

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

**Reports and financial
statements for the year
ended 31 December 2018**

AL DHAFRA INSURANCE COMPANY P.S.C.

**Reports and financial statements
for the year ended 31 December 2018**

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BOARD OF DIRECTORS

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

BOARD OF DIRECTORS (continued)

HEAD OFFICE

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DUBAI BRANCH

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AL AIN BRANCH

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BIDA ZAYED BRANCH

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SHARJAH BRANCH

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**THE BOARD OF DIRECTORS' 39th ANNUAL REPORT
FOR THE YEAR ENDED 31 December 2018**

Dear Shareholders,

The Board of Directors have the pleasure to welcome you to the Ordinary General Assembly of Al Dhafra Insurance Company P.S.C. (the "Company") and present to you the 39th Annual Report regarding the business activities of the Company during 2018 as well as the financial statements for the year ended 31st December 2018 along with auditor's report.

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

As a result of strategic positioning of the Company initiated few years back on sustainable business model with high stability oriented reinsurance protection the Board is happy to announce a record profit of AED 54.2 million in this year. This remarkable profit has become more memorable as it happily coincides with the year of Zayed.

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

- Insurance profit increased to AED 101,008,994 (2017: AED 68,776,126), an increase of 46.87%.
- Net operational profit (net underwriting income less expenses) increased to AED 43,877,937 (2017: AED 32,273,240), an increase of 35.96%.
- Net investment and other income reduced to AED 10,305,041 (2017: AED 19,276,226), a decrease of 46.54%.
- Profit increased to AED 54,182,978 (2017: AED 51,549,466), an increase of 5.11%
- Shareholders' equity increased to AED 361,445,519 (2017: AED 341,882,052), an increase of 5.72%.

Gross and Net premium

The gross premium written for the year ended 31 December 2018 amounted to AED 333,506,099 (2017: AED 415,280,854), depicting a decrease of 19.69%.

The net premium earned for the year ended 31 December 2018 amounted to AED 94,866,391 (2017: AED 124,040,929), depicting a decrease of 23.52%.

Gross and Net claims

The gross claims paid by the Company during the year 31 December 2018 amounted to AED 186,938,744 (2017: AED 271,223,051), depicting a decrease of 31.08%.

Net claims paid during the year 2018 amounted to AED 53,414,421 (2017: AED 126,247,993), depicting a decrease of 57.69%.

**THE BOARD OF DIRECTORS' 39th ANNUAL REPORT
FOR THE YEAR ENDED 31 December 2018 (continued)**

Technical Provisions

The net technical provisions (excluding deferred acquisition costs and unearned commission income) at 31 December 2018 amounted to AED 119,104,718 (2017: AED 155,890,506).

The net technical provision for the current year is hence 126% of the net premium (2017: 126%).

Figures relating to different classes of insurance

Gross written Premiums

	2018 AED	2017 AED
Marine	25,168,781	30,167,785
Other classes of business	308,337,318	385,113,069
	333,506,099	415,280,854

Gross claims paid

Marine	10,891,032	15,744,146
Other classes of business	176,047,712	255,478,905
	186,938,744	271,223,051

Gross technical provisions

Marine	2,860,883	4,709,757
Other classes of business	116,243,835	151,180,749
	119,104,718	155,890,506

THE BOARD OF DIRECTORS' 39th ANNUAL REPORT FOR THE YEAR ENDED 31 December 2018 (continued)

Investments:

The total investments including investment properties of the Company stand at AED 347,588,957 as at 31 December 2018 (2017: AED 359,724,377), showing a decrease of 3.37%.

Net investment and other income during the year amounted to AED 10,305,041 (2017: AED 19,276,226), showing a decrease of 46.54%.

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

General, administrative and other operating expenses:

The general, administrative and other expenses for the year amounted to AED 57,131,057 (2017: AED 36,502,886), depicting an increase of 56.51% mainly due to payment of transitional VAT of AED 8.26 million for policies issued prior to 1 January 2018.

Profit for the year

The profit of the Company from insurance and investment activities for the year under review is AED 54,182,978 (2017: AED 51,549,466), showing an increase of 10.93%.

The Company's branches and offices

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

Distribution of profit

The net profit for the year of AED 54,182,978 achieved by the Company with the retained profit from the previous years amounted to a distributable income of AED 76,048,561. We recommend appropriation of the above profit as follows:

Details of appropriation	AED
To be distributed as cash dividend	35,000,000
To be carried forwarded to the subsequent year	41,048,561

Plan for the year 2019

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

**THE BOARD OF DIRECTORS' 39th ANNUAL REPORT
FOR THE YEAR ENDED 31 December 2018 (continued)**

Recommendations of the Board of Directors to the Shareholders:

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

1. To approve the report of the Board of Directors' annual report for 2018;
2. To approve the Auditor's Report for 2018;
3. To approve the financial statements of the Company for the year ended 31 December 2018;
4. To approve distribution of AED 0.35 per share (total of AED 35,000,000) as cash dividend as proposed by Board of Directors;
5. To approve Remuneration to Board of Directors;
6. To discharge the Chairman and Members of the Board of Directors from liabilities related to the performance of their duties during the year under review;
7. To discharge the external auditors from liabilities related to the performance of their duties for the year ended 31 December 2018;
8. To appoint external auditors for the year ending 31 December 2019 and determine their fees; and
9. To elect the Board of Directors for the next three years.

Conclusion

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

On behalf of the Board of Directors

Chairman



14 FEB 2019



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Al Dhafra Insurance Company P.S.C. (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") together with the other ethical requirements that are relevant to our audit of the Company's financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matters
Valuation of technical provisions At 31 December 2018, the Company had the following technical provisions reserve as required by the UAE Insurance Authority as per the Financial Regulations for Insurance Companies: <ul style="list-style-type: none"> • Unearned premium reserve – AED 154.6 million (gross), AED 45.2 million (net) • Outstanding claims reserve – AED 166.1 million (gross), AED 44.4 million (net) • Claims incurred but not reported reserve (IBNR) – AED 68.8 million (gross), AED 25.1 million (net) • Unallocated loss adjustment expense reserve – AED 4.4 million (gross), AED 4.4 million (net) • Unexpired risk reserve – AED 0.1 million (gross), AED nil (net) Refer to note 3.3 (accounting policy), note 4.2 (key sources of estimation uncertainty) and note 11 (financial disclosures)	
<p>The technical provisions are a material balance within the financial statements. Valuation of these technical provisions is highly judgmental, and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those provisions that are recognised in respect of claims that have occurred, but have not yet been reported to the Company (IBNR). Certain lines of business also contain greater inherent uncertainty, for example, those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts.</p> <p>The key assumptions that drive the reserving calculations include loss ratios, estimates of the frequency and severity of claims and, where appropriate, discount rates for longer tail classes of business by territory and line of business.</p> <p>The valuation of technical provisions depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating technical provisions, or for forming judgements over key assumptions, is not complete and accurate, then material impacts on the valuation of technical provisions may arise.</p>	<p>Our audit procedures were as follows:</p> <ul style="list-style-type: none"> • Understanding, assessing and testing the design and implementation of the relevant controls in the Company's reserving process, including the review and approval of reserves, and controls over the extraction of data from the underwriting systems. • Verifying samples of claims reserves through comparing the estimated amount of the specific case reserve to appropriate documentation, such as reports from loss adjusters. • Evaluation and testing of relevant controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data). • Re-performing reconciliations between claims data recorded in the Company's systems and data used in the actuarial reserving calculations. • Considering the results of the third-party actuarial valuation of the technical provisions as at the reporting date, to identify and understand any significant differences in the reserves as compared to management estimates and prior period amounts. • Evaluating the competence, capabilities and objectivity of the external actuaries used by the Company based on our knowledge of the actuaries' qualifications and the professional standards that their work is subject to, and by challenging their analysis.

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p>Valuation of investment properties</p> <p>Investment properties represent the fair value of land and building of AED 73.6 million (2017: AED 81.6 million) owned by the Company in Abu Dhabi and Al Ain.</p> <p>Refer to note 3.7 (accounting policy), note 4.1 (key sources of estimation uncertainty) and note 6 (financial disclosures)</p> <p>Under the fair value model of accounting, investment property is remeasured at fair value at the reporting date, which is the amount for which the properties could be exchanged between knowledgeable, willing parties in an arm's length transactions. Gains or losses arising from changes in the fair value of investment property must be included in profit or loss for the period in which it arises.</p> <p>The valuation of investment properties requires significant judgement and estimates by management and the independent external valuers.</p> <p>We consider this as key audit matter because of the existence of significant estimation and judgement uncertainty, coupled with the fact that only a small change in underlying parameters and assumptions could result in a material misstatement of the statements of profit or loss and financial position.</p>	<p>As part of our audit procedures, we have:</p> <ul style="list-style-type: none"> • Perused the valuation reports for all properties and confirmed that the valuation approach for each property was in accordance with IFRS and RICS and suitable for use in determining the carrying value to be disclosed in the financial statements; • Assessed the external valuers' competence, capabilities and objectivity by assessing their terms of engagement with the Company to determine whether there were any matters that might have affected their objectivity or may have imposed any scope limitations in their work; • Gained an understanding of the external valuers' valuation methodologies (e.g., income capitalisation approach, residual value method) and their assumptions applied such as rental yields, discount rates etc. by comparing yields on a sample of similar properties and by evaluating the extent to which the movements in valuations were consistent with our industry knowledge and comparable market transactions; • Compared a sample of key inputs used in the valuation model, such as rental income, occupancy levels and current tenancy contracts to ensure the accuracy of the information supplied by management; and • Assessed the adequacy of the Company's disclosures in accordance with the requirements of IFRS 13 for fair value measurements, valuation techniques, changes in estimates during the year, significant unobservable inputs and the sensitivities to the key assumptions.

INDEPENDENT AUDITOR'S REPORT (continued)**Other Information**

The Board of Directors' and Management are responsible for the other information. The other information comprises the Board of Directors' Annual Report, which we obtained prior to the date of this auditor's report, and the Corporate Governance Report 2018 and the Annual Report 2018, which will be made available to us after the auditor's report date. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance or conclusion thereon.

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

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

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

When we will read the Corporate Governance Report 2018 and the Annual Report 2018, if we conclude that there is a material misstatement therein, we will be required to communicate the matter to those charged with governance and consider whether a reportable irregularity exists in terms of the auditing standards, which must be reported.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT (continued)**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

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

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

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

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

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

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

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

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Board of Directors' Annual Report is consistent with the books of account of the Company;
- v) note 9 to the financial statements discloses the shares purchased or invested by the Company during the financial year ended 31 December 2018;
- vi) note 14 to the financial statements discloses material related party transactions and balances, the terms under which they were conducted and principles of managing conflicts of interests; and
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018.

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

Deloitte & Touche (M.E.)



Signed by:
Mohammad Khamees Al Tah
Registration No. 717

14 FEB 2019
Abu Dhabi
United Arab Emirates

**Statement of financial position
as at 31 December 2018**

	Notes	2018 AED	2017 AED
ASSETS			
Property and equipment	5	1,164,938	820,042
Investment properties	6	73,578,400	81,600,000
Intangible assets	7	1,094,032	1,369,193
Statutory deposit	8	9,980,000	10,000,000
Deferred acquisition costs		16,974,659	21,608,489
Investment at amortised cost	9	-	8,002,739
Investments carried at fair value through other comprehensive income (FVTOCI)	9	184,350,390	177,652,331
Investments carried at fair value through profit or loss (FVTPL)	9	89,660,167	92,469,307
Insurance receivables	10	99,655,968	99,511,923
<i>Reinsurers' share of technical provisions</i>			
Unearned premium reserve	11	109,448,851	123,738,416
Claims under settlement reserve	11	121,623,619	132,706,318
Claims incurred but not reported reserve	11	43,723,777	55,237,187
Unexpired risk reserve	11	117,750	-
Other receivables and prepayments	12	7,541,755	6,803,270
Term deposits	13	224,722,456	239,575,886
Cash and cash equivalents	13	17,046,449	13,992,712
Total assets		1,000,683,211	1,065,087,813
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	100,000,000	100,000,000
Legal reserve	16	50,000,000	50,000,000
General reserve	16	145,000,000	145,000,000
Investment revaluation reserve	16	(9,603,042)	(14,749,417)
Retained earnings		76,048,561	61,631,469
Total equity		361,445,519	341,882,052
Liabilities			
Provision for employees' end of service benefit	18	7,548,873	7,101,840
Other payables	19	22,586,692	22,297,532
<i>Insurance liabilities</i>			
Insurance payables	20	187,103,539	197,364,274
Unearned commission income		27,979,873	28,869,688
<i>Gross technical provisions</i>			
Unearned premium reserve	11	154,623,506	179,867,116
Claims under settlement reserve	11	166,064,796	198,669,217
Claims incurred but not reported reserve	11	68,791,467	83,690,344
Unallocated loss adjustment expense	11	4,421,196	5,291,886
Unexpired risk reserve	11	117,750	53,864
Total liabilities		639,237,692	723,205,761
Total equity and liabilities		1,000,683,211	1,065,087,813



 Assistant General Manager - Finance


 General Manager


 Chairman

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

**Statement of profit or loss
for the year ended 31 December 2018**

	Notes	2018 AED	2017 AED
Gross written premium	21	333,506,099	415,280,854
Reinsurance premium ceded	21	(237,997,424)	(287,271,495)
Reinsurance share of ceded business premium	21	(642,284)	(3,968,430)
Net premium	21	94,866,391	124,040,929
Net transfer to unearned premium reserve		10,954,045	4,755,324
Net premium earned		105,820,436	128,796,253
Gross commission earned		64,514,563	74,727,981
Less: commission incurred		(37,999,311)	(47,384,308)
Change in unearned commission income		889,815	(9,572,957)
Change in deferred acquisition costs		(4,633,831)	12,782,494
Gross underwriting income		128,591,672	159,349,463
Gross claims incurred	22	(186,938,744)	(271,223,051)
Reinsurance share of insurance claims	22	126,376,389	141,596,411
Reinsurance share of ceded business claims	22	7,147,934	3,378,647
Net claims paid	22	(53,414,421)	(126,247,993)
Change in provision for outstanding claims		32,604,421	60,069,275
Change in reinsurance share for outstanding claims		(11,082,699)	(20,649,199)
Change in claims incurred but not reported reserve		3,385,467	(3,951,924)
Change in unallocated loss adjustment expense		870,690	260,368
Change in unexpired risk reserve		53,864	(53,864)
Net claims incurred		(27,582,678)	(90,573,337)
Net underwriting income		101,008,994	68,776,126
Net investment income	23	5,416,778	14,756,249
Income from investment properties, net	6	2,906,978	2,827,189
Other income, net		1,981,285	1,692,788
Total		111,314,035	88,052,352
General and administrative expenses		(44,766,796)	(28,746,412)
Other operating expenses		(12,364,261)	(7,756,474)
Profit for the year	24	54,182,978	51,549,466
Basic and diluted earnings per share	25	0.54	0.52

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

**Statement of profit or loss and other comprehensive income
for the year ended 31 December 2018**

	Note	2018 AED	2017 AED
Profit for the year		54,182,978	51,549,466
Other comprehensive income:			
<i><u>Items that may not to be reclassified subsequently to profit or loss</u></i>			
Net fair value changes on investments carried at FVTOCI	9	5,146,375	(5,627,892)
Other comprehensive income/(loss)		5,146,375	(5,627,892)
Total comprehensive income for the year		59,329,353	45,921,574

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

**Statement of changes in equity
for the year ended 31 December 2018**

	Share capital AED	Legal reserve AED	General reserve AED	Investment revaluation reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2017	100,000,000	50,000,000	145,000,000	(9,121,525)	25,082,003	310,960,478
Profit for the year	-	-	-	-	51,549,466	51,549,466
Other comprehensive loss for the year	-	-	-	(5,627,892)	-	(5,627,892)
Total comprehensive (loss)/income for the year	-	-	-	(5,627,892)	51,549,666	45,921,574
Dividends paid	-	-	-	-	(15,000,000)	(15,000,000)
Balance at 1 January 2018 – as previously stated	100,000,000	50,000,000	145,000,000	(14,749,417)	61,631,469	341,882,052
Effect of adoption of IFRS 9 (note 2.3)	-	-	-	-	(4,765,886)	(4,765,886)
Balance at 1 January 2018 – as restated	100,000,000	50,000,000	145,000,000	(14,749,417)	56,865,583	337,116,166
Profit for the year	-	-	-	-	54,182,978	54,182,978
Other comprehensive income for the year	-	-	-	5,146,375	-	5,146,375
Total comprehensive income for the year	-	-	-	5,146,375	54,182,978	59,329,353
Dividends paid (note 17)	-	-	-	-	(35,000,000)	(35,000,000)
Balance at 31 December 2018	100,000,000	50,000,000	145,000,000	(9,603,042)	76,048,561	361,445,519

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

**Statement of cash flows
for the year ended 31 December 2018**

	Notes	2018 AED	2017 AED
Cash flows from operating activities			
Profit for the year		54,182,978	51,549,466
Adjustments for:			
Depreciation of property and equipment	5	504,757	536,755
Amortisation of intangible assets	7	810,692	1,089,864
Net investment income		(13,438,376)	(15,156,249)
Gain on disposal of property and equipment		(33,533)	-
Provision for employees' end of service benefit	18	698,002	658,423
Income from investment properties, net	6	(2,906,978)	(2,827,189)
Reversal for impairment on trade receivables		(995,633)	-
Decrease in fair value of investment properties	6	8,021,600	400,000
Allowance for impairment on insurance receivables	8	17,469,375	-
		<hr/>	<hr/>
Operating cash flows before movements in working capital		64,312,884	36,251,070
Decrease/Increase in reinsurance share of technical provisions		36,767,924	(24,713,322)
(Increase)/decrease in insurance receivables		(20,971,453)	6,034,300
Decrease in other receivables and prepayments		7,065,710	6,681,789
Decrease in gross technical provisions		(73,553,712)	(15,716,658)
(Decrease)/increase in insurance payables		(10,260,735)	31,320,689
Increase/(decrease) in other payables		289,160	(4,021,070)
Increase/(decrease) in deferred acquisition cost		4,633,830	(12,782,494)
(Decrease)/increase in unearned commission income		(889,815)	9,572,956
		<hr/>	<hr/>
Cash from operations		7,393,793	32,627,260
Payment of employees' end of service benefit	18	(250,969)	(1,554,944)
		<hr/>	<hr/>
Net cash generated from operating activities		7,142,824	31,072,316
		<hr/>	<hr/>
Cash flows from investing activities			
Movement in bank deposits with original maturities of greater than three months		14,461,210	(43,882,054)
Interest received		540,174	116,472
Dividends received		12,082,458	10,007,880
Net rental proceeds on investment properties	6	2,906,978	2,827,189
Proceeds from disposal of investments at FVTPL	9	24,893,598	38,905,331
Proceeds from disposal of property and equipment		39,982	-
Payment of investment expenses		(439,466)	(618,452)
Payments for purchase of property and equipment		(856,102)	(304,181)
Payments for purchase of intangible assets		(535,531)	(383,744)
Payments for purchase of investments at FVTPL	9	(20,630,704)	(38,888,263)
Payments for purchase of investments at FVTOCI	9	(1,551,684)	-
		<hr/>	<hr/>
Net cash generated /(used in) investing activities		30,910,913	(32,219,822)
		<hr/>	<hr/>
Cash flows from financing activities			
Dividends paid	17	(35,000,000)	(15,000,000)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		3,053,737	(16,147,506)
Cash and cash equivalents at the beginning of the year		13,992,712	30,140,218
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	13	17,046,449	13,992,712
		<hr/>	<hr/>

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

Notes to the financial statements for the year ended 31 December 2018

1 General information

Al Dhafra Insurance Company P.S.C. (the “Company”) is a public shareholding company incorporated in Abu Dhabi by Emiri Decree No. 8 of 1979. The Company is domiciled in the United Arab Emirates and its registered office address is PO Box 319, Abu Dhabi.

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

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

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

2.1 New and amended IFRS Standards that are effective for the current year

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 2018, have been adopted in these financial statements.

The Company applies, for the first time, IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The impact of the initial application of this standard is disclosed in Note 2.3 to these financial statements.

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

New and revised IFRS	Summary
IFRS 15 <i>Revenue from Contracts with Customers</i>	<p>In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 has superseded the current revenue recognition guidance including IAS 18 <i>Revenue</i>, IAS 11 <i>Construction Contracts</i> and the related interpretations when it becomes effective.</p> <p>The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.</p> <p>Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.</p>

**Notes to the financial statements
for the year ended 31 December 2018**

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

2.1 New and amended IFRS Standards that are effective for the current year (continued)

New and revised IFRS	Summary
Amendments to IFRS 15 <i>Revenue from Contracts with Customers</i>	These amendments clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts
IFRS 2 (amendments) <i>Classification and Measurement of Share-based Payment Transactions</i>	<p>The Company has adopted the amendments to IFRS 2 for the first time in the current year. The amendments clarify the following:</p> <ol style="list-style-type: none"> 1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments. 2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature. 3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: <ul style="list-style-type: none"> (i) the original liability is derecognised; (ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and (iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.
IAS 40 (amendments) <i>Transfers of Investment Property</i>	The Company has adopted the amendments to IAS 40 <i>Investment Property</i> for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).
<i>Annual Improvements to IFRS Standards 2014 - 2016 Cycle</i>	The Company has adopted the amendments to IAS 28 included in the <i>Annual Improvements to IFRS Standards 2014-2016 Cycle</i> for the first time in the current year

**Notes to the financial statements
for the year ended 31 December 2018**

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

2.1 New and amended IFRS Standards that are effective for the current year (continued)

New and revised IFRS	Summary
<p>Amendments to IAS 28 <i>Investments in Associates and Joint Ventures</i></p>	<p>The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition.</p> <p>In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.</p>
<p>IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i></p>	<p>IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).</p> <p>The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.</p>

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

**Notes to the financial statements
for the year ended 31 December 2018**

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

2.2 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 16 <i>Leases</i>	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 <i>Business Combinations</i> , IFRS 11 <i>Joint Arrangements</i> , IAS 12 <i>Income Taxes</i> and IAS 23 <i>Borrowing costs</i> .	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments in IFRS 9 <i>Financial Instruments</i> relating to prepayment features with negative compensation.	1 January 2019
Amendment to IAS 19 <i>Employee Benefits</i> relating to amendment, curtailment or settlement of a defined benefit plan	1 January 2019
Amendments in IAS 28 <i>Investments in Associates and Joint Ventures</i> relating to long-term interests in associates and joint ventures.	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
Amendment to IFRS 3 <i>Business Combinations</i> relating to definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
IFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

**Notes to the financial statements
for the year ended 31 December 2018****2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)****2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)****IFRS 17 Insurance Contracts**

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The implementation of the Standard is likely to bring significant changes to an entity's processes and systems, and will require much greater co-ordination between many functions of the business, including finance, actuarial and IT.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The Directors of the Company anticipate that IFRS 17 will be adopted in the Company's financial statements for the annual period beginning 1 January 2021. The application of IFRS 17 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of its insurance contracts. However, it is not practicable to provide a reasonable estimate of the effects of the application of this standard until the Company performs a detailed review. Management is in the process of performing a detailed assessment as required by the Insurance Authority on implementation of IFRS 17.

2.3 Change in significant accounting policy

The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the financial statements. As permitted by transitional provisions of IFRS 9, the Company elected not to restate the comparative figures. Any adjustments to carrying amount of financial assets and liabilities at the date of transitions were recognized in opening retained earnings of the current period. The adoption of IFRS 9 (2014) has resulted in changes in the accounting policies for impairment of financial assets.

**Notes to the financial statements
for the year ended 31 December 2018**

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

2.3 Change in significant accounting policy (continued)

Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an expected credit loss model (ECLs). It is no longer necessary for a credit event to have accrued before credit losses are recognised. The Company recognises loss allowances for expected credit losses on financial instruments that are not measured at FVTPL, namely, its cash and bank balances and deposits and insurance receivables. No impairment loss is recognised on equity investments.

Loss allowances for expected credit losses are recognised for financial assets measured at amortised cost. Expected lifetime credit losses for insurance receivables are recognised using the simplified approach. This is based on loss rates calculated from historical data, taking into account the business model, the respective customer and the economic environment. Forward-looking information is also taken into account if, based on past experience, such indicators show a substantive correlation with actual credit losses. Receivables that are overdue by a significant amount of time – in some cases exceeding 180 days due to the customer structure – and receivables from debtors with financial difficulties are tested individually for impairment. Expected credit losses for other financial assets are determined upon their first-time recognition primarily on the basis of the credit status of the counterparty. In the event of a significant increase in default risk, expected lifetime credit losses are taken into account.

The impact from the adoption of IFRS 9 on the retained earnings as at 1 January 2018 is as follows:

	AED
Closing balance under IAS 39 - 31 December 2017	61,631,469
Less: impact on recognition of Expected Credit Losses	
Cash and bank balances and deposits	(412,220)
Insurance receivables	(4,353,666)
	<hr/>
Opening balance under IFRS 9 - 1 January 2018	56,865,583
	<hr/>

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	AED
Closing allowances under IAS 39 - 31 December 2017	7,634,139
Add: impact on recognition of Expected Credit Losses	
Cash and bank balances and deposits	412,220
Insurance receivables	4,353,666
	<hr/>
Opening allowances under IFRS 9 - 1 January 2018	12,400,025
	<hr/>

**Notes to the financial statements
for the year ended 31 December 2018 (continued)****3 Summary of significant accounting policies****3.1 Statement of compliance**

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

3.2 Basis of preparation

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

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

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

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

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

The principal accounting policies are set out below.

3.3 Insurance contractsProduct classification

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Product classification (continued)

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

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

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

Recognition and measurement

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

These contracts are casualty and property insurance contracts.

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

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

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

Reinsurance ceded to reinsurance counterparties

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Reinsurance ceded to reinsurance counterparties (continued)

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

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

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

Reinsurance assumed

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

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

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

Insurance contract liabilities

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Insurance contract liabilities (continued)

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

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

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

Deferred acquisition costs (DAC)

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

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

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

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

Salvage and subrogation reimbursements

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Liability adequacy test

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

Receivables and payables related to insurance contracts

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

3.4 Revenue recognition

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

Gross premiums

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

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

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

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.4 Revenue recognition (continued)

Reinsurance premiums ceded

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

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

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

Commission income and expenses

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

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

Rental, dividend and interest income

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

3.5 Foreign currencies

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

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

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.6 Property and equipment

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

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

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

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

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

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

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

3.7 Investment properties

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

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

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.8 Intangible assets

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

3.9 Impairment of non-financial assets

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

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

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

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

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

3.10 Provisions

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

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

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.11 Employee benefits

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

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

3.12 Financial assets

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

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

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

3.12.1 Classification of financial assets

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

3.12.2 Financial assets at amortised cost and the effective interest method

Cash and cash equivalents

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

Insurance receivables

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

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

Investments at amortised cost

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

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

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

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

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

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

3.12.3 Financial assets at FVTPL

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

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

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

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.4 Financial assets at FVTOCI

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

A financial asset is held for trading if:

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

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

3.12.5 Impairment of financial assets (applicable from 1 January 2018)

The Company recognises a loss allowance for expected credit losses on insurance receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for insurance receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.5 Impairment of financial assets (applicable from 1 January 2018) (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. The financial instrument has a low risk of default,
2. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
3. Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.5 Impairment of financial assets (applicable from 1 January 2018) (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event (see (ii) above);
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of insurance receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.6 Impairment of financial assets at amortised cost (accounting policy before 01 January 2018)

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

Objective evidence of impairment could include:

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

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

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

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

3.12.7 Derecognition of financial assets

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

3 Summary of significant accounting policies (continued)

3.13 Financial liabilities and equity instruments issued by the Company

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

3.13.1 Equity instruments

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

3.13.2 Financial liabilities

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

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

3.13.3 Derecognition of financial liabilities

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

3.14 Dividend distribution

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

4 Critical accounting judgments and key sources of estimation uncertainty

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

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

4.1 Significant accounting judgements

Classification of investments

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

Classification of properties

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

Operating lease commitments – Company as lessor

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

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

4.2 Key sources of estimation uncertainty

Impairment of insurance receivables (applicable before 1 January 2018)

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Company evaluating, the credit and liquidity position of the policyholders and the insurance companies, historical recovery rates including detailed investigations carried out during 2017 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the profit or loss at the time of collection.

Calculation of loss allowance (applicable from 1 January 2018)

When measuring ECL the Company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Estimate of fair value of investment properties

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

The ultimate liability arising from claims made under insurance contracts

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

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

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

4.2 Key sources of estimation uncertainty (continued)

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

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

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

The carrying value at the reporting date of gross technical provisions is AED 394,018,715 (2017: AED 467,572,427).

Liability adequacy test

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

5 Property and equipment

	Furniture and fittings AED	Motor vehicles AED	Computer equipment and accessories AED	Total AED
Cost				
1 January 2017	2,753,348	1,124,400	2,370,883	6,248,631
Additions	99,161	-	205,020	304,181
Disposals	(74,710)	-	(105,980)	(180,690)
1 January 2018	2,777,799	1,124,400	2,469,923	6,372,122
Additions	297,439	134,700	423,963	856,102
Disposals	(222,346)	(397,000)	(516,910)	(1,136,256)
31 December 2018	2,852,892	862,100	2,376,976	6,091,968
Accumulated depreciation				
1 January 2017	2,496,510	1,046,818	1,652,687	5,196,015
Charge for the year	208,773	61,648	266,334	536,755
Eliminated upon disposal	(74,710)	-	(105,980)	(180,690)
1 January 2018	2,630,573	1,108,466	1,813,041	5,552,080
Charge for the year	216,189	29,566	259,002	504,757
Eliminated upon disposal	(215,897)	(397,000)	(516,910)	(1,129,807)
31 December 2018	2,630,865	741,032	1,555,133	4,927,030
Carrying amount				
31 December 2018	222,027	121,068	821,843	1,164,938
31 December 2017	147,226	15,934	656,882	820,042

6 Investment properties

	Abu Dhabi land and building AED	Al Ain land and building AED	Total AED
Fair value as at 1 January 2017	69,500,000	12,500,000	82,000,000
Change in fair value	(1,750,000)	1,350,000	(400,000)
Fair value as at 31 December 2017	67,750,000	13,850,000	81,600,000
Change in fair value	(7,750,000)	(271,600)	(8,021,600)
Fair value as at 31 December 2018	60,000,000	13,578,400	73,578,400

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

6 Investment properties (continued)

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

Management has assessed the fair value of the investment properties as at 31 December 2018 which resulted a decrease in the value of AED 8,021,600 (2017: AED 400,000).

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

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

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

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

Property	Valuation technique	Significant unobservable inputs
Abu Dhabi and Al Ain property	Income approach	<p>Estimated rental value per annum, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property, as following:</p> <ul style="list-style-type: none"> • Abu Dhabi property AED 4,715,000; and • Al Ain property AED 1,026,000. <p>Discount rate, taking into consideration the risk premium between prime and sub-prime properties and the capacity to earn rentals, range from 6% to 10%.</p>

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

6 Investment properties (continued)

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

	2018	2017
	AED	AED
Rental income from investment properties	3,537,517	3,670,512
Operating expenses for properties generating rental income	(630,539)	(843,323)
	<hr/>	<hr/>
Net income arising from investment properties	2,906,978	2,827,189
	<hr/>	<hr/>

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

	2018	2017
	AED	AED
Impact on profit and loss		
Increase in discount rate by 1%	(3,805,863)	(4,829,356)
Decrease in discount rate by 1%	2,809,996	2,139,879
Increase in market rent by 5%	3,375,751	2,585,971
Decrease in market rent by 5%	(3,684,196)	(5,350,298)

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

7 Intangible assets

	2018 AED	2017 AED
Computer software		
Cost		
1 January	9,055,934	9,384,188
Additions	535,531	383,744
Disposal	(2,272,812)	(711,998)
	<hr/>	<hr/>
31 December	7,318,653	9,055,934
	<hr/>	<hr/>
Accumulated amortisation		
1 January	7,686,741	7,308,875
Charge for the year	810,692	1,089,864
Eliminated on disposal	(2,272,812)	(711,998)
	<hr/>	<hr/>
31 December	6,224,621	7,686,741
	<hr/>	<hr/>
Carrying amount		
31 December	1,094,032	1,369,193
	<hr/>	<hr/>

8 Statutory deposit

In accordance with the requirements of Federal Law No. 6 of 2007 concerning the formation of Insurance Authority of UAE, the Company maintains the below deposit which cannot be utilised without the consent of the UAE Insurance Authority.

	2018 AED	2017 AED
Statutory deposit	10,000,000	10,000,000
Expected credit losses (note 2.3)	(20,000)	-
	<hr/>	<hr/>
	9,980,000	10,000,000
	<hr/>	<hr/>

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

9 Investments

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

	2018 AED	2017 AED
Investments at FVTOCI		
Quoted UAE equity securities	184,350,390	177,652,331
Investments at FVTPL		
Quoted UAE equity securities	18,715,024	26,784,369
Quoted debt securities	62,942,404	65,684,938
Investment in funds	8,002,739	-
	89,660,167	92,469,307

Movement in investments:

Investments at fair value	at FVTOCI AED	at FVTPL AED	Total AED
Fair value at 1 January 2017	183,280,223	93,382,832	276,663,055
Additions during the year	-	38,888,263	38,888,263
Disposals during the year	-	(38,905,331)	(38,905,331)
<i>Decrease in fair value taken to:</i>			
Profit or loss (note 23)	-	(896,457)	(896,457)
Other comprehensive income	(5,627,892)	-	(5,627,892)
Fair value at 1 January 2018	177,652,331	92,469,307	270,121,638
Additions during the year	1,551,684	20,630,704	22,182,388
Transfer	-	8,002,739	8,002,739
Disposals during the year	-	(24,893,598)	(24,893,598)
<i>Increase/(decrease) in fair value taken to:</i>			
Profit or loss (note 23)	-	(6,548,984)	(6,548,984)
Other comprehensive income	5,146,375	-	5,146,375
Fair value at 31 December 2018	184,350,390	89,660,167	274,010,557

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

10 Insurance receivables

	2018 AED	2017 AED
Due from policyholders	101,305,693	84,473,854
Due from related party policyholders (note 14)	549,162	479,984
Due from insurance companies, brokers and agents	18,475,735	17,882,391
Due from reinsurance companies	4,149,422	4,309,833
	<hr/>	<hr/>
	124,480,012	107,146,062
Less: allowance for doubtful debts	(24,824,044)	(7,634,139)
	<hr/>	<hr/>
	99,655,968	99,511,923
	<hr/>	<hr/>

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

	2018 AED	2017 AED
Balance at beginning of the year as per IAS 39	7,634,139	7,634,139
Effect of adoption of IFRS 9	4,353,666	-
	<hr/>	<hr/>
Balance at beginning of the year as per IFRS 9	11,987,805	7,634,139
Charge for the year	17,469,374	-
Amount reversed	(995,633)	-
Amount written off	(3,637,502)	-
	<hr/>	<hr/>
Balance at end of the year	24,824,044	7,634,139
	<hr/>	<hr/>

The average credit period on due from policy holders is 90 to 180 days. No interest is charged and no collateral is taken on trade and other receivables.

The Company always measures the loss allowance for receivables at an amount equal to lifetime ECL. The expected credit losses on insurance receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Company writes off an insurance receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings etc.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

10 Insurance receivables (continued)

The Company has adopted a policy of only dealing with creditworthy counterparties. Adequate credit assessment is made before accepting an insurance contract from any counterparty. As at 31 December 2018, AED 25,790,420 (2017: AED 24,278,114) was due from the Company's 5 largest policyholders (2017: 5). No single customer represented 10% or more of the Company's insurance receivables as at 31 December 2018 and 2017.

Ageing of insurance receivables

	2018 AED	2017 AED
0 to 180 days	49,731,759	50,692,095
181 to 365 days	38,161,793	25,337,917
More than 365 days	36,586,460	31,116,050
	<hr/> 124,480,012	<hr/> 107,146,062
Less: Allowance for doubtful debts	(24,824,044)	(7,634,139)
	<hr/> 99,655,968	<hr/> 99,511,923

Inside United Arab Emirates:

	2018 AED	2017 AED
Due from policy holders	100,600,020	84,159,191
Due from policy holders – related parties	549,162	479,984
Due from insurance companies, brokers and agents	17,674,916	14,052,875
Due from reinsurance companies	1,664,311	1,135,501
	<hr/> 120,488,409	<hr/> 84,639,175
Less: Allowance for doubtful debts	(24,824,044)	(7,634,139)
	<hr/> 95,664,365	<hr/> 92,193,412

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

10 Insurance receivables (continued)

Inside United Arab Emirates (continued)

<u>Ageing of insurance receivables</u>	2018 AED	2017 AED
0 to 180 days	49,452,927	48,064,286
181 to 365 days	37,146,075	21,545,704
More than 365 days	33,889,407	30,217,561
	120,488,409	99,827,551
Less: Allowance for doubtful debts	(24,824,044)	(7,634,139)
Total insurance receivables	95,664,365	92,193,412

Outside United Arab Emirates:

	2018 AED	2017 AED
Due from policy holders	705,673	314,663
Due from insurance companies, brokers and agents	800,819	3,837,548
Due from reinsurance companies	2,485,111	3,043,238
	3,991,603	7,195,449
<u>Ageing of insurance receivables</u>	2018 AED	2017 AED
0 to 180 days	278,833	2,239,128
181 to 365 days	1,015,719	3,462,801
More than 365 days	2,697,051	1,493,520
Total insurance receivables	3,991,603	7,195,449

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

11 Technical Provisions

	2018 AED	2017 AED
Technical provisions – Gross		
Unearned premium reserve (UPR)	154,623,506	179,867,116
Claims under settlement reserve (OSLR)	166,064,796	198,669,217
Claims incurred but not reported reserve (IBNR)	68,791,467	83,690,344
Unallocated loss adjustment expense reserve (ULAE)	4,421,196	5,291,886
Unexpired risk reserve (URR)	117,750	53,864
	394,018,715	467,572,427
Reinsurers' share of technical provisions		
Unearned premium reserve (UPR)	109,448,851	123,738,416
Claims under settlement reserve (OSLR)	121,623,619	132,706,318
Claims incurred but not reported reserve (IBNR)	43,723,777	55,237,187
Unexpired risk reserve (URR)	117,750	-
	274,913,997	311,681,921
Technical provisions – Net		
Unearned premium reserve (UPR)	45,174,655	56,128,700
Claims under settlement reserve (OSLR)	44,441,177	65,962,899
Claims incurred but not reported reserve (IBNR)	25,067,690	28,453,157
Unallocated loss adjustment expense reserve (ULAE)	4,421,196	5,291,886
Unexpired risk reserve (URR)	-	53,864
	119,104,718	155,890,506

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

11 Technical Provisions (continued)

	31 December 2018 (gross)					Total AED
	Claims under settlement reserve AED	Claims incurred but not reported reserve AED	Unearned premium reserve AED	Unallocated loss adjustment expense reserve AED	Unexpired risk reserve AED	
Motor	79,885,308	38,285,724	83,969,351	2,346,851	-	204,487,234
Fire	30,163,486	8,308,338	12,953,160	701,702	96,038	52,222,724
Medical	11,214,841	7,744,524	21,519,612	267,038	-	40,746,015
Engineering	19,662,892	7,267,209	22,106,396	512,960	-	49,549,457
Marine	15,788,920	3,731,743	8,924,800	348,786	-	28,749,249
Workman compensation and third party liability	5,373,513	2,319,964	4,460,097	150,202	-	12,303,776
Other lines of business	3,975,836	1,133,965	690,090	93,657	21,712	5,915,260
	<u>166,064,796</u>	<u>68,791,467</u>	<u>154,623,506</u>	<u>4,421,196</u>	<u>117,750</u>	<u>394,018,715</u>

	31 December 2017 (gross)					Total AED
	Claims under settlement reserve AED	Claims incurred but not reported reserve AED	Unearned premium reserve AED	Unallocated loss adjustment expense reserve AED	Unexpired risk reserve AED	
Motor	86,095,088	42,195,270	114,162,441	2,557,284	-	245,010,083
Fire	29,062,167	15,975,948	14,126,749	915,211	-	60,080,075
Medical	21,716,075	9,028,299	19,067,599	397,727	-	50,209,700
Engineering	32,262,121	9,089,243	17,338,399	756,609	-	59,446,372
Marine	20,050,551	3,989,140	10,319,585	420,433	53,864	34,833,573
Workman compensation and third party liability	6,214,910	2,482,005	4,237,685	167,684	-	13,102,284
Other lines of business	3,268,305	930,439	614,658	76,938	-	4,890,340
	<u>198,669,217</u>	<u>83,690,344</u>	<u>179,867,116</u>	<u>5,291,886</u>	<u>53,864</u>	<u>467,572,427</u>

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

11 Technical Provisions (continued)

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

	2018			2017		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
CLAIMS						
Claims under settlement	198,669,217	132,706,318	65,962,899	258,738,492	153,355,517	105,382,975
Incurred but not reported	83,690,344	55,237,187	28,453,157	69,457,819	44,956,586	24,501,233
Total at 1 January	282,359,561	187,943,505	94,416,056	328,196,311	198,312,103	129,884,208
Claims settled	(186,938,744)	(126,376,389)	(60,562,355)	(271,223,049)	(141,596,411)	(129,626,638)
Increase in liabilities	139,435,646	103,780,280	35,655,226	225,386,299	131,227,813	94,158,486
Total at 31 December	234,856,263	165,347,396	69,508,867	282,359,561	187,943,505	94,416,056
Claims under settlement	166,064,796	121,623,619	44,441,177	198,669,217	132,706,318	65,962,899
Incurred but not reported	68,791,467	43,723,777	25,067,690	83,690,344	55,237,187	28,453,157
Total at 31 December	234,856,263	165,347,396	69,508,867	282,359,561	187,943,505	94,416,056
UNEARNED PREMIUM						
Total at 1 January	179,867,116	123,738,416	56,128,700	146,593,104	85,709,080	60,884,024
Increase during the year	154,623,505	109,448,851	45,174,654	179,867,116	123,738,416	56,128,700
Release during the year	(179,867,116)	(123,738,416)	(56,128,700)	(146,593,104)	(85,709,080)	(60,884,024)
Net increase/(decrease) during the year	(25,243,611)	(14,289,565)	(10,954,046)	33,274,012	38,029,336	(4,755,324)
Total at 31 December	154,623,506	109,448,851	45,174,655	179,867,116	123,738,416	56,128,700

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

11 Technical Provisions (continued)

Summary of actuary's report on technical provisions:

Property and liability insurance

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

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

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

12 Other receivables and prepayments

	2018	2017
	AED	AED
Interest receivable	3,399,514	2,859,340
Prepayments	1,757,917	1,862,925
Other receivables	2,384,324	2,081,005
	<hr/> 7,541,755 <hr/>	<hr/> 6,803,270 <hr/>

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

13 Cash and cash equivalents

	2018 AED	2017 AED
Cash on hand	15,317	16,469
Current accounts	17,031,132	13,976,243
Term deposits (a)	224,722,456	239,575,886
	<hr/>	<hr/>
Bank balances and cash	241,768,905	253,568,598
Less: deposits with original maturities of more than three months	(224,722,456)	(239,575,886)
	<hr/>	<hr/>
Cash and cash equivalents	17,046,449	13,992,712
	<hr/>	<hr/>

(a) Term deposits:

	2018 AED	2017 AED
Term deposits	225,114,676	239,575,886
Expected credit losses	(392,220)	-
	<hr/>	<hr/>
Total term deposits	224,722,456	239,575,886
	<hr/>	<hr/>

Details of provision for impairment as per IFRS 9 are as follows:

	2018 AED
Balance as at 31 December 2017	-
Add: Provision on initial application of IFRS 9 (note 2.3)	392,220
	<hr/>
Balance as at 1 January 2018	392,220
Additional provision for the year	-
	<hr/>
Balance as at 31 December 2018	392,220
	<hr/>

The interest rate on fixed deposits and current accounts with banks ranges between 0.55% and 4.10% (2017: 0.66% and 3%) per annum. All bank deposits are held in local banks in the United Arab Emirates.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

14 Related parties

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

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

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

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

	<i>Nature of relationship</i>	2018 AED	2017 AED
Due from related party policyholders (note 10)	Affiliates	549,162	479,984
Remuneration of the Directors (note 19)		3,000,000	3,000,000

Transactions with related parties during the year are as follows:

	<i>Nature of relationship</i>	2018 AED	2017 AED
Premiums written	Affiliates	1,586,246	1,702,646
Claims paid	Affiliates	777,538	236,145
Remuneration of the Directors		3,000,000	3,000,000

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

14 Related parties (continued)

Remuneration of key management personnel:

	2018	2017
	AED	AED
Short term benefits	2,349,720	2,146,096
Post-employment benefits	110,921	109,580
	2,460,641	2,255,676

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

15 Share capital

	2018	2017
	AED	AED
Authorised, issue and fully paid:		
100,000,000 (2017: 100,000,000) ordinary shares of AED 1 each	100,000,000	100,000,000

16 Reserves

Legal reserve

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

General reserve

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

Investment revaluation reserve

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

17 Dividends

Dividends, amounting to AED 35,000,000 for the year ended 31 December 2017, were approved by the Shareholders at the Annual General Meeting held on 20 March 2018.

In respect of the year ended 31 December 2018, the Board of Directors in their meeting held on 12 February 2019 has proposed a cash dividend of AED 0.35 per share (total of AED 35 million) to be paid to the Shareholders. The cash dividend is subject to approval of the Shareholders at their forthcoming Annual General Meeting.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

18 Provision for employees' end of service benefit

	2018 AED	2017 AED
Balance at the beginning of the year	7,101,840	7,998,361
Charge for the year	698,002	658,423
Paid during the year	(250,969)	(1,554,944)
	<hr/>	<hr/>
Balance at the end of the year	7,548,873	7,101,840
	<hr/>	<hr/>

During the year, the Company paid pension contributions in respect of UAE national employees amounting to AED 200,747 (2017: AED 176,142).

19 Other payables

	2018 AED	2017 AED
Deferred income	1,468,674	1,646,194
Fee payable to insurance authority	1,447,646	1,867,155
Dividend payable	5,475,715	6,050,344
Remuneration of the Directors	3,000,000	3,000,000
Other payables	11,194,657	9,733,839
	<hr/>	<hr/>
	22,586,692	22,297,532
	<hr/>	<hr/>

20 Insurance payables

	2018 AED	2017 AED
Due to policyholders	50,204,662	49,411,091
Due to insurance companies	53,586,074	44,605,306
Due to reinsurance companies	17,085,666	20,092,075
Premium reserve withheld	66,227,137	83,255,802
	<hr/>	<hr/>
	187,103,539	197,364,274
	<hr/>	<hr/>

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

20 Insurance payables (continued)

Inside United Arab Emirates:

	2018 AED	2017 AED
Due to policyholders	45,674,613	41,891,153
Due to insurance companies	52,557,953	43,311,559
Due to reinsurance companies	777,516	1,219,416
	<hr/> 99,010,082 <hr/>	<hr/> 86,422,128 <hr/>

Outside United Arab Emirates:

	2018 AED	2017 AED
Payable to policyholders	4,530,049	7,519,938
Payable to insurance companies	1,028,122	1,293,747
Payable to reinsurance companies	16,308,148	18,872,659
	<hr/> 21,866,319 <hr/>	<hr/> 27,686,344 <hr/>

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

21 Net premium

	2018 AED	2017 AED
<i>Gross written premium:</i>		
Motor	169,984,927	251,556,277
Fire	48,846,792	49,338,574
Medical	46,441,123	46,320,826
Engineering	27,770,557	22,733,047
Marine	25,168,781	30,167,785
Workmen's compensation and third party liability	11,400,538	11,679,942
Other lines of business	3,893,381	3,484,403
	333,506,099	415,280,854
<i>Reinsurance share of premium (ceded and assumed):</i>		
Motor	108,070,734	167,424,268
Fire	45,806,357	48,050,242
Medical	28,877,847	22,751,780
Engineering	26,836,035	21,242,133
Marine	21,094,391	24,433,434
Workmen's compensation and third party liability	4,509,279	4,002,574
Other lines of business	3,445,065	3,335,494
	238,639,708	291,239,925
<i>Net premium:</i>		
Motor	61,914,193	84,132,009
Fire	3,040,435	1,288,332
Medical	17,563,276	23,569,046
Engineering	934,522	1,490,914
Marine	4,074,390	5,734,351
Workmen's compensation and third party liability	6,891,259	7,677,368
Other lines of business	448,316	148,909
	94,866,391	124,040,929

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

22 Net claims paid

	2018 AED	2017 AED
<i>Gross claims incurred:</i>		
Motor	108,015,246	105,513,259
Fire	14,291,330	44,321,631
Medical	38,387,794	91,773,501
Engineering	11,657,337	9,003,449
Marine	10,891,032	15,744,146
Workmen's compensation and third party liability	1,503,540	1,581,782
Other lines of business	2,192,465	3,285,283
	<hr/> 186,938,744 <hr/>	<hr/> 271,223,051 <hr/>
<i>Reinsurance share of claims (ceded and assumed):</i>		
Motor	75,826,732	66,261,176
Fire	13,976,416	43,256,678
Medical	19,044,109	7,689,036
Engineering	11,800,838	8,937,081
Marine	10,626,930	15,412,426
Workmen's compensation and third party liability	137,476	366,339
Other lines of business	2,111,822	3,052,322
	<hr/> 133,524,323 <hr/>	<hr/> 144,975,058 <hr/>
<i>Net claims paid:</i>		
Motor	32,188,514	39,252,083
Fire	314,914	1,064,953
Medical	19,343,685	84,084,465
Engineering	(143,501)	66,368
Marine	264,102	331,720
Workmen's compensation and third party liability	1,366,064	1,215,443
Other lines of business	80,643	232,961
	<hr/> 53,414,421 <hr/>	<hr/> 126,247,993 <hr/>

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

23 Net investment income

	2018 AED	2017 AED
Interest income on bank deposits and bonds	8,344,369	6,663,278
<i>Dividend income:</i>		
Investments at FVTOCI	10,651,719	8,877,818
Investments at FVTPL	1,430,740	1,130,062
Decrease in fair value of investments at FVTPL (note 9)	(6,548,984)	(896,457)
Investment expenses	(439,466)	(618,452)
Decrease in fair value of investment properties	(8,021,600)	(400,000)
	5,416,778	14,756,249

24 Profit for the year

Profit for the year is stated after charging:

	2018 AED	2017 AED
Staff costs	26,362,591	22,436,429
Depreciation of property and equipment (note 5)	504,757	536,755
Amortisation of intangible assets (note 7)	810,692	1,089,864
Foreign exchange gain/ (loss)	10,697	(5,942)

25 Basic and diluted earnings per share

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

	2018	2017
Profit for the year (AED)	54,182,978	51,549,466
Weighted average number of ordinary shares in issue throughout the year	100,000,000	100,000,000
Basic and diluted earnings per share (AED)	0.54	0.52

As of 31 December 2018 and 2017, the Company has not issued any instruments that have an impact on the basic and diluted earnings per share when exercised.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

26 Segment information

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

The following summary describes the two main business segments:

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

26 Segment information (continued)

26.1 Segment revenue and results

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

	Year ended 31 December 2018			Year ended 31 December 2017		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Direct revenues	398,020,662	20,670,519	418,691,181	490,008,835	21,470,365	511,479,200
Direct costs	(297,011,668)	2,223,821	(294,787,847)	(421,232,709)	(2,590,469)	(423,823,178)
Administrative expenses	(43,451,347)	-	(43,451,347)	(27,119,793)	-	(27,119,793)
Depreciation expense	(504,757)	-	(504,757)	(536,755)	-	(536,755)
Amortisation expense	(810,692)	-	(810,692)	(1,089,864)	-	(1,089,864)
Other expenses	(12,364,261)	-	(12,364,261)	(7,756,474)	-	(7,756,474)
Non-cash investment loss, net	-	(14,570,584)	(14,570,584)	-	(1,296,458)	(1,296,458)
Segment profit	43,877,937	8,323,756	52,201,693	32,273,240	17,583,438	49,856,678
Other income, net	-	-	1,981,285	-	-	1,692,788
Profit for the year	43,877,937	8,323,756	54,182,978	32,273,240	17,583,438	51,549,466

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues during 2018 and 2017.

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

26 Segment information (continued)

26.2 Segment assets and liabilities

	As at 31 December 2018			As at 31 December 2017		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment assets						
Unallocated assets	401,345,349	582,291,413	983,636,762	441,794,838	609,300,263	1,051,095,101
	-	-	17,046,449	-	-	13,992,712
Total assets	401,345,349	582,291,413	1,000,683,211	441,794,838	609,300,263	1,065,087,013
Segment liabilities						
Unallocated liabilities	632,138,613	1,623,364	633,761,977	712,360,032	1,795,385	714,155,417
	-	-	5,475,715	-	-	9,050,344
Total liabilities	632,138,613	1,623,364	639,237,692	712,360,032	1,795,385	723,205,761
Capital expenditure	1,391,633	-	1,391,633	687,925	-	687,925

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

26 Segment information (continued)

26.3 Revenue from underwriting departments

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

	2018 AED	2017 AED
Motor	198,562,168	291,258,437
Medical	50,772,800	29,286,652
Engineering	37,713,412	49,467,470
Fire	62,999,744	65,558,260
Workmen's compensation and third party liability	12,019,849	12,002,986
Others	35,952,689	42,435,030
	398,020,662	490,008,835

26.4 Geographical information

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

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

	Revenue 2018 AED	Revenue 2017 AED	Total assets 2018 AED	Total assets 2017 AED
United Arab Emirates	387,034,529	488,988,862	997,272,740	1,061,204,087
Other GCC countries	1,331,662	517,112	1,701,889	2,385,768
Others	9,654,471	502,861	1,708,582	1,497,958
	398,020,662	490,008,835	1,000,683,211	1,065,087,813

27 Contingencies

(a) Legal proceedings and regulations

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

27 Contingencies (continued)

(a) Legal proceedings and regulations (continued)

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

(b) Guarantees

	2018	2017
	AED	AED
Bank guarantees	18,252,187	16,341,922

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

28 Insurance risk

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

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

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

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)****28 Insurance risk (continued)***Frequency and severity of claims*

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

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

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

Sources of uncertainty in the estimation of future claim payments

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

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

28 Insurance risk (continued)

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

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

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

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

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

<u>Type of risk</u>	<u>Year ended 31 December 2018</u>		<u>Year ended 31 December 2017</u>	
	<u>Gross Loss Ratio</u>	<u>Net Loss Ratio</u>	<u>Gross Loss Ratio</u>	<u>Net Loss Ratio</u>
Motor	64%	52%	42%	47%
Non-Motor	48%	64%	101%	218%

Process used to decide on assumptions

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

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

28 Insurance risk (continued)

Claims development process

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

Underwriting year	2014 AED'000	2015 AED'000	2016 AED'000	2017 AED'000	2018 AED'000	Total AED'000
<u>Motor - Gross:</u>						
At the end of the underwriting year	965,289	66,127	12,454	61,644	35,794	1,141,308
One year later	72,724	89,801	81,698	124,963	-	369,186
Two years later	124,689	103,372	86,988	-	-	315,049
Three years later	105,376	102,315	-	-	-	207,691
Four years later	637,390	-	-	-	-	637,390
Current estimate of cumulative claims	637,390	102,315	86,988	124,963	35,794	987,450
Cumulative payments to date	(629,408)	(95,940)	(73,125)	(92,652)	(16,440)	(907,565)
Liability recognised in the statement of financial position	7,982	6,375	13,863	32,311	19,354	79,885
<u>Non-motor - Gross:</u>						
At the end of the underwriting year	836,030	118,143	73,339	42,256	32,269	1,102,037
One year later	227,777	169,239	90,244	76,721	-	563,981
Two years later	323,832	176,048	99,000	-	-	598,880
Three years later	343,870	181,372	-	-	-	525,242
Four years later	917,732	-	-	-	-	917,732
Current estimate of cumulative claims	917,732	181,372	99,000	76,721	32,269	1,307,094
Cumulative payments to date	(896,700)	(162,568)	(88,236)	(67,135)	(6,275)	(1,220,914)
Liability recognised in the statement of financial position	21,032	18,804	10,764	9,586	25,994	86,180

28 Insurance risk (continued)

Concentration of insurance risk

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

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

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

<u>Type of risk</u>	<u>Year ended 31 December 2018</u>		<u>Year ended 31 December 2017</u>	
	<u>Gross</u> <u>AED</u>	<u>Net</u> <u>AED</u>	<u>Gross</u> <u>AED</u>	<u>Net</u> <u>AED</u>
<u>Motor</u>				
UAE	26,996,859,408	8,155,538,720	24,809,597,520	6,202,399,380
<u>Non-Motor</u>				
UAE	168,232,075,572	6,553,376,428	148,619,755,437	5,290,927,757
GCC countries	7,565,068,317	2,748,764,068	11,365,580,526	3,968,259,859
	175,797,143,889	9,302,140,496	159,985,335,963	9,259,187,616
Grand total	202,794,003,297	17,457,679,216	184,794,933,483	15,461,586,996

Sensitivity of underwriting profit and losses

The insurance operations of the Company resulted in a profit of AED 43,877,937 (2017: AED 32,273,240).

- The Company has an overall risk retention level in the region of 8.6% (2017: 8.37 %) and the Company is adequately covered by proportional and non-proportional programs to guard against major financial impact.
- The Company has net commission earnings of AED 22,771,236 during the year against AED 30,553,212 in 2017 from underwriting operation predominantly from the reinsurance placement which remains as a comfortable source of income.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

29 Financial instruments

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

29.1 Capital risk management

The Company's objectives when managing capital are:

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

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

	2018 AED	2017 AED
Minimum Capital Requirement (MCR)	100,000,000	100,000,000
Solvency Capital Requirement (SCR)	115,948,051	137,442,971
Minimum Guarantee Fund (MGF)	38,649,350	48,002,730
<i>Own funds</i>		
- Basic funds	267,375,938	260,438,766
- Ancillary own funds	-	-
Own funds eligible to meet the MCR	267,375,938	260,438,766
MCR Solvency Margin – Surplus	167,375,938	160,438,766
SCR Solvency Margin – Surplus	151,427,887	122,995,795
MGF Solvency Margin – Surplus	228,726,588	212,436,036

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

29 Financial instruments (continued)

29.2 Significant accounting policies

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

29.3 Categories of financial instruments

	2018	2017
	AED	AED
Financial assets		
Investments designated at FVTOCI	184,350,390	177,652,331
Investments designated at FVTPL	89,660,167	92,469,307
Investments at amortised cost	-	8,002,739
Statutory deposit	9,980,000	10,000,000
Insurance receivables	99,655,968	99,511,923
Other receivables	5,472,638	4,940,345
Term deposits	224,722,456	239,575,886
Cash and cash equivalents	17,046,449	13,992,712
	630,888,068	646,145,243
Financial liabilities		
Insurance payables	187,103,539	197,364,274
Other payables	20,810,799	20,651,338
	207,914,338	218,015,612

29.4 Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Company. The Company is exposed to interest rate risk on its investment in bonds and term deposits that carry fixed interest rates which are detailed in Notes 13 and 23, respectively.

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

Interest rate sensitivity analysis

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

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

29 Financial instruments (continued)

29.5 Foreign currency risk management

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

	Liabilities		Assets	
	2018	2017	2018	2017
	AED	AED	AED	AED
US Dollar	2,406,445	1,838,730	8,367,366	2,946,247
Oman Riyal	1,040	1,040	365	365
Pound Sterling	51,278	23,690	281,493	34,223
Euro	26,490	18,003	80,466	18,793
	2,485,253	1,881,463	8,729,690	2,999,628

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

- there is AED nil (2017 AED nil) net revaluation gain/loss on the Omani Riyal outstanding balances.
- there is AED 10 thousand (2017: AED 2 thousand) net revaluation gain/loss on the Pound Sterling outstanding balances.
- there is AED 5 thousand (2017: AED nil) net revaluation gain/loss on the Euro outstanding balances.

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

29.6 Market price risk management

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

Equity price risk sensitivity analysis

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

- The Company's profit or loss would increase/(decrease) by AED 935,000 (2017: AED 1.33 million) as a result of the Company's portfolio classified under fair value through profit and loss (FVTPL).
- The Company's equity reserves would increase/(decrease) by AED 9.7 million (2017: AED 8.88 million) as a result of the Company's portfolio classified under fair value through other comprehensive income (FVTOCI).

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

29 Financial instruments (continued)

29.7 Credit risk management

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

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

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

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

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

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

For receivables the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Notes 2.3 include further details on the loss allowance for these assets respectively.

Details on concentration of amounts due from policyholders is disclosed in Note 10. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policy holders.

At 31 December 2018 and 2017, virtually all of the deposits were placed with 8 banks. Management is confident that this concentration of liquid assets at year end does not result in any credit risk to the Company as the banks are major banks operating in the UAE and are highly regulated by the Central Bank.

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

29 Financial instruments (continued)

29.8 Liquidity risk management

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

	Carrying amount AED	0-180 days AED	181-365 days AED
Financial liabilities at 31 December 2018			
Insurance payables	187,103,539	44,465,479	142,638,060
Other payables	22,586,692	-	22,586,692
	<u>209,690,231</u>	<u>44,465,479</u>	<u>165,224,752</u>
Financial liabilities at 31 December 2017			
Insurance payables	197,364,274	52,845,972	144,518,302
Other payables	20,651,338	-	20,651,338
	<u>218,015,612</u>	<u>52,845,972</u>	<u>165,169,640</u>

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

29 Financial instruments (continued)

29.9 Fair value of financial assets and liabilities

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

Financial assets	Fair value as at 31 December		Fair value hierarchy	Valuation technique
	2018 AED	2017 AED		
Investments at FVTOCI – Quoted equity investments	184,350,390	177,652,331	Level 1	Quoted bid prices in an active market
Investments at FVTPL – Quoted equity investments	18,715,024	26,784,369	Level 1	Quoted bid prices in an active market
Investments at FVTPL – Quoted debt securities	62,942,404	65,684,938	Level 1	Quoted bid prices in an active market
Investment at FVTPL – Unquoted equity instrument	8,002,739	-	Level 3	Net asset value

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

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

Notes to the financial statements
for the year ended 31 December 2018 (continued)

30 Maturity analysis of assets and liabilities

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

<u>31 December 2018</u>	Within 12 months AED	After 12 months AED	Carrying value AED
Assets			
Property and equipment	-	1,164,938	1,164,938
Investment properties	-	73,578,400	73,578,400
Intangible assets	-	1,094,032	1,094,032
Statutory deposits	-	9,980,000	9,980,000
Deferred acquisition costs	-	16,974,659	16,974,659
Investments carried at FVTOCI	-	184,350,390	184,350,390
Investments carried at FVTPL	89,660,167	-	89,660,167
Insurance receivables	99,655,968	-	99,655,968
<i>Reinsurers' share of technical provisions</i>			
Unearned premium reserve	109,448,851	-	109,448,851
Claims under settlement reserve	121,623,619	-	121,623,619
Claims incurred but not reported reserve	43,723,777	-	43,723,777
Unexpired risk reserve	117,750	-	117,750
Other receivables and prepayments	7,541,755	-	7,541,755
Term deposits	224,722,456	-	224,722,456
Cash and cash equivalents	17,046,449	-	17,046,449
Total assets	713,540,792	287,142,419	1,000,683,211
Liabilities			
Provision for employees' end of service benefit	7,548,873	-	7,548,873
Other payables	-	22,586,692	22,586,692
<i>Insurance liabilities</i>			
Insurance payables	187,103,539	-	187,103,539
Unearned commission income	27,979,873	-	27,979,873
<i>Gross technical provisions</i>			
Unearned premium reserve	154,623,506	-	154,623,506
Claims under settlement reserve	166,064,796	-	166,064,796
Claims incurred but not reported reserve	68,791,467	-	68,791,467
Unallocated loss adjustment expense	4,421,196	-	4,421,196
Unexpired risk reserve	117,750	-	117,750
Total liabilities	616,651,000	22,586,692	639,237,692

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

30 Maturity analysis of assets and liabilities (continued)

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

31 Approval of financial statements

These financial statements were approved and authorised for issue by the Board of Directors on
14 FEB 2019