Orient UNB Takaful P.J.S.C.

Financial statements

for the year ended 31 December 2018

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Financial statements
for the year ended 31 December 2018

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KPMG Lower Gulf Limited
Level 13, Boulevard Plaza Tower One
Mohammed Bin Rashid Boulevard, Downtown Dubai, UAE
Tel. +971 (4) 403 0300, Fax +971 (4) 330 1515

Independent Auditors' Report

To the Shareholders of Orient UNB Takaful P.J.S.C.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Orient UNB Takaful P.J.S.C (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying 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 (IFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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.

Key Audit Matters (continued)

1. *Valuation of takaful contract liabilities*

Refer to notes 5 and 9 of the financial statements.

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

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

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

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

- evaluating and testing of key controls around the claims handling and case reserve setting processes of the Company. Examining evidence of the operation of controls over the valuation of individual reserve for outstanding claims and consider if the amount recorded in the financial statements is valued appropriately;

- obtaining an understanding of and assessing the methodology and key assumptions applied by the management;

- assessing the experience and competence of the Company's actuary and degree of challenge applied through the reserving process;

- checking sample of reserves for outstanding claims through comparing the estimated amount of the reserves for outstanding claims to appropriate documentation, such as reports from loss adjusters; and

- assessing the Company's disclosure in relation to these liabilities including claims development table is appropriate.

Key Audit Matters (continued)

2. Recoverability of takaful receivables

Refer to notes 4, 5, 10 and 21 of the financial statements.

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

Our response:

- our procedure on the recoverability of contribution and takaful receivables included evaluating and testing key controls over the processes designed to record and monitor takaful receivables;

- testing the ageing of takaful receivables to assess if these have been accurately determined. Testing samples of long outstanding takaful receivables where no impairment allowance is made with the management's evidences to support the recoverability of these balances;

- obtaining balance confirmations from the respective counterparties such as policyholders, agents and brokers;

- verifying payments received from such counterparties post year end;

- considering the adequacy of provisions for bad debts for significant customers, taking into account specific credit risk assessments for each customer based on period overdue, existence of any disputes over the balance outstanding, history of settlement of receivables liabilities with the same counterparties; and

- discussing with management and reviewing correspondence, where relevant, to identify any disputes and assessing whether these were appropriately considered in determining the impairment allowance.

Other Matter

The financial statements of the Company for the period from 8 November 2016 to 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those financial statements on 14 February 2018.

Other Information

Management is responsible for the other information. The other information comprises the directors' report, but 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 express any form of assurance conclusion thereon.

Other Information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information 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, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015 and UAE Federal Law No. (6) of 2007, and for such internal control as management determines is necessary to enable the preparation of 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.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 Company's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditors' 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 auditors' 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 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

ii) the 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 directors' report, in so far as it relates to these financial statements, is consistent with the books of account of the Company;

v) the Company has not purchased any shares during the year ended 31 December 2018;

vi) note 21 to the financial statements discloses material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the 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 its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2018; and

viii) the Company has not made any social contributions during the year, as disclosed in note 25.1.

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

KPMG Lower Gulf Limited

Emilio Pera
Registration No.: 1146
Dubai, United Arab Emirates
Date: 11 FEB 2019

Orient UNB Takaful P.J.S.C.

Statement of financial position

as at 31 December

	Note	**31 December 2018 AED**	31 December 2017 AED
TAKAFUL OPERATIONS' ASSETS			
Cash and bank balances	*8*	**9,171,139**	1,545,028
Retakaful contract assets	*9*	**156,169,404**	26,355,388
Takaful and retakaful receivable	*10*	**22,385,861**	6,307,734
Due from related parties	*21*	**59,262,239**	7,199,747
Other receivables and prepayments	*11*	**4,972,463**	648,600
Receivable from shareholders	*17*	**16,363,330**	-
Total takaful operations' assets		**268,324,436**	42,056,497
SHAREHOLDERS' ASSETS			
Cash and bank balances	*8*	**5,045,837**	15,555,189
Other receivables and prepayments	*12*	**1,403,971**	1,077,198
Wakala deposit	*13*	**195,000,000**	183,400,000
Statutory deposit	*14*	**6,203,211**	6,058,850
Due from related parties	*21*	**1,830,999**	-
Property and equipment	*15*	**1,188,034**	1,345,626
Intangible assets	*16*	**685,598**	810,024
Receivable from policyholders - takaful operations	*17*	**-**	316,001
Total shareholders' assets		**211,357,650**	208,562,888
Total assets		**479,682,086**	250,619,385
TAKAFUL OPERATIONS' LIABILITIES AND DEFICIT			
TAKAFUL OPERATIONS' LIABILITIES			
Takaful contract liabilities	*9*	**196,521,361**	35,300,444
Payable to takaful, insurance, reinsurance and retakaful companies	*18*	**59,641,353**	5,560,326
Other takaful payables	*19*	**12,161,722**	879,726
Payable to shareholders	*17*	**-**	316,001
Total takaful operations' liabilities		**268,324,436**	42,056,497
TAKAFUL OPERATIONS' DEFICIT			
Deficit in policyholders' fund	*20*	**(41,060,854)**	(5,586,661)
Provision against Qard Hassan	*20*	**41,060,854**	5,586,661
Total takaful operations' deficit		**-**	-
Total takaful operations' liabilities and deficit		**268,324,436**	42,056,497

Orient UNB Takaful P.J.S.C.

Statement of financial position (continued)

as at 31 December

	Note	31 December 2018 AED	31 December 2017 AED
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Due to related parties	*21*	**5,059,421**	11,186,134
Accruals, provisions and other payables		**3,524,757**	2,037,228
Employees' end of service benefits	*22*	**440,337**	148,075
Payable to policyholders - takaful operations	*17*	**16,363,330**	-
Total shareholders' liabilities		**25,387,845**	13,371,437
SHAREHOLDERS' EQUITY			
Share capital	*23*	**200,000,000**	200,000,000
Share premium	*23*	**1,198,390**	1,198,390
Accumulated losses		**(15,228,585)**	(6,006,939)
Total shareholders' equity		**185,969,805**	195,191,451
		211,357,650	208,562,888
Total takaful operations' liabilities, deficit, shareholders' liabilities and equity		**479,682,086**	250,619,385

These financial statements were approved and authorised for issue by the Board of Directors on 11 FEB 2019 and signed on their behalf by:

Chairman

Chief Executive Officer

Head-Finance

Orient UNB Takaful PJSC

The notes on pages 12 to 48 form an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 6.

Orient UNB Takaful P.J.S.C.

Statement of profit or loss and other comprehensive income

for the year ended 31 December

	Note	**For the year ended 31 December 2018 AED**	For the period from 8 November 2016 to 31 December 2017 AED
Attributable to policyholders'			
Gross written contributions	*24*	**190,413,397**	37,722,979
Changes in unearned contribution reserve		**(69,212,436)**	(31,283,289)
Takaful contributions earned		**121,200,961**	6,439,690
Retakaful contributions		**135,526,682**	28,882,750
Changes in retakaful share of unearned contribution		**(49,214,711)**	(23,213,156)
Retakaful share of earned contributions		**86,311,971**	5,669,594
Net earned contributions		**34,888,990**	770,096
Commission earned		**22,767,647**	8,164,331
Gross takaful income		**57,656,637**	8,934,427
Gross claims paid		**(59,304,802)**	(880,507)
Retakaful share of claims paid		**44,227,837**	437,384
Net claims paid		**(15,076,965)**	(443,123)
Increase in reserve for outstanding claims		**(74,282,785)**	(1,186,149)
Increase in reserve for retakaful share of outstanding claims		**67,148,984**	538,673
Increase in reserve for incurred but not reported claims		**(17,725,696)**	(2,831,006)
Increase in reserve for retakaful share of incurred but not reported claims		**13,450,321**	2,603,559
Net claims incurred		**(26,486,141)**	(1,318,046)
Takaful results before wakala fees		**31,170,496**	7,616,381
Wakala fees	*17.1*	**(66,644,689)**	(13,203,042)
Net deficit from takaful operations		**(35,474,193)**	(5,586,661)
Attributable to shareholders'			
Wakala fees income from policyholders	*17.1*	**66,644,689**	13,203,042
Income from deposits		**6,502,581**	3,677,940
Other income		**207**	-
General and administrative expenses	*25*	**(14,868,969)**	(7,837,321)
Commission expenses		**(28,392,269)**	(9,072,425)
Other takaful expenses		**(3,633,692)**	(391,514)
Profit / (loss) for the year / period before Qard Hassan		**26,252,547**	(420,278)
Provision against Qard Hassan to policyholders'	*20*	**(35,474,193)**	(5,586,661)
Loss for the year / period attributable to shareholders'		**(9,221,646)**	(6,006,939)
Other comprehensive income		**-**	-
Total comprehensive loss for the year / period		**(9,221,646)**	(6,006,939)
Loss per share	*26*	**(4.61)**	(3.00)

The notes on pages 12 to 48 form an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 6.

Orient UNB Takaful P.J.S.C.

Statement of changes in equity

for the year ended 31 December

	Share capital AED	Share Premium AED	Accumulated losses AED	Total AED
Issue of share capital	200,000,000	-	-	200,000,000
Share premium collected	-	2,000,000	-	2,000,000
Issuance cost of share capital	-	(801,610)	-	(801,610)
Total comprehensive loss for the period	-	-	(6,006,939)	(6,006,939)
As at 31 December 2017	**200,000,000**	**1,198,390**	**(6,006,939)**	**195,191,451**
As at 1 January 2018	200,000,000	1,198,390	(6,006,939)	195,191,451
Total comprehensive loss for the year	-	-	(9,221,646)	(9,221,646)
As at 31 December 2018	**200,000,000**	**1,198,390**	**(15,228,585)**	**185,969,805**

The notes on pages 12 to 48 form an integral part of these financial statements.

Orient UNB Takaful P.J.S.C.

Statement of cash flows

for the year ended 31 December

	For the year ended 31 December 2018 AED	For the period from 8 November 2016 to 31 December 2017 AED
Cash flows from operating activities		
Loss for the year / period	**(9,221,646)**	(6,006,939)
Adjustment for:		
Depreciation of property and equipment	**244,939**	113,210
Amortisation of intangible assets	**124,426**	60,964
Provision for employees' end of service benefits	**296,773**	148,075
Operating cash flows before movements in working capital	**(8,555,508)**	(5,684,690)
"Change in:"		
Retakaful contract assets	**(129,814,016)**	(26,355,388)
Takaful and retakaful receivable	**(16,078,127)**	(6,307,734)
Due from related parties (relating to takaful operations)	**(52,062,492)**	(7,199,747)
Other receivables and prepayments (relating to takaful operations)	**(4,323,863)**	(648,600)
Other receivables and prepayments (relating to shareholders')	**(326,773)**	(1,077,198)
Due from related parties (relating to shareholders')	**(1,830,999)**	-
Takaful contract liabilities	**161,220,917**	35,300,444
Payable to takaful, insurance, reinsurance and retakaful companies	**54,081,027**	5,560,326
Other takaful payables	**11,281,996**	879,726
Due to related parties	**(6,126,713)**	11,186,134
Accruals, provisions and other payables	**1,487,529**	2,037,228
Net cash generated from operating activities	**8,952,978**	7,690,501
Employees' end of service benefits paid	**(4,511)**	-
Net cash generated from operations	**8,948,467**	7,690,501
Cash flows from investing activities		
Deposits with financial institutions	**(201,203,211)**	(189,458,850)
Proceeds from maturity of deposits with financial institutions	**189,458,850**	-
Purchase of property and equipment	**(87,347)**	(1,458,836)
Purchase of intangible assets	**-**	(870,988)
Net cash used in investing activities	**(11,831,708)**	(191,788,674)
Cash flows from financing activities		
Proceeds from issuance of share capital	**-**	200,000,000
Net proceeds against share premium	**-**	1,198,390
Net cash generated from financing activities	**-**	201,198,390
Net (decrease) / increase in cash and cash equivalents	**(2,883,241)**	17,100,217
Cash and cash equivalents at 1 January 2018 / 8 November 2016	**17,100,217**	-
Cash and cash equivalents at 31 December (note 8)	**14,216,976**	17,100,217

The notes on pages 12 to 48 form an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 6.

1 Legal status and activities

Orient UNB Takaful P.J.S.C. (the "Company") is a public joint stock company registered under UAE Federal Law No. (2) of 2015 relating to the incorporation of commercial companies in the UAE, and UAE Federal Law No. (6) of 2007 (as amended) relating to the establishment of insurance companies. The registered address of the Company is P.O. Box 183368, Dubai, United Arab Emirates.

The Company was incorporated on 8 November 2016, while the formalities of issuance and allotment of shares to the public were finalised on 28 December 2016. The shares of the Company are listed on the Dubai Financial Market. The Company obtained a commercial license on 23 January 2017 and a license from the Insurance Authority of the UAE on 16 July 2017.

The principal activity of the Company is issuance of short term takaful contracts in connection with accidents and liabilities insurance, fire insurance, transportation risk insurance, other type of insurance and health insurance. The Company also invests its funds in wakala deposits.

2 Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), applicable provisions of UAE Federal Law No. (2) of 2015 and UAE Federal Law No. (6) of 2007.

b) Basis of measurement

These financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency

These financial statements are presented in UAE Dirham (AED), which is the Company's functional currency. Except as otherwise indicated, financial information are presented in AED.

d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in the future periods effected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5.

e) Change in significant accounting policy

IFRS 15 'Revenue from Contracts with Customers' (effective 1 January 2018)

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Revenue arising from takaful contracts and from financial instruments is outside the scope of IFRS 15. The impact on the recognition of revenue from other services delivered to customers by the Company is not material to the financial statements.

3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes noted in 2(e).

a) Takaful contracts

i) Classification

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

Contracts under which the Company accepts significant takaful risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as takaful contracts. Takaful risk is significant if an insured event could cause the Company to pay significant additional benefits as a result of an insured event occurring.

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

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

ii) Recognition and measurement

Takaful contracts

Gross written contributions, in respect of annual policies, are recognised in the statement of profit or loss and other comprehensive income at policy inception. The contributions are spread over the tenure of the policies on a straight line basis, and the unexpired portion of such contributions are included under "unearned contribution reserve" in the statement of financial position.

iii) Unearned premium reserve (UPR)

The unearned premium considered in the unearned contribution reserve comprise the estimated proportion of the gross written contributions which relates to the periods of takaful coverage subsequent to the statement of financial position date. UPR is computed using the 1/365 method except for marine cargo and engineering. The UPR for marine cargo is recognised as a fixed proportion of the gross written contribution as required in the financial regulation issued under UAE Federal Law No. 6 of 2007, and UPR for engineering line of business assumes a linear increase in risk with the duration of the project such that the risk faced is 100% at the expiry of the contract. The rate at which the written contribution is earned is deemed to increase at the same rate at which the risk faced increases over the lifetime of the policy.

iv) Claims

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

3 Summary of significant accounting policies (continued)

a) Takaful contracts (continued)

iv) Claims (continued)

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

v) Gross claims paid

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

vi) Retakaful share of claims paid

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

vii) Gross outstanding and IBNR claims

Gross outstanding claims comprise the estimated costs of claims incurred but not settled at the financial position date. Provisions for reported claims not paid as at the date of statement of financial position are made on the basis of individual case estimates. This provision is based on the estimate of the loss, which will eventually be payable on each unpaid claim, established by the management in the light of currently available information and past experience. An additional net provision is also made for any claims incurred but not reported ("IBNR") at the date of statement of financial position on the basis of management estimates. The basis of estimating outstanding claims and IBNR are detailed in note 9.

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

viii) Contribution deficiency reserve

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

ix) Retakaful

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

3 Summary of significant accounting policies (continued)

a) Takaful contracts (continued)

ix) Retakaful (continued)

Amounts due to and from retakaful are accounted for in a manner consistent with the related contribution policies and in accordance with the relevant retakaful contracts. Retakaful contributions are deferred and expensed using the same basis as used to calculate unearned contribution reserves for related takaful contracts. The deferred portion of ceded retakaful contributions is included in retakaful contract assets.

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

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

x) Deferred acquisition cost

For takaful contracts, the deferred acquisition cost represents the portion of acquisition costs which corresponds to the proportion of gross written contributions that is unearned at the financial position date.

xi) Insurance receivables and payables

Amounts due from and to policyholders, agents, takaful and retakaful companies are financial instruments and are included in takaful receivables and payables, and not in takaful contract liabilities or retakaful contract assets.

xii) Salvage and subrogation reimbursements

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

b) Revenue (other than takaful revenue)

Revenue (other than takaful revenue) comprises the following:

i) Wakala fees

The Company manages the takaful operations on behalf of the policyholders for a wakala fee which is recognised on an accrual basis. A similar amount is shown as expense in the statement of profit or loss attributable to policyholders.

ii) Profit on deposits

Profit on deposits is recognised on a time basis, by reference to the principal outstanding and at the effective rate of return applicable.

iii) Investment income

Profit from investment deposits is recognised on a time proportion basis. Dividend income is accounted for when the right to receive payment is established. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the weighted average cost and are recorded on occurrence of the sale transaction.

3 Summary of significant accounting policies (continued)

c) Operating leases

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases for office premises equipments are recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

d) Property and equipment

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property and equipment, and is recognised net within other income/other expenses in statement of profit or loss.

ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in statement of profit or loss as incurred.

iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in statement of profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment.

Depreciation methods, useful lives and residual values are reassessed at the financial position date and adjusted if appropriate. No depreciation is charged on freehold land and capital-work-in-progress. Land is stated at cost.

The estimated useful lives for various categories of property and equipment is as follows:

	Years
Office equipment	4 years
Furniture and fixtures	7 years
Motor vehicles	5 years

3 Summary of significant accounting policies (continued)

e) Intangible assets

Intangible assets acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Intangible assets are amortised on a straight line basis in the statement of profit or loss and other comprehensive income over its estimated useful life, from the date that it is available for use. The estimated useful life of intangible assets for the current and comparative periods is seven years. Amortisation methods, useful lives and residual values are reviewed at each financial position date and adjusted if appropriate.

f) Provisions

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

g) Financial instrument

i) Non-derivative financial assets

Recognition

The Company initially recognises receivables on the date when they are originated. All other financial assets are initially recognised on the trade date.

Classification

Receivables

These assets are initially recognised at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less impairment losses. Receivables comprise mainly takaful and retakaful receivables, takaful and retakaful receivables from related parties and other receivables.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant credit risk, and are used by the Company for the management of its short-term commitments. Bank overdraft (if any) that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalent for the purpose of the statement of cash flows.

ii) Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

3 Summary of significant accounting policies (continued)

g) Financial instrument (continued)

iii) Derecognition of financial assets and financial liabilities

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control over the transferred asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Company is recognised as separate asset or liability in the statement of financial position. On derecognition of the financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in statement of profit or loss or other comprehensive income.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

h) Fair value measurement

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

h) Fair value measurement (continued)

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

i) Impairment

Impairment of financial assets carried at amortised cost

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

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

Impairment of loans and receivables

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

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

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

Impairment losses are recognised in the statement of profit or loss and other comprehensive income and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement profit or loss and other comprehensive income.

3 Summary of significant accounting policies (continued)

i) Impairment (continued)

Impairment of non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in statement profit or loss and other comprehensive income. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

j) Foreign currency transactions

Transactions denominated in foreign currencies are translated to Arab Emirates Dirhams ("AED") and recorded at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the AED at the exchange rate at the financial position date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in the statement of profit or loss and other comprehensive income.

k) Employee terminal benefits

Defined benefit plan

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

Defined contribution plan

The Company contributes to the pension scheme for nationals under the pension and social security law. This is a defined contribution pension plan and the Company's contribution are charged to the statement of profit or loss and other comprehensive income in the period in which they relate. In respect of this scheme, the Company has a legal and constructive obligation to pay the fund contribution as they fall due and no obligations exists to pay the future benefits.

3 Summary of significant accounting policies (continued)

l) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

m) Segment reporting

The Company's segmental reporting is based on the line of business of its general takaful business.

The general takaful segment comprises general takaful to individuals and businesses. General takaful products include motor, marine, medical and miscellaneous. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of policyholder's accident. Revenue in this segment is derived primarily from takaful contributions and commission income.

n) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however the Company has not early applied the following new or amended standards in preparing these statements.

For those new standards and amendments to standards that are expected to have an effect on the financial statements of the Company in future financial periods, the Company is assessing the transition options and the potential impact on its financial statements, and to implement these standards. The Company does not plan to adopt these standards early.

3 Summary of significant accounting policies (continued)

o) New standards and interpretations not yet adopted (continued)

(i) Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*

The amendments introduce two approaches for entities that apply IFRS 4 to reduce the impact of differing effective dates with IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments: an overlay approach and a temporary exemption from applying IFRS 9.

The amended IFRS 4:

- gives all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued (the "Overlay Approach"); and
- gives companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 till the earlier of annual reporting periods beginning before 1 January 2021 or when IFRS 17 becomes effective. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39 until that time.

An insurer that applies the Overlay Approach shall disclose information to enable users of financial statements to understand:

a) how the total amount reclassified between profit or loss and other comprehensive income in the reporting period is calculated; and
b) the effect of that reclassification on the financial statements.

The amendments allowing the overlay approach are applicable when the insurer first applies IFRS 9.

An insurer that elects to apply the temporary exemption from IFRS 9 shall disclose information to enable users of financial statements:

a) to understand how the insurer qualified for the temporary exemption; and
b) to compare insurers applying the temporary exemption with entities applying IFRS 9.

The effective date of the amendments permitting the temporary exemption is for annual periods beginning on or after 1 January 2018. The temporary exemption is available for annual reporting periods beginning before 1 January 2021 and will expire once IFRS 17 becomes effective.

Potential impact on the financial statements

The new insurance accounting standard that is currently under consideration is expected to have a significant impact on the Company's financial statements. That standard may impact how the classification and measurement of financial instruments requirements under IFRS 9 is adopted.

The Company qualifies for temporary exemption from applying IFRS 9 on the grounds that it has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance with the carrying amount of its liabilities within the scope of IFRS 4 being greater than 90 per cent of the total carrying amount of all its liabilities at 31 December 2017 and with no subsequent change in its activities.

3 Summary of significant accounting policies (continued)

o) New standards and interpretations not yet adopted (continued)

(i) Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (continued)

The fair value information of the Company's directly held financial assets at 31 December 2018 with contractual terms that give rise on specified dates to cash flows are solely payments of principal and interest ("SPPI") condition of IFRS 9, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of IFRS 9 are shown in the table below, together with all other financial assets:

	Financial assets that pass the SPPI test, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of IFRS 9		All other financial assets	
	Fair value at 31 December 2018	Movement in the fair value during the year	Fair value at 31 December 2018	Movement in the fair value during the year
	AED	AED	AED	AED
Takaful operations' assets				
Bank balances	9,171,139	-	-	-
Takaful and retakaful receivable	22,385,861	-	-	-
Due from related parties	59,262,239	-	-	-
Other receivables	4,972,463	-	-	-
Receivable from shareholders	16,363,330	-	-	-
	112,155,032	**-**	**-**	**-**
Shareholders' assets				
Cash and Bank balances	5,045,837	-	-	-
Other receivables	265,846	-	-	-
Wakala deposit	195,000,000	-	-	-
Statutory deposit	6,203,211	-	-	-
Due from related parties	1,830,999	-	-	-
	208,345,893	**-**	**-**	**-**

3 Summary of significant accounting policies (continued)

o) New standards and interpretations not yet adopted (continued)

(i) Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (continued)

The financial assets that pass the SPPI test, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of IFRS 9 in the table above are classified as amortised cost under IAS 39. The credit ratings of the bank balances and deposits are as follows:

	Credit ratings (from Standard & Poor's or equivalents)					
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB- or not rated	Total
	AED	AED	AED	AED	AED	AED
Takaful operations' assets						
Bank balances	193,278	-	504,744	8,473,117	-	9,171,139
	193,278	**-**	**504,744**	**8,473,117**	**-**	**9,171,139**
Shareholders' assets						
Bank balances	5,545	-	5,040,292	-	-	5,045,837
Wakala deposit	-	-	100,000,000	95,000,000	-	195,000,000
Statutory deposit	-	-	-	6,203,211	-	6,203,211
	5,545	**-**	**105,040,292**	**101,203,211**	**-**	**206,249,048**

All the financial assets disclosed above have low credit risk at the end of the reporting year.

(ii) IFRS 16 *Leases*

The Company is required to adopt IFRS 16 Leases from 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

3 Summary of significant accounting policies (continued)

o) New standards and interpretations not yet adopted (continued)

(ii) IFRS 16 *Leases* (continued)

i. Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases of the premises. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Company will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Company will include the payments due under the lease in its lease liability.

The Company is in the process of evaluating the potential impact of IFRS 16 on the financial statements.

ii. Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

(iii) IFRS 17 *Insurance Contracts*

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' as of 1 January 2022.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided that the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is not practical, then the entity is required to choose either a modified retrospective approach or a fair value approach.

Management anticipates that IFRS 17 will be adopted in the Company's financial statements for the annual period beginning 1 January 2022. The application of IFRS 17 may have a significant impact on amounts reported and disclosures made in the Company's financial statements in respect of its takaful contracts. However, it is not practical to provide a reasonable estimate of the effects of the application of this standard until the Company performs a detailed review.

3 Summary of significant accounting policies (continued)

o) New standards and interpretations not yet adopted (continued)

(iv) Other standards

- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.

4 Risk management

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

i) Governance framework

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

ii) Risk management framework

The board of directors, with its associated committees, carries out the Company's risk management function. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the Company Chief Executive Officer and Senior Vice Presidents.

The senior management meets regularly to approve any commercial, regulatory and organisational decisions. The Company Chief Executive Officer under the authority delegated from the board of directors defines the Company's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

iii) Capital management framework

The primary objective of the Company's capital management is to comply with the regulatory requirements in the UAE to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2018.

4 Risk management (continued)

iv) Regulatory framework

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

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

v) Asset liability management ("ALM")

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

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

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

a) Takaful risks

The Company accepts takaful risk through its written takaful contracts. The Company is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts. The Company writes the following types of takaful contracts:

- Liability
- Property
- Motor
- Fire
- Medical
- Marine
- Engineering

Two key elements of the Company's takaful risk management framework are its underwriting strategy and retakaful strategy, as discussed below.

4 Risk management (continued)

v) Asset liability management ("ALM") (continued)

a) Takaful risks (continued)

Underwriting strategy

The Company's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome.

The underwriting strategy is set out by the Company that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Company is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. All takaful contracts except marine, are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

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

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

Frequency and amounts of claims

The Company has developed their underwriting strategy to diversify the type of takaful risks accepted and within each of the categories to achieve sufficiently large populations of risk to reduce the variability of the expected outcome. The frequency and amounts of claims can be affected by several factors. The Company underwrite mainly property, motor, casualty, medical and marine risks. These are regarded as short-term takaful contracts as claims are normally advised and settled within one year of the insured event taking place.

Property

Property takaful covers a diverse collection of risks and therefore property takaful contracts are subdivided into four risks groups, fire, business interruption, weather damage and theft.

These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured. The cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruptions are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, flood damage or other weather related incidents.

4 Risk management (continued)

v) Asset liability management (“ALM”) (continued)

a) Takaful risks (continued)

Frequency and amounts of claims (continued)

Motor

Motor takaful contracts are designed to compensate contract holders for damage suffered to vehicles, disability to third parties arising through accidents and fire or theft of their vehicles.

Underwriting limits and guidelines are in place to enforce appropriate risk selection criteria.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

Marine

Marine takaful is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes.

For marine takaful, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered.

Casualty

For casualty class of business, such as workmen's compensation, personal accident, general third party liability and loss of money, the extent of loss or damage and the potential court awards are the main factors that influence the level of claims.

The Company manage these risks through their underwriting strategy, adequate retakaful 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. Underwriting limits are in place to enforce appropriate risk selections.

The Company proactively manages and pursues early settlement of claims to reduce their exposure to unpredictable developments.

The Company have adequate retakaful arrangements to protect their financial viability against such claims for all classes of business.

The Company have obtained adequate non-proportionate retakaful cover for all classes of business to limit losses to an amount considered appropriate by the management.

4 Risk management (continued)

v) Asset liability management ("ALM") (continued)

a) Takaful risks (continued)

Frequency and amounts of claims (continued)

Medical

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

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

Concentration of risk

The Company's underwriting activities are carried out in the United Arab Emirates and other Middle East countries.

Retakaful risk

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

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

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

4 Risk management (continued)

v) Asset liability management (“ALM”) (continued)

b) Financial risk

The Company has exposure to the following primary risks from its use of financial instruments and operations:

i) Credit risk;
ii) Liquidity risk;
iii) Market risk; and
iv) Operational risk

This note presents information about the Company’s exposure to each of the above risks, the Company’s objectives, policies and processes for measuring and managing risk, and the Company’s management of capital. Further quantitative disclosures are included throughout these financial statements.

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Compliance with the policy is monitored and exposures and breaches are regularly reviewed for pertinence and for changes in the risk environment.

For all classes of financial assets held by the Company the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the reporting date. Retakaful is placed with retakaful companies approved by the management, which are generally international reputed companies.

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

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

Exposure to credit risk

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

	31 December 2018 AED	31 December 2017 AED
<u>Takaful operations' assets</u>		
Bank balances	**9,171,139**	1,545,028
Takaful and retakaful receivable	**22,385,861**	6,307,734
Due from related parties	**59,262,239**	7,199,747
Other receivables	**4,972,463**	300,000
Receivable from shareholders	**16,363,330**	-
	112,155,032	15,352,509

4 Risk management (continued)

v) Asset liability management ("ALM") (continued)

b) Financial risk

i) Credit risk (continued)

Exposure to credit risk (continued)

	31 December 2018 AED	31 December 2017 AED
<u>Shareholders' assets</u>		
Bank balances	**5,040,292**	15,548,836
Other receivables	**265,846**	182,995
Wakala deposit	**195,000,000**	183,400,000
Statutory deposit	**6,203,211**	6,058,850
Due from related parties	**1,830,999**	-
Receivable from policyholders - takaful operations	**-**	316,001
	208,340,348	205,506,682

The ageing analysis of takaful and retakaful receivable is as follows:

	31 December 2018 AED	31 December 2017 AED
Amounts not yet due	**-**	11,369,618
Past due		
0-30 days	**59,713,309**	2,137,863
31-180 days	**21,934,791**	-
	81,648,100	13,507,481

The Company seeks to limit credit risk by investing in financial assets with only reputed and creditworthy financial institutions in the UAE. The Wakala deposit, statutory deposit and bank balances are deposited with financial institutions of an investment grade.

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements are monitored on a daily basis and management ensures that sufficient funds are available to meet any commitments as they arise.

4 Risk management (continued)

v) Asset liability management (“ALM”) (continued)

b) Financial risk

ii) Liquidity risk (continued)

Maturity profiles

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations. As the Company does not have any interest bearing liabilities, the totals in the table match the statement of financial position:

<u>31 December 2018</u>	Less than 1 year AED	More than 1 year AED	No term AED	Total AED
Takaful operations' assets				
Cash and bank balances	9,171,139	-	-	9,171,139
Takaful and retakaful receivable	22,385,861	-	-	22,385,861
Takaful and retakaful receivable from related parties	59,262,239	-	-	59,262,239
Other receivables and prepayments	4,972,463	-	-	4,972,463
Receivable from shareholders	16,363,330	-	-	16,363,330
Total takaful operations' assets	112,155,032	-	-	112,155,032
Shareholders' assets				
Cash and bank balances	5,045,837	-	-	5,045,837
Other receivables and prepayments	1,403,971	-	-	1,403,971
Wakala deposit	195,000,000	-	-	195,000,000
Statutory deposit	-	-	6,203,211	6,203,211
Due from related parties	1,830,999	-	-	1,830,999
Total shareholders' assets	203,280,807	-	6,203,211	209,484,018
Takaful operations' liabilities				
Payable to takaful, insurance, reinsurance and retakaful companies	59,641,353	-	-	59,641,353
Other takaful payables	12,161,722	-	-	12,161,722
Total takaful operations' liabilities	71,803,075	-	-	71,803,075
Shareholders' liabilities				
Due to related parties	5,059,421	-	-	5,059,421
Accruals, provisions and other payables	3,524,757	-	-	3,524,757
Payable to policyholders - takaful operations	16,363,330		-	16,363,330
Total shareholders' liabilities	24,947,508	-	-	24,947,508

4 Risk management (continued)

v) Asset liability management (“ALM”) (continued)

b) Financial risk

ii) Liquidity risk (continued)

Maturity profiles (continued)

31 December 2017	Less than 1 year AED	More than 1 year AED	No term AED	Total AED
Takaful operations' assets				
Cash and bank balances	1,545,028	-	-	1,545,028
Takaful and retakaful receivable	6,307,734	-	-	6,307,734
Takaful and retakaful receivable from related parties	7,199,747	-	-	7,199,747
Other receivables and prepayments	648,600	-	-	648,600
Total takaful operations' assets	15,701,109	-	-	15,701,109
Shareholders' assets				
Cash and bank balances	15,555,189	-	-	15,555,189
Other receivables and prepayments	1,077,198	-	-	1,077,198
Wakala deposit	183,400,000	-	-	183,400,000
Statutory deposit	-	-	6,058,850	6,058,850
Receivable from policyholders - takaful operations	316,001	-	-	316,001
Total shareholders' assets	200,348,388	-	6,058,850	206,407,238
Takaful operations' liabilities				
Payable to takaful, insurance, reinsurance and retakaful companies	5,560,326	-	-	5,560,326
Other takaful payables	879,726	-	-	879,726
Payable to shareholders	316,001	-	-	316,001
Total takaful operations' liabilities	6,756,053	-	-	6,756,053
Shareholders' liabilities				
Due to related parties	11,186,134	-	-	11,186,134
Accruals, provisions and other payables	2,037,228	-	-	2,037,228
Total shareholders' liabilities	13,223,362	-	-	13,223,362

4 Risk management (continued)

v) Asset liability management ("ALM") (continued)

b) Financial risk

iii) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: currency risk and profit rate risk.

a) Currency risk

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

The Company has also exposures in USD, which is pegged with AED and the Company's exposure to currency risk is limited to that extent.

b) Profit rate risk

Profit rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in profit rates. Floating rate instruments expose the Company to cash flow profit risk, whereas fixed profit rate instruments expose the Company to fair value profit rate risk.

The Company's only exposure to profit risk is on account of its investment in Wakala deposits and statutory deposits. The Company limits profit rate risk by monitoring changes in profit rates of the investment made. The Wakala deposit and statutory deposit are at fixed rate of profit.

iv) Operational risk

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

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

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

5 Use of estimates and judgments

The areas of the Company's business containing key sources of estimation uncertainty include the measurement of takaful contract liabilities, takaful contract classification, provision for outstanding claims, whether reported or not, impairment of takaful receivables and liability adequacy test.

5 Use of estimates and judgments (continued)

Measurement of takaful contract liabilities

The Company's accounting policy in respect of takaful contract accounting is discussed in more detail in note 3(a). The key assumptions made in respect of takaful contract liabilities are included in note 9.

Takaful contract classification

Contracts are classified as takaful contracts where they transfer significant takaful risk from the holder of the contract to the Company.

There are a number of contracts sold where the Company exercises judgment about the level of takaful risk transferred. The level of takaful risk is assessed by considering whether there are any scenarios with commercial substance in which the Company is required to pay significant additional benefits. These benefits are those which exceed the amounts payable if no insured event were to occur. These additional amounts include claims liability and assessment costs, but exclude the loss of the ability to charge the holder of the contract for future services.

Provision for outstanding claims, whether reported or not

Considerable judgment by management is required in the estimation of amounts due to the contract holders arising from claims made under takaful contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of IBNR claims at the date of statement of financial position. Estimates are made for the expected ultimate cost of IBNR claims using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation and are presented in Note 9.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims regularly.

Impairment of takaful receivables

The Company reviews its receivables to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss and comprehensive income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from receivables. A provision for impairment of contribution, retakaful and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their terms.

Liability Adequacy Test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of takaful contract liabilities. 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. Any deficiency is immediately charged to the statement of profit or loss and other comprehensive income.

6 Classes and categories of financials assets and financial liabilities

The table below sets out the classification of each class of financial assets and liabilities along with their fair values. For financial assets and liabilities carried at amortised cost, management believes that the amortised cost of those instruments approximates to their fair values.

At 31 December 2018

Financial assets	**Amortised cost**	**Total**
	AED	**AED**
Cash and bank balances	**14,216,976**	**14,216,976**
Takaful and retakaful receivable	**22,385,861**	**22,385,861**
Due from related parties (relating to takaful operations)	**59,262,239**	**59,262,239**
Other receivables (relating to takaful operations)	**4,972,463**	**4,972,463**
Receivable from shareholders	**16,363,330**	**16,363,330**
Other receivables (relating to shareholders')	**265,846**	**265,846**
Wakala deposit	**195,000,000**	**195,000,000**
Statutory deposit	**6,203,211**	**6,203,211**
Receivable from policyholders	-	-
Due from related parties (relating to shareholders')	**1,830,999**	**1,830,999**
	320,500,925	**320,500,925**

Financial liabilities	**Amortised cost**	**Total**
	AED	**AED**
Payable to takaful, insurance, reinsurance and retakaful companies	**59,641,353**	**59,641,353**
Other takaful payables	**12,161,722**	**12,161,722**
Payable to shareholders	-	-
Due to related parties	**5,059,421**	**5,059,421**
Accruals, provisions and other payables	**3,524,757**	**3,524,757**
Payable to policyholders - takaful operations	**16,363,330**	**16,363,330**
	96,750,583	**96,750,583**

At 31 December 2017

Financial assets	Amortised cost	Total
	AED	AED
Cash and bank balances	17,100,217	17,100,217
Takaful and retakaful receivable	6,307,734	6,307,734
Due from related parties (relating to takaful operations)	7,199,747	7,199,747
Other receivables (relating to takaful operations)	300,000	300,000
Other receivables (relating to shareholders')	182,995	182,995
Wakala deposit	183,400,000	183,400,000
Statutory deposit	6,058,850	6,058,850
Receivable from policyholders - takaful operations	316,001	316,001
	220,865,544	220,865,544

6 Classes and categories of financials assets and financial liabilities (continued)

Financial liabilities	Amortised cost	Total
	AED	AED
Payable to takaful, insurance, reinsurance and retakaful companies	5,560,326	5,560,326
Other takaful payables	879,726	879,726
Payable to shareholders	316,001	316,001
Due to related parties	11,186,134	11,186,134
Accruals, provisions and other payables	2,037,228	2,037,228
	19,979,415	19,979,415

7 Fair value of financial instruments

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

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

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

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

As at 31 December 2018 and 31 December 2017, all financial assets and liabilities are stated at amortised cost and are classified as Level 3 within the fair value hierarchy. The fair values of the financial assets and liabilities at amortised cost are not materially different from their carrying value at the reporting date.

8 Cash and cash equivalent

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	31 December 2018		
	Takaful Operations AED	**Shareholders' Operations AED**	**Total AED**
Cash in hand	**-**	**5,545**	**5,545**
Current accounts with banks and Islamic financial institutions	**9,171,139**	**5,040,292**	**14,211,431**
	9,171,139	**5,045,837**	**14,216,976**

	31 December 2017		
	Takaful Operations AED	Shareholders' Operations AED	Total AED
Cash in hand	-	6,353	6,353
Current accounts with banks and Islamic financial institutions	1,545,028	15,548,836	17,093,864
	1,545,028	15,555,189	17,100,217

9 Takaful contract liabilities and retakaful contract assets - (relating to takaful operations)

	31 December 2018 AED	31 December 2017 AED
Gross takaful contract liabilities		
Reserve for outstanding claims	**75,040,009**	1,164,534
Reserve for unallocated loss adjustment expense	**428,925**	21,615
Reserve for incurred but not reported claims (IBNR)	**20,556,702**	2,831,006
Reserve for outstanding claims (including IBNR)	**96,025,636**	4,017,155
Unearned contribution reserve	**100,495,725**	31,283,289
Total takaful contract liabilities (gross)	**196,521,361**	35,300,444
Less: Retakaful contract assets		
Reserve for retakaful share of outstanding claims	**(67,687,657)**	(538,673)
Reserve for retakaful share of incurred but not reported claims (IBNR)	**(16,053,880)**	(2,603,559)
Reserve for retakaful share of outstanding claims (including IBNR)	**(83,741,537)**	(3,142,232)
Retakaful share of unearned contribution	**(72,427,867)**	(23,213,156)
Total retakaful contract assets	**(156,169,404)**	(26,355,388)
Net takaful contract liabilities	**40,351,957**	8,945,056

9 Takaful contract liabilities and retakaful contract assets - (relating to takaful operations) (continued)

Assumptions and sensitivities

Process used to determine the assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market practices or other published information.

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

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

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

The method used by the Company for provision of IBNR takes into account historical data, past estimates and details of the retakaful programme, to assess the expected size of retakaful recoveries. Estimates are made for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR) 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 assumptions that have the greatest effect on the measurement of takaful contract provisions are the expected loss ratios for the most recent accident years.

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

Claim development

	Underwriting year		
	2017	**2018**	**Total**
	AED	**AED**	**AED**
Gross			
Estimate of net incurred claims costs			
- At the end of underwriting year	242,342	92,175,648	92,417,990
- One year later	3,607,646	-	3,607,646
Total gross liability included in the statement of financial position	**3,849,988**	**92,175,648**	**96,025,636**
Net			
Estimate of net incurred claims costs			
- At the end of underwriting year	37,065	11,846,620	11,883,685
- One year later	400,414	-	400,414
Total net liability included in the statement of financial position	**437,479**	**11,846,620**	**12,284,099**

10 Takaful and retakaful receivable (relating to takaful operations)

	31 December 2018 AED	31 December 2017 AED
Inside U.A.E.:		
Due from policyholders	**566,891**	721,419
Due from takaful and retakaful companies	**2,903,160**	-
Due from brokers and agents	**18,057,319**	5,586,315
	21,527,370	6,307,734
Outside U.A.E.:		
Due from takaful and retakaful companies	**858,491**	-
	858,491	-
Total takaful and retakaful receivable	**22,385,861**	6,307,734

11 Other receivables and prepayments - (relating to takaful operations)

	31 December 2018 AED	31 December 2017 AED
Prepayments	-	348,600
Deposit	**10,000**	-
Receivable from third party administrators	**425,000**	300,000
VAT input receivable - net	**2,026,796**	-
Other receivable	**2,510,667**	-
	4,972,463	648,600

12 Other receivables and prepayments - (relating to shareholders')

	31 December 2018 AED	31 December 2017 AED
Accrued profit on Wakala deposits	**160,294**	124,278
Prepayments	**1,138,125**	894,203
Other receivables	**105,552**	58,717
	1,403,971	1,077,198

13 Wakala deposit

This consists of term wakala deposits with an Islamic division of commercial bank and an Islamic financial institution in UAE, at profit rates of 4.15% per annum *(31 December 2017: 3.40% per annum)* amounting to AED 195 million *(31 December 2017: AED 183.4 million)*, which matures in December 2019.

14 Statutory deposit

This consists of a fixed deposit under lien with an Islamic bank in UAE, at a profit rate of 3.40% per annum *(31 December 2017: 2.35% per annum)* , which matures in December 2019 for the purpose of license renewal from the Insurance Authority.

15 Property and equipment

	Motor vehicles AED	**Furniture and fixtures AED**	**Office equipment AED**	**Total AED**
Cost				
Additions during the period	152,160	1,209,666	97,010	1,458,836
At 31 December 2017	152,160	1,209,666	97,010	1,458,836
At 1 January 2018	152,160	1,209,666	97,010	1,458,836
Additions during the year	53,500	29,102	4,745	87,347
At 31 December 2018	**205,660**	**1,238,768**	**101,755**	**1,546,183**
Accumulated depreciation				
Charge for the period	(5,606)	(87,619)	(19,985)	(113,210)
At 31 December 2017	(5,606)	(87,619)	(19,985)	(113,210)
At 1 January 2018	(5,606)	(87,619)	(19,985)	(113,210)
Charge for the year	(32,901)	(189,172)	(22,866)	(244,939)
At 31 December 2018	**(38,507)**	**(276,791)**	**(42,851)**	**(358,149)**
Net carrying amount				
At 31 December 2017	146,554	1,122,047	77,025	1,345,626
At 31 December 2018	**167,153**	**961,977**	**58,904**	**1,188,034**

16 Intangible assets - Software

	31 December 2018 AED	31 December 2017 AED
Cost		
At 1 January 2018 / 8 November 2016	**870,988**	-
Additions during the period	-	870,988
At 31 December	**870,988**	870,988
Accumulated amortisation		
At 1 January 2018 / 8 November 2016	**(60,964)**	-
Charge for the year / period	**(124,426)**	(60,964)
At 31 December	**(185,390)**	(60,964)
Net carrying amount		
At 31 December	**685,598**	810,024

17 (Receivable) from / payable to shareholders and receivable from / (payable to) policyholders - takaful operations

		31 December 2018 AED	31 December 2017 AED
As at 1 January		**316,001**	-
Wakala fees for the year / period	*17.1*	**66,644,689**	13,203,042
Other movement in account during the year / period		**(83,324,020)**	(12,887,041)
		(16,363,330)	316,001

17.1 For all takaful policies, wakala fees were charged at 35% of gross takaful contributions. Wakala fees are approved by the Sharia'a Supervisory Board and are charged to the statement of profit or loss and comprehensive income when incurred.

18 Payable to takaful, insurance, reinsurance and retakaful companies - (relating to takaful operations)

	31 December 2018 AED	31 December 2017 AED
Payables – Inside UAE	**10,253,806**	1,188,347
Payables – Outside UAE	**49,387,547**	4,371,979
	59,641,353	5,560,326
<u>Inside UAE:</u>		
Payable to insurance and takaful companies	**9,272,289**	1,006,098
Payable to reinsurers and retakaful companies	**981,517**	182,249
	10,253,806	1,188,347
<u>Outside UAE:</u>		
Payable to insurance and takaful companies	**8,710,746**	2,496,509
Payable to reinsurers and retakaful companies	**40,676,801**	1,875,470
	49,387,547	4,371,979

19 Other takaful payables (relating to takaful operations)

	31 December 2018 AED	31 December 2017 AED
Payable to policyholders	**866,190**	496,661
Payable to third party administrators	**10,113,855**	-
Other payables	**1,181,677**	383,065
	12,161,722	879,726

20 Qard Hassan

	31 December 2018 AED	31 December 2017 AED
Deficit in policyholders' fund		
As at 1 January	**(5,586,661)**	-
Deficit during the year / period	**(35,474,193)**	(5,586,661)
	(41,060,854)	(5,586,661)
Provision against Qard Hassan		
As at 1 January	**5,586,661**	-
Provision during the year / period	**35,474,193**	5,586,661
	41,060,854	5,586,661

21 Related party transactions

Related parties comprise of shareholders, associate companies, and directors and key management personnel of the Company, together with entities controlled, jointly controlled or significantly influenced by those parties. Pricing policies and terms of these transactions are approved by the Company's shareholders.

Significant transactions with related parties included in the statement of profit or loss and other comprehensive income are as follows:

	For the year ended 31 December 2018		
	Shareholders AED	**Associated companies of the shareholders AED**	**Total AED**
Gross written contribution	**45,888,953**	**37,979,461**	**83,868,414**
Retakaful contribution	**30,190,461**	**-**	**30,190,461**
General and administrative expenses	**1,369,926**	**11,317,083**	**12,687,009**
Claims reported	**(5,242,971)**	**12,068,062**	**6,825,091**
Profit on Wakala deposits	**6,280,547**	**-**	**6,280,547**

	For the period from 8 November 2016 to 31 December 2017		
	Shareholders AED	Associated companies of the shareholders AED	Total AED
Gross written contribution	4,298,704	20,330,218	24,628,922
Retakaful contribution	11,877,318	-	11,877,318
General and administrative expenses	766,553	7,459,618	8,226,171
Claims reported	404,011	933,609	1,337,620
Profit on Wakala deposits	3,616,359	-	3,616,359

21 Related party transactions (continued)

	For the year ended 31 December 2018 AED	For the period from 8 November 2016 to 31 December 2017 AED
Compensation of key management personnel		
Short term benefits	**1,822,284**	1,208,313
End of service	**111,836**	34,398
	1,934,120	1,242,711

Balances with related parties included in the statement of financial position are as follows:

	31 December 2018 AED	31 December 2017 AED
Due from related parties (relating to takaful operations)		
Takaful and retakaful receivable from related parties	**59,262,239**	7,199,747
Due from related parties (relating to shareholders')		
Orient Insurance P.J.S.C.	**48,644**	-
Al Futtaim Motors	**1,352,713**	-
Other related parties	**429,642**	-
	1,830,999	-

Cash and cash equivalent

Cash and cash equivalent includes current accounts with banks and Islamic financial institutions of AED 5.3 million *(31 December 2017: AED 15.5 million)* which are the shareholders of the Company.

Wakala deposit (relating to shareholders')

The Wakala deposit of AED 100 million *(31 December 2017: AED 183.4 million)* is invested in an Islamic financial institution, Al Wifaq Finance Company which is a shareholder of the Company.

	31 December 2018 AED	31 December 2017 AED
Due to related parties (relating to shareholders')		
Orient Insurance P.J.S.C.	**-**	9,990,992
Al Futtaim Motor Auto Centre	**4,615,988**	533,021
Other related parties	**443,433**	662,121
	5,059,421	11,186,134

22 Employees' end of service benefits

	31 December 2018 AED	31 December 2017 AED
At 1 January	**148,075**	-
Charge for the year / period	**296,773**	148,075
Paid during the year / period	**(4,511)**	-
At 31 December	**440,337**	148,075

23 Share capital and share premium

	31 December 2018 AED	31 December 2017 AED
Issued and paid up capital		
Issued and fully paid 2,000,000 shares of AED 100 each	**200,000,000**	200,000,000
Share premium reserve	**1,198,390**	1,198,390
	201,198,390	201,198,390

24 Gross written contribution

	For the year ended 31 December 2018 AED	For the period from 8 November 2016 to 31 December 2017 AED
Marine	**9,909,223**	736,851
Motor	**40,774,373**	13,739,960
Medical	**63,372,737**	1,713,047
Fire	**35,919,644**	10,530,657
Engineering	**7,601,380**	1,470,458
Others	**32,836,040**	9,532,006
	190,413,397	37,722,979

25 General and administrative expenses

	For the year ended 31 December 2018 AED	For the period from 8 November 2016 to 31 December 2017 AED
Staff costs	**11,167,325**	5,421,375
Rent	**1,012,441**	750,157
Depreciation and amortisation	**369,365**	174,174
Others	**2,319,838**	1,491,615
	14,868,969	7,837,321

25.1 During the year, the Company has made social contributions amounting to nil (2017: nil).

26 Loss per share

Basic loss per share is calculated by dividing the loss for the year / period by the weighted average number of shares outstanding during the year / period as follows:

	For the year ended 31 December 2018 AED	For the period from 8 November 2016 to 31 December 2017 AED
Loss for the year / period attributable to shareholders' (AED)	**(9,221,646)**	(6,006,939)
Weighted average number of shares outstanding during the year / period	**2,000,000**	2,000,000
Loss per share (AED)	**(4.61)**	(3.00)

There is no dilution impact on basic earnings per share.

27 Segment information

Operating segment information

For management purposes, the Company is organised into four business segments; motor, marine, medical and miscellaneous lines of business. These segments are the basis on which the Company reports its primary segment information.

	For the year ended 31 December 2018				
	Motor AED	**Marine AED**	**Medical AED**	**Miscellaneous AED**	**Total AED**
Gross written contribution	**40,774,373**	**9,909,223**	**63,372,737**	**76,357,064**	**190,413,397**
Gross takaful income					**57,656,637**
Net underwriting expenses					**(26,486,141)**
Takaful results before wakala fees					**31,170,496**
Wakala fees					**(66,644,689)**
Net deficit from takaful operations					**(35,474,193)**

	For the period from 8 November 2016 to 31 December 2017				
	Motor AED	Marine AED	Medical AED	Miscellaneous AED	Total AED
Gross written contribution	13,739,960	736,851	1,713,047	21,533,121	37,722,979
Gross takaful income					8,934,427
Net underwriting expenses					(1,318,046)
Takaful results before wakala fees					7,616,381
Wakala fees					(13,203,042)
Net deficit from takaful operations					(5,586,661)

27 Segment information (continued)

The segmental information of assets and liabilities as per above lines of business is not available. The geographical segmental information is not presented as all the operations of the Company are based locally.

28 Contingencies

The Company, in common with the majority of insurers, is subject to litigation in the normal course of its business. Based on independent legal advice, the management does not believe that the outcome of these court cases will have a material impact on the Company's income or financial condition.

Zakat

The Company does not pay zakat on behalf of the shareholders. The Zakat obligation is assessed at 10% from the return on investment of the capital, which is calculated as AED 650,258 *(2017: AED 346,889)* and the Zakat per share is AED 0.33 *(2017: AED 0.17)* .

29 Comparative figures

During the current year, it has been identified that the total takaful operations assets did not match with the total takaful operations liabilities in the statement of financial position as at 31 December 2017. The difference is due to a reclassification adjustment in the receivable from policyholders and payable to shareholders relating to the period from 8 November 2016 to 31 December 2017, which was accounted for subsequent to issuance of the financial statements.

The effect of the reclassification on the financial statements is summarised below.

As at 31 December 2017

	As previously reported AED	**Adjustment AED**	**Restated AED**
Receivable from policyholders - takaful operations	14,469,226	(14,153,225)	316,001
Payable to shareholders	14,469,226	(14,153,225)	316,001

The above adjustments will not have any impact on the statement of financial position of the Company at the beginning of prior period.