

Orient UNB Takaful P.J.S.C.
Financial statements
for the year ended 31 December 2019

Orient UNB Takaful P.J.S.C.

Financial statements

for the year ended 31 December 2019

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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 2019, 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 2019, 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 6 and 10 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 reserve, 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 5, 6 and 11 of the financial statements.

The Company has significant contributions and takaful receivables against written contribution 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 written contributions 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 Information

Management is responsible for the other information. The other information comprises the Directors' Report which we obtained prior to the date of the auditors' report and we expect to obtain the remaining sections of the Company's 2019 Annual Report after the date of our auditors' report.

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 that 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 2019;
- vi) note 22 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 2019 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 2019; and
- viii) the Company has not made any social contributions during the year, as disclosed in note 27.1.

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

KPMG Lower Gulf Limited

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

10 FEB 2020

Orient UNB Takaful P.J.S.C.

Statement of financial position

as at 31 December

		31 December 2019 AED	31 December 2018 AED
	Note		
TAKAFUL OPERATIONS' ASSETS			
Cash and bank balances	9	8,668,300	9,171,139
Retakaful contract assets	10	186,164,686	156,169,404
Takaful, retakaful and other receivable	11	56,310,218	22,385,861
Due from related parties	22	22,758,745	59,262,239
Other receivables and prepayments	12	6,466,058	4,972,463
Receivable from shareholders	18	53,419,455	16,363,330
Total takaful operations' assets		333,787,462	268,324,436
SHAREHOLDERS' ASSETS			
Cash and bank balances	9	1,423,441	5,045,837
Other receivables and prepayments	13	1,204,274	1,403,971
Wakala deposit	14	235,997,257	195,000,000
Statutory deposit	15	6,000,000	6,203,211
Due from related parties	22	1,787,675	1,830,999
Property and equipment	16	3,836,606	1,188,034
Intangible assets	17	586,058	685,598
Total shareholders' assets		250,835,311	211,357,650
Total assets		584,622,773	479,682,086
TAKAFUL OPERATIONS' LIABILITIES AND DEFICIT			
TAKAFUL OPERATIONS' LIABILITIES			
Takaful contract liabilities	10	237,074,728	196,521,361
Payable to takaful, insurance, reinsurance and retakaful companies	19	60,493,082	59,641,353
Other takaful payables	20	34,351,036	12,161,722
Due to related parties	22	1,868,616	-
Total takaful operations' liabilities		333,787,462	268,324,436
TAKAFUL OPERATIONS' DEFICIT			
Deficit in policyholders' fund	21	(78,182,926)	(41,060,854)
Provision against Qard Hassan	21	78,182,926	41,060,854
Total takaful operations' deficit		-	-
Total takaful operations' liabilities and deficit		333,787,462	268,324,436

Orient UNB Takaful P.J.S.C.
Statement of financial position (continued)
as at 31 December

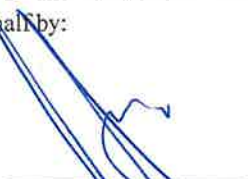
		31 December 2019 AED	31 December 2018 AED
	<i>Note</i>		
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Due to related parties	22	4,103,970	5,059,421
Accruals, provisions and other payables		2,849,609	3,524,757
Employees' end of service benefits	23	780,643	440,337
Payable to policyholders - takaful operations	18	53,419,455	16,363,330
Lease liabilities	24	2,600,421	-
Total shareholders' liabilities		63,754,098	25,387,845
SHAREHOLDERS' EQUITY			
Share capital	25	200,000,000	200,000,000
Share premium	25	1,198,390	1,198,390
Statutory reserve	25	111,141	-
Accumulated losses		(14,228,318)	(15,228,585)
Total shareholders' equity		187,081,213	185,969,805
		250,835,311	211,357,650
Total takaful operations' liabilities, deficit, shareholders' liabilities and equity		584,622,773	479,682,086

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

10 FEB 2020



Chairman



Chief Executive Officer



Head-Finance

The notes on pages 12 to 53 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	2019 AED	2018 AED
Attributable to policyholders'			
Gross written contributions	26	255,234,775	190,413,397
Changes in unearned contribution reserve		(21,565,637)	(69,212,436)
Takaful contributions earned		233,669,138	121,200,961
Retakaful contributions		189,277,231	135,526,682
Changes in retakaful share of unearned contribution		(19,741,445)	(49,214,711)
Retakaful share of earned contributions		169,535,786	86,311,971
Net earned contributions		64,133,352	34,888,990
Commission earned		29,372,632	22,767,647
Gross takaful income		93,505,984	57,656,637
Gross claims paid		(123,411,208)	(59,304,802)
Retakaful share of claims paid		90,849,205	44,227,837
Net claims paid		(32,562,003)	(15,076,965)
Increase in reserve for outstanding claims and unallocated loss adjustment expense		(11,841,270)	(74,282,785)
Increase in reserve for retakaful share of outstanding claims		6,149,954	67,148,984
Increase in reserve for incurred but not reported claims		(7,146,460)	(17,725,696)
Increase in reserve for retakaful share of incurred but not reported claims		4,103,883	13,450,321
Net claims incurred		(41,295,896)	(26,486,141)
Takaful results before wakala fees		52,210,088	31,170,496
Wakala fees	18.1	(89,332,160)	(66,644,689)
Net deficit from takaful operations		(37,122,072)	(35,474,193)
Attributable to shareholders'			
Wakala fees income from policyholders	18.1	89,332,160	66,644,689
Income from deposits		8,720,670	6,502,581
Other income		12	207
General and administrative expenses	27	(19,233,909)	(14,868,969)
Commission expenses		(35,741,724)	(28,392,269)
Other takaful expenses		(4,843,729)	(3,633,692)
Profit for the year before Qard Hassan		38,233,480	26,252,547
Provision against Qard Hassan to policyholders'	21	(37,122,072)	(35,474,193)
Profit / (loss) for the year attributable to shareholders'		1,111,408	(9,221,646)
Other comprehensive income		-	-
Total comprehensive income / (loss) for the year		1,111,408	(9,221,646)
Earnings / (loss) per share	28	0.56	(4.61)

The notes on pages 12 to 53 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	Statutory reserve AED	Accumulated losses AED	Total AED
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
As at 1 January 2019	200,000,000	1,198,390	-	(15,228,585)	185,969,805
Total comprehensive income for the year	-	-	-	1,111,408	1,111,408
Transactions with owners directly recorded in equity					
Transfer to reserve	-	-	111,141	(111,141)	-
As at 31 December 2019	200,000,000	1,198,390	111,141	(14,228,318)	187,081,213

The notes on pages 12 to 53 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

	2019 AED	2018 AED
Cash flows from operating activities		
Profit / (loss) for the year	1,111,408	(9,221,646)
<i>Adjustment for:</i>		
Depreciation of property and equipment	1,270,774	244,939
Amortisation of intangible assets	125,244	124,426
Provision for employees' end of service benefits	362,786	296,773
Finance cost on lease liabilities	126,988	-
Operating cash flows before movements in working capital	2,997,200	(8,555,508)
<i>Change in:</i>		
Retakaful contract assets	(29,995,282)	(129,814,016)
Takaful, retakaful and other receivable	(33,924,357)	(16,078,127)
Due from related parties (relating to takaful operations)	36,503,494	(52,062,492)
Other receivables and prepayments (relating to takaful operations)	(1,493,595)	(4,323,863)
Other receivables and prepayments (relating to shareholders')	(327,436)	(326,773)
Due from related parties (relating to shareholders')	43,324	(1,830,999)
Takaful contract liabilities	40,553,367	161,220,917
Payable to takaful, insurance, reinsurance and retakaful companies	851,729	54,081,027
Other takaful payables	22,189,314	11,281,996
Due to related parties (relating to takaful operations)	1,868,616	-
Due to related parties (relating to shareholders')	(955,451)	(6,126,713)
Accruals, provisions and other payables	(675,148)	1,487,529
Net cash generated from operating activities	37,635,775	8,952,978
Employees' end of service benefits paid	(22,480)	(4,511)
Net cash generated from operations	37,613,295	8,948,467
Cash flows from investing activities		
Purchase of property and equipment	(273,445)	(87,347)
Purchase of intangible assets	(25,704)	-
Deposits with Islamic bank / Islamic financial institutions	(317,512,708)	(201,203,211)
Maturity of deposits with Islamic bank / Islamic financial institutions	276,718,662	189,458,850
Net cash used in investing activities	(41,093,195)	(11,831,708)
Cash flows from financing activity		
Payment of lease liabilities	(645,335)	-
Net cash used in financing activity	(645,335)	-
Net decrease in cash and cash equivalents	(4,125,235)	(2,883,241)
Cash and cash equivalents at 1 January	14,216,976	17,100,217
Cash and cash equivalents at 31 December (note 9)	10,091,741	14,216,976

The notes on pages 12 to 53 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.

Notes

(forming part of the financial statements)

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) and comply with applicable requirements of the Federal Law No. (6) of 2007 Concerning the Establishment of the Insurance Authority & Organization of the Insurance Operations, the Federal Law No. (2) of 2015 Concerning the Commercial Companies, Insurance Authority Board Decision No. (25) of 2014 Pertinent to Financial Regulations for Insurance Companies and Insurance Authority's Board of Directors Decision No. (23) of 2019 Concerning Instructions Organizing Reinsurance Operations.

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 Dirhams (AED), which is the Company's functional currency. Except as otherwise indicated, financial information is 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 affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 6.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

3 Change in significant accounting policies

The Company initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated- i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

a) Definition of a lease

Previously, the Company determined contract at inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 4 (k).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

b) As a lessee

As a lessee, the Company leases office premises. The Company previously classified leases as operating or finance leases based on its assessment on whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

i) Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- an amount equal to the lease liability; adjusted by the amount of any prepaid or accrued lease payments; or
- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application. The Company applied this approach to all their leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

3 Change in significant accounting policies (continued)

b) As a lease (continued)

i) Leases classified as operating leases under IAS 17 (continued)

- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application: and
- used hindsight when determining the lease term.

c) Impact on financial statements

Impact on transition

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

	As at 1 January 2019 AED
Right-of-use assets – property and equipment	3,645,901
Lease liabilities	3,118,768

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 5%.

	As at 1 January 2019 AED
Operating lease commitments at 31 December 2018 under IAS 17	3,481,825
Discounted using the incremental borrowing rate at 1 January 2019	3,118,768

4 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 stated in note 3.

a) Takaful contracts

i) Classification

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 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

a) Takaful contracts (continued)

i) Classification (continued)

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. The Company does not issue any unit linked takaful contract. 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 contribution reserve (UCR)

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. UCR is computed using the 1/365 method except for marine cargo and engineering. The UCR 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 UCR 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.

Claims incurred 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

a) Takaful contracts (continued)

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 claims 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 10.

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 takaful 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.

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 takaful 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 the 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

a) Takaful contracts (continued)

x) 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.

xi) 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.

c) 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

c) Property and equipment (continued)

i) Recognition and measurement (continued)

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 the 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
Right-of-use of asset	6 years

d) 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.

e) 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

f) 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.

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 a 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.

g) 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

g) Fair value measurement (continued)

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 maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the 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.

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.

h) 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

h) Impairment (continued)

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.

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 the 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

i) 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 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.

j) 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 UAE nationals under the pension and social security law. This is a defined contribution pension plan and the Company's contributions 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.

k) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses wheather a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measurement at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

k) Leases (continued)

Policy applicable from 1 January 2019 (continued)

i. As a lessee (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Branch is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in statement of profit or loss and other comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'property and equipment' and lease liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

k) Leases (continued)

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met;
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; and
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

In the comparative period, as a lessee the Company classified office premises leases as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were 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 were recognised as an integral part of the total lease expense, over the term of the lease.

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 lines of business of its general takaful business.

The general takaful segment comprises general takaful to individuals and businesses. General takaful products include motor, fire, 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

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 2019 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.

(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 2022 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 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)

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 2022 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.

The fair value information of the Company's directly held financial assets at 31 December 2019 and 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:

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 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)

	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	Movement in the fair value during the year	Fair value at	Movement in the fair value during the year
	AED	AED	AED	AED
31 December 2019				
<u>Takaful operations' assets</u>				
Bank balances	8,668,300	-	-	-
Takaful, retakaful and other receivable	56,310,218	-	-	-
Due from related parties	22,758,745	-	-	-
Other receivables	6,466,058	-	-	-
Receivable from shareholders	53,419,455	-	-	-
	147,622,776	-	-	-
<u>Shareholders' assets</u>				
Bank balances	1,418,481	-	-	-
Other receivables	311,818	-	-	-
Wakala deposit	235,997,257	-	-	-
Statutory deposit	6,000,000	-	-	-
Due from related parties	1,787,675	-	-	-
	245,515,231	-	-	-
31 December 2018				
<u>Takaful operations' assets</u>				
Bank balances	9,171,139	-	-	-
Takaful, retakaful and other 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	-	-	-
<u>Shareholders' assets</u>				
Bank balances	5,040,292	-	-	-
Other receivables	265,846	-	-	-
Wakala deposit	195,000,000	-	-	-
Statutory deposit	6,203,211	-	-	-
Due from related parties	1,830,999	-	-	-
	208,340,348	-	-	-

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 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:

<u>Credit ratings (from Standard & Poor's or equivalents)</u>					
AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB- or not rated	Total
AED	AED	AED	AED	AED	AED
31 December 2019					
<u>Takaful operations' assets</u>					
Bank balances	-	745,986	7,922,314	-	8,668,300
	-	745,986	7,922,314	-	8,668,300
<u>Shareholders' assets</u>					
Bank balances	470,157	948,324	-	-	1,418,481
Wakala deposit	115,000,000	-	120,997,257	-	235,997,257
Statutory deposit	-	-	6,000,000	-	6,000,000
	115,470,157	948,324	126,997,257	-	243,415,738
31 December 2018					
<u>Takaful operations' assets</u>					
Bank balances	193,278	504,744	8,473,117	-	9,171,139
	193,278	504,744	8,473,117	-	9,171,139
<u>Shareholders' assets</u>					
Bank balances	-	5,040,292	-	-	5,040,292
Wakala deposit	-	100,000,000	95,000,000	-	195,000,000
Statutory deposit	-	-	6,203,211	-	6,203,211
	-	105,040,292	101,203,211	-	206,243,503

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

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

4 Summary of significant accounting policies (continued)

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

(ii) 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.

(iii) Other standards

- Amendments to References to Conceptual Framework in IFRS Standards.

5 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's Chief Executive Officer and Senior Vice Presidents.

The senior management meets regularly to approve any commercial, regulatory and organisational decisions. The Company's 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

5 Risk management (continued)

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 2019.

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. The chairman of the Insurance Authority vides Board of Directors' Decision No. (25) of 2014 dated 28th December 2014, issued Financial Regulation for Insurance Companies (FRIC) applicable to insurance companies incorporated in the UAE and the foreign insurance companies licensed to practice the activity in the UAE. The major highlights of the new regulation are summarised in the below table:

Regulation

- a) Basis of Investing the Rights of the Policy Holders
- b) Solvency Margin and Minimum Guarantee Fund
- c) Basis of calculating the technical provisions
- d) Determining the Company's assets that meet the accrued insurance liabilities
- e) Records which the Company shall be obligated to organise and maintain as well as the data and documents that shall be made available to the Authority
- f) Principles of organising accounting books and records of the Company, agents and brokers and determining data to be maintained in these books and records
- g) Accounting policies to be adopted and the necessary forms needed to be prepared and present reports and financial statements

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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

5 Risk management (continued)

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

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 | - Medical |
| - Property | - Marine |
| - Motor | - Engineering |
| - Fire | - Casualty |

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

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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

5 Risk management (continued)

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

a) Takaful risks (continued)

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 risk 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 fire, storm, flood damage or other weather related incidents.

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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

5 Risk management (continued)

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

a) Takaful risks (continued)

Frequency and amounts of claims (continued)

Casualty (continued)

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

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

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 confirms the appropriateness of assumptions used 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

5 Risk management (continued)

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

a) Takaful risks (continued)

Frequency and amounts of claims (continued)

Retakaful risk (continued)

Assets, liabilities, income and expense arising from ceded takaful contracts are presented separately from assets, liabilities, income and expense from the related takaful 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 retakaful to the extent that the retakaful fails to meet the obligations under the retakaful agreements.

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. The Company only enters into takaful and retakaful contracts with recognised, credit worthy third parties. 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

5 Risk management (continued)

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

b) Financial risk (continued)

i) Credit risk (continued)

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 2019 AED	31 December 2018 AED
<u>Takaful operations' assets</u>		
Bank balances	8,668,300	9,171,139
Takaful, retakaful and other receivable	56,310,218	22,385,861
Due from related parties	22,758,745	59,262,239
Other receivables	6,466,058	4,972,463
Receivable from shareholders	53,419,455	16,363,330
	147,622,776	112,155,032
<u>Shareholders' assets</u>		
Bank balances	1,418,481	5,040,292
Other receivables	311,818	265,846
Wakala deposit	235,997,257	195,000,000
Statutory deposit	6,000,000	6,203,211
Due from related parties	1,787,675	1,830,999
	245,515,231	208,340,348

The ageing analysis of takaful, retakaful and other receivable and due from related parties relating to takaful operations' is as follows:

	31 December 2019 AED	31 December 2018 AED
Amounts not yet due	4,857,038	3,141,630
<i>Past due</i>		
0 - 30 days	14,455,940	42,070,707
31 - 90 days	25,998,613	28,734,254
91 - 180 days	18,278,500	6,106,698
181 - 270 days	3,177,090	564,818
271 - 360 days	12,016,167	448,466
More than 360 days	1,585,615	581,527
Less: Allowance for doubtful debts	(1,300,000)	-
	79,068,963	81,648,100

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

5 Risk management (continued)

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

b) Financial risk (continued)

i) Credit risk (continued)

Exposure to credit risk (continued)

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.

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:

31 December 2019	Less than 1 year AED	More than 1 year AED	No stated maturity AED	Total AED
Takaful operations' assets				
Cash and bank balances	8,668,300	-	-	8,668,300
Takaful, retakaful and other receivable	56,310,218	-	-	56,310,218
Takaful and retakaful receivable from related parties	22,758,745	-	-	22,758,745
Other receivables and prepayments	6,466,058	-	-	6,466,058
Receivable from shareholders	53,419,455	-	-	53,419,455
Total takaful operations' assets	147,622,776	-	-	147,622,776
Shareholders' assets				
Cash and bank balances	1,423,441	-	-	1,423,441
Other receivables and prepayments	1,204,274	-	-	1,204,274
Wakala deposit	235,997,257	-	-	235,997,257
Statutory deposit	-	-	6,000,000	6,000,000
Due from related parties	1,787,675	-	-	1,787,675
Total shareholders' assets	240,412,647	-	6,000,000	246,412,647

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

5 Risk management (continued)

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

b) Financial risk (continued)

ii) Liquidity risk (continued)

Maturity profiles (continued)

<u>31 December 2019</u>	Less than 1 year AED	More than 1 year AED	No stated maturity AED	Total AED
Takaful operations' liabilities				
Payable to takaful, insurance, reinsurance and retakaful companies	60,493,082	-	-	60,493,082
Other takaful payables	34,351,036	-	-	34,351,036
Due to related parties	1,868,616	-	-	1,868,616
Total takaful operations' liabilities	96,712,734	-	-	96,712,734
Shareholders' liabilities				
Due to related parties	4,103,970	-	-	4,103,970
Accruals, provisions and other payables	2,849,609	-	-	2,849,609
Payable to policyholders - takaful operations	53,419,455	-	-	53,419,455
Lease liabilities	799,362	1,801,059	-	2,600,421
Total shareholders' liabilities	61,172,396	1,801,059	-	62,973,455
<u>31 December 2018</u>	Less than 1 year AED	More than 1 year AED	No stated maturity AED	Total AED
Takaful operations' assets				
Cash and bank balances	9,171,139	-	-	9,171,139
Takaful, retakaful and other 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

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

5 Risk management (continued)

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

b) Financial risk (continued)

ii) Liquidity risk (continued)

Maturity profiles (continued)

<u>31 December 2018</u>	Less than 1 year AED	More than 1 year AED	No stated maturity AED	Total AED
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

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 also has 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

5 Risk management (continued)

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

b) Financial risk (continued)

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.

vi) Capital risk management

The Company's objectives when managing capital is to comply with the insurance capital requirements required by the Federal Law No. (6) of 2007 Concerning the Establishment of the Insurance Authority & Organization of the Insurance Operations.

In UAE, the local insurance regulator specifies the minimum amount and type of capital that must be held by the Company in addition to its insurance liabilities. The minimum required capital (presented in the table below) must be maintained at all times throughout the year.

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

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

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

	31 December 2019 AED	31 December 2018 AED
Total capital held by the Company	200,000,000	200,000,000
Minimum regulatory capital	100,000,000	100,000,000

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

6 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, provision for outstanding claims, whether reported or not and impairment of takaful receivables.

Key estimates:

Measurement of takaful contract liabilities

The Company's accounting policy in respect of takaful contract accounting is discussed in more detail in note 4(a). The key assumptions made in respect of takaful contract liabilities are included in note 10.

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 10.

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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

7 Classes and categories of financial 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 2019

<u>Financial assets</u>	<u>Amortised cost</u> AED	<u>Total</u> AED
Cash and bank balances	10,091,741	10,091,741
Takaful, retakaful and other receivable	56,310,218	56,310,218
Due from related parties (relating to takaful operations)	22,758,745	22,758,745
Other receivables (relating to takaful operations)	6,466,058	6,466,058
Receivable from shareholders	53,419,455	53,419,455
Other receivables (relating to shareholders')	311,818	311,818
Wakala deposit	235,997,257	235,997,257
Statutory deposit	6,000,000	6,000,000
Due from related parties (relating to shareholders')	1,787,675	1,787,675
	<u>393,142,967</u>	<u>393,142,967</u>
<u>Financial liabilities</u>	<u>Amortised cost</u> AED	<u>Total</u> AED
Payable to takaful, insurance, reinsurance and retakaful companies	60,493,082	60,493,082
Other takaful payables	34,351,036	34,351,036
Due to related parties (relating to takaful operations)	1,868,616	1,868,616
Due to related parties (relating to shareholders')	4,103,970	4,103,970
Accruals, provisions and other payables	2,849,609	2,849,609
Payable to policyholders - takaful operations	53,419,455	53,419,455
Lease liabilities	2,600,421	2,600,421
	<u>159,686,189</u>	<u>159,686,189</u>

At 31 December 2018

<u>Financial assets</u>	<u>Amortised cost</u> AED	<u>Total</u> AED
Cash and bank balances	14,216,976	14,216,976
Takaful, retakaful and other 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
Due from related parties (relating to shareholders')	1,830,999	1,830,999
	<u>320,500,925</u>	<u>320,500,925</u>

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

7 Classes and categories of financial assets and financial liabilities (continued)

At 31 December 2018

<u>Financial liabilities</u>	<u>Amortised cost</u> AED	<u>Total</u> AED
Payable to takaful, insurance, reinsurance and retakaful companies	59,641,353	59,641,353
Other takaful payables	12,161,722	12,161,722
Due to related parties (relating to shareholders')	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
	<u>96,750,583</u>	<u>96,750,583</u>

8 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 2019 and 31 December 2018, 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.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

9 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 2019		
	Takaful Operations AED	Shareholders' Operations AED	Total AED
Cash in hand	-	4,960	4,960
Current accounts with banks and Islamic financial institutions	8,668,300	1,418,481	10,086,781
	<u>8,668,300</u>	<u>1,423,441</u>	<u>10,091,741</u>
	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
	<u>9,171,139</u>	<u>5,045,837</u>	<u>14,216,976</u>

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

	31 December 2019 AED	31 December 2018 AED
Gross takaful contract liabilities		
Reserve for outstanding claims	86,613,534	75,040,009
Reserve for unallocated loss adjustment expense	696,670	428,925
Reserve for incurred but not reported claims (IBNR)	27,703,162	20,556,702
Reserve for outstanding claims (including IBNR)	115,013,366	96,025,636
Unearned contribution reserve	122,061,362	100,495,725
Total takaful contract liabilities (gross)	<u>237,074,728</u>	<u>196,521,361</u>
Less: Retakaful contract assets		
Reserve for retakaful share of outstanding claims	(73,837,611)	(67,687,657)
Reserve for retakaful share of incurred but not reported claims (IBNR)	(20,157,763)	(16,053,880)
Reserve for retakaful share of outstanding claims (including IBNR)	(93,995,374)	(83,741,537)
Retakaful share of unearned contribution	(92,169,312)	(72,427,867)
Total retakaful contract assets	<u>(186,164,686)</u>	<u>(156,169,404)</u>
Net takaful contract liabilities	<u>50,910,042</u>	<u>40,351,957</u>

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

10 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 table - Gross

The following table reflects the cumulative incurred claims, including both claims notified and claims incurred but not reported (IBNR) for each successive accident year at each statement of financial position date, together with cumulative payments to date:

<i>Accident year</i>	2017 AED	2018 AED	2019 AED	Total AED
At the end of accident year	4,876,045	85,825,987	176,101,887	
One year later	2,322,782	121,923,165	-	
Two years later	1,914,455	-	-	
Current estimate of cumulative claims	1,914,455	121,923,165	176,101,887	
At the end of accident year	(880,506)	(58,513,825)	(105,904,064)	
One year later	(1,033,362)	(18,695,593)	-	
Two years later	101,209	-	-	
Cumulative payments to date	(1,812,659)	(77,209,418)	(105,904,064)	
	101,796	44,713,747	70,197,823	115,013,366

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

11 Takaful, retakaful and other receivable (relating to takaful operations)

	31 December 2019 AED	31 December 2018 AED
Inside U.A.E.:		
Due from policyholders	694,726	566,891
Due from takaful and retakaful companies	12,019,296	2,903,160
Due from brokers and agents	39,854,321	18,057,319
	52,568,343	21,527,370
Outside U.A.E.:		
Due from takaful and retakaful companies	5,041,875	858,491
	5,041,875	858,491
Total takaful and retakaful receivable	57,610,218	22,385,861
Less: Allowance for doubtful debts	(1,300,000)	-
	56,310,218	22,385,861

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

	31 December 2019 AED	31 December 2018 AED
Deposit	10,000	10,000
Receivable from third party administrators	975,000	425,000
VAT input receivable - net	5,162,904	2,026,796
Other receivable	318,154	2,510,667
	6,466,058	4,972,463

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

	31 December 2019 AED	31 December 2018 AED
Accrued profit on Wakala deposits	131,075	160,294
Prepayments	892,456	1,138,125
Other receivables	180,743	105,552
	1,204,274	1,403,971

14 Wakala deposit

This consists of term wakala deposits with an Islamic bank and an Islamic division of a commercial bank in UAE, at profit rates from 2.90% to 3.25% per annum (31 December 2018: 4.15% per annum) amounting to AED 236 million (31 December 2018: AED 195 million), which matures in December 2020.

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

15 Statutory deposit

This consists of a fixed deposit under lien with an Islamic bank in UAE, at a profit rate of 1.95% per annum (31 December 2018: 3.40% per annum), which matures in December 2020 for the purpose of license renewal from the Insurance Authority.

16 Property and equipment

	Office buildings AED	Motor vehicles AED	Furniture and fixtures AED	Office equipment AED	Total AED
Cost					
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
At 1 January 2019	-	205,660	1,238,768	101,755	1,546,183
Recognition of right-of-use asset on initial application of IFRS 16	3,645,901	-	-	-	3,645,901
Adjusted at 1 January 2019	3,645,901	205,660	1,238,768	101,755	5,192,084
Additions during the year	-	6,731	262,534	4,180	273,445
At 31 December 2019	3,645,901	212,391	1,501,302	105,935	5,465,529
Accumulated depreciation					
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)
At 1 January 2019	-	(38,507)	(276,791)	(42,851)	(358,149)
Charge for the year	(986,496)	(42,758)	(218,468)	(23,052)	(1,270,774)
At 31 December 2019	(986,496)	(81,265)	(495,259)	(65,903)	(1,628,923)
Net carrying amount					
At 31 December 2018	-	167,153	961,977	58,904	1,188,034
At 31 December 2019	2,659,405	131,126	1,006,043	40,032	3,836,606

17 Intangible assets - Software

	31 December 2019 AED	31 December 2018 AED
Cost		
At 1 January	870,988	870,988
Additions during the year	25,704	-
At 31 December	896,692	870,988
Accumulated amortisation		
At 1 January	(185,390)	(60,964)
Charge for the year	(125,244)	(124,426)
At 31 December	(310,634)	(185,390)
Net carrying amount		
At 31 December	586,058	685,598

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

18 Receivable from shareholders and payable to policyholders - takaful operations

	31 December 2019 AED	31 December 2018 AED
As at 1 January	16,363,330	(316,001)
Wakala fees for the year	(89,332,160)	(66,644,689)
Other movement in account during the year	126,388,285	83,324,020
	<u>53,419,455</u>	<u>16,363,330</u>

18.1 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.

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

	31 December 2019 AED	31 December 2018 AED
Payables – Inside UAE	8,201,718	10,253,806
Payables – Outside UAE	52,291,364	49,387,547
	<u>60,493,082</u>	<u>59,641,353</u>
Inside UAE:		
Payable to insurance and takaful companies	7,348,083	9,272,289
Payable to reinsurers and retakaful companies	853,635	981,517
	<u>8,201,718</u>	<u>10,253,806</u>
Outside UAE:		
Payable to insurance and takaful companies	20,356,610	8,710,746
Payable to reinsurers and retakaful companies	31,934,754	40,676,801
	<u>52,291,364</u>	<u>49,387,547</u>

20 Other takaful payables (relating to takaful operations)

	31 December 2019 AED	31 December 2018 AED
Payable to policyholders	9,320,349	866,190
Payable to third party administrators	10,604,309	10,113,855
Payable to brokers and agents	10,950,521	-
Other payables	3,475,857	1,181,677
	<u>34,351,036</u>	<u>12,161,722</u>

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

21 Qard Hassan

	31 December 2019 AED	31 December 2018 AED
Deficit in policyholders' fund		
As at 1 January	(41,060,854)	(5,586,661)
Deficit during the year	(37,122,072)	(35,474,193)
	<u>(78,182,926)</u>	<u>(41,060,854)</u>
Provision against Qard Hassan		
As at 1 January	41,060,854	5,586,661
Provision during the year	37,122,072	35,474,193
	<u>78,182,926</u>	<u>41,060,854</u>

22 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 management as per agreed terms.

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 2019		
	Associated companies of the		Total
	Shareholders	shareholders	
	AED	AED	AED
Gross written contribution	56,411,802	45,479,094	101,890,896
Retakaful contribution	36,381,468	-	36,381,468
General and administrative expenses	1,052,998	4,247,247	5,300,245
Claims reported	25,735,071	16,635,405	42,370,476
Profit on Wakala deposits	4,070,411	-	4,070,411
	<u>123,651,650</u>	<u>66,361,746</u>	<u>189,913,396</u>
	For the year ended 31 December 2018		
	Associated companies of the		Total
	Shareholders	shareholders	
	AED	AED	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
	<u>76,486,916</u>	<u>49,364,546</u>	<u>125,851,462</u>

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

22 Related party transactions (continued)

	31 December 2019 AED	31 December 2018 AED
Compensation of key management personnel		
Short term benefits	1,822,284	1,822,284
End of service	187,263	111,836
	<u>2,009,547</u>	<u>1,934,120</u>

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

	31 December 2019 AED	31 December 2018 AED
Due from related parties (relating to takaful operations)		
Orient Insurance P.J.S.C.	411,697	31,767,447
Al Futtaim Motor	9,957,865	12,209,830
Al Futtaim Willis Co. LLC	2,419,779	4,185,600
Other related parties	9,969,404	11,099,362
	<u>22,758,745</u>	<u>59,262,239</u>
Due to related parties (relating to takaful operations)		
Al Wifaq Finance Company	1,786,549	-
Al Wifaq Properties LLC	82,067	-
	<u>1,868,616</u>	<u>-</u>
Due from related parties (relating to shareholders')		
Orient Insurance P.J.S.C.	-	48,644
Al Futtaim Motors	1,314,302	1,352,713
Other related parties	473,373	429,642
	<u>1,787,675</u>	<u>1,830,999</u>

Cash and cash equivalent

Cash and cash equivalent includes current accounts with Union National Bank and Al Wifaq Finance Company totalling AED 1.7 million (31 December 2018: AED 5.3 million) who are shareholders of the Company.

Wakala deposit (relating to shareholders')

A Wakala deposit of nil (31 December 2018: AED 100 million) is invested in an Islamic financial institution, Al Wifaq Finance Company which is a shareholder of the Company.

Due to related parties (relating to shareholders')

Orient Insurance P.J.S.C.	6,675	-
Al Futtaim Motor Auto Centre	3,605,524	4,615,988
Other related parties	491,771	443,433
	<u>4,103,970</u>	<u>5,059,421</u>

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

23 Employees' end of service benefits

	31 December 2019 AED	31 December 2018 AED
At 1 January	440,337	148,075
Charge for the year	362,786	296,773
Paid during the year	(22,480)	(4,511)
At 31 December	<u>780,643</u>	<u>440,337</u>

24 Leases

(a) Leases as lessee (IFRS 16)

The Company leases office premises. The leases typically run for a period of one year, with an option to renew the lease after that date. The management of the Company intends to lease the office premises till March 2024. Lease payments are renegotiated every three years to reflect market rentals.

The property leases started in 2017 as combined leases and renewed on a yearly basis. Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Company is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets related to leased properties are presented as property and equipment

	Office premises AED
Balance at 1 January 2019	3,645,901
Depreciation charge for the year	(986,496)
	<u>2,659,405</u>

ii. Lease liability

	AED
Less than one year	799,362
Between one and five years	1,801,059
	<u>2,600,421</u>

iii. Amounts recognised in statement of profit or loss and other comprehensive income

	For the year ended 31 December AED
2019 - Leases under IFRS 16	
Depreciation expense	986,496
Finance cost on lease liabilities	<u>126,988</u>
2018 - Operating leases under IAS 17	
Lease expense	<u>887,917</u>

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

24 Leases (continued)

iv. Amounts recognised in statement of cash flows

	For the year ended 31 December 2019 AED
Total cash outflow for leases	645,335

v. Extension options

Some property leases contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

25 Share capital, share premium and statutory reserve

	31 December 2019 AED	31 December 2018 AED
<i>Issued and paid up capital</i>		
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
	<u>201,198,390</u>	<u>201,198,390</u>

Statutory reserve

In accordance with the UAE Commercial Companies Law no. (2) of 2015 ("the Law") and the Company's Articles of Association, 10% of the profit for the year should be transferred to legal reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital. The reserve is not available for distribution except in the circumstances stipulated by the Law.

26 Gross written contribution

	31 December 2019 AED	31 December 2018 AED
Motor	40,034,549	40,774,373
Fire	53,170,656	35,919,644
Medical	96,791,220	63,372,737
Marine	13,193,085	9,909,223
Engineering	7,633,949	7,601,380
Others	44,411,316	32,836,040
	<u>255,234,775</u>	<u>190,413,397</u>

27 General and administrative expenses

	31 December 2019 AED	31 December 2018 AED
Staff costs	14,412,208	11,167,325
Rent and utilities	171,465	1,012,441
Depreciation and amortisation	1,396,018	369,365
Others	3,254,218	2,319,838
	<u>19,233,909</u>	<u>14,868,969</u>

27.1 During the year, the Company has made social contributions amounting to nil (2018: nil).

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

28 Earnings / (loss) per share

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

	31 December 2019 AED	31 December 2018 AED
Profit / (loss) for the year attributable to shareholders' (AED)	<u>1,111,408</u>	<u>(9,221,646)</u>
Weighted average number of shares outstanding during the year	<u>2,000,000</u>	<u>2,000,000</u>
Earnings / (loss) per share (AED)	<u>0.56</u>	<u>(4.61)</u>

There is no dilution impact on basic earnings per share.

29 Segment information

Operating segment information

For management purposes, the Company is organised into four business segments; motor, fire, 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 2019				
	Motor AED	Fire AED	Medical AED	Miscellaneous AED	Total AED
Gross written contribution	<u>40,034,549</u>	<u>53,170,656</u>	<u>96,791,220</u>	<u>65,238,350</u>	<u>255,234,775</u>
Gross takaful income					<u>93,505,984</u>
Net underwriting expenses					<u>(41,295,896)</u>
Takaful results before wakala fees					<u>52,210,088</u>
Wakala fees					<u>(89,332,160)</u>
Net deficit from takaful operations					<u>(37,122,072)</u>

	For the year ended 31 December 2018				
	Motor AED	Fire AED	Medical AED	Miscellaneous AED	Total AED
Gross written contribution	<u>40,774,373</u>	<u>35,919,644</u>	<u>63,372,737</u>	<u>50,346,643</u>	<u>190,413,397</u>
Gross takaful income					<u>57,656,637</u>
Net underwriting expenses					<u>(26,486,141)</u>
Takaful results before wakala fees					<u>31,170,496</u>
Wakala fees					<u>(66,644,689)</u>
Net deficit from takaful operations					<u>(35,474,193)</u>

Orient UNB Takaful P.J.S.C.

Notes (continued)

(forming part of the financial statements) (continued)

29 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.

30 Contingent liabilities

Contingent liabilities

At 31 December 2019, guarantees, other than those relating to claims for which provisions are held, amounting to AED 0.68 million had been issued on behalf of the Company by its banker in the ordinary course of business

Legal claims

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, 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 872,067 (2018: AED 650,258) and the Zakat per share is AED 0.44 (2018: AED 0.33).