	674,375
Due from insurance/reinsurance companies	**501,538**	555,687
Less: allowance for doubtful debts	**(40,867)**	(38,276)
Net due from insurance/reinsurance companies	**460,671**	517,411
Total insurance receivables inside UAE	**1,145,053**	1,191,786

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

12. Insurance receivables (continued)

12.1 Insurance receivables by location (continued)

Outside UAE	2017 AED'000	2016 AED'000
Due from policyholders and brokers	**162,856**	204,615
Less: allowance for doubtful debts	**(22,418)**	(17,399)
Net due from policyholders and brokers	**140,438**	187,216
Due from insurance/reinsurance companies	**176,831**	152,257
Less: allowance for doubtful debts	**(72)**	-
Net due from insurance/reinsurance companies	**176,759**	152,257
Total insurance receivables outside UAE	**317,197**	339,473

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

12. Insurance receivables (continued)

12.2 Ageing of insurance receivables

2017

		Past Due by Number of Days				
	Not yet due AED'000	**<30 days AED'000**	**30-90 days AED'000**	**91-180 days AED'000**	**≥181 days AED'000**	**Total AED'000**
Due from policyholders	188,719	92,360	200,330	41,360	132,856	**655,625**
Due from insurance companies	617	1,375	35,798	18,784	152,313	**208,887**
Due from reinsurance companies	35,321	95,939	181,513	33,933	81,837	**428,543**
Due from brokers	89,734	52,241	5,570	2,369	3,614	**153,528**
Other receivables	73	2,258	207	119	13,010	**15,667**
Insurance receivables - net	**314,464**	**244,173**	**423,418**	**96,565**	**383,630**	**1,462,250**

2016

		Past Due by Number of Days				
	Not yet due AED'000	<30 days AED'000	30-90 days AED'000	91-180 days AED'000	≥181 days AED'000	Total AED'000
Due from policyholders	261,144	99,924	275,474	67,087	53,613	757,242
Due from insurance companies	8,742	68,909	57,634	20,429	94,744	250,458
Due from reinsurance companies	-	238,508	147,980	22,070	10,652	419,210
Due from brokers	35,532	32,739	21,551	1,660	938	92,420
Other receivables	2,501	2,321	169	163	6,775	11,929
Insurance receivables - net	307,919	442,401	502,808	111,409	166,722	1,531,259

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

12. Insurance receivables (continued)

12.2 Ageing of insurance receivables (continued)

12.2.1 Ageing of insurance receivables by location

Inside UAE

2017

		Past Due by Number of Days				
	Not yet due AED'000	**<30 days AED'000**	**30-90 days AED'000**	**91-180 days AED'000**	**≥181 days AED'000**	**Total AED'000**
Due from policyholders	180,696	77,122	148,601	8,671	107,761	**522,851**
Due from insurance companies	468	-	35,257	18,603	148,189	**202,517**
Due from reinsurance companies	35,321	20,689	149,865	13,837	38,442	**258,154**
Due from Brokers	86,557	51,300	5,249	1,912	1,846	**146,864**
Other receivables	73	1,455	166	104	12,869	**14,667**
Insurance receivables – net	**303,115**	**150,566**	**339,138**	**43,127**	**309,107**	**1,145,053**

2016

		Past Due by Number of Days				
	Not yet due AED'000	<30 days AED'000	30-90 days AED'000	91-180 days AED'000	≥181 days AED'000	Total AED'000
Due from policyholders	141,709	56,182	272,430	64,163	43,856	578,340
Due from insurance companies	5,510	68,614	56,776	19,911	89,041	239,852
Due from reinsurance companies	-	114,504	143,468	19,587	-	277,559
Due from Brokers	32,294	32,020	19,922	-	-	84,236
Other receivables	2,491	2,305	125	163	6,715	11,799
Insurance receivables – net	182,004	273,625	492,721	103,824	139,612	1,191,786

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

12. Insurance receivables (continued)

12.2 Ageing of insurance receivables (continued)

12.2.1 Ageing of insurance receivables by location (continued)

Outside UAE

2017

		Past Due by Number of Days				
	Not yet due AED'000	<30 days AED'000	30-90 days AED'000	91-180 days AED'000	≥181 days AED'000	Total AED'000
Due from policyholders	8,023	15,238	51,729	32,689	25,095	132,774
Due from insurance companies	149	1,375	541	181	4,124	6,370
Due from reinsurance companies	-	75,250	31,648	20,096	43,395	170,389
Due from brokers	3,177	941	321	457	1,768	6,664
Other receivables	-	803	41	15	141	1,000
Insurance receivables - net	**11,349**	**93,607**	**84,280**	**53,438**	**74,523**	**317,197**

2016

		Past Due by Number of Days				
	Not yet due AED'000	<30 days AED'000	30-90 days AED'000	91-180 days AED'000	≥181 days AED'000	Total AED'000
Due from policyholders	119,435	43,742	3,044	2,924	9,757	178,902
Due from insurance companies	3,232	295	858	518	5,702	10,605
Due from reinsurance companies	-	124,004	4,512	2,483	10,653	141,652
Due from brokers	3,238	719	1,629	1,660	938	8,184
Other receivables	10	16	44	-	60	130
Insurance receivables - net	125,915	168,776	10,087	7,585	27,110	339,473

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

12. Insurance receivables (continued)

12.3 Movement in the allowance for doubtful debts

	2017 AED'000	2016 AED'000
Balance at beginning of the year	**117,688**	106,903
Allowance made during the year	**36,126**	37,282
Amounts written off as uncollectible during the year	**(14,322)**	(26,497)
Foreign currency exchange differences	**(863)**	-
Balance at end of the year	**138,629**	117,688

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

13. Prepayments and other receivables

	2017 AED'000	2016 AED'000
Accrued income	**21,179**	21,024
Prepayments	**66,229**	51,431
Staff debtors and advances	**7,756**	7,152
Other receivables	**60,343**	38,607
	155,507	118,214

14. Bank balances and cash

	2017 AED'000	2016 AED'000
Deposits with banks with maturity over 3 months	**138,487**	169,988
Deposits with banks maturing within 3 months	**122,517**	43,157
Current accounts and cash	**115,609**	252,233
Total bank balances and cash	**376,613**	465,378
Less: Deposit with banks with maturity over 3 months	**(138,487)**	(169,988)
Cash and cash equivalents for the purpose of consolidated statement of cash flows	**238,126**	295,390

14. Bank balances and cash (continued)

The interest rates on fixed deposits and call accounts with banks ranges 0.1% to 13.95% (2016: 0.1% to 7.4%) per annum. Bank balances amounting to AED 141,322 thousand (2016: AED 249,138 thousand) are held in local banks in the United Arab Emirates.

Certain deposits with carrying value of AED 26,009 thousand at 31 December 2017 (2016: AED 21,435 thousand) are subject to lien in respect of guarantees and overdraft facilities.

15. Share capital

	2017 AED'000	2016 AED'000
Authorised, issued and fully paid 461,872,125 shares of AED 1 each (31 December 2016: 461,872,125 shares of AED 1 each)	**461,872**	461,872

16. Reserves

	Statutory reserve AED '000	Strategic reserve AED '000	General reserve AED '000	Contingency reserve AED '000	Total AED '000
Balance at 1 January 2016	230,936	303,750	913,327	8,943	1,456,956
Transfer from retained earnings	-	-	19,724	657	20,381
Balance at 31 December 2016	230,936	303,750	933,051	9,600	1,477,337
Transfer from retained earnings	-	-	-	1,957	1,957
Balance at 31 December 2017	**230,936**	**303,750**	**933,051**	**11,557**	**1,479,294**

16.1 Statutory reserve

In accordance with the Commercial Companies Law and the Company's Articles of Association, 10% of profit for the year is required to be transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the statutory reserve is equal to 50% of the paid up share capital. The reserve is not available for distribution except in the circumstances stipulated by the law. The shareholders had resolved to discontinue the appropriation as the statutory reserve reached 50% of share capital. Accordingly, no transfer was made during the year.

16. Reserves (continued)

16.2 Strategic reserve

The strategic reserve may be utilised for any purpose to be determined by a resolution of the Shareholders of the Company at general meeting, on the recommendation of the Board of Directors. No transfers have been made to the strategic reserve during the year.

16.3 General reserve

In accordance with the amended Articles of Association, 10% of profit for the year is required to be transferred to voluntary reserve. The Company may resolve to discontinue such annual transfers when the general reserve is equal to 50% of the paid up share capital. The Company has discontinued the appropriation as the voluntary reserve reached 50% of paid up share capital. Accordingly, no transfer was made during the year.

16.4 Contingency reserve – Oman Branch

In accordance with Article 10 (bis) (2) (c) of Regulations for Implementing Insurance Companies Law (Ministerial Order 5/80), as amended, of Sultanate of Oman, 10% of the net outstanding claims at the end of the reporting period is transferred from retained earnings to a contingency reserve until the provision is equal to RO 5 million. In case of insufficient retained earnings or accumulated loss position, the deficit in transfer will be adjusted against retained earnings of future years. The reserves shall not be used without the prior approval of the Capital Market Authority of Sultanate of Oman.

17. End of service benefits

	2017 AED'000	2016 AED'000
Balance at the beginning of the year	**32,769**	30,192
Charge for the year	**9,338**	7,753
Paid during the year	**(5,302)**	(5,176)
Balance at the end of the year	**36,805**	32,769

18. Bank borrowings

	2017 AED'000	2016 AED'000
Short term bank loans	**240,927**	367,732

Short term bank loans are secured by assignment of certain bonds in favor of financial institutions. These loans carry an average interest rate of 1.98% (2016: 1.53%) per annum. Short term loans are utilised for Group's operational activities.

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

18. Bank borrowings (continued)

	2017 AED'000
Balance at the beginning of the year	**367,732**
Movement during the year	**(126,805)**
Balance at the end of the year	**240,927**

19. Insurance and other payables

19.1 Insurance payables

	2017 AED '000	2016 AED '000
Insurance payables – Inside UAE	**475,391**	530,533
Insurance payables – Outside UAE	**176,239**	149,690
	651,630	680,223

	2017 AED '000	2016 AED '000
Inside UAE		
Due to policyholders and brokers	**84,148**	118,520
Due to insurance/reinsurance companies	**303,338**	350,412
Premiums collected in advance	**245**	274
Other insurance payables	**87,660**	61,327
	475,391	530,533

	2017 AED '000	2016 AED '000
Outside UAE		
Due to policyholders and brokers	**85,229**	78,222
Due to insurance/reinsurance companies	**56,769**	44,562
Premiums collected in advance	**23,529**	18,238
Other insurance payables	**10,712**	8,668
	176,239	149,690

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

19. Insurance and other payables (continued)

19.1 Insurance payables (continued)

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

19.2 Other payables

	2017 AED'000	2016 AED'000
Accruals for staff costs	**21,759**	16,282
Other payables and accruals	**60,999**	82,083
	82,758	98,365

20. Net investment income

	2017 AED '000	2016 AED '000
Dividend income from financial investments at FVTOCI	**20,090**	24,086
Interest income from financial investments at amortised cost/FVTPL	**37,487**	45,652
Interest income from deposits	**20,068**	23,192
Change in fair value of investment properties	**(573)**	(2,361)
Fair value gain on financial investments at FVTPL	**3,560**	2,298
Realised losses on sale of financial investments at FVTPL	**(271)**	(2,369)
Realised gains/(losses) on sale of financial investments at amortised cost	**9,072**	(7,465)
Unrealised gains on fair valuation of derivative transactions	**-**	480
Rental income from investment properties	**10,689**	8,821
Other investment expenses	**(23,745)**	(19,044)
	76,377	73,290

21. Other expenses

	2017 AED '000	2016 AED '000
General and administration expenses not allocated	**42,862**	53,573

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

22. Profit for the year

Profit for the year is stated after charging:

	2017 AED'000	2016 AED'000
Staff costs	**203,728**	201,784
Depreciation and amortisation	**19,029**	18,931
Rental costs – operating leases	**13,591**	23,854

23. Earnings per share

	2017	2016
Profit for the year attributable to the Owners of the Company (AED '000)	**106,321**	80,822
Weighted average number of shares	**461,872,125**	461,872,125
Basic and diluted earnings per share (AED)	**0.23**	0.17

Basic earnings per share are calculated by dividing the profit for the year attributable to the Owners of the Company by the number of weighted average shares outstanding at the end of the reporting period. Diluted earnings per share is equivalent to basic earnings per share as the Company did not issue any new instrument that would impact earnings per share when executed.

24. Related party transactions

Related parties include the Group's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

24.1 At the end of the reporting period, amounts due from/to related parties are included in the following accounts:

	2017 AED '000	2016 AED '000
Cash and bank balances	**76,464**	180,688
Bank borrowings	**240,927**	357,855
Statutory deposits	**10,000**	10,000
Net insurance receivable	**43,985**	38,213
Net insurance payable	**2,877**	1,519

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

24. Related party transactions (continued)

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

	2017 AED '000	2016 AED '000
Premiums	**97,366**	87,457
Claims	**77,349**	55,879
Interest income	**726**	476
Interest expense	**3,741**	246
Rental expense	**3,421**	4,462

The Group has entered into above transactions with related parties which were made on substantially the same terms, as those prevailing at the same time for comparable transactions with third parties.

24.3 Compensation of key management personnel

	2017 AED '000	2016 AED '000
Directors' fees	**2,250**	2,250
Salaries and benefits	**3,214**	2,471
End of service benefits	**283**	174
	5,747	4,895

25. Segment information

For management purposes, the Group is organised into three business segments, general insurance, life insurance including medical and investments. The general insurance segment comprises property, motor, general accident, aviation and marine risks. The life insurance segment includes individual life (participating and non-participating), medical, group life and personal accident as well as investment linked products. Investment comprises investments (financial and non financial), deposits with banks and cash management for the Group's own accounts.

These segments are the basis on which the Group reports its primary segment information to the Chief Operating Decision Maker.

Segmental information is presented below:

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

25. Segment information (continued)

25.1 Segment revenue

	General Insurance			Life Assurance and Medical			Total		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
Year 2017									
Insurance premium	1,958,010	(1,183,871)	774,139	1,760,231	(1,029,379)	730,852	3,718,241	(2,213,250)	1,504,991
Movement in provision for unearned premium	(83,739)	50,908	(32,831)	(36,697)	18,436	(18,261)	(120,436)	69,344	(51,092)
Insurance premium earned	1,874,271	(1,132,963)	741,308	1,723,534	(1,010,943)	712,591	3,597,805	(2,143,906)	1,453,899
Unearned premium as at 31 December 2017	808,862	(447,749)	361,113	594,570	(335,516)	259,054	1,403,432	(783,265)	620,167
Year 2016									
Insurance premium	1,766,078	(1,056,958)	709,120	1,789,204	(1,127,367)	661,837	3,555,282	(2,184,325)	1,370,957
Movement in provision for unearned premium	(100,535)	44,681	(55,854)	(72,961)	87,426	14,465	(173,496)	132,107	(41,389)
Insurance premium earned	1,665,543	(1,012,277)	653,266	1,716,243	(1,039,941)	676,302	3,381,786	(2,052,218)	1,329,568
Unearned premium as at 31 December 2016	729,910	(401,627)	328,283	541,367	(317,081)	224,286	1,271,277	(718,708)	552,569

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

25. Segment information (continued)

25.2 Segment claims

	General Insurance			Life Assurance and Medical			Total		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED' 000	Net AED'000
Year 2017									
Claims settled	**1,235,953**	**(692,951)**	**543,002**	**1,272,965**	**(785,735)**	**487,230**	**2,508,918**	**(1,478,686)**	**1,030,232**
Changes in provision for outstanding claims	**42,563**	**(50,337)**	**(7,774)**	**(13,842)**	**23,699**	**9,857**	**28,721**	**(26,638)**	**2,083**
Movement in additional reserve & ULAE reserve	**(40,509)**	**7,450**	**(33,059)**	**62,432**	**(27,017)**	**35,415**	**21,923**	**(19,567)**	**2,356**
Claims incurred	**1,238,007**	**(735,838)**	**502,169**	**1,321,555**	**(789,053)**	**532,502**	**2,559,562**	**(1,524,891)**	**1,034,671**
Year 2016									
Claims settled	1,024,311	(567,709)	456,602	1,262,785	(719,611)	543,174	2,287,096	(1,287,320)	999,776
Changes in provision for outstanding claims	435,271	(449,109)	(13,838)	46,268	(61,225)	(14,957)	481,539	(510,334)	(28,795)
Movement in additional reserve & ULAE reserve	(1,208)	(23,509)	(24,717)	144,103	(141,206)	2,897	142,895	(164,715)	(21,820)
Claims incurred	1,458,374	(1,040,327)	418,047	1,453,156	(922,042)	531,114	2,911,530	(1,962,369)	949,161

25. Segment information (continued)

25.3 Segment results

	Year ended 31 December 2017			Year ended 31 December 2016		
	General AED'000	**Life and medical AED'000**	**Total AED'000**	General AED'000	Life and medical AED'000	Total AED'000
Net insurance premium earned	**741,308**	**712,591**	**1,453,899**	653,266	676,302	1,329,568
Net claims incurred	**(502,169)**	**(532,502)**	**(1,034,671)**	(418,047)	(531,114)	(949,161)
Reinsurance commission income	**244,961**	**82,990**	**327,951**	226,754	93,712	320,466
Commission expenses	**(256,507)**	**(125,443)**	**(381,950)**	(217,230)	(131,596)	(348,826)
Other income/(expenses) relating to underwriting activities	**(1,688)**	**45,211**	**43,523**	6	43,858	43,864
Net commission and other income	**(13,234)**	**2,758**	**(10,476)**	9,530	5,974	15,504
General and administrative expenses relating to underwriting activities	**(188,940)**	**(102,922)**	**(291,862)**	(169,043)	(120,986)	(290,029)
Net underwriting profit	**36,965**	**79,925**	**116,890**	75,706	30,176	105,882
Net investment income			**76,377**			73,290
Finance costs			**(2,481)**			(2,961)
Allowance for doubtful debts			**(36,126)**			(37,282)
Other expenses			**(42,862)**			(53,573)
Profit before tax			**111,798**			85,356
Income tax			**(7,313)**			(6,461)
Profit for the year			**104,485**			78,895
Attributable to						
Owners of the Company			**106,321**			80,822
Non-controlling interests			**(1,836)**			(1,927)
			104,485			78,895

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

25. Segment information (continued)

25.4 Segment results by geographical distribution

	Year ended 31 December 2017			Year ended 31 December 2016		
	GCC AED'000	Turkey AED'000	Total AED'000	GCC AED'000	Turkey AED'000	Total AED'000
Net insurance premium earned	1,367,245	86,654	1,453,899	1,246,535	83,033	1,329,568
Net claims incurred	(966,487)	(68,184)	(1,034,671)	(884,074)	(65,087)	(949,161)
Reinsurance commission income	298,254	29,697	327,951	294,585	25,881	320,466
Commission expenses	(351,435)	(30,515)	(381,950)	(318,929)	(29,897)	(348,826)
Other income relating to underwriting activities	43,213	310	43,523	41,796	2,068	43,864
Net commission and other income	(9,968)	(508)	(10,476)	17,452	(1,948)	15,504
General and administrative expenses relating to underwriting activities	(271,038)	(20,824)	(291,862)	(269,694)	(20,335)	(290,029)
Net underwriting profit/(loss)	119,752	(2,862)	116,890	110,219	(4,337)	105,882
Net investment income	64,903	11,474	76,377	58,631	14,659	73,290
Finance costs	(2,481)	-	(2,481)	(2,961)	-	(2,961)
Allowance for doubtful debts	(36,126)	-	(36,126)	(35,440)	(1,842)	(37,282)
Other expenses	(36,831)	(6,031)	(42,862)	(45,789)	(7,784)	(53,573)
Profit before tax	109,217	2,581	111,798	84,660	696	85,356

25. Segment information (continued)

25.4 Segment results by geographical distribution (continued)

	Year ended 31 December 2017			Year ended 31 December 2016		
	GCC AED'000	**Turkey AED'000**	**Total AED'000**	GCC AED'000	Turkey AED'000	Total AED'000
Profit before tax	**109,217**	**2,581**	**111,798**	84,660	696	85,356
Income tax	**(691)**	**(6,622)**	**(7,313)**	(1,198)	(5,263)	(6,461)
Profit for the year	**108,526**	**(4,041)**	**104,485**	83,462	(4,567)	78,895
Attributable to						
Owners of the Company	**108,383**	**(2,062)**	**106,321**	83,160	(2,338)	80,822
Non-controlling interests	**143**	**(1,979)**	**(1,836)**	302	(2,229)	(1,927)
	108,526	**(4,041)**	**104,485**	83,462	(4,567)	78,895

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

25. Segment information (continued)

25.5 Segment assets and liabilities

	As at 31 December 2017				As at 31 December 2016			
	General insurance AED'000	Life assurance and medical AED'000	Investments AED'000	Total AED'000	General insurance AED'000	Life assurance and medical AED'000	Investments AED'000	Total AED'000
Assets								
Property and equipment	6,507	8,626	-	15,133	9,140	12,115	-	21,255
Investment properties	-	-	510,791	510,791	-	-	511,364	511,364
Intangible assets	42,608	56,481	-	99,089	40,232	53,330	-	93,562
Financial investments	-	-	1,959,572	1,959,572	-	-	1,847,946	1,847,946
Reinsurance contract assets	1,907,797	610,452	-	2,518,249	1,818,788	588,699	-	2,407,487
Insurance receivables	628,768	833,482	-	1,462,250	658,441	872,818	-	1,531,259
Bank balances and cash and bank deposits	229,663	304,436	-	534,099	252,450	334,643	-	587,093
Other assets	131,368	174,139	-	305,507	110,067	145,903	-	255,970
Total segment assets	2,946,711	1,987,616	2,470,363	7,404,690	2,889,118	2,007,508	2,359,310	7,255,936
Liabilities								
Insurance contract liabilities	2,552,718	1,600,529	-	4,153,247	2,471,920	1,484,879	-	3,956,799
End of service benefits	23,187	13,618	-	36,805	20,644	12,125	-	32,769
Bank borrowings	151,784	89,143	-	240,927	231,671	136,061	-	367,732
Insurance payables	410,527	241,103	-	651,630	428,540	251,683	-	680,223
Other payables	164,590	96,664	-	261,254	164,632	96,688	-	261,320
Total segment liabilities	3,302,806	2,041,057	-	5,343,863	3,317,407	1,981,436	-	5,298,843
Capital expenditure	19,460	-	-	19,460	15,942	-	-	15,942
Depreciation and amortization	10,466	8,563	-	19,029	10,412	8,519	-	18,931

25. Segment information (continued)

25.6 Geographical information of segment assets and liabilities

	As at 31 December 2017			As at 31 December 2016		
	GCC AED'000	**Turkey AED'000**	**Total AED'000**	GCC AED'000	Turkey AED'000	Total AED'000
Segment assets	**6,987,672**	**417,018**	**7,404,690**	6,852,450	403,486	7,255,936
Segment liabilities	**4,981,899**	**361,964**	**5,343,863**	4,970,090	328,753	5,298,843
Capital expenditure	**19,460**	**-**	**19,460**	15,942	-	15,942
Depreciation and amortisation	**18,122**	**907**	**19,029**	18,020	911	18,931

26. Contingent liabilities

	2017 AED'000	2016 AED'000
Bank guarantees	**100,473**	104,963

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

The Group, in common with the significant majority of insurers, is subject to litigation in the normal course of its business. The Group, based on independent legal advice, does not expect that the outcome of these court cases will have a material impact on the Group's consolidated financial performance or consolidated financial position.

27. Commitments

	2017 AED '000	2016 AED '000
27.1 Purchase commitments		
Commitments in respect of uncalled subscription of certain shares held as investments	**13,911**	12,721
Capital commitments towards acquisitions of property and equipment and intangible assets	**11,013**	295

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

27. Commitments (continued)

27.2 Operating lease commitments

At the end of the reporting period, minimum lease commitments under non-cancellable operating lease agreements are as follows:

	2017	2016
	AED '000	AED '000
Within one year	**8,595**	2,632
Second to fifth year	**5,380**	1,407

28. Insurance risk

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

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

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

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

28.1 Frequency and severity of claims

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

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

28. Insurance risk (continued)

28.1 Frequency and severity of claims (continued)

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Group should not suffer net insurance losses of a set minimum limit of AED 4,000 thousand in any one event estimated at 1:250 years. The Group has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

28.2 Sources of uncertainty in the estimation of future claim payments

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

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The amount of insurance claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Insurance contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period.

28. Insurance risk (continued)

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

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

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

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

Type of risk	**Year ended 31 December 2017**		Year ended 31 December 2016	
	Gross Loss Ratio	**Net Loss Ratio**	Gross Loss Ratio	Net Loss Ratio
Life and medical insurance	**76.7%**	**74.7%**	84.4%	78.5%
Non-life insurance	**66.1%**	**67.7%**	87.3%	64.0%

28.3 Process used to decide on assumptions

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

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

28. Insurance risk (continued)

28.4 Claims development process

The following table reflects the development of the gross outstanding claims of general insurance at the end of each year together with cumulative payments subsequent to the year of accident:

Accident year	**Before 2013 AED'000**	**2013 AED'000**	**2014 AED'000**	**2015 AED'000**	**2016 AED'000**	**2017 AED'000**	**Total AED'000**
Estimate of cumulative claims – gross:							
Before 2013	8,869,634	-	-	-	-	-	-
2013	5,216,667	613,873	-	-	-	-	-
2014	5,125,247	1,088,328	772,310	-	-	-	-
2015	5,074,970	845,257	793,913	673,776	-	-	-
2016	5,059,652	856,976	766,905	784,856	1,088,125	-	-
2017	5,112,047	840,757	822,892	796,454	1,175,832	891,146	-
Current estimate of cumulative claims	5,112,047	840,757	822,892	796,454	1,175,832	891,146	9,639,128
Cumulative payments to date – gross	(5,031,534)	(735,995)	(631,586)	(527,603)	(750,008)	(252,702)	(7,929,428)
Total outstanding claims recognised in the consolidated statement of financial position - gross	**80,513**	**104,762**	**191,306**	**268,851**	**425,824**	**638,444**	**1,709,700**

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

28. Insurance risk (continued)

28.4 Claims development process (continued)

The following table reflects the development of the net outstanding claims of general insurance at the end of each year together with cumulative payments subsequent to the year of accident:

Accident year	Before 2013 AED'000	2013 AED'000	2014 AED'000	2015 AED'000	2016 AED'000	2017 AED'000	Total AED'000
Estimate of cumulative claims – net:							
Before 2013	3,908,101	-	-	-	-	-	-
2013	3,557,027	365,557	-	-	-	-	-
2014	3,487,703	447,333	371,911	-	-	-	-
2015	3,471,278	448,705	427,535	292,407	-	-	-
2016	3,458,061	442,012	407,892	324,612	419,725	-	-
2017	3,479,848	431,637	471,505	353,076	356,275	259,141	-
Current estimate of cumulative claims	3,479,848	431,637	471,505	353,076	356,275	259,141	5,351,482
Cumulative payments to date – net	(3,444,110)	(408,642)	(419,118)	(312,203)	(292,711)	(168,225)	(5,045,009)
Total outstanding claims recognised in the consolidated statement of financial position - net	**35,738**	**22,995**	**52,387**	**40,873**	**63,564**	**90,916**	**306,473**

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

28. Insurance risk (continued)

28.5 Concentration of insurance risk

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

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

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

28.6 Sensitivity of underwriting profit

The contribution by the insurance operations to the profit of the Group is AED 116,890 thousand for the year ended 31 December 2017 (2016: AED 105,882 thousand). The Group does not foresee any adverse change in the contribution of insurance profit due to the following reasons:

- The Group has an overall risk retention level in the region of 40% (2016: 39%) and this is mainly due to low retention levels in Engineering, Property and Energy. However, for other lines of business, the Group is adequately covered by excess of loss reinsurance programs to guard against major financial impact.
- The Group has commission income of AED 327,951 thousand (2016: AED 320,466 thousand) predominantly from the reinsurance placement which remains a comfortable source of income.

Because of low risk retention of 40% (2016: 39%) of the volume of the business and limited exposure in high retention areas such as motor, the Group is comfortable to maintain an overall net loss ratio in the region of 71% (2016: 71%) and does not foresee any serious financial impact in the net underwriting profit.

29. Capital risk management

The Group's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of Its Operations.
- to protect its policy holders' interests.
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for the Shareholders and benefits for other stakeholders; and
- to provide an adequate return to the Shareholders by pricing insurance contracts commensurately with the level of risk.

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

29. Capital risk management (continued)

The solvency regulations identify the required solvency margin to be held in addition to insurance liabilities. The solvency margin must be maintained at all times throughout the year. The Company has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

New Regulations enforced during 2017:

The table below summarizes the Minimum Capital Requirement, Minimum Guarantee Fund and Solvency Capital Requirement of the Company and the total capital held to meet these solvency margins as per the Section 2 of the new Financial Regulations for the Insurance Companies which are enforced during 2017.

	2017	2016
	AED'000	AED'000
Minimum Capital Requirement (MCR)	**100,000**	100,000
Solvency Capital Requirement (SCR)	**938,236**	806,114
Minimum Guarantee Fund (MGF)	**384,164**	358,320
Own Funds		
Basic Own Funds	**1,516,040**	1,012,392
Ancillary Own Funds	**-**	-
Minimum Capital Requirement Surplus (over MCR)	**1,416,040**	912,392
Minimum Capital Requirement Surplus (over SCR)	**577,804**	206,278
Minimum Capital Requirement Surplus (over MGF)	**1,131,876**	654,072

Actual Regulation

Based on the actual regulatory requirements, the minimum regulatory capital required is AED 100 million (31 December 2016: AED 100 million) against which the paid up capital of the Company is AED 462 million (31 December 2016: AED 462 million).

30. Financial instruments

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

30. Financial instruments (continued)

30.1 Significant accounting policies

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

30.2 Categories of financial instruments

	2017 AED'000	2016 AED'000
Financial assets		
Investments designated at FVTOCI	**457,701**	580,173
Investments designated at FVTPL	**322,497**	294,908
Financial investments measured at amortised cost	**1,179,374**	972,865
Statutory deposits measured at amortised cost	**157,486**	121,715
Insurance receivables measured at amortised cost	**1,462,250**	1,531,259
Other receivables (excluding prepayments) measured at amortised cost	**89,278**	66,783
Bank balances and cash and bank deposits measured at amortised cost	**376,613**	465,378
	4,045,199	4,033,081
Financial liabilities – measured at amortised cost		
Bank borrowings	**240,927**	367,732
Re-insurance deposits retained	**70,280**	67,322
Insurance payables	**651,630**	680,223
Other payables	**82,758**	98,365
	1,045,595	1,213,642

Management considers that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values, except for the financial investments measured at amortised cost of which fair value is determined and disclosed in note 9.4 of these consolidated financial statements.

30.3 Fair value measurement

The fair values of financial assets and financial liabilities are determined as follows;

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the reporting date.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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

30. Financial instruments (continued)

30.3 Fair value measurement (continued)

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

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined;

Financial assets	Fair value as at 31 December 2017 AED'000	31 December 2016 AED'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Quoted equity investments – FVTOCI	**276,246**	314,075	Level 1	Quoted bid prices in an active market.	None.	NA
Unquoted equity investments – FVTOCI	**181,455**	266,098	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/historical financial information.	Net assets value.	Higher the net assets value of the investees, higher the fair value.
Quoted debt instruments – FVTPL	**23,194**	37,549	Level 1	Quoted bid prices in an active market.	None.	NA
Unit linked investments – FVTPL	**299,303**	257,359	Level 2	Net assets values of the funds	Net assets value	Higher the net assets value, higher the fair value.
Quoted debt instruments – amortized costs	**1,162,917**	958,226	Level 1	Quoted bid prices in an active market.	None.	NA
Unquoted debt instruments – amortized costs	**16,062**	15,456	Level 3	Net assets values of the funds.	None.	Higher the net assets value, higher the fair value

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

30. Financial instruments (continued)

30.3 Fair value measurement (continued)

30.3.2 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

At 31 December 2017

Financial assets	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
At fair value through profit or loss				
Investments in bonds	**23,194**	-	-	**23,194**
Unit linked investments	-	**299,303**	-	**299,303**
	23,194	**299,303**	-	**322,497**
At fair value through other comprehensive income				
Shares – quoted	**276,246**	-	-	**276,246**
Un-quoted equity instruments	-	-	**181,455**	**181,455**
	276,246	-	**181,455**	**457,701**

At 31 December 2016

Financial assets	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At fair value through profit or loss				
Investments in bonds	37,549	-	-	37,549
Unit linked investments	-	257,359	-	257,359
	37,549	257,359	-	294,908
At fair value through other comprehensive income				
Shares – quoted	314,075	-	-	314,075
Un-quoted equity instruments	-	-	266,098	266,098
	314,075	-	266,098	580,173

There were no transfers between each of level during the year. There are no significant financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table.

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

30. Financial instruments (continued)

30.3 Fair value measurement (continued)

30.3.3 Reconciliation of level 3 fair value measurements

30.3.3.1Reconciliation of unquoted equity instruments – at fair value through other comprehensive income, movements in level 3 financial assets measured at fair value:

	2017 AED'000	2016 AED'000
Balance at the beginning of the year	**266,098**	133,530
Additions during the year	**-**	106,165
Disposals during the year	**(153,675)**	(16,643)
Changes in fair value recognised in other comprehensive income	**69,032**	43,046
Balance at the end of the year	**181,455**	266,098

30.4 Market risk management

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

30.4.1 Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Group. The Group is exposed to interest rate risk on its financial investments in bonds and term deposits and bank borrowings that carry both fixed and floating interest rates.

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

30.4.2 Interest rate sensitivity analysis

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would increase/decrease by AED 13,168 thousand (2016: AED 9,103 thousand).

30. Financial instruments (continued)

30.4 Market risk management (continued)

30.4.3 Foreign currency risk management

There are no significant exchange rate risks as substantially all monetary assets and monetary liabilities of the Group are denominated in the local currencies of the countries where the Group operates or US Dollars to which local currencies are fixed.

Management believes that there is a minimal risk of significant losses due to exchange rate fluctuations and consequently the Group has not hedged their foreign currency exposure.

30.4.4 Market price risk management

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Group is exposed to market price risk with respect to their quoted investments. The Group limits market risk 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 stock and market movements, including analysis of the operational and financial performance of investees.

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Group's other comprehensive income would have increased/decreased by AED 27,625 thousand (2016: AED 31,408 thousand) in the case of the financial investments at fair value through other comprehensive income.

Method and assumptions for sensitivity analysis;

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

30.5 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Key areas where the Group is exposed to credit risk are:
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from banks for bank balances and fixed deposits

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

30. Financial instruments (continued)

30.5 Credit risk management (continued)

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

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

The Group maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are registered banks with sound financial positions.

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

30.6 Liquidity risk management

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities at maturity date. The Group manages the liquidity risk through a risk management framework for the Group's short, medium and long-term funding and liquidity management requirements by maintaining adequate reserves, sufficient cash and cash equivalent and bank facilities, to ensure that funds are available to meet their commitments for liabilities as they fall due.

The maturity profile is monitored by management to ensure adequate liquidity is maintained. The table below summarises the maturity profile of the Group's financial assets and liabilities based on remaining undiscounted contractual obligations including interest receivable and payable.

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

30. Financial instruments (continued)

30.6 Liquidity risk management (continued)

31 December 2017

	Statement of financial position AED'000	Less than 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	No maturity date AED'000	Total AED'000
Financial assets						
At fair value through profit or loss	322,497	-	299,303	23,194	-	322,497
At fair value through OCI	457,701	-	-	-	457,701	457,701
At amortised cost	1,179,374	136,454	559,171	716,906	-	1,412,531
Insurance receivables	1,462,250	1,462,250	-	-	-	1,462,250
Other receivables (excluding prepayments)	89,278	89,278	-	-	-	89,278
Statutory deposits	157,486	145,620	18,895	-	-	164,515
Bank balances and cash and bank deposits	376,613	291,940	101,850	-	-	393,790
Total financial assets	4,045,199	2,125,542	979,219	740,100	457,701	4,302,562
Financial liabilities						
Bank borrowings	240,927	241,798	-	-	-	241,798
Reinsurance deposits retained	70,280	70,280	-	-	-	70,280
Insurance payables	651,630	651,630			-	651,630
Other payables	82,758	82,758	-	-	-	82,758
Total financial liabilities	1,045,595	1,046,466	-	-	-	1,046,466

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

30. Financial instruments (continued)

30.6 Liquidity risk management (continued)

31 December 2016

	Statement of financial position AED'000	Less than 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	No maturity date AED'000	Total AED'000
Financial assets						
At fair value through profit or loss	294,908	733	260,290	37,549	-	298,572
At fair value through OCI	580,173	-	-	-	580,173	580,173
At amortised cost	972,865	116,736	786,653	196,943	-	1,100,332
Insurance receivables	1,531,259	1,531,259	-	-	-	1,531,259
Other receivables (excluding prepayments)	66,783	66,783	-	-	-	66,783
Statutory deposits	121,715	43,875	85,243	-	-	129,118
Bank balances and cash and bank deposits	465,378	292,544	84,154	-	-	376,698
Total financial assets	4,033,081	2,051,930	1,216,340	234,492	580,173	4,082,935
Financial liabilities						
Bank borrowings	367,732	367,732	-	-	-	367,732
Reinsurance deposits retained	67,322	67,322	-	-	-	67,322
Insurance payables	680,223	680,223	-	-	-	680,223
Other payables	98,365	98,365	-	-	-	98,365
Total financial liabilities	1,213,642	1,213,642	-	-	-	1,213,642

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

31. Subsidiaries

Details of the Company's subsidiaries at 31 December 2017 are as follows:

Name of subsidiary	Place of incorporation and operation	Proportion of legal ownership interest	Proportion of voting power held	Principal activity
Equator Insurance Agency L.L.C.**	Dubai - U.A.E.	99.97%	100%	Insurance agency.
Dubai Starr Sigorta A.Ş	Istanbul – Turkey	51%	51%	Issuing short-term and long-term insurance contracts.
ITACO Bahrain Co W.L.L***	Manama – Kingdom of Bahrain	60%	60%	Brokerage and call center services.
Synergize Services FZ L.L.C*	Dubai - UAE.	100%	100%	Management Information technology and transaction processing.

During the year, Support Management Services Company Limited (Irbil – Iraq) having principal activity of third party administration was liquidated on 7 October, 2017.

* Synergize Services FZ L.L.C was incorporated on 24 January 2014 in Dubai Outsource Zone, UAE and is engaged in the business of providing management information technology and transaction processing services.

** The Company holds the remaining equity in Equator Insurance Agency L.L.C, beneficially through nominee arrangements.

***ITACO Bahrain Co W.L.L was acquired by the Company on 16 September 2015.

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

31. Subsidiaries (continued)

Summarised financial information of the Group's subsidiary – Dubai Star Sigorta A.S., Turkey that the company has a material non-controlling interest in is set out below.

Summarised financial information below represents amounts before inter-group eliminations.

	2017 AED'000	2016 AED'000
Dubai Starr Sigorta A.S.		
Current assets	**239,059**	216,240
Non-current assets	**177,959**	187,246
Current liabilities	**103,138**	92,723
Non-current liabilities	**271,164**	261,516
Equity attributable to Owners of the Company	**21,785**	25,116
Non-controlling interests	**20,931**	24,131

	2017 AED'000	2016 AED'000
Net cash outflows from operating activities	**(746)**	(5,605)
Net cash inflows from investing activities	**6,969**	16,945
Net cash inflows from financing activities	**4,112**	4,303
Net cash inflows	**10,335**	15,643

Details of the above subsidiary's income statement are given in note 25.4, segment information.

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

32. Summary of the actuary's report on the technical provisions

This note provides a summary of the actuarial technical provisions calculated and certified by the Appointed Actuary.

The table below provides a summary of the gross of reinsurance technical provisions and related reinsurance assets.

INSURANCE ACTIVITY & TECHNICAL PROVISIONS CATEGORY	AS AT 31 DECEMBER 2017 AED '000			AS AT 31 DECEMBER 2016 AED '000		
	GROSS	**RI**	**NET**	GROSS	RI	NET
Personal Insurance and Fund Accumulation Operations						
Outstanding claims provisions (OS)	87,506	(57,082)	**30,424**	92,247	(60,554)	31,693
Provisions for unearned premiums (UPR)	35,225	(13,521)	**21,704**	37,739	(12,247)	25,492
Provisions for claims incurred but not reported (IBNR)	35,186	(23,964)	**11,222**	28,731	(18,908)	9,823
Unallocated loss adjustment expenses reserve (ULAE)	569	-	**569**	429	-	429
Mathematical Reserves:	504,338	-	**504,338**	490,689	-	490,689
Unit-Linked	*296,293*	-	***296,293***	*255,551*	-	*255,551*
Non Unit-Linked	*208,045*	-	***208,045***	*235,138*	-	*235,138*
Sub-Total	**662,824**	**(94,567)**	**568,257**	649,835	(91,709)	558,126
Property and Liability Insurance						
Outstanding claims provisions (OS)	1,808,806	(1,452,858)	**355,948**	1,775,344	(1,422,748)	352,596
Provisions for unearned premiums (UPR)	1,368,207	(769,744)	**598,463**	1,233,538	(706,461)	527,077
Provisions for claims incurred but not reported (IBNR)	304,876	(201,080)	**103,796**	289,008	(186,569)	102,439
Unallocated loss adjustment expenses reserve (ULAE)	8,534	-	**8,534**	9,074	-	9,074
Sub-Total	**3,490,423**	**(2,423,682)**	**1,066,741**	3,306,964	(2,315,778)	991,186
Total	**4,153,247**	**(2,518,249)**	**1,634,998**	3,956,799	(2,407,487)	1,549,312

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

32. Summary of the actuary's report on the technical provisions (continued)

Personal insurance and fund accumulation operations

This category includes Individual Life, Group Life and Credit Life business. Technical provisions were calculated for the UAE and Oman operations separately. Generally acceptable actuarial techniques were implemented in the determination of the gross and net technical provisions figures.

Judgment is required in calculating the provisions and is exercised particularly through the choice of assumptions where discretion is permitted. In turn, the assumptions used are based where possible on recent experience investigations and market information where necessary. Technical provisions are most sensitive to assumptions regarding discount rates and mortality/morbidity rates. The discount rate assumption used where applicable is set to 3.00% which is within the range of assumptions used by market peers and is reasonable with regard to the actual earnings of the Company based on the year-to-date asset information and analysis after allowing for risk adjustment. The Company does not hold enough credible mortality experience to conduct a full mortality study as the size of the portfolio does not generate sufficient claims to make the experience statistically significant. A crude estimate of the expected net mortality cost indicated that the expected mortality rate used is materially higher than the realized mortality claims in recent years proving that the basis includes sufficient prudence margins.

Under the net premium method used, the premium taken into account in calculating technical provisions is determined actuarially, based on the valuation assumptions regarding discount rates, mortality and disability. The difference between this premium and the actual premium payable provides sufficient margin for expenses. An expense adequacy test has also been performed indicating that available implicit expense margins in the valuation basis is adequate to cover the total projected expenses for Individual Life, Group Life and Unit linked business. The valuation methodology does not allow for voluntary early termination of the life insurance contracts by the policyholder, hence no assumption is required for persistency. The technical provision determined with no lapse allowance is considered to be prudent.

Property and liability insurance

This category includes health and other general insurance lines of business (LOBs). Technical provisions were calculated separately for UAE and for Turkey operations. No discounting of technical provisions was employed.

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

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

32. Summary of the actuary's report on the technical provisions (continued)

Property and liability insurance (continued)

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

33. Net premiums written

The tables below represents a breakdown of the premiums written by the Group for each category of insurance as defined by the Insurance Authority

33.1 Gross premiums - Direct Business

	2017 AED'000	2016 AED'000
Property and Liability Insurance	**3,000,549**	2,758,774
Insurance of Persons & Fund Accumulation	**160,452**	256,952
Total	**3,161,001**	3,015,726

33.2 Gross premiums - Reinsurance Assumed

	2017 AED'000	2016 AED'000
Property and Liability Insurance	**550,307**	505,219
Insurance of Persons & Fund Accumulation	**6,933**	34,337
Total	**557,240**	539,556

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

33. Net premiums written (continued)

33.3 Reinsurance premiums ceded

	2017 AED'000	2016 AED'000
Property and Liability Insurance	**2,150,170**	2,043,638
Insurance of Persons & Fund Accumulation	**63,080**	140,687
Total	**2,213,250**	2,184,325

33.4 Net premiums written

	2017 AED'000	2016 AED'000
Property and Liability Insurance	**1,400,686**	1,220,355
Insurance of Persons & Fund Accumulation	**104,305**	150,602
Total	**1,504,991**	1,370,957

34. Net claims paid

The tables below represents a breakdown of the claims settled by the Group for each category of insurance as defined by the Insurance Authority

34.1 Gross claims settled - Direct Business

	2017 AED'000	2016 AED'000
Property and Liability Insurance	**2,121,071**	1,941,581
Insurance of Persons & Fund Accumulation	**137,279**	175,236
Total	**2,258,350**	2,116,817

34.2 Gross claims settled - Reinsurance Assumed

	2017 AED'000	2016 AED'000
Property and Liability Insurance	**221,391**	159,998
Insurance of Persons & Fund Accumulation	**29,177**	10,281
Total	**250,568**	170,279

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

34. Net claims paid (continued)

34.3 Reinsurance share of claims settled

	2017 AED'000	2016 AED'000
Property and Liability Insurance	1,406,997	1,201,071
Insurance of Persons & Fund Accumulation	71,689	86,249
Total	**1,478,686**	1,287,320

34.4 Net claims settled

	2017 AED'000	2016 AED'000
Property and Liability Insurance	935,465	900,508
Insurance of Persons & Fund Accumulation	94,767	99,268
Total	**1,030,232**	999,776

35. Dividends

At the Annual General Meeting held on 21 March 2017, the shareholders approved a cash dividend distribution of 10% amounting to AED 46,187 thousand (AED 10 fils per share) for 2016 (for 2015 10% amounting to AED 46,187 thousand).

The Board of Directors proposes cash dividends of 10% amounting to AED 46,187 thousand (AED 10 fils per share) for 2017.

The proposed dividends above are subject to the approval of the Shareholders at the Annual General Meeting and have not been included as a liability in the consolidated financial statements.

36. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 12 February 2018.