Islamic Arab Insurance Co. (Salama)
and its subsidiaries

Directors' report and consolidated financial statements

for the year ended 31 December 2016

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Directors' report and consolidated financial statements
for the year ended 31 December 2016

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We present 37th Annual Report together with the audited consolidated financial statements for the year ended 31 December 2016.

We are proud to announce that during the year 2016 SALAMA has won "Best Family Takaful Operator – ME" Award at Islamic Business & Finance Awards, which was announced at the award ceremony, attended by over 200 Islamic bankers and financiers from around the world. This award is a testimony to SALAMA's strong foundation and values on which the Family Takaful Business is built, always keeping customers at the heart of the business. Last year we have received "Family Takaful Company of the year" Award from MIIA (Middle East Insurance Awards).

SALAMA apart from operations in UAE, do have many sustainable operations conducting Islamic insurance in their respective regions. In the year 2016 our operations across the region have recorded tremendous growth in their net profits, it rose to AED 57 MN from AED 22 MN last year. However, this is despite the fact that during the year our operations in Egypt and Algeria have suffered huge foreign currency setback against US Dollar.

The consolidated net loss during the year 2016 is due to discontinued operations of BEST RE and losses in Motor portfolio in UAE. Motor portfolio in UAE by its very nature is highly competitive and volatile, like last year the motor insurance business faced many challenges leading to losses for many operators in the market.

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فرع عود ميثاء
دبي – بناية النصر بلازا
هاتف: ٠٤٣٥٧٣٠٦٠
فاكس: ٠٤٣٥٧٢٩٩٣
ص.ب: ١٠٢١٤

فرع المطالبات
دبي – شارع دمشق
هاتف: ٠٤٢٦٧٤٠٤٠
فاكس: ٠٤٢٦٧٠٨٧٠
ص.ب: ١٠٢١٤

المكتب الرئيسي
دبي – بناية سبيكتروم
هاتف: ٠٤٣٥٧٧٠٠٠
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فرع الشارقة
الشارقة – بناية المحريبي
هاتف: ٠٦٥٧٤٤٥٥١
فاكس: ٠٦٥٧٤٤٥٥٢
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فرع العين
العين – شارع عود التوبة
هاتف: ٠٣٧٦٦٣٩٩٦
فاكس: ٠٣٧٦٦٩٤٥١
ص.ب: ١٦٢٣

فرع أبو ظبي
أبو ظبي – شارع المطار
هاتف: ٠٢٦٣٥٢٥٧٧
فاكس: ٠٢٦٣١٤٢٥٢
ص.ب: ٧٦٨٨

Going forward with the help of new and more stringent insurance regulations it is expected that insurance sector in UAE will see improvement that will benefit both companies and policyholders.

SALAMA has been able to achieve market leadership in many segments and has grown continuously and organically with stronger partnerships and distribution channels. Rest assured SALAMA is strong and seasoned to weather cyclical losses without impacting its growth strategy.

SALAMA's net shareholders' equity as of 31 December 2016 is AED 710 million which is substantially larger than other operators and higher than the minimum regulatory requirement.

The following are highlights from our consolidated financial statements for years ended 31 December 2016 and 2015:

	2016 AED '000	**2015 AED '000**
Gross written contributions	**777,612**	**933,346**
Contributions earned	**599,382**	**699,854**
Incurred claims	**475,740**	**455,850**
Net UW (loss) / income	**(79,775)**	**56,228**
Investment income	**49,924**	**18,914**
Net loss for the year	**(174,947)**	**(162,840)**

SALAMA remains strong and resilient in face of short term challenges. We are very confident that after drastically reducing UAE motor business, we will be able to improve its temporary situation and yield better results from this segment. While implementing corrective action for the motor business, SALAMA will continue to nurture other business

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ص.ب: ٧٦٨٨

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العين – شارع عود التوبة
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ص.ب: ٢٤٨١١

areas which significantly contribute to its profitability. We will continue to lead Takaful market in UAE through strong leadership and innovation in different segments.

Finally, we would like to convey our thanks to our clients and reinsurers for their invaluable support. We would also like to thank the management and staff for their efforts and contribution towards the growth of SALAMA.

Board of Directors

2 7 MAR 2017

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Independent Auditors' Report

To the Shareholders of Islamic Arab Insurance Co. (Salama) and its subsidiaries

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Key Audit Matters (continued)

1. *Outstanding claims and family takaful reserve*

Refer to note 2 and 23 of the consolidated financial statements.

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

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

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

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

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

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Key Audit Matters (continued)

2. Contributions and takaful balance receivables

Refer to note 2 and 20 of the consolidated financial statements.

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

Our response:

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

3. Valuation of investment properties

Refer to note 3 and 15 of the consolidated financial statements.

The valuation of investment properties is determined through the application of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates.

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

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

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Key Audit Matters (continued)

3. *Valuation of investment properties* (continued)

Our response:

- we assessed the competence, independence and integrity of the external valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;

- we obtained the external valuation reports for all properties and confirmed that the valuation approach is suitable for use in determining the fair value in the consolidated statement of financial position;

- we carried out procedures to test whether property specific standing data supplied to the external valuers by management is appropriate and reliable; and

- based on the outcome of our evaluation, we determined the adequacy of the disclosure in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the Directors' report but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the Shari'ah Supervisory Committee Report which is expected to be made available to us after that date.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

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

iii) the Group has maintained proper books of account;

iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;

v) as disclosed in note 18 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2016;

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Report on Other Legal and Regulatory Requirements *(continued)*

vi) note 29 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2016; and

viii) note 12 to the consolidated financial statements discloses the social contributions made during the year.

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

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates
Date: 27 MAR 2017

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Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of profit or loss

for the year ended 31 December

CONTINUING OPERATIONS

UNDERWRITING RESULTS	*Note*	**2016**	2015
		AED'000	AED'000
Underwriting income			
Gross written contributions	*39*	**777,612**	933,346
Less: reinsurance and retakaful contributions ceded		**(221,218)**	(213,497)
Net contributions		**556,394**	719,849
Net movement in unearned contributions		**42,988**	(19,995)
Contributions earned		**599,382**	699,854
Commission received on ceded reinsurance and retakaful		**37,621**	52,945
		637,003	752,799
Underwriting expenses			
Gross claims paid		**520,882**	512,581
Less: reinsurance and retakaful share of claims paid		**(105,162)**	(146,593)
Net claims paid		**415,720**	365,988
Net movement in outstanding claims and family takaful reserve		**60,020**	89,862
Claims incurred		**475,740**	455,850
Commission paid and other costs		**241,038**	240,721
		716,778	696,571
Net underwriting (loss) / income	*39*	**(79,775)**	56,228
Income from other sources			
Income from investments	*10*	**49,924**	18,914
Other income		**44,959**	24,104
		15,108	99,246
Expenses			
General, administrative and other expenses	*11*	**(115,876)**	(137,622)
Finance expenses		**(796)**	(992)
Impairment on goodwill		**-**	(27,043)
Provision for charitable donations	*12*	**(1,653)**	(658)
Net loss before tax		**(103,217)**	(67,069)
Taxation - current	*36*	**(15,165)**	(12,070)
Net loss after tax before policyholders' distribution		**(118,382)**	(79,139)
Distribution to policyholders of Company	*8*	**(15,191)**	(15,597)
Net loss after tax and distribution to policyholders from continuing operations		**(133,573)**	(94,736)
DISCONTINUED OPERATIONS			
Loss from discontinued operations	*41*	**(41,374)**	(68,104)
Net loss after tax and distribution to policyholders		**(174,947)**	(162,840)
Attributable to:			
Shareholders		**(199,053)**	(171,548)
Non-controlling interest		**24,106**	8,708
		(174,947)	(162,840)
Loss per share (AED)	*35*	**(0.168)**	(0.144)
Loss per share (AED) - continuing operations		**(0.133)**	(0.087)

The notes on pages 17 to 76 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 4 - 10.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December

	2016	2015
	AED'000	AED'000
Net loss after tax and distribution to policyholders	**(174,947)**	(162,840)
Other comprehensive loss net of income tax		
Items that will never be reclassified to profit or loss:		
Net change in revaluation of property and equipment	**395**	(1,165)
Items that are or may be reclassified to profit or loss:		
Net change in fair value of available-for-sale investments	**(7,407)**	(8,769)
Foreign exchange translation reserve	**(85,734)**	(36,127)
Other comprehensive loss	**(92,746)**	(46,061)
Total comprehensive loss	**(267,693)**	(208,901)
Attributable to:		
Shareholders	**(252,048)**	(212,360)
Non-controlling interest	**(15,645)**	3,459
	(267,693)	(208,901)

The notes on pages 17 to 76 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 4 - 10.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of financial position

as at 31 December

	Note	**31 December 2016 AED'000**	31 December 2015 AED'000
ASSETS			
Property and equipments	*13*	**64,585**	71,138
Goodwill and intangibles	*14*	**127,192**	127,194
Investment properties	*15*	**128,210**	132,276
Investments in associates	*16*	**94,736**	87,548
Statutory deposits	*17*	**11,761**	21,476
Investments	*18*	**432,877**	623,149
Participants' investments in unit-linked contracts	*18.3*	**989,369**	766,687
Deposits with takaful and retakaful companies	*19*	**2,109**	4,598
Contributions and takaful balance receivables	*20*	**222,449**	203,829
Retakafuls' share of outstanding claims	*23*	**157,023**	116,243
Retakafuls' share of unearned contributions	*24*	**70,796**	71,345
Amounts due from related parties	*29*	**11,230**	11,474
Other assets and receivables	*21*	**365,567**	339,320
Cash and bank balances	*22*	**118,830**	52,603
Assets held-for-sale	*42*	**593,296**	730,309
TOTAL ASSETS		**3,390,030**	3,359,189
LIABILITIES EXCLUDING POLICYHOLDERS' FUND			
Bank finance	*28*	**3,983**	4,676
Outstanding claims and family takaful reserve	*23*	**479,343**	399,941
Payable to Participants for unit-linked contracts	*26*	**982,592**	759,597
Unearned contributions reserve	*24*	**158,846**	235,808
Takaful balances payable	*25*	**227,887**	120,742
Other payables and accruals	*27*	**251,004**	191,708
Amounts due to related parties	*29*	**304**	-
Liabilities against assets held-for-sale	*42*	**519,212**	613,264
TOTAL LIABILITIES		**2,623,171**	2,325,736
Policyholders' fund	*30*	**-**	-
NET ASSETS EMPLOYED		**766,859**	1,033,453
FINANCED BY:			
Shareholders' equity		**710,584**	959,307
Non-controlling interest		**56,275**	74,146
		766,859	1,033,453

The notes on pages 17 to 76 form an integral part of these consolidated financial statements.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 MAR 2017 and signed on their behalf by:

Sheikh Khaled Bin Zayed Al Nehayan
Chairman

Dr. Saleh J. Malaikah
Vice Chairman & CEO

The independent auditors' report is set out on page 4 - 10.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of cash flows

for the year ended 31 December

	2016 **AED'000**	2015 AED'000
Cash flows from operating activities		
Net loss after tax and distribution to policyholders	**(174,947)**	(162,840)
Adjustment for:		
Depreciation	**3,816**	4,779
Net movement in unearned contributions reserve	**(76,413)**	(66,697)
Unrealised (gain) / loss on investments	**(11,607)**	10,922
Unrealised loss on investment properties	**(5,227)**	1,945
Amortisation of intangible assets	**505**	604
Impairment of goodwill	**-**	27,043
Share of profit from associates	**(8,181)**	(2,396)
Dividend income	**(2,243)**	(976)
Operating loss before changes in working capital	**(274,297)**	(187,616)
Change in deposits with takaful and retakaful companies	**2,489**	139,613
Change in contributions and takaful balance receivable	**(18,620)**	257,579
Change in due from related parties	**244**	4,174
Change in due to related parties	**304**	-
Change in other assets and receivables	**(26,247)**	(97,360)
Change in outstanding claims (net of retakaful)	**38,622**	(203,813)
Change in takaful payables and other payables	**166,441**	(245,431)
Change in payable to participants for unit-linked contracts	**222,995**	98,263
Net cash flows generated from / (used in) operating activities	**111,931**	(234,591)
Cash flows from investing activities		
Property and equipment-net	**2,737**	23,453
Net movement in intangible assets	**(503)**	429
Purchase of investment property	**(204)**	-
Sale proceeds from sale of investment property	**-**	79,983
Investment in associate	**-**	(43,524)
Dividend income from an associate	**993**	931
Statutory deposits	**9,715**	(7,919)
Investments-net	**(61,091)**	(16,472)
Dividends received	**2,243**	976
Net cash flows (used in) / generated from investing activities	**(46,110)**	37,857
Cash flows from financing activities		
Bank finance-net	**(693)**	(143,166)
Net movement in non-controlling interest	**1,099**	3,750
Net cash flows generated from / (used in) financing activities	**406**	(139,416)
Net increase / (decrease) in cash and cash equivalents	**66,227**	(336,150)
Cash and cash equivalents at 1 January	**52,603**	388,753
Cash and cash equivalents at 31 December (note 22)	**118,830**	52,603

The notes on pages 17 to 76 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 4 - 10.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Attributable to the equity holders of the Company									
	Share capital AED'000	Statutory reserve AED'000	Revaluation reserve AED'000	Foreign exchange translation reserve AED'000	Investment fair value reserve AED'000	Treasury stock AED'000	Accumulated losses AED'000	Total AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at 1 January 2016	1,210,000	73,861	35,469	(61,610)	3,980	(35,972)	(266,421)	959,307	74,146	1,033,453
Total comprehensive loss for the year										
Loss for the year	-	-	-	-	-	-	(199,053)	(199,053)	24,106	(174,947)
Other comprehensive loss										
Net changes in revaluation of property and equipment	-	-	395	-	-	-	-	395	-	395
Movement in foreign exchange translation reserve	-	-	-	(46,003)	-	-	-	(46,003)	(39,731)	(85,734)
Movement in net change in fair value of available-for-sale investments	-	-	-	-	(7,387)	-	-	(7,387)	(20)	(7,407)
Total other comprehensive loss	-	-	395	(46,003)	(7,387)	-	-	(52,995)	(39,751)	(92,746)
Total comprehensive loss for the year	-	-	395	(46,003)	(7,387)	-	(199,053)	(252,048)	(15,645)	(267,693)
Change in non-controlling interest due to capital increase	-	-	-	-	-	-	-	-	1,208	1,208
Surplus revaluation reserve transferred to retained earnings	-	-	3,325	-	-	-	-	3,325	(3,325)	-
Transactions with owners, recorded directly in equity										
Dividend paid	-	-	-	-	-	-	-	-	(109)	(109)
Balance at 31 December 2016	**1,210,000**	**73,861**	**39,189**	**(107,613)**	**(3,407)**	**(35,972)**	**(465,474)**	**710,584**	**56,275**	**766,859**

The notes on pages 17 to 76 form an integral part of these consolidated financial statements.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2016

	Attributable to the equity holders of the Company									
	Share capital AED'000	**Statutory reserve AED'000**	**Revaluation reserve AED'000**	**Foreign exchange translation reserve AED'000**	**Investment fair value reserve AED'000**	**Treasury stock AED'000**	**Accumulated losses AED'000**	**Total AED'000**	**Non-controlling interest AED'000**	**Total equity AED'000**
Balance at 1 January 2015	1,210,000	73,861	42,173	(30,697)	12,719	(35,972)	(99,151)	1,172,933	65,671	1,238,604
Total comprehensive loss for the year										
Loss for the year	-	-	-	-	-	-	(171,548)	(171,548)	8,708	(162,840)
Other comprehensive loss										
Net changes in revaluation of property and equipment	-	-	(2,426)	-	-	-	-	(2,426)	1,261	(1,165)
Movement in foreign exchange translation reserve	-	-	-	(30,913)	-	-	-	(30,913)	(5,214)	(36,127)
Movement in net change in fair value of available-for-sale investments	-	-	-	-	(8,739)	-	-	(8,739)	(30)	(8,769)
Total other comprehensive loss	-	-	(2,426)	(30,913)	(8,739)	-	-	(42,078)	(3,983)	(46,061)
Total comprehensive loss for the year	-	-	(2,426)	(30,913)	(8,739)	-	(171,548)	(213,626)	4,725	(208,901)
Change in non-controlling interest due to capital increase	-	-	-	-	-	-	-	-	6,718	6,718
Surplus revaluation reserve transferred to retained earnings	-	-	(4,278)	-	-	-	4,278	-	-	-
Transactions with owners, recorded directly in equity										
Dividend paid	-	-	-	-	-	-	-	-	(2,968)	(2,968)
Balance at 31 December 2015	**1,210,000**	**73,861**	**35,469**	**(61,610)**	**3,980**	**(35,972)**	**(266,421)**	**959,307**	**74,146**	**1,033,453**

The notes on pages 17 to 76 form an integral part of these consolidated financial statements.

1 Legal status and activities

Islamic Arab Insurance Co. (Salama) ("the Company") is a public shareholding company, registered in the Emirate of Dubai, United Arab Emirates (UAE) and operates through various branches in the UAE. The registered office of the Company is P.O. Box 10214, Dubai, United Arab Emirates. The principal activity of the Company is the writing of all classes of general takaful and family takaful business, in accordance with Islamic Shari'ah principles and in accordance with the Articles of the Company, UAE Federal Law No 2 of 2015 for commercial companies and UAE Federal Law No. 6 of 2007, concerning regulations of insurance operations.

The Company and its subsidiaries are referred to as "the Group". Tariic Holding BSC (Tariic), a subsidiary of the Company, is an intermediate holding company in Bahrain and no commercial activities are carried out in the Kingdom of Bahrain. Details of the Company's subsidiaries are mentioned in note 40 of these consolidated financial statements. The Group has the following principal subsidiaries which are engaged in insurance and reinsurance under Islamic Shari'ah principles:

	Group's ownership		
Subsidiaries	**31 December 2016**	31 December 2015	**Country of incorporation**
Directly owned			
Tariic Holding Company B.S.C	**99.40%**	99.40%	Kingdom of Bahrain
Misr Emirates Takaful Life Insurance Co.	**85.00%**	85.00%	Egypt
Salama Immobilier	*** 84.25%**	81.50%	Senegal
Through Tariic			
Salama Assurance Senegal	**** 58.45%**	57.41%	Senegal
Salama Assurances Algerie	**96.98%**	96.98%	Algeria
Egyptian Saudi Insurance Home	**51.15%**	51.15%	Egypt
Best Re Holding Company (discontinued operations)	**100%**	100%	Malaysia

***** During the year, the Company acquired all the shares of Salama Immobilier that were held by Salama Assurances Senegal, thereby increasing the holding percentage.

****** During the year, Salama Assurance Senegal offered a rights issue to its shareholders. The Company acquired the options not utilised by existing shareholders, thereby increasing the holding percentage.

2 Basis of preparation

a) Statement of compliance

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

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

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

2 Basis of preparation (continued)

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following which are stated at fair value :

i) financial instruments at fair value through profit and loss ("FVTPL") and unit linked contracts;
ii) available-for-sale ("AFS") financial assets; and
iii) investment properties.

c) Functional and presentation currency

These consolidated financial statements are presented in UAE Dirham (AED), which is the functional currency of the Company. Except as otherwise indicated, financial information presented in UAE Dirham has been rounded to the nearest thousand.

d) Critical accounting estimates and judgment in applying accounting policies

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

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and the factors including expectations of future events that are believed to be reasonable under the circumstances.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are included in the following notes:

- Note 15: Investment properties
- Note 18: Investments
- Note 23: Outstanding claims and retakafuls' share of outstanding claims

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 and in any future period affected.

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

The ultimate liability arising from claims made under takaful and retakaful contracts

The estimation of the ultimate liability arising from claims made under takaful contracts is the Group’s most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Group will ultimately pay for such claims. The provision for claims incurred but not reported (“IBNR”) is an estimation of claims which are expected to be reported subsequent to the date of consolidated statement of financial position, for which the insured event has occurred prior to the date of consolidated statement of financial position.

2 **Basis of preparation** (continued)

d) **Critical accounting estimates and judgment in applying accounting policies** (continued)

The ultimate liability arising from claims made under takaful and retakaful contracts (continued)

Information about assumptions and estimation of uncertainties that have a significant risk of resulting in a material adjustment within the next financial year relating to outstanding claims and family takaful reserves are included in note 23 to the consolidated financial statements.

Impairment losses on contributions and takaful balance receivables

The Group assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Group evaluates credit risk characteristics that consider industry, past-due status and an estimation of future cash flows being indicative of the ability to pay all amounts due as per the contractual terms.

Impairment losses on available-for-sale investments

The Group determines that available-for-sale quoted and unquoted equity securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. For available-for-sale investments where fair values are not available, the Group makes an assessment of whether there is objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverability assumed is assessed to be below the cost of the investment. In making this judgment, the Group evaluates credit risk characteristics that consider industry, past due status and an estimation of future cash flows being indicative of the ability to pay all amounts due as per the contractual terms.

Deferred policy acquisition costs

The amount of acquisition costs to be deferred is dependent on judgments as to which issuance costs are directly related to and vary with the acquisition. Acquisition cost on long-term Takaful contracts without fixed terms with investment participation feature are amortised over the expected total life of the contract group as a constant percentage of estimated gross profit margins (including investment income) arising from these contracts in accordance with the accounting policy stated in note 3(b). The pattern of expected profit margins is based on historical and anticipated future experiences which consider assumptions, such as expenses, lapse rates or investment income and are updated at the end of each accounting period.

e) **Changes in accounting policies**

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

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

3 **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the change in accounting policy stated in note 2 (e).

3 Significant accounting policies (continued)

Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated statement of profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

Subsidiaries

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

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

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

Investment in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Interest in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statement include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

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

Transactions eliminated on consolidation

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

Acquisition from entities under common control

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

Loss of control

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

3 Significant accounting policies (continued)

a) Takaful contracts

i. Classification

The Group issues contracts that transfer either takaful risk or both takaful and financial risks. The Group does not issue contracts that transfer only financial risks.

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

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

Contracts where takaful risk is not significant are classified as investment contracts. Once a contract is classified as a takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expire.

ii. Recognition and measurement

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

a) General Takaful contracts

Gross written contributions, in respect of annual policies, are recognised in the consolidated statement of profit or loss at policy inception. In respect to policies with a term of more than one year, the contributions are spread over the tenure of the policies on a straight line basis, and the unexpired portion of such contributions are included under “unearned contributions” in the consolidated statement of financial position.

b) Family Takaful contracts

These contracts relate to human life events for example death or survival, bodily injury etc. For short term contracts, normally with group customers, the contributions are recognised when due. For long term contracts, normally with individual customers, the contributions are booked on receipt.

c) Investment featured unit-linked contracts

A unit-linked takaful contract is a takaful contract linking payments on the contract to units of investment funds administrated by the Group with the contributions received from the plan holder. These funds are administrated by the Group on behalf of plan holders in fiduciary trust as a Mudarib (Manager). In addition Group manages Tabarru fund on behalf of plan holders to meet the obligations arising out of takaful operations. The Group has no recourse to the assets of Tabarru fund. An investment charge based on a certain percentage of value of fund is charged as fee. The liability towards the plan holder is linked to the performance of the underlying assets of these funds. This embedded derivative meets the definition of a takaful contract. Since all the liabilities arising from the embedded derivative are already measured at fair value and since all the investments on behalf of plan holders are classified as fair value through profit and loss, the Group does not account embedded derivatives separately.

In case of a claim, the amount paid is the higher of the sum assured or the unit value. The liability is calculated through actuarial valuation based on the present value of expected benefits to plan holders.

Where the Tabarru Fund is insufficient to meet the liabilities, the shareholders shall grant profit free loan to the fund to meet its liabilities under the contracts held with participants. This loan is called Qard-e-Hasan. The Qard-e-Hasan is repaid to shareholders from the future surplus of Tabarru Fund.

3 Significant accounting policies (continued)

a) Takaful contracts (continued)

ii. Recognition and measurement (continued)

c) Investment featured unit-linked contracts (continued)

The contribution after allocation to unit fund/investment fund of plan holder is called Takaful Donation and is taken to Tabarru fund from where Wakala fee is paid to shareholders. Takaful Donation is based on appropriate rates of mortality and morbidity. The Tabarru fund is a collective pool established, invested and managed in accordance with Sharia Principles with the purpose of providing benefits on the lives of covered members (plan holders) and for the repayment of Qard-e-Hasan (if applicable).

The long term individual life contracts contain investment participation feature. A surplus may arise in Tabaru fund after accounting for the claims, relevant expenses, investment returns and reserves. The surplus is available for the distribution to eligible participants provided there is net surplus in the Tabarru Fund in respect of the relevant year. The distribution is at the discretion of the Board of Directors. This contractual right is supplement to the other benefits mentioned in the contract.

These takaful contracts insure human life events (for example, death or survival) over a long duration. However, Takaful contributions are recognised directly as liabilities. These liabilities are increased by fair value movement of underlying investments / unit prices and are decreased by policy administration fees, mortality and surrender charges and withdrawals, if any.

The liability for these contracts includes any amounts necessary to compensate the Group for services to be performed over future periods. This is the case for contracts where the policy administration charges are higher in the initial years than in subsequent years. The mortality charges deducted in each period from the contract holders as a group are considered adequate to cover the expected total death benefit claims in excess of the contract account balances in each period; no additional liability is therefore established for these claims.

iii. Unearned premium reserve

The unearned premium considered in the unearned contributions reserve comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the consolidated statement of financial position date. UPR is calculated using the 1/365 method except for marine business. The UPR for marine is recognised as fixed proportion of the written premiums as required in the financial regulation. The rate at which the premium is earned is deemed to increase at the same rate at which the risk faced increases over the lifetime of the policy. Unearned premiums for Family Takaful business are considered by the Group's actuary in the calculation for family takaful reserve.

iv. Claims

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

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

v. Gross claims paid

Gross claims paid are recognised in the consolidated statement of profit or loss when the claim amount payable to policyholders' and third parties are determined as per the terms of the takaful contracts.

3 Significant accounting policies (continued)

a) Takaful contracts (continued)

vi. Claims recovered

Claims recovered include amounts recovered from retakaful companies in respect of the gross claims paid by the Group, in accordance with the retakaful contracts held by the Group. It also includes salvage and other claims recoveries.

Gross outstanding and IBNR claims

Gross outstanding claims comprise the estimated costs of claims incurred but not settled at the consolidated financial position date. Provisions for reported claims not paid as at the date of consolidated statement of financial position are made on the basis of individual case estimates. This provision is based on the estimate of the loss, which will eventually be payable on each unpaid claim, established by the management in the light of currently available information and past experience. An additional net provision is also made for any claims incurred but not reported ("IBNR") at the date of consolidated statement of financial position on the basis of management estimates. The basis of estimating outstanding claims and IBNR are detailed in note 23.

The retakaful share of the gross outstanding claims is estimated and shown separately.

vii. Contribution deficiency reserve

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

viii. Retakaful

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

Amounts due to and from retakaful operators are accounted for in a manner consistent with the related contributions is included in retakaful assets.

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

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

3 Significant accounting policies (continued)

a) Takaful contracts (continued)

ix. Deferred commission cost

For short term takaful contracts, the deferred commission cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross contributions written that is unearned at the date of consolidated statement of financial position and becomes part of unearned contribution reserves.

For individual family takaful and long term unit-linked takaful contracts, commission relating to takaful features amortised systematically over the average policy life. Commission that relates to investments feature has been allocated to Participants on prorata basis.

x. Takaful receivables and payables

Amounts due from and to policyholders, agents, reinsurers and retakaful companies and liability towards Participant Investment Account are financial instruments and are included in takaful receivables and payables, and not in takaful contract provisions or retakaful assets.

xi. Family takaful reserves

The risk reserves are determined by the independent actuarial valuation of future policy benefits. 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. Adjustments to the balance of fund are affected by charges or credits to income.

xii. Salvage and subrogation reimbursements

Some takaful contracts permit the Group to sell property (usually damaged) acquired in settling a claim (salvage). The Group may also have the right to pursue third parties for payment of some or all costs (subrogation). Estimates of salvage recoveries and subrogation reimbursements are recognised as an allowance in the measurement of the takaful liability for claims.

b) Revenue (other than takaful revenue)

Revenue (other than takaful revenue) comprises the following:

i) Fee and commission income

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

ii) Investment income

Investment income comprises income from financial assets, rental income from investment properties and marked to market gains/losses on investment properties.

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

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

3 Significant accounting policies (continued)

b) Revenue (other than takaful revenue) (continued)

ii) Investment income (continued)

Rental income from investment properties under operating leases is recognised in the consolidated statement of profit or loss on a straight-line basis over the term of each lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Fair value gains/losses on investment properties are included in the consolidated statement of profit or loss in the period these gains are determined. Details of valuations techniques and significant unobservable inputs used during the year are included in note 15.

c) Financial instruments (financials assets and financial liabilities)

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, takaful and other receivables, cash and cash equivalents, amount due to and from related party, deposits with takaful and retakaful companies, investment contract liabilities, bank finance, family takaful reserve, takaful and other payables and other liabilities.

i) Recognition, derecognition and initial measurement

Non-derivative financial instruments are measured initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Financial instruments are initially recognised on the trade date when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the Group's contractual obligations specified in the contract expire or are discharged or cancelled. Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Group commits itself to purchase or sell the asset.

ii) Categories of financial instruments

Financial instruments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Subsequent to initial measurement, financial instruments at fair value through profit or loss are measured at fair value, with fair value changes recognised in consolidated statement of profit or loss. Net changes in the fair value of financial assets classified as at fair value through profit or loss includes profit income and any dividends received.

3 Significant accounting policies (continued)

c) Financial instruments (continued)

Non-derivative financial instruments (continued)

ii) Categories of financial instruments (continued)

All financial assets held by the Group in respect of its long term business funds are designated by the Group on initial recognition at fair value through profit or loss. This designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise if these assets were not measured at fair value and the changes in fair value were not recognised in profit or loss.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, and these debt securities have not been designated at fair value through profit or loss, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

This category is used for financial assets that are not classified as at fair value through profit or loss or held-to-maturity investments. Available-for-sale investments are initially measured at cost, being the fair value, including transaction costs, and are subsequently re-measured to fair value. Unrealised gains and losses arising from changes in the fair values of AFS investments are recognised in consolidated statement of other comprehensive income and recognised in a reserve as a separate component of equity. In the event of sale, disposal, collection or impairment, the cumulative gains and losses recognised in equity are transferred to the profit or loss. Purchases and sales of AFS investments are accounted for on the trade date. AFS investments which have no quoted market price or other appropriate methods from which to derive reliable fair values are carried at cost less impairment.

Other financial assets

Other non-derivative financial assets, such as cash and cash equivalents and takaful and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

iii) Offsetting

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

Income and expenses are presented on a net basis only when permitted by accounting standards. Gains and losses arising from a group of similar transactions are reported on a net basis.

iv) Fair value measurement principle

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

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

3 Significant accounting policies (continued)

c) Financial instruments (continued)

Non-derivative financial instruments (continued)

iv) Fair value measurement principle

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

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

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

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

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

v) Identification and measurement of impairment

Impairment of financial assets carried at amortised cost

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

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

3 Significant accounting policies (continued)

c) Financial instruments (continued)

Non-derivative financial instruments (continued)

v) Identification and measurement of impairment (continued)

Impairment of loans and receivables

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

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

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

Impairment losses are recognised in the consolidated statement of profit and loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit and loss.

Impairment of available for sale financial assets

Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to the consolidated statement of profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss. If the fair value of an impaired available for sale debt security subsequently increases and the increase can be related to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through the consolidated statement of profit or loss; otherwise, it is reversed through the consolidated statement of profit or loss and other comprehensive income. Any subsequent recovery in the fair value of an impaired available for sale equity securities is always recognised in the consolidated statement of profit or loss and other comprehensive income.

vi) Payable to Participants for unit-linked contracts

Payable to unit holder is classified as financial liability, which is designated as fair value through profit or loss, upon initial recognition. Subsequent to initial measurement, financial liabilities fair value through profit or loss are measured at fair value and any fair value change are recognised in consolidated statement of profit or loss.

vii) Other financial instruments

Other financial liabilities include amounts payable in the future to agents and intermediaries in respect of investment contracts issued by the Group. Payments are made on an annual basis on the anniversary of the inception of a contract if a contract has not been surrendered at that date.

3 **Significant accounting policies** (continued)

c) **Financial instruments** (continued)

Non-derivative financial instruments (continued)

vii) Other financial instruments (continued)

These financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of the expected future payments at the discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the yield basis.

d) **Investment properties**

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

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

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

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

e) **Foreign currency transactions**

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

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

3 Significant accounting policies (continued)

f) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of tax effects.

Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity in consolidated statement of changes in equity.

g) Property and equipment

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any except for land and building which are stated at revalued amount.

Capital work in progress

Capital work in progress is stated at cost until the construction is complete. Upon the completion of construction, the cost of such assets together with the cost directly attributable to construction, including capitalised borrowing costs are transferred to the respective class of asset. Depreciation is charged if use of the asset commences before construction is complete.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised. All other expenditure is recognised in the consolidated statement of profit or loss as an expense.

Depreciation

Depreciation is charged to the consolidated statement of profit or loss on a straight line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. The depreciation methods, useful lives and residual value of property and equipment are reassessed annually. The estimated useful lives of these assets (except for land) are 4-10 years.

h) Employee terminal benefits

Defined benefit plan

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The management considers that the difference between the liability as calculated using an actuarial method would not be materially different from the provision carried in the financial statements.

With respect to national employees, the Group makes contributions to local takaful schemes as per the local laws calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

3 Significant accounting policies (continued)

i) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts with banks and bank deposits with maturities of less than three months, net of revolving bank finance and excluding deposits under lien.

j) Provisions

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

k) Operating lease

Leases in terms of which the substantial risk and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals and payments are recognised as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

l) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiary.

Goodwill represents the excess of the cost of the acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised directly in statement of profit or loss.

Acquisitions of non controlling interest

Goodwill arising on the acquisition of a non controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(ii) Software

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets comprise of software costs, which are amortised over a period of 3-5 years. Expenditure on internally generated intangible assets is recognised in the consolidated statement of profit or loss as an expense as incurred.

m) Impairment of non-financial assets

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

n) Income tax

The Company is not subject to any taxes on profits in the UAE. Taxation on foreign operations of the subsidiaries is provided for in accordance with fiscal regulations applicable in each territory.

3 Significant accounting policies (continued)

o) Policyholders' fund

Any deficit in the policyholders' fund is financed by the shareholders through Qard-e-Hasan as per their undertaking. The Group maintains a full provision against such balances (refer note 30).

p) Underwriting income attributable to policyholders and shareholders

As stated in note 1, the Group operates in accordance with Islamic Shari'ah principles. As a result, the net underwriting income from the operations of the Group is attributable to policyholders in accordance with the terms and conditions of takaful contracts acquired by the policyholder which stipulates that the insured, on taking out this policy from the Group becomes entitled to participate in the contributions pool with insured parties in the class of takaful on cooperative (mutual basis).

The relationship of the insured with the Group is determined particularly as to his share in the surplus net of management expenses, liabilities for claims and necessary reserves, by the Board of Directors of the Group for the class of takaful at the end of fiscal year of the Group. The Group undertakes to pay such share to the insured in the net profits in accordance with the resolution of the Board of Directors of the Company after the close of fiscal year of the Group. However, the net underwriting income from the operations of subsidiaries is attributable to the shareholders in accordance with the regulations prevailing in the jurisdiction of each subsidiary.

Therefore, the Group maintains separate accounts for takaful operations on behalf of the policyholders.

q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

r) Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

s) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Property and equipment

The fair value of property and equipment, where relevant is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

3 Significant accounting policies (continued)

s) Determination of fair values (continued)

ii) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

iii) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of profit at the reporting date.

iv) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and profit cash flows, discounted at the market rate of profit at the reporting date. In respect of the liability component of convertible notes, if any, the market rate of profit is determined by reference to similar liabilities that do not have a conversion option.

t) Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities using current estimates of future cash flows under takaful contracts. In performing these, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets supporting such liabilities are used. Any deficiency in the carrying amounts is immediately charged to the statement of profit or loss for takaful operations by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

u) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

Accounting standard	**Description**	**Effective date**
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019

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

The Group is in the process of evaluating the potential impact of this standard on it's financial statement resulting from application of this IFRS 15.

3 Significant accounting policies (continued)

u) New standards and interpretations not yet effective (continued)

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

The Group has commenced the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a limited pervasive impact on the Group's consolidated financial statements.

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

4 Risk management

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

a) Introduction and overview

Governance framework

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

The Group is in the phase of establishing a risk management function with clear terms of reference from the Board of Directors, its committees and the associated executive management committees.

Capital management framework

The Group has an internal risk management framework for identifying risks to which each of its business units and the Group as a whole are exposed, quantifying their impact on economic capital. The internal framework estimates indicate how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business.

Regulatory framework

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

4 Risk management (continued)

a) Introduction and overview (continued)

Regulatory framework (continued)

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

Asset liability management (ALM) framework

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

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

The Group’s ALM framework also forms an integral part of the takaful risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from takaful and investment contracts.

b) Takaful risk

Takaful risk is where the Group agrees to indemnify the insured parties against happening of unforeseen future insured events. The frequency and severity of claims are the main risk factors. As per the practices adopted by the Group, actual claim amounts can vary marginally compared to the outstanding claim reserves but are not expected to have a material impact.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Group underwrites property, engineering, motor, miscellaneous accident, marines and personal accident classes. These classes of takaful are generally regarded as short-term takaful contracts where claims are normally intimated and settled within a short time span. This helps to mitigate takaful risk.

Property

For property takaful contracts, the main perils are fire damage and other allied perils and business interruption resulting there from.

These contracts are underwritten either on replacement value or indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption and the basis of takaful are the main factors that influence the level of claims.

4 Risk management (continued)

b) Takaful risk (continued)

Engineering

For engineering takaful contracts, the main elements of risks are loss or damage to insured project works and resultant third party liabilities, loss or damage to insured plants, machinery and equipment and resultant business interruption losses. The extent of the loss or damage is the main factor that influences the level of claims.

Motor

For motor takaful contracts, the main elements of risks are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles.

The potential court awards for death and bodily injury and the extent of damage to properties are the key factors that influence the level of claims.

Miscellaneous accident

For miscellaneous accident classes of takaful such as loss of money, infidelity of employees, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten.

The extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

Marine

In marine takaful the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in the total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

Family takaful contracts

Underwriting is managed at each business unit through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

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

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

4 Risk management (continued)

b) Takaful risk (continued)

Retakaful risk

In line with other takaful and retakaful companies, in order to minimise net loss exposure arising from large claims, the Group, in the normal course of business, enters into agreements with other parties for retakaful purposes. Such retakaful arrangement provides for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

To minimise its exposure to significant losses from reinsurers' 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.

Assets, liabilities, income and expense arising from ceded reinsurance contracts are presented separately from assets, liabilities, income and expense from the related insurance contract because the retakaful ceded contracts do not relieve the Group from its obligations and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the retakaful agreements.

Concentration of takaful risk

The Group has certain single takaful contracts which it considers as risks of high severity but very low frequency. The Group cedes substantial part of these risks and its net exposure on any one single event is limited to AED 5 million (*2015: AED 5 million*).

Terms and conditions of takaful contracts

Takaful is based on uncertainty of event. As such the terms and conditions of takaful contracts varies but are normally based on the international guidance and policy wordings as followed by all takaful companies in the market.

Normally a takaful contract contains the coverage of the subject of takaful, the exclusions and obligations of the insured and the insurers. Deviations are reported forthwith to the insurer by the insured and any accident event to be reported immediately. Long tail business is generally that where the time period to ultimately finalise and settle claims could take a number of years.

The Group's estimates for reported and unreported losses and establishing resulting provisions and related retakaful recoverables are continually reviewed and updated, and adjustments resulting from this review are reflected in the income statement. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future claims.

Reserving risks are addressed by ensuring prudent and appropriate reserving for business written by the Group, thus ensuring that sufficient funds are available to cover future claims. Reserving practises for the General Takaful and Individual Family Takaful Portfolio involve the use of actuarial analysis from an independent actuary.

4 Risk management (continued)

c) Financial risks

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

- Credit risk,
- Liquidity risk,
- Market risk, and
- Operational risk.

i) Credit risk

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

A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group has been established and policies and procedures are in place to mitigate the Group's exposure to credit risk.

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

For all classes of financial assets held by the Group, other than those relating to retakaful contracts, the maximum credit risk exposure to the Group is the carrying value as disclosed in the consolidated financial statements at the consolidated financial position date.

Retakaful is placed with reinsures and retakaful companies approved by the management, which are generally international companies that are rated by international rating agencies or other GCC companies.

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

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

The Group monitors concentrations of credit risk by sector and by geographic location.

Credit risk is controlled through terms of trade for receipt of contributions. Most of the counterparties are takaful companies that are generally not rated. However, they are selected on their standing in the market, rating, relationship experience and length of association. All retakaful counterparties are rated.

Exposure to credit risk

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

	2016	2015
	AED'000	AED'000
Financial assets		
Statutory deposits	**11,761**	21,476
Investments	**410,148**	604,352
Deposits with insurance and reinsurance companies	**2,109**	4,598
Contribution and takaful balance receivables	**222,449**	203,829
Amounts due from related parties	**11,230**	11,474
Other assets (excluding prepayments)	**18,689**	18,575
Cash at bank	**118,751**	51,871
Total	**795,137**	916,175

4 Risk management (continued)

c) Financial risks (continued)

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

Maturity profiles

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

		Contractual cash flows					
31 December 2016	**Carrying value**	**Total**	**Less than 180 days**	**180 days to 1 year**	**1-5 year**	**Over 5 year**	**No stated maturity**
				AED '000			
Bank finance	**3,983**	**(3,983)**	**(3,983)**	**-**	**-**	**-**	**-**
Payable to Participants for unit-linked contracts	**982,592**	**(982,592)**	**-**	**-**	**-**	**-**	**(982,592)**
Takaful balance payable	**227,887**	**(227,887)**	**(36,457)**	**(18,219)**	**(153,837)**	**-**	**(19,374)**
Other payables	**224,634**	**(224,634)**	**(99,495)**	**(124,076)**	**-**	**-**	**(1,063)**
Total liabilities	**1,439,096**	**(1,439,096)**	**(139,935)**	**(142,295)**	**(153,837)**	**-**	**(1,003,029)**

		Contractual cash flows					
31 December 2015	Carrying value	Total	Less than 180 days	180 days to 1 year	1-5 year	Over 5 year	No stated maturity
				AED '000			
Bank finance	4,676	(4,676)	(4,676)	-	-	-	-
Payable to Participants for unit-linked contracts	759,597	(759,597)	-	-	-	-	(759,597)
Takaful balance payable	120,742	(120,742)	(53,116)	(11,671)	(46,674)	-	(9,281)
Other payables	161,999	(161,999)	(67,768)	(76,983)	-	-	(17,248)
Total liabilities	1,047,014	(1,047,014)	(125,560)	(88,654)	(46,674)	-	(786,126)

4 **Risk management** (continued)

c) **Financial risks** (continued)

iii) Market risk

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

(a) Currency risk

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

The significant financial assets and liabilities exposed to currency risk in equivalent thousand of Dirham are as under:

31 December 2016	**Financial assets**	**Financial liabilities**	**Net**
Currency	**AED'000**	**AED'000**	**AED'000**
USD	**226,050**	**(35,646)**	**190,404**
EGP	**145,071**	**(57,751)**	**87,320**
CFA	**18,835**	**(17,602)**	**1,233**
DZD	**222,872**	**(130,633)**	**92,239**
Others	**121,558**	**(3,828)**	**117,730**

31 December 2015	Financial assets	Financial liabilities	Net
Currency	AED'000	AED'000	AED'000
USD	370,259	(29,644)	340,615
EGP	265,963	(127,433)	138,530
CFA	18,838	(19,441)	(603)
DZD	186,693	(80,449)	106,244
Others	114,247	(6,479)	107,768

4 Risk management (continued)

c) Financial risks (continued)

iii) Market risk (continued)

(a) Currency risk (continued)

Sensitivities

The analysis below is performed for reasonably possible movements in foreign exchange rate with all other assumptions held constant showing the impact on net profit or equity. The sensitivities carried out for subsidiaries only as the impact of currency risk on the Company's own assets and liabilities is considered insignificant.

31 December 2016	**Change in exchange rates**	**Profit or loss**	**Other comprehensive income**
		AED'000	**AED'000**
Financial assets	**+5%**	-	**+36,719**
	-5%	-	**-36,719**
Financial liabilities	**+5%**	-	**+12,273**
	-5%	-	**-12,273**

31 December 2015	Change in exchange rates	Profit or loss	Other comprehensive income
		AED'000	AED'000
Financial assets	+5%	-	+47,800
	-5%	-	-47,800
Financial liabilities	+5%	-	+13,172
	-5%	-	-13,172

(b) Profit rate risk

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

The Group mainly placed financial instruments through islamic structures. The rates are contractually fixed and not exposed to any significant market risk.

(c) Equity price risk

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

The Group's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

4 **Risk management** (continued)

c) **Financial risks** (continued)

iii) Market risk (continued)

(c) Equity price risk (continued)

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and careful and planned use of derivative financial instruments.

Sensitivities

The analysis below is performed for reasonably possible movements in equity prices with all other assumptions held constant showing the impact on net profit or equity.

31 December 2016

Change in equity prices	**Profit or loss AED'000**	**Other comprehensive income AED'000**
+10%	**+5,717**	**+8,248**
-10%	**-5,717**	**-8,248**

31 December 2015

Change in equity prices	Profit or loss AED'000	Other comprehensive income AED'000
+10%	+3,301	+11,026
-10%	-3,301	-11,026

d) **Operational risks**

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

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

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

5 Acquisition of subsidiaries

As stated in note 1, with effect from 1 January 2005, the Company acquired 82.21% share in Tariic. The operating results and financial position of Tariic for the year ended 31 December 2005 have been consolidated with the financial statements of the Company as at that date as the Group has control over the operating and financial policies of Tariic. The above acquisition resulted in recognition of Goodwill in statement of financial position amounting to AED 186.19 million.

Subsequent to the above stated acquisition, the Company increased its holding in Tariic to 99.40% as at September 30, 2007 by further acquisitions of 4,080,465 shares. The net resultant discount of AED 2.62 million on these acquisitions was recognised directly in Company's shareholder's equity.

In addition to the acquisitions in Tariic, the Company directly acquired shares in Best Re, subsidiary of Tariic. The goodwill amounting to AED 25.6 million was recognised in Company's shareholder's equity. After the acquisition, Tariic acquired further holding in Best Re and recognised AED 7.4 million discounts directly in Tariic's shareholder's equity. Consequently, the share of Company to the above discount of AED 7.0 million was recognised directly in shareholders' equity.

The management has allocated goodwill to each subsidiary on systematic basis. In the prior year, based on the decision of the Board of Directors of the Group to sell its investment in one of its subsidiary Best Re Holding (see note 41), the management has written off the remaining carrying value of goodwill amounting to AED 27.04 million attributable to subsidiary in full to profit or loss, being the difference between carrying value and recoverable amount. The management had earlier written off AED 34.4 million of goodwill in the year 2013.

For the purpose of impairment testing, recoverable amount was based on fair value less cost of disposal using estimated discounted cash flows.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual growth, consistent with the assumption that a market participant would note.

The key assumptions described above may change as the economic and market conditions change. Management estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of goodwill to decline below the carrying amount.

6 Accounting classification of financial assets and financial liabilities

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

At 31 December 2016	FVTPL	Available-for-sale investments	Amortised cost	Total carrying amount
	AED '000	AED '000	AED '000	AED '000
Financial assets				
Investments	57,174	82,483	293,220	432,877
Investments in associates	-	-	94,736	94,736
Statutory deposits	-	-	11,761	11,761
Participants' investments in unit-linked contracts	989,369	-	-	989,369
Deposits with takaful and retakaful companies	-	-	2,109	2,109
Contributions and takaful balance receivables	-	-	222,449	222,449
Amounts due from related parties	-	-	11,230	11,230
Other assets and receivables	-	-	18,689	18,689
Cash and bank balances	-	-	118,830	118,830
	1,046,543	82,483	773,024	1,902,050
Financial liabilities				
Bank finances	-	-	3,983	3,983
Payable to Participants for unit-linked contracts	982,592	-	-	982,592
Takaful balances payable	-	-	227,887	227,887
Other payables	-	-	224,634	224,634
Amounts due to related parties	-	-	304	304
	982,592	-	456,808	1,439,400

6 Accounting classification of financial assets and financial liabilities (continued)

At 31 December 2015	FVTPL AED '000	Available-for-sale investments AED '000	Amortised cost AED '000	Total carrying amount AED '000
Financial assets				
Investments	33,009	110,260	479,880	623,149
Investments in associates	-	-	87,548	87,548
Statutory deposits	-	-	21,476	21,476
Participants' investments in unit-linked contracts	766,687	-	-	766,687
Deposits with takaful and retakaful companies	-	-	4,598	4,598
Contributions and takaful balance receivables	-	-	203,829	203,829
Amounts due from related parties	-	-	11,474	11,474
Other assets and receivables	-	-	18,575	18,575
Cash and bank balances	-	-	52,603	52,603
	799,696	110,260	879,983	1,789,939
Financial liabilities				
Bank finances	-	-	4,676	4,676
Payable to Participants for unit-linked contracts	759,597	-	-	759,597
Takaful balances payable	-	-	120,742	120,742
Other payables	-	-	161,999	161,999
	759,597	-	287,417	1,047,014

7 Fair value of financial instrument

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

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

7 Fair value of financial instrument (continued)

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

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

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

As at 31 December 2016

Financial assets	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Financial asset at fair value through profit or loss				
Mutual fund	**22,721**	**12,515**	**-**	**35,236**
Participants' investments in unit-linked contracts	**-**	**989,369**	**-**	**989,369**
Shares and securities	**21,938**	**-**	**-**	**21,938**
	44,659	**1,001,884**	**-**	**1,046,543**
Available for sale				
Mutual fund	**-**	**81,692**	**-**	**81,692**
Shares and securities	**506**	**285**	**-**	**791**
	506	**81,977**	**-**	**82,483**
Non-financial assets				
Investment properties	**-**	**-**	**128,210**	**128,210**
Financial liabilities				
Payable to Participants for unit-linked contracts	**-**	**982,592**	**-**	**982,592**

7 Fair value of financial instrument (continued)

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

As at 31 December 2015

Financial assets	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Financial asset at fair value through profit or loss				
Mutual fund	15,765	3,234	-	18,999
Participants' investments in unit-linked contracts	-	766,687	-	766,687
Shares and securities	14,010	-	-	14,010
	29,775	769,921	-	799,696
Available for sale				
Mutual fund	-	105,473	-	105,473
Shares and securities	4,358	429	-	4,787
	4,358	105,902	-	110,260
Non-financial assets				
Investment properties	-	-	132,276	132,276
Financial liabilities				
Payable to Participants for unit-linked contracts	-	759,597	-	759,597

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

	2016 AED'000	2015 AED'000
Balance at 1 January	**132,276**	257,267
Purchases	**204**	78,403
Sales	**-**	(79,983)
Foreign exchange differences	**(9,497)**	(6,374)
Fair value movement (refer note 15)	**5,227**	(1,263)
Classified as held for sale	**-**	(115,774)
Balance at 31 December	**128,210**	132,276

7 Fair value of financial instrument (continued)

b) Financial instruments not measured at fair value

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

As at 31 December 2016

Financial assets	**Level 1 AED '000**	**Level 2 AED '000**	**Level 3 AED '000**	**Total fair value AED '000**	**Total carrying amount AED '000**
Statutory deposits	**-**	**11,761**	**-**	**11,761**	**11,761**
Deposits with takaful and retakaful companies	**-**	**2,109**	**-**	**2,109**	**2,109**
Contributions and takaful balance receivables	**-**	**-**	**222,449**	**222,449**	**222,449**
Amounts due from related parties	**-**	**-**	**11,230**	**11,230**	**11,230**
Other assets and receivables	**-**	**-**	**18,689**	**18,689**	**18,689**
	-	**13,870**	**252,368**	**266,238**	**266,238**
Financial liabilities					
Bank finances	**-**	**-**	**3,983**	**3,983**	**3,983**
Takaful balances payable	**-**	**-**	**227,887**	**227,887**	**227,887**
Other payables	**-**	**-**	**224,634**	**224,634**	**224,634**
	-	**-**	**456,504**	**456,504**	**456,504**

As at 31 December 2015

Financial assets	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total fair value AED '000	Total carrying amount AED '000
Statutory deposits	-	21,476	-	21,476	21,476
Deposits with takaful and retakaful companies	-	4,598	-	4,598	4,598
Contributions and takaful balance receivables	-	-	203,829	203,829	203,829
Amounts due from related parties	-	-	11,474	11,474	11,474
Other assets and receivables	-	-	18,575	18,575	18,575
	-	26,074	233,878	259,952	259,952
Financial liabilities					
Bank finances	-	-	4,676	4,676	4,676
Takaful balances payable	-	-	120,742	120,742	120,742
Other payables	-	-	161,999	161,999	161,999
	-	-	287,417	287,417	287,417

a) In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to it's fair value.

b) Fair value of deposits with banks are measured at their amortised cost, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is considered to be the amount payable at the reporting date.

Notes (*continued*)

8 Allocation between participants and shareholders

Consolidated statement of profit or loss

	For the year ended 31 December 2016				For the year ended 31 December 2015			
	Shareholders AED'000	**Participants AED'000**	**Non-controlling interest AED'000**	**Total AED'000**	Shareholders AED'000	Participants AED'000	Non -controlling interest AED'000	Total AED'000
Net underwriting income	-	**(79,775)**	-	**(79,775)**	-	56,228	-	56,228
Income								
Wakalah share (note 9)	**82,339**	**(82,339)**	-	-	105,361	(105,361)	-	-
Mudarib share (note 9)	**15**	**(15)**	-	-	34	(34)	-	-
Net technical charges from/to shareholders to policyholders	**4,240**	**(4,240)**	-	-	8,458	(8,458)	-	-
Net underwriting income from subsidiaries	**40,948**	**(40,948)**	-	-	60,514	(60,514)	-	-
Income from investments (note 10)	**49,733**	**191**	-	**49,924**	18,598	316	-	18,914
Other income	**44,959**	-	-	**44,959**	24,104	-	-	24,104
	222,234	**(207,126)**	-	**15,108**	217,069	(117,823)	-	99,246
Expenses								
General, administrative and other expenses	**(117,529)**	-	-	**(117,529)**	(138,280)	-	-	(138,280)
Finance expenses	**(796)**	-	-	**(796)**	(992)	-	-	(992)
Impairment on goodwill	-	-	-	-	(27,043)	-	-	(27,043)
Net profit / (loss) before tax	**103,909**	**(207,126)**	-	**(103,217)**	50,754	(117,823)	-	(67,069)
Tax – current	**(15,165)**	-	-	**(15,165)**	(12,070)	-	-	(12,070)
Net profit / (loss) after tax	**88,744**	**(207,126)**	-	**(118,382)**	38,684	(117,823)	-	(79,139)
Loss from discontinued operations	**(41,374)**	-	-	**(41,374)**	(68,104)	-	-	(68,104)
Share of non-controlling interest	**(24,106)**	-	**24,106**	-	(8,708)	-	8,708	-
Distribution to policyholders of Company	-	**(15,191)**	-	**(15,191)**	-	(15,597)	-	(15,597)
Policyholders' loss financed by shareholders / recovery of loss from policyholders' funds (note 30)	**(222,317)**	**222,317**	-	-	(133,420)	133,420	-	-
Net (loss) / profit	**(199,053)**	-	**24,106**	**(174,947)**	(171,548)	-	8,708	(162,840)

8 Allocation between participants and shareholders (continued)

Consolidated statement of financial position

	2016 AED'000	2015 AED'000
ASSETS		
Participants' assets		
Participants' investments in unit-linked contracts	**989,369**	766,687
Contributions and takaful balance receivables	**147,392**	136,742
Retakafuls' share of outstanding claims	**135,013**	81,429
Retakafuls' share of unearned contributions	**45,632**	51,802
Other assets and receivables	**6,476**	-
Cash and bank balances	**13,104**	3,257
Total participants' assets	**1,336,986**	1,039,917
Total shareholders' assets *	**2,053,044**	2,319,272
Total assets	**3,390,030**	3,359,189
LIABILITIES		
Participants' liabilities		
Outstanding claims and family takaful reserve	**290,840**	262,386
Payable to Participants for unit-linked contracts	**982,592**	759,597
Unearned contributions reserve	**76,081**	128,007
Takaful balances payable	**109,314**	70,012
Other payables and accruals	**88,658**	51,164
Total participants' liabilities	**1,547,485**	1,271,166
Total shareholders' liabilities *	**1,075,686**	1,054,570
Total liabilities	**2,623,171**	2,325,736
NET ASSETS EMPLOYED	**766,859**	1,033,453
FINANCED BY:		
Shareholders' equity	**710,584**	959,307
Non-controlling interest	**56,275**	74,146
	766,859	1,033,453

* Shareholders' assets and liabilities represents affairs of the subsidiaries as shareholder funds are used for the investments thereon.

9 Wakalah and Mudarib share

The shareholders manage the takaful operations of the Group for the policyholders and charge 15% *(2015: 15%)* of gross written contributions of non family takaful business (excluding subsidiaries) as share. For family takaful business, sharing ratio is 15% (*2015:15%*) of mortality costs.

The shareholders of the Group also manage the policyholders' investment funds other than family takaful and subsidiaries and charge 15% *(2015: 15%)* of investment income earned by the policyholders as Mudarib share.

10 Income from investments

	For the year ended 31 December 2016		
	Shareholders AED'000	**Policyholders AED'000**	**Total AED'000**
Income from investments in Mudaraba and fund	**3,593**	**-**	**3,593**
Realised profit on sale of investments	**9,714**	**-**	**9,714**
Unrealised gain on investments	**11,607**	**-**	**11,607**
Unrealised gain on investments properties (note 15)	**5,227**	**-**	**5,227**
Income from bank deposits and loans and receivables	**8,871**	**191**	**9,062**
Dividend income	**2,243**	**-**	**2,243**
Share of profit from associates (note 11)	**8,181**	**-**	**8,181**
Rental income (note 15)	**297**	**-**	**297**
	49,733	**191**	**49,924**

	For the year ended 31 December 2015		
	Shareholders AED'000	Policyholders AED'000	Total AED'000
Income from investments in Mudaraba and IPO fund	3,213	-	3,213
Realised profit on sale of investments	(273)	-	(273)
Unrealised loss on investments	(10,922)	-	(10,922)
Unrealised loss on investments properties (note 15)	(1,945)	-	(1,945)
Income from bank deposits and loans and receivables	24,741	316	25,057
Dividend income	976	-	976
Share of loss from associates (note 11)	2,396	-	2,396
Rental income (note 15)	412	-	412
	18,598	316	18,914

11 General, administrative and other expenses

These include:

	2016	2015
	AED'000	AED'000
Staff costs	**74,539**	76,706
Rent, rates and service charges	**7,223**	7,462
Repair and maintenance	**3,280**	1,982
Travelling and conveyance	**555**	603
Printing and stationery	**2,528**	1,989
Licenses and other government expenses	**1,143**	1,145
Depreciation	**3,816**	4,779
Amortisation	**505**	604
Marketing and advertising	**4,057**	13,599
Legal and professional fees - Company	**3,489**	3,261
Provision and impairment of receivables	**1,341**	8,633
Exchange losses	**14**	289

12 Provision for charitable donations

In accordance with Islamic Shari'ah requirements, certain profits earned by the subsidiaries have been reduced from income and transferred to a separate provision which are utilised for charitable donations. Movement in the provision recognised in the consolidated statement of financial position are as follows:

	2016	2015
	AED'000	AED'000
Balance at 1 January	**1,768**	1,110
Provided during the year	**1,653**	658
Balance at 31 December (included in other payables and accruals) (note 27)	**3,421**	1,768

13 Property and equipments

	Land	Building	Furniture and fixtures	Computer	Vehicles	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost							
At 1 January 2015	6,160	94,451	24,803	12,318	3,443	259	141,434
Additions	4,902	169	3,112	1,512	202	2,793	12,690
Revaluations	-	776	-	-	-	-	776
Disposals	(2,054)	-	-	(49)	(166)	-	(2,269)
Foreign exchange translation	(419)	(10,835)	(572)	(286)	(57)	-	(12,169)
Transfer to held for sale	-	(27,788)	(7,085)	(2,157)	(1,808)	(38)	(38,876)
At 31 December 2015	8,589	56,773	20,258	11,338	1,614	3,014	101,586
At 1 January 2016	**8,589**	**56,773**	**20,258**	**11,338**	**1,614**	**3,014**	**101,586**
Additions	**-**	**169**	**1,499**	**441**	**750**	**491**	**3,350**
Foreign exchange translation	**(321)**	**(3,882)**	**(4,489)**	**(1,654)**	**(70)**	**(1,207)**	**(11,623)**
Disposals	**-**	**-**	**(3,021)**	**(2,842)**	**(79)**	**(881)**	**(6,823)**
Transfer to held for sale	-	-	-	-	-	-	-
Reclassification	**10,085**	**(10,085)**	**-**	**-**	**-**	**-**	**-**
At 31 December 2016	**18,353**	**42,975**	**14,247**	**7,283**	**2,215**	**1,417**	**86,490**
Depreciation							
At 1 January 2015	-	9,104	19,174	11,354	2,400	32	42,064
Charge for the year	-	2,331	1,959	389	100	-	4,779
Revaluations	-	(4,150)	-	-	-	-	(4,150)
On disposals	-	10	-	(49)	(282)	-	(321)
Foreign exchange translation	-	(1,362)	(470)	(268)	(52)	-	(2,152)
Transfer to held for sale	-	(1,150)	(6,052)	(1,790)	(780)	-	(9,772)
At 31 December 2015	-	4,783	14,611	9,636	1,386	32	30,448
At 1 January 2016	**-**	**4,783**	**14,611**	**9,636**	**1,386**	**32**	**30,448**
Charge for the year	**-**	**1,458**	**1,349**	**573**	**436**	**-**	**3,816**
On disposals	**-**	**-**	**(2,831)**	**(2,808)**	**(79)**	**-**	**(5,718)**
Foreign exchange translation	**-**	**(2,045)**	**(3,073)**	**(1,458)**	**(65)**	**-**	**(6,641)**
At 31 December 2016	**-**	**4,196**	**10,056**	**5,943**	**1,678**	**32**	**21,905**
Net book value							
At 31 December 2016	**18,353**	**38,779**	**4,191**	**1,340**	**537**	**1,385**	**64,585**
At 31 December 2015	8,589	51,990	5,647	1,702	228	2,982	71,138

14 Goodwill and intangibles

	Goodwill	Computer software	Total
	AED'000	AED'000	AED'000
Cost			
At 1 January 2015	186,194	19,428	205,622
Additions	-	876	876
Effect of movements in exchange rates	-	(872)	(872)
Transfers	-	(9,384)	(9,384)
At 31 December 2015	186,194	10,048	196,242
At 1 January 2016	**186,194**	**10,048**	**196,242**
Additions	**-**	**508**	**508**
Disposals	**-**	**(707)**	**(707)**
Effect of movements in exchange rates	**-**	**(486)**	**(486)**
At 31 December 2016	**186,194**	**9,363**	**195,557**
Accumulated amortisation and impairment losses			
At 1 January 2015	34,398	15,954	50,352
Charge for the year	-	604	604
Impairment	27,043	-	27,043
Effect of movements in exchange rates	-	(494)	(494)
Transfers	-	(8,457)	(8,457)
At 31 December 2015	61,441	7,607	69,048
At 1 January 2016	**61,441**	**7,607**	**69,048**
Charge for the year	**-**	**505**	**505**
On disposals	**-**	**(673)**	**(673)**
Effect of movements in exchange rates	**(79)**	**(436)**	**(515)**
At 31 December 2016	**61,362**	**7,003**	**68,365**
Net book value			
At 31 December 2016	**124,832**	**2,360**	**127,192**
At 31 December 2015	124,753	2,441	127,194

Computer software licences acquired by the Group are capitalised on the basis of the costs incurred to acquire and bring into their internal use. For goodwill, refer note 5.

15 Investment properties

Investment property portfolio of the Group represents land and building acquired by Group directly and through its controlled subsidiaries.

Geographical representation of investment properties are as follows:

	2016	2015
	AED'000	AED'000
Within UAE	**15,000**	15,500
Outside UAE	**113,210**	116,776
	128,210	132,276

The rental income of properties amount to AED 0.3 million in 2016 (*2015: AED 0.4 million*), there is no direct related expenses in respect of investment property.

The Group investment property portfolio, is being managed and maintained by a third party administrative, and the rental income received from these properties are being set off with the administrative fees.

Valuation of investment properties

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

Valuation technique and significant unobservable inputs

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

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

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

15 Investment properties (continued)

	2016	2015
	AED'000	AED'000
Movement in investment properties		
Balance at 1 January	**132,276**	257,267
Acquired during the year	**204**	78,403
Disposal during the year	**-**	(79,983)
Fair value gain / (loss) (note 10)	**5,227**	(1,263)
Foreign exchange differences	**(9,497)**	(6,374)
Transfer to held-for-sale	**-**	(115,774)
Balance at 31 December	**128,210**	132,276

16 Investment in associates

The principal associates of the Group, all of which have 31 December as their year end are as follows:

	Ownership		**Country of**	**2016**	2015
Associates	**2015**	2014	**incorporation**	**AED'000**	AED'000
Salama Cooperative Insurance Company (formerly Saudi IAIC)	**30.00%**	30.00%	KSA	**64,461**	58,204
Islamic Insurance Jordan	**20.00%**	20.00%	Jordan	**30,275**	29,344
				94,736	87,548

Movements during the year	**2016**	2015
	AED'000	AED'000
Balance at 1 January	**87,548**	42,559
Rights share issue in Salama Cooperative Insurance Company	**-**	44,040
Share of profit from associates (note 10)	**8,181**	2,396
Investment in GEPAR transferred to held-for-sale	**-**	(516)
Dividend received	**(993)**	(931)
Balance at 31 December	**94,736**	87,548

Summarised financial information of the major associates is as under:

	2016	2015
	AED'000	AED'000
Total assets	**897,750**	669,459
Total liabilities	**(591,858)**	(397,831)
Revenue	**515,474**	419,514
Profit / (loss)	**30,481**	11,061

17 Statutory deposits

Company	2016 AED'000	2015 AED'000
Islamic Arab Insurance Co. (Salama)	**10,000**	10,000
Egypt Saudi Insurance Home	**608**	1,411
Salama Senegal	**1,089**	1,130
Misr Emirates Takaful Life Insurance Co.	**64**	8,935
	11,761	21,476

These statutory deposits are required to be placed by all insurance and takaful companies operating in respective countries mentioned above with the designated National Banks. Statutory deposits, which depend on the nature of takaful activities, cannot be withdrawn except with the prior approval of the regulatory authorities.

18 Investments

	31 December 2016			31 December 2015		
	Domestic investments AED'000	**International investments AED'000**	**Total AED'000**	Domestic investments AED'000	International investments AED'000	Total AED'000
Financial asset at fair value through profit or loss						
Mutual fund and externally managed portfolios	**-**	**35,236**	**35,236**	-	18,999	18,999
Shares and securities	**4,717**	**17,221**	**21,938**	4,492	9,518	14,010
	4,717	**52,457**	**57,174**	4,492	28,517	33,009
Available-for-sale investments						
Mutual fund and externally managed portfolio	**-**	**81,692**	**81,692**	-	105,473	105,473
Shares and Securities	**-**	**791**	**791**	4,358	429	4,787
	-	**82,483**	**82,483**	4,358	105,902	110,260
Islamic placements (refer 18.1)	**-**	**145,854**	**145,854**	-	116,605	116,605
Held to maturity						
SUKUK and Government bonds	**-**	**120,545**	**120,545**	-	230,976	230,976
Other investments	**-**	**26,821**	**26,821**	-	132,299	132,299
Total investments	**4,717**	**428,160**	**432,877**	8,850	614,299	623,149

18.1 Represent Shari'ah compliant placements with different financial institutions having profit rates of 0.22% to 5% *(2015: 0.22% to 5%)* and maturing in more than three months when acquired.

18.2 During the year ended 31 December 2016, the Group purchased shares worth AED 14.3 million (2015: AED 10.4 million) which are classified as fair value through profit or loss and available for sale investments.

18.3 Participants' investments in unit-linked contracts

	2016 AED'000	2015 AED'000
Financial asset at fair value through profit or loss	**989,369**	766,687

19 Deposits with takaful and retakaful companies

	2016	2015
	AED'000	AED'000
Contributions deposits	**154**	327
Claim deposits	**1,955**	4,271
	2,109	4,598

As per the relevant local regulations, the ceding company retains a portion of unearned contributions and outstanding claims after net payments to the insurer. The deposits pertaining to Best Re have been reclassified to assets held for sale.

20 Contributions and takaful balance receivables

	2016	2015
	AED'000	AED'000
Takaful contributions receivables	**91,436**	102,149
Due from takaful and retakaful companies	**150,835**	124,866
	242,271	227,015
Provision for impairment losses		
Takaful contributions receivables	**(10,344)**	(13,964)
Due from takaful and retakaful companies	**(9,478)**	(9,222)
	222,449	203,829

Aging of contributions and takaful balance receivables

	2016	
	Gross amount	**Impairment**
	AED'000	**AED'000**
Not yet due	**10,824**	**-**
Past due over 0 to 60 days	**57,567**	**-**
Past due over 60 to 120 days	**33,648**	**-**
Past due over 120 to 180 days	**22,905**	**-**
Past due over 180 days to 1 year	**39,959**	**-**
Over 1 year	**77,368**	**(19,822)**
Total contributions and takaful balance receivables	**242,271**	**(19,822)**
Net contributions and takaful balance receivables	**222,449**	

Aging of contributions and takaful balance receivables

	2015	
	Gross amount	Impairment
	AED'000	AED'000
Not yet due	19,901	-
Past due over 0 to 60 days	38,894	-
Past due over 60 to 120 days	27,078	-
Past due over 120 to 180 days	23,035	-
Past due over 180 days to 1 year	45,643	-
Over 1 year	72,464	(23,186)
Total contributions and takaful balance receivables	227,015	(23,186)
Net contributions and takaful balance receivables	203,829	

21 Other assets and receivables

	2016	2015
	AED'000	AED'000
Deferred commission	**273,266**	219,155
Prepaid commission	**68,985**	96,424
Others	**23,316**	23,741
	365,567	339,320

22 Cash and bank balances

	2016	2015
	AED'000	AED'000
Cash in hand	**79**	732
Cash at bank	**102,787**	9,304
Term deposits (note 22.1)	**15,964**	42,567
	118,830	52,603

Cash and bank balances - by geographical distribution

	2016	2015
	AED'000	AED'000
Domestic	**84,592**	5,786
International	**34,238**	46,817
	118,830	52,603

22.1 Term deposits carried profit ranging from 0.22% to 1.61% per annum *(2015: 0.22% to 1.7% per annum)* .

23 Outstanding claims and family takaful reserve

	2016 AED'000	2015 AED'000
Reserve for outstanding claims	**328,998**	355,877
Reserve for incurred but not reported claims	**150,345**	44,064
	479,343	399,941
Less: Retakafuls' share of outstanding claims	**(157,023)**	(116,243)
	322,320	283,698

Movements in outstanding claims reserve and family takaful reserve

	2016			
	Gross AED'000	**Retakaful AED'000**	**Adjustment AED'000**	**Net AED'000**
Balance at 1 January	**399,941**	**(116,243)**	**-**	**283,698**
Foreign exchange differences	**-**	**-**	**(21,398)**	**(21,398)**
Net movement during the year	**79,402**	**(40,780)**	**21,398**	**60,020**
Balance at 31 December	**479,343**	**(157,023)**	**-**	**322,320**

	2015			
	Gross AED'000	Retakaful AED'000	Adjustment AED'000	Net AED'000
Balance at 1 January	682,626	(195,115)	-	487,511
Foreign exchange differences	-	-	(21,892)	(21,892)
Transferred to held for sale	(322,341)	50,558	-	(271,783)
Net movement during the year	39,656	28,314	21,892	89,862
Balance at 31 December	399,941	(116,243)	-	283,698

Assumptions and sensitivities

Process used to determine the assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are reviewed annually.

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

23 **Outstanding claims and family takaful reserve** (continued)

Process used to determine the assumptions (continued)

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

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

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of retakaful recoveries. The method used by the Group takes into account historical data, past estimates and details of the retakaful programme, to assess the expected size of retakaful recoveries. IBNR reserves are estimated using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation as required by new regulations.

Assumptions and sensitivities to changes in key variables

The assumptions that have the greatest effect on the measurement of takaful contract provisions are the expected loss ratios for the most recent accident years for accident and liabilities. These are used for assessing the IBNR for the 2015 and 2016 accident years.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

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

23 Outstanding claims and family takaful reserve (continued)

Claims development

The Group maintains adequate reserves in respect of its takaful business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within one year.

Takaful claims-gross **Underwriting year** **(cumulative amounts)**	**2012** **AED'000**	**2013** **AED'000**	**2014** **AED'000**	**2015** **AED'000**	**2016** **AED'000**	**Total** **AED'000**
Development year 1	94,288	115,433	151,986	233,192	285,467	-
Development year 2	170,658	167,617	278,277	586,275	-	-
Development year 3	178,259	196,050	323,537	-	-	-
Development year 4	187,674	194,434	-	-	-	-
Development year 5	201,143	-	-	-	-	-
Current estimate of cumulative claims **(A)**	201,143	194,434	323,537	586,275	285,467	1,590,856
Cumulative payments to date **(B)**	(179,215)	(168,305)	(282,555)	(468,641)	(96,684)	(1,195,400)
Net **(A-B)**	21,928	26,129	40,982	117,634	188,783	395,456

Liability recognised in the consolidated statement of financial position as part of gross claim	395,456
Reserve in respect of years prior to 2011 part of the gross claim	8,987
Total reserve included in the consolidated statement of financial position as part of the gross claim (excluding family takaful reserve)	404,443

23 Outstanding claims and family takaful reserve (continued)

Claims development *(continued)*

Takaful claims-net Underwriting year (cumulative amounts)	**2012** AED'000	**2013** AED'000	**2014** AED'000	**2015** AED'000	**2016** AED'000	**Total** AED'000
Development year 1	77,153	100,772	97,160	172,723	151,078	
Development year 2	113,419	109,133	158,320	451,749	-	-
Development year 3	119,506	116,179	215,661	-	-	-
Development year 4	115,795	131,904	-	-	-	-
Development year 5	125,556	-	-	-	-	-
Current estimate of cumulative claims **(A)**	125,556	131,904	215,661	451,749	151,078	1,075,948
Cumulative payments to date **(B)**	(112,646)	(117,162)	(188,837)	(374,924)	(39,211)	(832,780)
Net **(A-B)**	12,910	14,742	26,824	76,825	111,867	243,168

Liability recognised in the consolidated statement of financial position as part of net claim	243,168
Reserve in respect of years prior to 2011 part of the net claim	4,252
Total reserve included in the consolidated statement of financial position as part of the net claim (excluding family takaful reserve)	247,420

Sensitivities

The general takaful claims provision is sensitive to the above key assumptions. The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant showing the impact on liabilities and net income.

31 December 2016

		Impact on gross liabilities AED'000	***Impact on net profit** AED'000
Current claims	**+10%**	**+47,934**	**+32,232**
	-10%	**-47,934**	**-32,232**

31 December 2015

		Impact on gross liabilities AED'000	*Impact on net profit AED'000
Current claims	+10%	+38,834	+27,210
	-10%	-38,834	-27,210

* the impact on net profit is net of retakaful.

24 Unearned contribution reserve

Movements in unearned contributions reserve:

	2016			
	Gross	**Retakafuls'**	**Adjustment**	**Net**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Balance at 1 January	**235,808**	**(71,345)**	**-**	**164,463**
Foreign exchange differences	**-**	**-**	**(33,425)**	**(33,425)**
Provision made during the year	**158,846**	**(70,796)**	**33,425**	**121,475**
Provision released during the year	**(235,808)**	**71,345**	**-**	**(164,463)**
Balance at 31 December	**158,846**	**(70,796)**	**-**	**88,050**

	2015			
	Gross	Retakafuls'	Adjustment	Net
	AED'000	AED'000	AED'000	AED'000
Balance at 1 January	303,302	(72,142)	-	231,160
Foreign exchange differences	-	-	(8,293)	(8,293)
Provision made during the year	235,808	(71,345)	8,293	172,758
Transfer to held for sale	(81,248)	2,851	-	(78,397)
Provision released during the year	(222,054)	69,291	-	(152,763)
Balance at 31 December	235,808	(71,345)	-	164,465

25 Takaful balances payable

	2016	2015
	AED'000	AED'000
Takaful companies	**78,280**	43,991
Retakaful companies	**149,607**	76,751
	227,887	120,742

26 Payable to Participants for unit-linked contracts

	2016	2015
	AED'000	AED'000
Balance at 1 January	**759,597**	661,334
Amounts invested by Participants	**568,524**	499,367
Refund during the year	**(16,827)**	(11,398)
Net movement including redemption in fund	**(328,702)**	(389,706)
	982,592	759,597

27 Other payables and accruals

	2016 AED'000	2015 AED'000
Payable to garages and brokers	**83,332**	40,864
Provision for charitable donations	**3,421**	1,768
Payable to suppliers	**35,090**	22,564
Bonus & Incentive Payable Family Takaful	**27,327**	27,073
Staff related accruals	**13,875**	19,274
Accrued expenses	**2,198**	1,622
Other provisions	**6,875**	7,045
Taxes payable	**24,397**	20,079
Surplus payable to policyholders	**17,852**	16,451
Other payables	**36,637**	34,968
	251,004	191,708

28 Bank finances

	2016 AED'000	2015 AED'000
Short-term portion	**3,983**	4,676

29 Related party transactions

The Group, in the normal course of business, collects contributions, settles claims and enters into other transactions with other businesses that fall within the definition of related parties contained in the International Accounting Standard 24. The management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties. The following are the details of significant transactions with related parties.

	2016	2015
	AED'000	AED'000
General and administrative expenses	**2,620**	2,671
Retakaful on contributions	**-**	1,815
Retakaful on claims	**-**	84

Amounts due from related parties	**2016**	2015
	AED'000	AED'000
Bin Zayed Group	**10,928**	11,128
Other entities under common management with the Group	**302**	346
	11,230	11,474

Amounts due to related parties

Other entities under common management with the Group (note 27)	**304**	-

Compensation of key management personnel

Short term benefits	**7,072**	8,503
Employees end of service benefits	**543**	369
	7,615	8,872

30 Policyholders' fund

	2016	2015
	AED'000	AED'000
Balance at 1 January	**(231,827)**	(98,407)
Net deficit attributable to policyholders for the year (note 8)	**(207,126)**	(117,823)
Surplus distribution to policyholders of family takaful	**(15,191)**	(15,597)
	(454,144)	(231,827)
Financed by shareholders'	**454,144**	231,827
	-	-

The shareholders of the Company financed the policyholders' deficit in accordance with the takaful contracts between the Company and its Policyholders.

31 Share capital

	2016	2015
	AED'000	AED'000
Authorised, issued and fully paid up capital		
1,210,000,000 shares of AED 1 each (*2015: 1,210,000,000 shares of AED 1*)	**1,210,000**	1,210,000

32 Statutory reserve

In accordance with Article 239 of the U.A.E. Federal Law No. (2) of 2015 and the Articles of Association of the Company require that 10% of the net profit be transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

33 Revaluation reserve

The Group's share on revaluation amounting to AED 0.4 million (*2015: AED 2.4 million*) on land and building during the year has been debited to a non distributable reserve (refer note 3).

34 Treasury shares

In 2012, the Company bought back 19,697,615 shares amounting to AED 35.97 million. The buyback of shares was duly approved by the Board of Directors.

The treasury shares are debited as a separate category of shareholders' equity at cost.

35 Earnings per share

The calculation of earnings per share for the year ended 31 December 2016 is based on loss of AED 199.1 million *(2015: loss of AED 171.5 million)* divided by the weighted average number of shares of 1,188 million *(2015: 1,188 million)* outstanding during the year after taking into account the treasury shares held. There is no dilutive effect on basic earnings per share.

36 Taxation - current

Taxation comprises of taxation of foreign operation, in view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide reconciliation between the accounting and taxable profits together with details with effective tax rates.

37 Contingent liabilities and capital commitments

	2016	2015
	AED'000	AED'000
Letters of guarantee	**12,027**	11,873

Statutory deposits of AED 12.06 million (*2015: AED 12.14 million*) are held as lien by the bank against the above guarantees.

37 Contingent liabilities and capital commitments (continued)

The Group is exposed to certain claims and litigations, these are subject to legal cases filed by policyholders, cedants and retakaful operators in connection with policies issued. The management believes, based on independent legal counsel opinions that the ascertainment of liabilities and its timing is highly subjective and dependent on outcomes of court's decisions. Furthermore. as per independent legal counsel, the Group has strong grounds to defend the suits successfully. Accordingly, no additional provision for these claims has been made in the consolidated financial statements. However a provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Group in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

There are no significant capital commitments at 31 December 2016 (2015: nil).

38 Operating lease commitments

The Group's non-cancellable operating lease commitments are payable as follows:

	2016	2015
	AED'000	AED'000
Less than one year	**1,957**	2,104
Between one to five years	**93**	-
	2,050	2,104

39 Operating segment

By business

(for the year ended 31 December 2016)

	General takaful	**Family takaful**	**Total**
	AED'000	**AED'000**	**AED'000**
Gross written contributions	**464,548**	**313,064**	**777,612**
Net contributions earned	**331,504**	**267,878**	**599,382**
Commissions received on ceded reinsurance and retakaful	**23,829**	**13,792**	**37,621**
	355,333	**281,670**	**637,003**
Net claims incurred	**(443,587)**	**(32,153)**	**(475,740)**
Commissions paid and other costs	**(67,106)**	**(173,932)**	**(241,038)**
Net underwriting income	**(155,360)**	**75,585**	**(79,775)**
Investment and other income			**94,883**
Unallocated expenses and tax			**(133,490)**
Distribution to policyholders of the Company			**(15,191)**
Loss from discontinued operations			**(41,374)**
Net loss after tax			**(174,947)**

(for the year ended 31 December 2015)

	General takaful	Family takaful	Total
	AED'000	AED'000	AED'000
Gross written contributions	676,925	256,421	933,346
Net contributions earned	478,960	220,894	699,854
Commissions received on ceded reinsurance and retakaful	39,369	13,576	52,945
	518,329	234,470	752,799
Net claims incurred	(429,756)	(26,094)	(455,850)
Commissions paid and other costs	(111,744)	(128,977)	(240,721)
Net underwriting income	(23,171)	79,399	56,228
Investment and other income			43,018
Unallocated expenses and tax			(151,342)
Impairment on goodwill			(27,043)
Distribution to policyholders of the Company			(15,597)
Profit from discontinued operations			(68,104)
Net profit after tax			(162,840)

39 **Operating segment** (continued)

By geography

(for the year ended 31 December 2016)

	Africa	**Asia**	**Total**
	AED'000	**AED'000**	**AED'000**
Gross written contributions	**264,235**	**513,377**	**777,612**
Net contributions earned	**214,703**	**384,679**	**599,382**
Commissions received on ceded reinsurance and retakaful	**10,499**	**27,122**	**37,621**
	225,202	**411,801**	**637,003**
Net claims incurred	**(132,459)**	**(343,281)**	**(475,740)**
Commissions paid and other cost	**(51,795)**	**(189,243)**	**(241,038)**
Net underwriting income	**40,948**	**(120,723)**	**(79,775)**
Investment and other income			**94,883**
Unallocated expenses and tax			**(133,490)**
Distribution to policyholders of the Company			**(15,191)**
Loss from discontinued operations			**(41,374)**
Net loss after tax			**(174,947)**

By Geography

(for the year ended 31 December 2015)

	Africa	Asia	Total
	AED'000	AED'000	AED'000
Gross written contributions	286,145	647,201	933,346
Net contributions earned	236,422	463,432	699,854
Commissions received on ceded reinsurance and retakaful	11,625	41,320	52,945
	248,047	504,752	752,799
Net claims incurred	(133,925)	(321,925)	(455,850)
Commissions paid and other cost	(53,608)	(187,113)	(240,721)
Net underwriting income	60,514	(4,286)	56,228
Investment and other income			43,018
Unallocated expenses and Tax			(151,342)
Impairment on goodwill			(27,043)
Distribution to policyholders of the Company			(15,597)
Profit from discontinued operations			(68,104)
Net profit after tax			(162,840)

39 **Operating segment** (continued)

By business

(for the year ended 31 December 2016)

ASSETS	**General takaful**	**Family takaful**	**Total**
	AED'000	**AED'000**	**AED'000**
Property and equipments	**61,655**	**2,930**	**64,585**
Goodwill and intangibles	**127,046**	**146**	**127,192**
Investment properties	**128,210**	**-**	**128,210**
Investments in associates	**94,736**	**-**	**94,736**
Statutory deposits	**7,697**	**4,064**	**11,761**
Investments	**432,877**	**-**	**432,877**
Participants' investments in unit-linked contracts	**-**	**989,369**	**989,369**
Deposits with takaful and retakaful companies	**2,087**	**22**	**2,109**
Contributions and takaful balance receivables	**210,473**	**11,976**	**222,449**
Retakafuls' share of outstanding claims	**126,279**	**30,744**	**157,023**
Retakafuls' share of unearned contributions	**70,081**	**715**	**70,796**
Amounts due from related parties	**11,230**	**-**	**11,230**
Other assets and receivables	**22,393**	**343,174**	**365,567**
Cash and bank balances	**100,170**	**18,660**	**118,830**
Assets held-for-sale	**494,731**	**98,565**	**593,296**
TOTAL ASSETS	**1,889,665**	**1,500,365**	**3,390,030**

LIABILITIES EXCLUDING POLICYHOLDERS' FUND	**General takaful**	**Family takaful**	**Total**
	AED'000	**AED'000**	**AED'000**
Bank finance	**3,983**	**-**	**3,983**
Outstanding claims and family takaful reserve	**370,284**	**109,059**	**479,343**
Payable to Participants for unit-linked contracts	**-**	**982,592**	**982,592**
Unearned contributions reserve	**154,767**	**4,079**	**158,846**
Takaful balances payable	**141,252**	**86,635**	**227,887**
Other payables and accruals	**163,521**	**87,483**	**251,004**
Amounts due to related parties	**2**	**302**	**304**
Liabilities held-for-sale	**431,180**	**88,032**	**519,212**
TOTAL LIABILITIES	**1,264,989**	**1,358,182**	**2,623,171**
Policyholders' fund	**-**	**-**	**-**
NET ASSETS EMPLOYED	**624,676**	**142,183**	**766,859**

FINANCED BY:	
Shareholders' equity	**710,584**
Non-controlling interest	**56,275**
	766,859

39 **Operating segment** (continued)

By business

(for the year ended 31 December 2015)

ASSETS	General takaful	Family takaful	Total
	AED'000	AED'000	AED'000
Property and equipments	70,561	577	71,138
Goodwill and intangibles	127,147	47	127,194
Investment properties	132,276	-	132,276
Investments in associates	87,548	-	87,548
Statutory deposits	17,476	4,000	21,476
Investments	623,149	-	623,149
Participants' investments in unit-linked contracts	-	766,687	766,687
Deposits with takaful and retakaful companies	4,598	-	4,598
Contributions and takaful balance receivables	192,718	11,111	203,829
Retakafuls' share of outstanding claims	100,485	15,758	116,243
Retakafuls' share of unearned contributions	70,483	862	71,345
Amounts due from related parties	11,474	-	11,474
Other assets and receivables	22,446	316,874	339,320
Cash and bank balances	38,660	13,943	52,603
Assets held-for-sale	703,688	26,621	730,309
TOTAL ASSETS	2,202,709	1,156,480	3,359,189

LIABILITIES EXCLUDING POLICYHOLDERS' FUND	General takaful	Family takaful	Total
	AED'000	AED'000	AED'000
Bank finance	4,676	-	4,676
Outstanding claims and family takaful reserve	336,768	63,173	399,941
Payable to Participants for unit-linked contracts	-	759,597	759,597
Unearned contributions reserve	232,646	3,162	235,808
Takaful balances payable	114,204	6,538	120,742
Other payables and accruals	115,247	76,461	191,708
Liabilities held-for-sale	590,977	22,287	613,264
TOTAL LIABILITIES	1,394,518	931,218	2,325,736
Policyholders' fund	-	-	-
NET ASSETS EMPLOYED	808,191	225,262	1,033,453

FINANCED BY:	
Shareholders' equity	959,307
Non-controlling interest	74,146
	1,033,453

40 Non-controlling interest

The following table summaries the information relating to each of the Group's subsidiaries as at the reporting date, before any intra group eliminations:-

Salama Assurance Company-Senegal

	2016	2015
	AED'000	AED'000
Non-controlling interest share	**41.55%**	42.59%
Current assets	**18,607**	18,728
Non-current assets	**10,225**	12,966
Current liabilities	**(20,787)**	(23,906)
Carrying amount of non-controlling interest	**3,343**	3,317
Underwriting income	**4,411**	5,879
(Loss) / profit	**(796)**	481
Total comprehensive loss	**(1,042)**	(360)
Loss allocated to non-controlling interest	**(331)**	205
Cash flows (used in) / generated from operating activities	**(3,219)**	319
Cash flows generated from / (used in) investing activities	**3,252**	(462)
Cash flows (used in) / generated from financing activities, before dividends to non-controlling interest	**(305)**	18
Net decrease in cash and cash equivalents	**(272)**	(125)

Egypt Saudi Insurance Home

	2016	2015
	AED'000	AED'000
Non-controlling interest share	**48.85%**	48.85%
Current assets	**143,486**	265,697
Non-current assets	**8,496**	18,710
Current liabilities	**(83,478)**	(188,091)
Carrying amount of non-controlling interest	**33,464**	47,050
Underwriting income	**7,479**	22,196
Profit	**51,163**	15,319
Total comprehensive (loss) / income	**(27,808)**	7,230
Profit allocated to non-controlling interest	**24,993**	7,483
Cash flows (used in) / generated from operating activities	**(11,986)**	15,069
Cash flows (used in) / generated from investing activities	**(1,053)**	393
Cash flows used in financing activities - cash dividends to NCI	**-**	(2,756)
Net (decrease) / increase in cash and cash equivalents	**(13,039)**	12,706

41 Discontinued operations

During 2015, the Board of Directors of the Group has approved to sell its investment in one of its subsidiary Best Re Holding.

The management has allocated goodwill to each subsidiary on systematic basis that they consider appropriateness of carrying value of each business unit after assessing the external market conditions. The carrying value of goodwill attributable to subsidiary has been charged to profit or loss in full in prior year as a difference between carrying value and recoverable amount.

Results from discontinued operations

	2016	2015
	AED'000	AED'000
Revenue	**12,012**	69,600
Expenses	**(53,386)**	(132,199)
Results from operating activities	**(41,374)**	(62,599)
Income tax	**-**	-
Results from operating activities, net of tax	**(41,374)**	(62,599)
Delinquencies relating to subsidiary	**-**	(5,505)
Loss from discontinued operations, net of tax	**(41,374)**	(68,104)

Cash flows from / (used in) discontinued operations

	2016	2015
	AED'000	AED'000
Net cash used in operating activities	**(58,889)**	(227,169)
Net cash from investing activities	**78,131**	203,017
Net cash used in financing activities	**(2,797)**	(15,517)
Net cash flows for the year	**16,445**	(39,669)

42 Disposal group held-for-sale

Delinquencies relating to the disposal group

An amount of AED nil (2015: AED 5,505) has been charged to profit or loss with respect to difference between carrying value and the recoverable amount of disposal group.

42 **Disposal group held-for-sale** (continued)

Assets and liabilities of disposal group held-for-sale

At 31 December 2016, the disposal group was stated at fair value less costs to sell and comprised the following assets and liabilities.

	2016	2015
	AED'000	AED'000
Property and equipment	**11,588**	11,594
Intangible assets	**495**	547
Investment property	**83,870**	115,774
Investments in associates	**516**	517
Statutory and investment deposits	**754**	756
Investments	**31,369**	51,861
Deposits with insurance and reinsurance companies	**161,169**	116,449
Premiums and insurance balance receivables	**133,913**	250,320
Reinsurers' share of outstanding claims	**49,669**	45,559
Reinsurers' share of unearned premium	**412**	1,020
Other assets	**13,225**	16,404
Islamic placements	**68,290**	97,928
Cash in hand and at bank	**43,531**	27,085
Delinquencies relating to disposal group	**(5,505)**	(5,505)
Assets held for sale	**593,296**	730,309
Liabilities against assets held for sale		
Gross outstanding claims	**125,333**	176,674
Unearned premiums	**54,372**	55,039
Insurance balance payable	**207,551**	250,166
Other payables and accruals	**7,082**	3,717
Bank loan - long term portion	**124,874**	127,668
Liabilities held for sale	**519,212**	613,264
Net assets	**74,084**	117,045

Measurement of fair values

i. Fair value hierarchy

The non-recurring fair value measurement for the disposal group of AED 75,922 thousand before costs to sell of AED 1,838 thousand has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

ii. Valuation technique

The Group has done the individual assessment of each asset and liability based on the current situation. the expected recoverable amount of the assets and settlement amount of liabilities has been computed based on the most recent information available.

43 Capital risk management

The Company's objectives when managing capital are:

• To comply with the capital requirements required by the UAE Federal Law No. (6) of 2007 regarding the Establishment of the Insurance Authority and Insurance Operations.

• To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

• To provide an adequate return to shareholders by pricing takaful contracts commensurately with the level of risk.

In UAE, the local takaful regulator specifies the minimum amount and type of capital that must be held by the Company in addition to its takaful liabilities. The minimum required capital (presented below) must be maintained at all times throughout the year. The company is subject to local takaful solvency regulations with which it has complied during the year. The company has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

The below summaries the minimum regulatory capital of the Company and the total held.

	2016	2015
	AED'000	AED'000
Minimum regulatory capital	**100,000**	100,000
Total shareholders' equity	**710,584**	959,307

The UAE Insurance Authority has issued a Resolution No. 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing takaful companies and AED 250 million for re-insurance companies. The resolution also stipulates that atleast 75 percent of the capital of the takaful companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies. The Company is in compliance with the minimum capital requirements.

44 Summary of technical provisions

	As at 31 December 2016		
	General takaful	**Family takaful**	**Total**
Gross reserves	**AED'000**	**AED'000**	**AED'000**
Reserve for outstanding claims (including IBNR)	**370,284**	**34,159**	**404,443**
Family takaful reserves	**-**	**74,900**	**74,900**
Unearned contribution	**154,767**	**4,079**	**158,846**
Total	**525,051**	**113,138**	**638,189**

	As at 31 December 2016		
	General takaful	**Family takaful**	**Total**
Net reserves	**AED'000**	**AED'000**	**AED'000**
Reserve for outstanding claims (including IBNR)	**244,005**	**3,415**	**247,420**
Family takaful reserves	**-**	**74,900**	**74,900**
Unearned contribution	**84,686**	**3,364**	**88,050**
Total	**328,691**	**81,679**	**410,370**

44 Summary of technical provisions (continued)

	As at 31 December 2015		
	General takaful	Family takaful	Total
Gross reserves	AED'000	AED'000	AED'000
Reserve for outstanding claims (including IBNR)	336,768	17,629	354,397
Family takaful reserves	-	45,544	45,544
Unearned contribution	232,646	3,162	235,808
Total	569,414	66,335	635,749

	As at 31 December 2015		
	General takaful	Family takaful	Total
Net reserves	AED'000	AED'000	AED'000
Reserve for outstanding claims (including IBNR)	236,283	1,871	238,154
Family takaful reserves	-	45,544	45,544
Unearned contribution	162,163	2,300	164,463
Total	398,446	49,715	448,161

The technical reserves above includes reserves of Company and its subsidiaries. Reserves that relates to UAE have been computed by a qualified independent actuary appointed by the Company, except for unearned contribution that relates to General Takaful, which has been computed using an internal model. Reserves that relates to subsidiaries have been computed with respect to applicable territorial regulatory requirements.

45 Comparative figures

Certain comparatives have been reclassified / regrouped to conform to the presentation adopted in the consolidated financial statements.