Ras Al Khaimah National Insurance Company P.S.C.

Directors' report, independent auditor's report and financial statements for the year ended 31 December 2019

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RAK INSURANCE
Simply Better

Ras Al Khaimah National Insurance Company P.S.C.

Directors' report for the year ended 31 December 2019

The Board of Directors has pleasure in submitting their report and the audited financial statements for the year ended 31 December 2019.

Incorporation and registered office

Ras Al Khaimah National Insurance Company P.S.C. (RAK Insurance) was incorporated under an Emiri Decree Number 20/76 issued by HH Ruler of Ras Al Khaimah. The address of the registered office is PO Box 506, Ras Al Khaimah, United Arab Emirates.

Financial position and results

Ras Al Khaimah National Insurance Co. (RAK Insurance), achieved a net profit for of AED 3.5M compared to AED 19.4M in the previous year.

Gross written premium increased by 21% to AED 615M compared to AED 510M in the previous year.

Gross underwriting profit from insurance operations decreased to AED 43M compared to AED 57M in the previous year.

The Company's total assets decreased from AED 832M to AED 824M and the Shareholders' Equity decreased from AED 195M to AED 190M as compared to the previous year.

Total liabilities decreased from AED 637M to AED 634M as compared to the previous year. This decrease was primarily due to the settlement of bank loans that was partially offset with the increase in insurance contract liabilities resulting from the growth in the "book of business" during the year.

Basic earnings per share is AED 0.03 in the current year compared to AED 0.17 in the previous year on a Capital base of AED 115.5M.

On behalf of the Board of Directors of RAK Insurance, I would like to thank all who have contributed to our Company's success. Our sincere appreciation to the executive management and staff for their dedication, commitment and constant hard work. The Directors would also like to acknowledge our reinsurance partners, customers and all the stakeholders of the Company.

Yours faithfully,

Salem Ali Al Sharhan
Chairman
19 February 2020

شركة رأس الخيمة الوطنية للتأمين (ش.م.ع)
Ras Al Khaimah National Insurance Company (P.S.C.)
P.O. Box 506, Ras Al Khaimah, Tel: 800 72 54, Fax: +971 7 228 85 00

شركة مساهمة عامة تأسست سنة 1974 برأس مال مدفوع قدره 115,500,000درهم إماراتي مسجلة لدى هيئة التأمين تحت رقم 84/7 بموجب القانون الاتحادي رقم 2007/6
Public Shareholding Company establishment in 1974 with a paid up capital of AED 115,500,000 Registered at the insurance Authority with registration no. 7/84 in conformity with the Federal Law No.6/2007
VAT Registration No. 100021693500003

Independent auditor's report to the shareholders of Ras Al Khaimah National Insurance Company P.S.C.

Report on the audit of the financial statements

Our qualified opinion

In our opinion, except for the known and possible effects of the matter described in the "Basis for qualified opinion" section of our report, the financial statements present fairly, in all material respects, the financial position of Ras Al Khaimah National Insurance Company P.S.C. (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.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for qualified opinion

The Company has entered into medical capitation agreements with several medical service providers to cap the cost of claims arising from some of its medical insurance contracts. These agreements meet the definition of reinsurance contracts under International Financial Reporting Standard 4, "Insurance contracts".

Because of the lack of available information from third party administrators, management was not able to quantify the cost of the notional claims that the Company would have incurred if the capitation agreements were properly accounted for as reinsurance contracts. As such, there is an equal understatement of both the "Gross claims settled" and "Reinsurance share of claims settled" amounts in the income statements for the years ended 31 December 2019 and 2018. In addition, there is an overstatement of "Gross claims settled" and understatement of "Insurance premiums ceded to reinsurers" in the income statements for the years ended 31 December 2019 and 2018 of AED 97 million and AED 60 million respectively and an understatement in "Reinsurance contract assets" and "Insurance and other payables" in the statements of financial position as at 31 December 2019 and 2018 of AED 38 million and AED 44 million respectively.

There is no impact of any of these misstatements on the "Gross underwriting profit" or the "Profit" for the years ended 31 December 2019 and 2018.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Douglas O'Mahony, Rami Sarhan, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

Our audit approach

Overview

Key Audit Matters	•	Valuation of insurance contract liabilities
	•	Impairment losses on insurance receivables

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

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 Matter	How our audit addressed the Key Audit Matter

Valuation of insurance contract liabilities
 	
As disclosed in note 10 to these financial statements, the Company's insurance contract liabilities amounted to AED 470 million as at 31 December 2019.
 	
Note 10 to these financial statements describes the elements that make up the insurance contract liabilities balance. We comment on the most judgemental elements below:
 	
<u>Claims incurred but not reported:</u>
This reserve represents the liability for claims incurred but not reported at the end of the reporting period which is determined through an external independent actuarial valuation, considering the Company's historical loss experience.
 	
Significant assumptions are applied in the valuation of claims that have been incurred at the reporting date but have not yet been reported to the Company. In addition, lines of business where there is a greater length of time between the initial claim event and the settlement tend to display greater variability between initial estimates and final settlement amounts.
 	
<u>Mathematical reserves:</u>
This reserve represents the liability for the life insurance policies which is determined through an external independent actuarial valuation, considering future policy benefits at the end of each reporting period. It involves complex and subjective judgements and uncertainty about future events for which changes in the assumptions can result in a significant impact to the estimate.
 	
The valuation of the other elements of the Company's insurance contract liabilities was also carried out by an external independent actuarial valuation.
 	
We consider the valuation of insurance contract liabilities a key audit matter because of the complexity involved in the estimation process and the significant judgements that management make in determining the reasonableness and adequacy of the insurance contract liabilities.
	As part of our audit procedures, we:
	
	• checked on a sample basis the outstanding claims reserves against supporting documentation, such as loss adjusters' reports;
	• compared on a sample basis the outstanding claims reserves with the subsequent payments, if settled or subsequent reserve amounts, if unsettled;
	• re-performed reconciliations between the data used in the actuarial reserving calculations and the underlying accounting records of the Company;
	• evaluated the competence, objectivity and independence of the Company's appointed external actuaries as well as our internal actuarial experts;
	• using our internal actuarial experts, we applied our industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices. In particular we:
	  ➢ considered the suitability of the methodology used in setting the insurance reserves against industry benchmarks;
	  ➢ challenged management's / external independent actuary's key assumptions and judgements by comparing them to external data and the Company's experience; and
	  ➢ assessed whether the reserving methodology has been applied consistently across the years.
	• checked the appropriateness of the disclosures made in relation to the valuation of insurance contract liabilities included in these financial statements.

Our audit approach (continued)

Key audit matters (continued)

Key Audit Matter (continued)	**How our audit addressed the Key Audit Matter** (continued)
Impairment losses on insurance and other receivables As disclosed in note 11 to these financial statements, the Company's insurance receivables amounted to AED 293 million and the related provision for impairment amounted to AED 39 million as at 31 December 2019. The Company makes complex and subjective judgements over both the timing of recognition of impairment of insurance and other receivables and the estimation of the amount of such impairment using the expected credit loss model, which includes determining the probability of default, loss given default, exposure at default, forward looking assessment, discounting and use of the practical expedient. We consider the calculation of impairment losses on insurance and other receivables as a key audit matter because of the significance of the insurance and other receivables balance (representing 30% of the total assets as at 31 December 2019), the related estimation uncertainty to the financial statements and the significance of the judgements used in applying the requirements of IFRS 9.	As part of our audit procedures, we: • evaluated the competence, objectivity and independence of our internal experts; • tested the completeness and accuracy of the input data used in the impairment model calculations; • involved our internal experts to assess and review the: ➢ methodology applied by the Company in calculating the impairment provision to assess its consistency with the requirements of IFRS 9; ➢ the "Expected Credit Loss ("ECL")" impairment model prepared by management which included testing the appropriateness and reasonableness of key assumptions and judgments used. • for balances determined to be individually impaired, we tested a sample to assess the reasonableness of management's estimated provisions; and • checked the appropriateness of the disclosures made in relation to the impairment of insurance and other receivables included in these financial statements.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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

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

If, based on the work we have performed, 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.

Independent auditor's report to the shareholders of Ras Al Khaimah National Insurance Company P.S.C. (continued)

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, the UAE Federal Law No. (6) of 2007 and the related Financial Regulations for Insurance Companies issued by the United Arab Emirates Insurance Authority, 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.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.
- 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 the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent auditor's report to the shareholders of Ras Al Khaimah National Insurance Company P.S.C. (continued)

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law 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 we considered necessary for the purpose 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 is consistent with the books of account of the Company;

(v) as disclosed in note 8 to the financial statements the Company has not purchased or invested in shares during the year ended 31 December 2019;

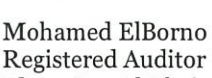
(vi) note 24 to the financial statements discloses material related party transactions and the terms under which they were conducted;

(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 year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019; and

(viii) note 22 to the financial statements discloses the social contributions made during the year ended 31 December 2019.

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

PricewaterhouseCoopers
19 February 2020



Mohamed ElBorno
Registered Auditor Number 946
Place: Ras Al Khaimah, United Arab Emirates

Ras Al Khaimah National Insurance Company P.S.C.

Statement of financial position

	Note	As at 31 December 2019 AED	As at 31 December 2018 AED (Restated)	As at 1 January 2018 AED (Restated)
ASSETS				
Property and equipment	5	4,945,979	5,607,526	5,969,731
Investment properties	6	15,815,005	16,332,502	18,279,745
Intangible assets	7	9,339,749	10,820,988	11,976,509
Statutory deposit	9	10,000,000	10,000,000	10,000,000
Fixed deposits	12	175,534,426	175,086,407	249,907,081
Financial assets at fair value through other comprehensive income ("FVOCI")	8	72,560,169	67,936,644	71,998,123
Financial assets at fair value through profit or loss ("FVTPL")	8	4,599,938	4,242,288	4,274,321
Reinsurance contract assets	10	216,156,615	209,545,115	189,324,240
Deferred acquisition cost	19	33,296,302	37,810,690	15,397,608
Insurance and other receivables	11	253,843,195	238,563,110	235,887,433
Bank balances and cash	12	27,651,721	55,955,837	11,580,882
Total assets		823,743,099	831,901,107	824,595,673
EQUITY AND LIABILITIES				
EQUITY				
Share capital	13	115,500,000	110,000,000	110,000,000
Statutory reserve	14.1	47,361,316	47,007,852	44,956,581
Voluntary reserve	14.2	20,000,000	20,000,000	20,000,000
Cumulative changes in fair value of FVOCI investments		1,216,481	(3,350,380)	(150,977)
Retained earnings		6,088,854	20,897,679	44,343,761
Total equity		190,166,651	194,555,151	219,149,365
LIABILITIES				
Provision for employees' end of service indemnity	15	5,680,690	5,029,729	5,330,571
Bank borrowings	17	-	34,046,908	36,005,609
Insurance contract liabilities	10	470,297,320	424,503,241	390,823,581
Deferred commission income	18	24,611,953	30,482,575	8,403,509
Insurance and other payables	16	132,986,485	143,283,503	164,883,038
Total liabilities		633,576,448	637,345,956	605,446,308
Total equity and liabilities		823,743,099	831,901,107	824,595,673

These financial statements were authorised for issue on behalf of the Board of Directors on **19th February 2020** and signed on their behalf by:

Chairman

Chief Executive Officer

The notes on pages 12 to 71 are an integral part of these financial statements.

Ras Al Khaimah National Insurance Company P.S.C.

Income statement

	Note	For the year end 31 December 2019 AED	2018 AED (Restated)
Insurance premium revenue earned	20	582,439,264	481,856,339
Insurance premium ceded to reinsurers	20	(234,131,860)	(196,641,371)
Net insurance premium revenue	20	348,307,404	285,214,968
Gross claims settled		(473,282,215)	(357,713,348)
Reinsurance share of claims settled		213,905,856	147,304,362
Net claims settled		(259,376,359)	(210,408,986)
Net change in outstanding claims and claims incurred but not reported ("IBNR") provisions		(15,933,281)	946,538
Net claims incurred		(275,309,640)	(209,462,448)
Gross commission earned	18	22,269,095	18,007,428
Commission incurred	19	(51,946,309)	(36,518,715)
Net commission incurred		(29,677,214)	(18,511,287)
Gross underwriting profit		43,320,550	57,241,233
General and administrative expenses	25	(44,638,785)	(43,689,006)
Allowance for impairment – net	8, 11, 12	(1,516,583)	6,014,633
Net underwriting (loss) / profit		(2,834,818)	19,566,860
Interest income		9,819,669	9,718,309
Investment income – net	21	1,079,549	(618,781)
Other income		7,668	864,537
Other expenses	26	(4,537,429)	(10,095,203)
Profit for the year		3,534,639	19,435,722
Basic and diluted earnings per share	23	0.03	0.17

Ras Al Khaimah National Insurance Company P.S.C.

Statement of comprehensive income

	Year ended 31 December	
	2019	**2018**
	AED	**AED**
		(Restated)
Profit for the year	3,534,639	19,435,722
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Net change in fair value of debt investments designated at FVOCI	4,606,970	(2,776,937)
Items that will not be reclassified subsequently to profit or loss		
Directors' remuneration	(1,490,000)	(1,460,000)
Net change in fair value of equity investments designated at FVOCI	(40,109)	(422,466)
Total other comprehensive income / (loss) for the year	3,076,861	(4,659,403)
Total comprehensive income for the year	6,611,500	14,776,319

The notes on pages 12 to 71 are an integral part of these financial statements.

Statement of changes in equity

	Share capital AED	Statuary reserve AED	Voluntary reserve AED	Cumulative change in fair value of FVOCI investments AED	Retained earnings AED	Total AED
Balance as at 31 December 2017	110,000,000	44,956,581	20,000,000	(150,977)	21,473,228	196,278,832
Profit for the year (restated) (Note 34)	-	-	-	-	19,435,722	19,435,722
Other comprehensive loss for the year	-	-	-	(3,199,403)	(1,460,000)	(4,659,403)
Total comprehensive income for the year	-	-	-	(3,199,403)	17,975,722	14,776,319
Transfer to statutory reserve	-	2,051,271	-	-	(2,051,271)	-
Dividends paid (Note 33)	-	-	-	-	(16,500,000)	(16,500,000)
Balance at 31 December 2018 (restated)	110,000,000	47,007,852	20,000,000	(3,350,380)	20,897,679	194,555,151
Profit for the year	-	-	-	-	3,534,639	3,534,639
Other comprehensive income for the year	-	-	-	4,566,861	(1,490,000)	3,076,861
Total comprehensive income for the year	-	-	-	4,566,861	2,044,639	6,611,500
Transfer to statutory reserve	-	353,464	-	-	(353,464)	-
Issue of bonus shares (Note 13)	5,500,000	-	-	-	(5,500,000)	-
Dividends paid (Note 33)	-	-	-	-	(11,000,000)	(11,000,000)
Balance at 31 December 2019	115,500,000	47,361,316	20,000,000	1,216,481	6,088,854	190,166,651

The notes on pages 12 to 71 are an integral part of these financial statements.

Ras Al Khaimah National Insurance Company P.S.C.

Statement of cash flows

	Year ended 31 December	
	2019	2018
	AED	AED
		(Restated)
Cash flows from operating activities		
Profit for the year	3,534,639	19,435,722
Adjustments for:		
Depreciation of property and equipment	1,579,219	1,771,077
Depreciation of investment properties	517,497	563,617
Amortisation of intangible assets	1,481,239	1,466,762
Provision for impairment - net	1,516,583	(6,014,633)
Provision of employees' end of service indemnity	1,194,999	920,182
Unrealised (gain) / loss on FVTPL investments	(357,650)	32,033
Income from investment properties	(712,733)	(787,712)
Amortisation of premium on FVOCI debt investments	375,723	324,979
Interest income	(10,195,392)	(10,043,288)
Dividend income	(9,166)	(9,166)
Impairment loss on investment properties	-	1,383,626
Interest cost on bank borrowing	1,109,403	1,214,781
Operating cash flows before changes in operating assets and liabilities	34,361	10,257,980
Increase in reinsurance contract assets	(6,611,500)	(20,220,875)
Decrease / (increase) in deferred acquisition costs	4,514,388	(22,413,082)
Increase in insurance contract liabilities	45,794,079	33,679,660
Increase in insurance and other receivables	(14,481,397)	(16,905,399)
(Decrease) / increase in deferred commission income	(5,870,622)	22,079,066
Decrease in insurance and other payables	(10,297,018)	(21,599,535)
Director's remuneration paid	(1,490,000)	(1,460,000)
Net cash generated from / (used in) operating activities	11,592,291	(16,582,185)
Employees' end of service indemnity paid	(544,038)	(1,221,024)
Net cash generated from / (used in) operating activities	11,048,253	(17,803,209)
Cash flows from investing activities		
Purchase of property and equipment	(917,672)	(1,480,609)
Purchase of intangible assets	-	(311,241)
Proceeds from disposal of property and equipment	-	71,737
Interest received	7,014,323	7,963,373
Rental income received from investment properties	816,919	911,282
Direct operating expenses paid for investment properties	(104,186)	(123,570)
Maturities of fixed deposits with banks with original maturities greater than three months	85,350,000	160,170,674
Placements of fixed deposits with banks with original maturities greater than three months	(85,355,442)	(85,350,000)
Net cash generated from investing activities	6,803,942	81,851,646
Cash flows from financing activities		
Dividend paid	(11,000,000)	(16,500,000)
Increase in bank borrowings	1,023,650	318,130
Repayment of bank borrowings	(36,179,961)	(3,491,612)
Net cash used in financing activities	(46,156,311)	(19,673,482)
Net (decrease) / increase in cash and cash equivalents	(28,304,116)	44,374,955
Cash and cash equivalents at 1 January	55,955,837	11,580,882
Cash and cash equivalents at 31 December	27,651,721	55,955,837

The principal non-cash transaction during the year ended 31 December 2019 relates to the issuance of bonus shares amounting to AED 5.5 million (Note 13).

1 General information

Ras Al-Khaimah National Insurance Company P.S.C. (the "Company") is a public joint-stock company, established and incorporated in the Emirate of Ras Al-Khaimah by Emiri decree No. 20/76 dated 26 October 1976. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations and is registered in the Insurance Companies Register of Insurance Authority of U.A.E., under registration number 7. The Company is a subsidiary of National Bank of Ras Al-Khaimah PJSC ("the parent company") which is incorporated in the Emirate of Ras Al-Khaimah, United Arab Emirates. The address of the Company's registered head office is P. O. Box 506, Ras Al-Khaimah, United Arab Emirates. The Company's ordinary shares are listed on the Abu Dhabi Securities Exchange, United Arab Emirates.

The principal activity of the Company is to undertake all classes of insurance business including life assurance, saving and accumulation of funds. The Company operates through its head office in Ras Al-Khaimah and branch offices in Dubai and Abu Dhabi.

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

2.1 New and revised IFRSs applied on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these financial statements. The application of these revised IFRSs, except where stated, has not had any material impact on the amounts reported for the current and prior years.

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

2.1 New and revised IFRS applied on the financial statements (continued)

New and revised IFRS	Effective for annual periods beginning on or after
• **IFRS 16, 'Leases'**	1 January 2019

This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays remains mainly unchanged. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, 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.

There is no material impact on the financial statements of the Company from the adoption of this new standard on 1 January 2019 since management has performed an assessment and concluded that all the Company's leases are short-term in nature.

• **IFRIC 23 Uncertainty over Income Tax Treatments**	1 January 2019

The interpretation address the determination of taxable profit (tax loss) tax bases, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers

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

There is no material impact on the financial statements of the Company from the adoption of above interpretations on 1 January 2019.

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

2.1 New and revised IFRS applied on the financial statements (continued)

New and revised IFRS	Effective for annual periods beginning on or after
• **Annual improvements 2015–2017**	1 January 2019

These amendments includes minor changes to the following standards:

- ➢ IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- ➢ IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- ➢ IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- ➢ IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

There is no material impact on the financial statements of the Company from the adoption of this new standard on 1 January 2019.

• **Amendments to IAS 19,'Employee benefits' on plan amendment, curtailment or settlement'**	1 January 2019

These amendments require an entity to:

- ➢ use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
- ➢ recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

There is no material impact on the financial statements of the Company from the adoption of this new standard on 1 January 2019.

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

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

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

New and revised IFRS	Effective for annual periods beginning on or after
• **Amendments to IAS 1 and IAS 8 on the definition of material**	1 January 2020

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

- ➢ use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- ➢ clarify the explanation of the definition of material; and
- ➢ incorporate some of the guidance in IAS 1 about immaterial information.

• **IFRS 17, 'Insurance contracts'**	1 January 2021

On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The standard applies to annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied.

IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.

The IASB is considering a one year extension for the implementation of IFRS 17 which will be reflected in the amended standard when issued.

Management expects that the adoption of IFRS 17 will have a significant impact on the amounts reported and disclosures made in the Company's financial statements in respect of its insurance contracts issued and reinsurance contracts held. However, it is not practicable to provide a reasonable estimate of the effects of the application of this standard until the Company performs a detailed review. Management has completed the gap analysis in relation to this standard and is currently in the process of performing a detailed assessment of the impact of the above new standard on the Company's financial statements.

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

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

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable.

There are no other relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Company's financial year beginning on 1 January 2019 that would be expected to have a material impact on the financial statements of the Company.

3 Summary of significant accounting policies

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

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS and the applicable requirements of United Arab Emirates (U.A.E.) Federal Law No. (2) of 2015 and United Arab Emirates (U.A.E.) Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations and the Financial Regulations for Insurance Companies issued by the United Arab Emirates Insurance Authority. The financial statements comply with IFRS as issued by the International Accounting Standards Board ("IASB").

3 Summary of significant accounting policies (continued)

3.2 Basis of preparation

The financial statements have been prepared on the historical cost as modified by the revaluation of financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss and the measurement of insurance contract liabilities as disclosed in Note 3.3.

The Company's statement of financial position is not presented using a current / non-curent classification. However, the following balances would generally be classified as current: bank balances and cash and bank borrowings. The following balances would generally be classified as non-current: property and equipment, intangible assets, investment properties and statutory deposits. The following balances are of mixed nature (including both current and non-current portions): reinsurance contract assets, insurance and other receivables, deferred acquisition costs, fixed deposits, financial investments, insurance and other payables, insurance contract liabilities, deferred commission income and provision for employees' end of service benefits.

The financial statements are presented in Arab Emirate Dirham ("AED").

The financial statements for the year ended 31 December 2018 have been restated to account for prior year adjustments (Note 34).

The principal accounting policies are set out below.

3.3 Insurance contracts

3.3.1 Definition, recognition and measurement

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the probability of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Insurance contracts issued by the Company are classified into two main categories, depending on the duration of risk being: short-term insurance contracts and long-term insurance contracts.

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.2 Short-term insurance contracts

These contracts are medical, casualty, property, marine, engineering and short-duration life insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non contractual events.

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

Medical insurance contracts protect the Company's customers against the risk of incurring medical expenses. 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 results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

Short-duration life insurance contracts protect the Company's customers from the consequences of events that would affect on the ability of the customer or customer's dependents to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these insurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of the coverage with the exception of marine cargo, where it is assumed that each policy is earned fully in the quarter following the quarter in which it was written; hence the UPR at the end of a particular quarter will be equal to the written premium in that quarter and engineering where UPR is calculated on increasing risk basis as required in the financial regulation issued by Insurance Authority. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before deduction of commissions.

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct claims settlement costs which arise from events that have occurred up to the end of the reporting period even if they have not been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.2 Short-term insurance contracts (continued)

Unallocated loss adjustment expense reserves correspond to the provision representing future claim expenses and related handling costs that are not case specific. It represents all other expenses and costs that are related to the adjudication of claims but cannot be assigned to a specific claim.

3.3.3 Long-term insurance contracts

These contracts insure events associated with human life (for example death or survival) over a period of 3, 5 or 7 years. Premiums are recognised as revenue when they become payable by the policyholder. A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums are recognised.

Premiums are shown before deduction of commissions. Claims and benefits payable to policyholders are recorded as expense when they are incurred.

3.3.4 Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Company reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss.

3.3.5 Deferred policy acquisition costs ("DAC")

Commissions and other acquisition costs for short-term insurance contracts that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. DAC is amortised over the terms of the policies as premium is earned.

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.6 Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell (usually damaged) assets acquired in settling claims (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). The allowance for salvage recoveries is the amount that can be reasonably recovered from the disposal of the asset and the allowance for subrogation reimbursements is the assessment of the amount that can be recovered from the action against the liable third party. Estimates of salvage recoveries and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims and recognised within receivables when the liability is settled.

3.3.7 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of contractual future cash flows and claims handling and administrative expenses are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests (the "unexpired risk reserve").

3.4 Revenue recognition

3.4.1 Interest income and expense

Interest income and expenses for all interest-bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount of the financial instrument, except for financial assets that have subsequently become credit-impaired (or stage 3) (refer to Note 3.16.1(ii)), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision) and are recognised within 'interest income' in the income statement.

3.4.2 Dividend income

Dividend income from investments is recognised when the Company's rights to receive payment have been established.

3.4.3 Rental income

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

3 Summary of significant accounting policies (continued)

3.4 Revenue recognition (continued)

3.4.4 Reinsurance commission income

Reinsurance commission income received when the reinsurance premium is ceded based on the terms and percentages agreed with the reinsurers is recognised as deferred commission income ("DCI"). DCI is amortised over the terms of the policies as premium ceded to reinsurers is expensed.

3.5 Foreign currencies

3.5.1 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Company's financial statements are presented in Arab Emirates Dirham ("AED"), which is the Company's functional and presentation currency.

3.5.1. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in the income statement. Foreign exchange gains and losses are presented in the income statement, within "Investment income – net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised in other comprehensive income.

3.6 Employee benefits

3.6.1 Defined contribution plan

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

3 Summary of significant accounting policies (continued)

3.6 Employee benefits (continued)

3.6.2 Provision for employees' end of service indemnity

Provision is also made for the full amount of end of service indemnity due to non-U.A.E. national employees in accordance with the UAE Labour Law and is calculated annually using the projected unit credit method in accordance with IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

3.6.3 Annual leave and leave passage

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

3.7 Property and equipment

Land and buildings are recognised at historical cost, less subsequent depreciation and impairment if any for buildings only. All other property and equipment are carried at historical cost less accumulated depreciation and any identified impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost or revalued amounts of the assets, net of their residual values, over their estimated useful lives as follows:

Buildings	25 years
Furniture and fixtures	4 years
Office equipment	4 years
Motor vehicles	4 years
Computer equipment	4 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3.10).

3 Summary of significant accounting policies (continued)

3.8 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The useful life of investment properties is estimated at 30 years.

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

3.9 Intangible assets

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

3.10 Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

3 Summary of significant accounting policies (continued)

3.10 Impairment of non-financial assets (continued)

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

3.11 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.12 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

3 Summary of significant accounting policies (continued)

3.13 Leases

The Company does not have leases that should be accounted for in accordance with IFRS 16 since all the Company's leases are assessed as short-term in nature and the payments made under the leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease. The Company did not need to make any adjustments to the accounting for assets held as lessee as a result of adopting the new leasing standard due to the short-term nature of the lease contracts.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature. The Company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

3.14 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

3.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are within the scope of IFRS 9 expected credit loss calculations for the assessment of impairment.

3 Summary of significant accounting policies (continued)

3.16 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimate future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate. When the Company revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss ("FVTPL"), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance ("ECL") is recognized for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when the asset is newly originated.

3 Summary of significant accounting policies (continued)

3.16 Financial assets and liabilities (continued)

3.16.1 Financial assets

(i) Classification and subsequent measurement

The Company classifies its financial assets in the following measurement categories:

- Fair value through profit or loss ("FVTPL");
- Fair value through other comprehensive income ("FVOCI"); or
- Amortised cost

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds.

Classification and subsequent measurement of debt instruments depends on:

- the Company's business model for managing the assets; and
- the cash flow characteristics of the asset.

Based on those factors, the Company classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest on the principal amount outstanding ("SPPI"), and that are not designated at FVTPL are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 3.16.1 (ii). Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

3 Summary of significant accounting policies (continued)

3.16 Financial assets and liabilities (continued)

3.16.1 Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest on the principal amount outstanding ("SPPI"), and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the income statement and recognised in "Investment income – Net". Interest income from these financial assets is included in "Interest income" using the effective interest rate method.
- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in the income statement and presented net within "Investment income – Net" in the period in which it arises. Interest income from these assets is included in "Interest income" using the effective interest rate method.

Business model
The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the asset or is to collect the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

At initial recognition of a financial asset, the Company determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Company reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting periods, the Company has not identified a change in its business models.

3 Summary of significant accounting policies (continued)

3.16 Financial assets and liabilities (continued)

3.16.1 Financial assets (continued)

(i) Classification and subsequent measurement (continued)

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding (the "SPPI test"). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified at FVTPL.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company subsequently measures all equity investments at FVTPL, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Company's policy is to designate equity investments at FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as "Investment income" when the Company's right to receive payments is established.

(ii) Impairment

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

No impairment loss is recognised on equity investments.

3 Summary of significant accounting policies (continued)

3.16 Financial assets and liabilities (continued)

3.16.1 Financial assets (continued)

(ii) Impairment (continued)

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. For insurance and other receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue costs or effort. This includes both quantitative and qualitative information and analysis, based on Company's historical experience and informed credit assessment and including forward-looking information. Forward-looking information considered includes the future prospects of the industries in which the Company's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time;
- the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause;
- a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations;
- if it is 30 days past due.

3 Summary of significant accounting policies (continued)

3.16 Financial assets and liabilities (continued)

3.16.1 Financial assets (continued)

(ii) Impairment (continued)

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

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

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

For certain categories of financial assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Management considers the following factors when determining whether a portfolio of receivables is impaired: the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio as well as observable changes in national or local economic conditions that correlate with default on receivables.

The Company considers an asset to be credit-impaired when it is 90 days past due.

(iii) Derecognition

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

Financial assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired financial assets are derecognised when they are assessed as uncollectible.

3 Summary of significant accounting policies (continued)

3.16 Financial assets and liabilities (continued)

3.16.2 Financial liabilities

The Company recognises a financial liability when it first becomes a party to the contractual rights and obligations in the contract. All financial liabilities are initially recognised at fair value, minus (in the case of a financial liability that is not at FVTPL) transaction costs that are directly attributable to issuing the financial liability. Financial liabilities are subsequently measured at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Financial liabilities included in insurance and other payables are recognised initially at fair value and subsequently measured at amortised cost. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

3.17 Dividend distribution

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

3.18 Fixed deposits

Fixed deposits are deposits held with banks with original maturities of more than three months, which are initially measured at fair value and subsequently measured at amortised cost.

4 Critical accounting judgements and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

4.1 Measurement of the expected credit loss ("ECL") allowance

The measurement of ECL is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 31.2. The following components have a major impact on the credit loss allowance for debt instruments carried at amortised cost, FVOCI investments and bank balances and cash and fixed deposits: definition of default, significant increase in credit risk, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD") and the historical loss experience per ageing bucket has the major impact on the credit loss allowance for Insurance and other receivables. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

A 10% increase or decrease in PD and LGD estimates at 31 December 2019 would result in an increase or decrease in total expected credit loss allowances on debt instruments carried at amortised cost, FVOCI investments and bank balances and cash and fixed deposits of AED 48,434 (2018: AED 231,859). A 10% increase or decrease in historical loss experience based on which the credit loss allowances for insurance and other receivables were estimated at 31 December 2019 would result in an increase or decrease in credit loss allowances of AED 3,607,047 (2018: AED 3,582,684).

4.2 The ultimate liability arising from claims made under insurance contracts

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the reporting date. The liability for outstanding claims includes the cost of claims reported but yet to be paid, claims incurred but not reported ("IBNR"), and the estimated expenses to be incurred in settling claims.

The process of establishing liability estimates is subject to considerable variability as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors, and may be revised as additional experience becomes available or as regulations change. The liability for outstanding claims is estimated using the input of assessment for individual cases reported to the Company as well as assessments performed by external loss adjustors where deemed necessary. Claims requiring court or arbitration decisions are estimated individually. The Company takes all reasonable steps to ensure that it has appropriate information regarding the risk of major storm, tempest and flood scenarios that exist in the UAE to estimate its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims, where more information about the claim event is available. Classes of business which have a longer reporting tail and where the IBNR proportion of the total reserve is therefore high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty in estimating these liabilities. For the short-tailed classes, claims are typically reported soon after the claim event, and tend to display less variation. In calculating the required levels of provisions, the Company's internal and external independent actuary use a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

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

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

In arriving at booked claims provisions, management also make allowance for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in patterns of claim incidence, reporting, processing, finalisation and payment;
- changes in the legal environment;
- the impact of inflation (both economic/wage and superimposed);
- changes in the mix of business;
- the impact of large losses;
- the effects of inflation;
- movements in industry benchmarks;
- medical and technological developments;
- changes in policyholder behaviour.

The methods used to analyse past claim experience and to project future claim experience are largely determined by the available data and the nature of the portfolio. The projections given by the different methodologies assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Outstanding claims and claims incurred but not reported are calculated gross of reinsurance. A separate estimate is made of the amounts recoverable from reinsurers and third parties under reinsurance contracts based on the gross provisions. Future cash flows are not discounted for time value of money.

5 Property and equipment

	Land AED	Building AED	Furniture and fixtures AED	Office equipment AED	Motor vehicles AED	Computer equipment AED	Total AED
Cost							
At 31 December 2017	1,000,000	4,869,130	5,401,913	954,240	858,464	3,936,523	17,020,270
Additions during the year	-	-	666,010	36,365	324,241	453,993	1,480,609
Disposals during the year	-	-	-	(3,804)	(370,000)	(11,256)	(385,060)
At 31 December 2018	1,000,000	4,869,130	6,067,923	986,801	812,705	4,379,260	18,115,819
Additions during the year	-	-	649,841	40,434	-	227,397	917,672
At 31 December 2019	1,000,000	4,869,130	6,717,764	1,027,235	812,705	4,606,657	19,033,491
Accumulated depreciation							
At 31 December 2017	-	2,922,013	4,037,337	740,805	579,646	2,770,738	11,050,539
Charge for the year	-	192,806	766,097	112,969	156,658	542,547	1,771,077
Disposals during the year	-	-	-	(3,647)	(300,625)	(9,051)	(313,323)
At 31 December 2018	-	3,114,819	4,803,434	850,127	435,679	3,304,234	12,508,293
Charge for the year	-	194,765	636,436	78,568	131,765	537,685	1,579,219
At 31 December 2019	-	3,309,584	5,439,870	928,695	567,444	3,841,919	14,087,512
Carrying amount							
At 31 December 2019	1,000,000	1,559,546	1,277,894	98,540	245,261	764,738	4,945,979
At 31 December 2018	1,000,000	1,754,311	1,264,489	136,674	377,026	1,075,026	5,607,526

At 31 December 2019, the cost of fully depreciated property and equipment that was still in use amounted to AED 7,601,987 (2018: AED 5,308,830).

Property and equipment are located in the UAE.

6 Investment properties

	Land AED	Buildings AED	Total AED
Cost			
At 31 December 2017	2,500,000	16,908,529	19,408,529
Addition	-	-	-
At 31 December 2018	2,500,000	16,908,529	19,408,529
Addition	-	-	-
At 31 December 2019	2,500,000	16,908,529	19,408,529
Accumulated depreciation and impairment			
At 31 December 2017	-	1,128,784	1,128,784
Charge for the year	-	563,617	563,617
Impairment for the year	-	1,383,626	1,383,626
At 31 December 2018	-	3,076,027	3,076,027
Charge for the year	-	517,497	517,497
At 31 December 2019	-	3,593,524	3,593,524
Carrying amount			
At 31 December 2019	2,500,000	13,315,005	15,815,005
At 31 December 2018	2,500,000	13,832,502	16,332,502

The Company's investment properties are measured at cost. The Company holds a plot of land located in Sharjah, UAE and 4 villas located in Dubai, UAE.

The fair value of the Company's investments properties as at 31 December 2019 amounted to AED 17.5 million (2018: AED 18.45 million) and have been arrived at on the basis of valuations carried by an independent external professionally qualified valuer who holds a recognized relevant professional qualification and has appropriate market experience in the valuation of properties in the United Arab Emirates.

The fair value was determined based on the market comparable approach that reflects recent transactions prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year 2019 and 2018.

The Company's investment properties are classified as Level 2 in the fair value hierarchy as at 31 December 2019 (2018: Level 2).

The property rental income earned by the Company from its investment properties and the direct operating expenses related to the investment properties are as follows:

	2019 AED	2018 AED
Rental income	816,919	911,282
Direct operating expenses	(104,186)	(123,570)
Net income from investment properties (Note 21)	712,733	787,712

7 Intangible assets

	Computer software AED
Cost	
At 31 December 2017	14,501,154
Additions during the year	311,241
At 31 December 2018	14,812,395
Additions during the year	-
At 31 December 2019	14,812,395
Accumulated amortisation	
At 31 December 2017	2,524,645
Charge for the year	1,466,762
At 31 December 2018	3,991,407
Charge for the year	1,481,239
At 31 December 2019	5,472,646
Carrying amount	
At 31 December 2019	9,339,749
At 31 December 2018	10,820,988

8 Financial investments

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

	2019 AED	2018 AED
FVTPL	4,599,938	4,242,288
FVOCI	72,664,879	68,473,741
Less: Allowance for impairment	(104,710)	(537,097)
	72,560,169	67,936,644
	77,160,107	72,178,932

The composition of financial investment split between inside UAE and outside UAE is as follows:

	Inside UAE		**Outside UAE**		**Total**	
	2019 AED	2018 AED	2019 AED	2018 AED	2019 AED	2018 AED
FVTPL:						
Quoted funds	4,599,938	4,242,288	-	-	4,599,938	4,242,288
FVOCI:						
Quoted debt	64,292,646	59,804,237	7,553,967	7,378,742	71,846,613	67,182,979
Quoted equity	713,556	753,665	-	-	713,556	753,665
	69,606,140	64,800,190	7,553,967	7,378,742	77,160,107	72,178,932

8 Financial investments (continued)

The Company has designated all investments in equity instruments that are not held for trading as at FVOCI. Debt instruments carry interest at the rate of 3.094% to 5.875% per annum. They are redeemable at par from 2021 to 2026 based on their maturity dates. There are no significant concentrations of credit risk for debt instruments and the carrying amount reflected above represents the Company's maximum exposure to credit risk for such assets.

During the year, the Company has charged amortisation of premium on debt instruments to profit or loss amounting to AED 375,723 (2018: AED 324,979).

As at 31 December 2018, certain FVOCI investments are assigned to a Bank against the loans extended by the Bank (Note 17).

The movement in the financial investments is as follows:

	FVTPL AED	FVOCI - debt AED	FVOCI - equity AED
Balance at 31 December 2017	4,274,321	70,868,989	1,129,134
Net change in fair value	(32,033)	(2,823,934)	(375,469)
Amortisation of premium on FVOCI debt instruments to profit or loss	-	(324,979)	-
Less: Allowance for impairment	-	(537,097)	-
Balance at 31 December 2018	4,242,288	67,182,979	753,665
Net change in fair value	357,650	4,606,970	(40,109)
Amortisation of premium on FVOCI debt instruments to profit or loss	-	(375,723)	-
Less: Allowance for impairment	-	432,387	-
Balance at 31 December 2019	4,599,938	71,846,613	713,556

Details of allowance for impairment are as follows:

	2019 AED	2018 AED
Balance as at the beginning of the year	537,097	-
Provision on initial application of IFRS 9	-	558,118
Reversal of impairment during the year	(432,387)	(21,021)
Balance as at the end of the year	104,710	537,097

There were no reclassifications between financial investment categories during 2019.

All the investments in scope of the impairment model are in Stage 1 and there have been no movements between the stages during the year.

9 Statutory deposit

A deposit of AED 10 million (2018: AED 10 million) has been placed with one of the banks, in accordance with Article (42) of the UAE Federal Law No. (6) of 2007. This deposit has been pledged to the Bank as security against a guarantee issued by the Bank in favour of the UAE Insurance Authority for the same amount. This deposit cannot be withdrawn without prior approval of the UAE Insurance Authority and bears an interest rate of 3.25% per annum (2018: 3.25% per annum).

10 Insurance contract liabilities and reinsurance contract assets

	2019 AED	2018 AED
Insurance contract liabilities		
- Outstanding claims	105,285,383	112,644,230
- Unallocated loss adjustment expense reserve	2,303,998	2,731,899
- Claims incurred but not reported	69,284,747	58,529,859
- Unexpired risk reserve	32,839,891	112,826
- Unearned premium	250,283,648	250,484,427
- Mathematical reserve	10,299,653	-
	470,297,320	424,503,241
Reinsurance contract assets		
- Outstanding claims	(69,938,121)	(84,016,482)
- Claims incurred but not reported	(40,050,671)	(29,757,202)
- Unexpired risk reserve	(26,414,371)	(112,826)
- Unearned premiums	(78,634,048)	(95,658,605)
- Mathematical reserve	(1,119,404)	-
	(216,156,615)	(209,545,115)
Insurance contract liabilities - net		
- Outstanding claims	35,347,262	28,627,748
- Unallocated loss adjustment expense reserve	2,303,998	2,731,899
- Claims incurred but not reported	29,234,076	28,772,657
- Unexpired risk reserve	6,425,520	-
- Unearned premiums	171,649,600	154,825,822
- Mathematical reserve	9,180,249	-
	254,140,705	214,958,126

The insurance contract liabilities and reinsurance contract assets certified by the Company's appointed external actuary according to the requirements of the Financial Regulations for Insurance Companies issued by the UAE Insurance Authority amounted to AED 470 million and AED 216 million respectively as at 31 December 2019 (2018: AED 425 million and AED 210 million respectively). Claims incurred but not reported have been calculated on a best estimate basis. The actuary used Chain Ladder ("CL"), Bornhuetter-Ferguson ("BF"), Expected Loss Ratios ("ELR") and Cape Cod ("CC") methods to estimate the ultimate claims. After applying each of the methods listed, the actuary takes a weighted average of the results of the methods.

10 Insurance contract liabilities and reinsurance contract assets (continued)

Movements in the insurance contract liabilities and reinsurance contract assets during the year were as follows:

	2019			2018		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
Claims						
Outstanding claims	112,644,230	(84,016,482)	28,627,748	114,307,056	(85,531,403)	28,775,653
Unallocated loss adjustment expense reserve	2,731,899	-	2,731,899	2,751,125	-	2,751,125
Incurred but not reported	58,529,859	(29,757,202)	28,772,657	51,170,937	(21,618,873)	29,552,064
Total at the beginning of the year	173,905,988	(113,773,684)	60,132,304	168,229,118	(107,150,276)	61,078,842
Claims settled during the year	(473,282,215)	213,905,856	(259,376,359)	(357,713,348)	147,304,362	(210,408,986)
Arising from current year claims	467,141,418	(209,333,995)	257,807,423	256,989,087	(139,875,702)	117,113,385
Arising from prior year claims	9,108,937	(786,969)	8,321,968	106,401,131	(14,052,068)	92,349,063
Total at the end of the year	176,874,128	(109,988,792)	66,885,336	173,905,988	(113,773,684)	60,132,304
Outstanding claims	105,285,383	(69,938,121)	35,347,262	112,644,230	(84,016,482)	28,627,748
Unallocated loss adjustment expense reserve	2,303,998	-	2,303,998	2,731,899	-	2,731,899
Incurred but not reported	69,284,747	(40,050,671)	29,234,076	58,529,859	(29,757,202)	28,772,657
Total at the end of the year	176,874,128	(109,988,792)	66,885,336	173,905,988	(113,773,684)	60,132,304
Unearned premium and unexpired risk reserves						
Total at the beginning of the year	250,597,253	(95,771,431)	154,825,822	222,594,463	(82,173,964)	140,420,499
Written during the year (Note 20)	614,965,550	(243,408,848)	371,556,702	509,859,129	(210,238,838)	299,620,291
Earned during the year	(582,439,264)	234,131,860	(348,307,404)	(481,856,339)	196,641,371	(285,214,968)
Net increase during the year	32,526,286	(9,276,988)	23,249,298	28,002,790	(13,597,467)	14,405,323
Total at the end of the year	283,123,539	(105,048,419)	178,075,120	250,597,253	(95,771,431)	154,825,822

10 Insurance contract liabilities and reinsurance contract assets (continued)

In addition to scenario testing, the development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top hal of each table illustrates how the Company's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the tabl reconciles the cumulative claims to the amount appearing in the statement of financial position. The following tables illustrate the Company's estimate of total claim outstanding for the years up to 2019.

Gross incurred claims

Accident year	2010 and prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	AED	AED	AED	AED	AED	AED	AED	AED	AED	AED	AED
At the end of each reporting year	-	67,236,434	58,192,423	66,234,335	63,205,397	60,475,066	246,853,371	164,439,211	238,066,963	446,608,768	446,608,768
One year later	36,702,483	98,933,573	111,598,397	140,144,025	143,446,142	169,435,671	258,643,705	187,406,800	259,390,121	-	259,390,121
Two years later	44,368,353	102,631,118	121,624,610	145,499,675	166,245,265	172,479,841	255,806,800	186,260,398	-	-	186,260,398
Three years later	53,647,118	105,689,097	127,726,686	148,370,898	161,121,115	171,330,154	252,505,210	-	-	-	252,505,210
Four years later	53,532,245	105,905,803	129,771,657	155,314,887	162,780,799	169,671,483	-	-	-	-	169,671,483
Five years later	53,733,381	108,280,953	131,524,065	155,283,825	155,607,348	-	-	-	-	-	155,607,348
Six years later	59,622,941	108,404,521	131,359,251	156,368,831	-	-	-	-	-	-	156,368,831
Seven years later	60,585,790	108,418,337	130,130,188	-	-	-	-	-	-	-	130,130,188
Eight years later	60,478,363	108,036,143	-	-	-	-	-	-	-	-	108,036,143
Nine years later	55,575,092	-	-	-	-	-	-	-	-	-	55,575,092
Estimate of cumulative claims	55,575,092	108,036,143	130,130,188	156,368,831	155,607,348	169,671,483	252,505,210	186,260,398	259,390,121	446,608,768	1,920,153,582
Cumulative payments to date	(55,074,354)	(107,808,759)	(130,662,331)	(155,943,800)	(153,301,933)	(168,539,608)	(248,521,966)	(181,611,106)	(243,558,010)	(369,846,332)	(1,814,868,199)
Liability recognised in the statement of financial position	500,738	227,384	(532,143)	425,031	2,305,415	1,131,875	3,983,244	4,649,292	15,832,111	76,762,436	105,285,383
IBNR											69,284,747
Total reserves included in the statement of financial position											174,570,130

Notes to the financial statements for the year ended 31 December 2019 (continued)

10 Insurance contract liabilities and reinsurance contract assets (continued)

Net incurred claims

Accident year	2010 and prior AED	2011 AED	2012 AED	2013 AED	2014 AED	2015 AED	2016 AED	2017 AED	2018 AED	2019 AED	Total AED
At the end of each reporting year	-	48,366,003	44,180,146	52,641,573	49,611,789	49,545,254	173,621,669	89,461,830	98,191,261	237,274,773	237,274,773
One year later	20,513,590	68,280,843	72,350,793	107,118,396	115,341,422	108,247,658	193,436,654	104,279,445	110,008,927	-	110,008,927
Two years later	23,773,475	71,117,468	75,823,397	110,822,150	122,565,306	111,225,508	193,810,621	104,933,934	-	-	104,933,934
Three years later	24,384,112	71,642,737	76,426,436	112,031,971	122,353,292	110,640,199	192,813,219	-	-	-	192,813,219
Four years later	24,540,698	71,666,168	77,222,344	111,960,328	122,438,876	109,621,149	-	-	-	-	109,621,149
Five years later	25,182,338	72,610,688	79,224,961	111,947,910	122,087,406	-	-	-	-	-	122,087,406
Six years later	25,099,001	73,131,143	79,405,994	111,852,833	-	-	-	-	-	-	111,852,833
Seven years later	25,172,876	73,144,960	79,102,289	-	-	-	-	-	-	-	79,102,289
Eight years later	25,211,857	73,090,683	-	-	-	-	-	-	-	-	73,090,683
Nine years later	25,099,331	-	-	-	-	-	-	-	-	-	25,099,331
Estimate of cumulative claims	25,099,331	73,090,683	79,102,289	111,852,833	122,087,406	109,621,149	192,813,219	104,933,934	110,008,927	237,274,773	1,165,884,544
Cumulative payments to date	(24,957,369)	(73,027,762)	(79,143,887)	(111,718,063)	(121,730,314)	(109,232,806)	(190,626,995)	(102,188,082)	(107,541,711)	(210,370,293)	(1,130,537,282)
Liability recognised in the statement of financial position	141,962	62,921	(41,598)	134,770	357,092	388,343	2,186,224	2,745,852	2,467,216	26,904,480	35,347,262
IBNR											29,234,076
Total reserves included in the statement of financial position											64,581,338

10 Insurance contract liabilities and reinsurance contract assets (continued)

	2019 AED	2018 AED
Mathematical reserve - gross		
Total at the beginning of the year	-	-
Increase during the year	10,299,653	-
Release during the year	-	-
Net increase during the year	10,299,653	-
Total at the end of the year	10,299,653	-

	2019 AED	2018 AED
Mathematical reserve - reinsurance		
Total at the beginning of the year	-	-
Increase during the year	(1,119,404)	-
Release during the year	-	-
Net increase during the year	(1,119,404)	-
Total at the end of the year	(1,119,404)	-

11 Insurance and other receivables

	2019 AED	2018 AED (Restated)
Premium receivable	188,384,187	207,711,111
Reinsurance companies	64,482,751	10,544,208
Insurance agents and brokers	432,245	787,740
Due from related parties (Note 24)	15,584,523	12,580,062
Accrual of interest and other income	10,419,199	7,687,454
Advances and prepayments	12,498,854	13,561,912
Other receivables	1,078,434	23,925,881
	292,880,193	276,798,368
Less: Allowance for doubtful receivables	(39,036,998)	(38,235,258)
	253,843,195	238,563,110

The average credit period is 90 days. No interest is charged on outstanding receivables.

The Company always measures the loss allowance for receivables at an amount equal to lifetime ECL. The expected credit losses on insurance receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 70% (31 December 2018: 70%) against premium receivable, receivables from insurance agents and brokers and receivables from related parties over 365 days past due and 25% (31 December 2018: 25%) against receivables from reinsurance companies over 365 days past due because historical experience has indicated that these receivables are generally not all recoverable. The ECL rate used for past due receivables less than 90 days, between 91 to 180 days, 181 to 270 days and 271 to 365 days are 4%, 14%, 32%, and 49% respectively (31 December 2018: 10% for all). For receivables that are not yet due, the Company considered 1% (31 December 2018: 1%) as the loss rate.

11 Insurance and other receivables (continued)

Before accepting any new customer, the Company assesses the potential customers' credit quality and defines credit limits by customer. Of the premium receivables balance at the end of year, AED 9 million (2018: AED 30 million) is due from the Company's largest customer.

Ageing of insurance receivables:

	2019 AED	2018 AED (Restated)
Not due	115,178,861	77,250,961
0 - 90 days	84,000,817	74,906,405
91 - 180 days	15,834,879	27,629,585
181 - 270 days	10,748,533	6,931,252
271 – 365 days	7,846,378	8,689,851
Over 365 days	35,274,238	36,215,067
	268,883,706	231,623,121
Less: Allowance for doubtful debts	(39,036,998)	(38,235,258)
	229,846,708	193,387,863

Movements in the allowance for doubtful debts is as follows:

	2019 AED	2018 AED
Balance at beginning of the year	38,235,258	24,353,473
Initial application of IFRS 9	-	21,691,655
Balance as at 1 January	38,235,258	46,045,128
Charge for / (reversal of) impairment during the year	2,391,547	(5,936,445)
Write-offs during the year	(1,589,807)	(1,873,425)
Balance at the end of the year	39,036,998	38,235,258

12 Bank balances and cash

	2019 AED	2018 AED
Cash in hand	72,341	167,283
Current accounts with banks	27,579,380	55,788,554
Total cash and current accounts with banks (A)	27,651,721	55,955,837
Fixed deposits with maturities greater than 3 months	175,355,442	175,350,000
Fixed deposits under lien	300,000	300,000
Less: Provision for impairment	(121,016)	(563,593)
Total fixed deposits (B)	175,534,426	175,086,407
Total bank balances and cash (A + B)	203,186,147	231,042,244
Less: fixed deposits with maturities of greater than three months	(175,234,426)	(174,786,407)
Less: fixed deposits under lien	(300,000)	(300,000)
Cash and cash equivalents	27,651,721	55,955,837

12 Bank balances and cash (continued)

Certain fixed deposits with carrying amount of AED 300,000 at 31 December 2019 (2018: AED 300,000) are under lien against letters of guarantee (Note 27).

The interest rate on fixed deposits with banks ranges between 2.0% to 4.8% (2018: 2.0% to 4.8%) per annum. All fixed deposits are held in local banks in the United Arab Emirates.

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

	2019 AED	2018 AED
Balance at the beginning of the year	563,593	-
Provision on initial application of IFRS 9	-	620,760
(Reversal) / charge for impairment during the year	(442,577)	(57,167)
Balance at the end of the year	121,016	563,593

All the bank balances and fixed deposits in scope of the impairment model are in Stage 1 and there have been no movements between the stages during the year.

13 Share capital

	2019 AED	2018 AED
Authorised, issued and fully paid:		
115.5 million ordinary shares of AED 1 each (2018: 110 million ordinary shares of AED 1 each)	115,500,000	110,000,000

At the Annual General Meeting held on 15 April 2019, the shareholders approved a 5% of share capital bonus share amounting to AED 5.5 million for 2018, which resulted in an increase in the number of ordinary shares from 110 million to 115.5 million shares. The Company amended its Articles of Association to reflect the share capital increase after receiving the necessary approvals from the Securities and Commodities Authority ("SCA") and the UAE Insurance Authority.

14 Reserves

14.1 Statutory reserve

In accordance with U.A.E. Federal Law Number (2) of 2015 and the Company's Articles of Association, the Company has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law.

14.2 Voluntary reserve

As per the Company's Articles of Association, voluntary reserve can be created upon a recommendation of the Board of Directors and this reserve cannot be utilised for any other purpose unless approved by the Ordinarily General meeting. No transfer to voluntary reserve was made during 2019 and 2018.

15 Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2019 AED	2018 AED
Balance at the beginning of the year	5,029,729	5,330,571
Charge for the year	1,194,999	920,182
Amounts paid during the year	(544,038)	(1,221,024)
Balance at the end of the year	5,680,690	5,029,729

In accordance with the provisions of IAS 19 "Employee Benefits", management has carried out an exercise to assess the present value of its obligations as at 31 December 2019, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 3.5% (2018: 3.5%). Under this method, an assessment has been made of an employee's expected service life with the Company and the expected basic salary at the date of leaving the service. Management has assumed average increment / promotion costs of 5% (2018: 5%). The present value of the obligation as at 31 December 2019 is not materially different from the provision computed in accordance with the UAE Labour Law.

16 Insurance and other payables

	2019 AED	2018 AED (Restated)
Payables to third party administrators	42,772,935	29,421,360
Reinsurance companies	45,801,246	50,888,161
Due to related parties (Note 24)	1,044,820	23,199,014
Accrued expenses	13,256,636	6,634,281
Employees' benefits payable	1,000,000	2,991,632
Commission payable	22,318,377	23,616,107
Other payable balances	4,736,711	4,477,188
Dividends payable	2,055,760	2,055,760
	132,986,485	143,283,503

17 Bank borrowings

	2019 AED	2018 AED
Short-term bank loans (Note 24)	-	34,046,908

On 23 October 2019, the Company repaid in full the short-term bank loans. At 31 December 2018, short-term bank loans are secured by assignment of certain debt instruments of AED 34,709,850 in favor of the Bank. These loans carry an average interest rate of 4.04% per annum.

17 Bank borrowings (continued)

	2019 AED	2018 AED
Balance at the beginning of the year	34,046,908	36,005,609
Interest cost	1,109,403	1,214,781
Additions during the year	1,023,650	318,130
Repayments during the year	(36,179,961)	(3,491,612)
Balance at the end of the year	-	34,046,908

18 Deferred commission income

	2019 AED	2018 AED (Restated)
Balance at the beginning of the year	30,482,575	8,403,509
Commission received during the year	16,398,473	40,086,494
Commission income earned during the year	(22,269,095)	(18,007,428)
Balance at the end of the year	24,611,953	30,482,575

Of the deferred commission income balance at 31 December 2019, AED 11,161,576 (2018: AED 12,399,027) is expected to be earned no more than 12 months after the reporting period and AED 13,450,377 (2018: AED 18,083,548) is expected to be earned more than 12 months after the reporting period.

19 Deferred acquisition costs

	2019 AED	2018 AED (Restated)
Balance at the beginning of the year	37,810,690	15,397,608
Acquisition costs paid during the year	47,431,921	58,931,797
Amortisation charge for the year	(51,946,309)	(36,518,715)
Balance at the end of the year	33,296,302	37,810,690

Of the deferred acquisition costs balance at 31 December 2019, AED 20,468,590 (2018: AED 20,563,160) is expected to be amortised no more than 12 months after the reporting period and AED 12,827,712 (2018: AED 17,247,530) is expected to be amortised more than 12 months after the reporting period.

20 Net insurance premium revenue

	2019 AED	2018 AED
Gross written premiums		
Gross written premiums	614,965,550	509,859,129
Change in unearned premium (Note 10)	200,779	(28,171,863)
Change in unexpired risk reserve ("URR") (Note 10)	(32,727,065)	169,073
	582,439,264	481,856,339
Reinsurance premium ceded		
Reinsurance premium ceded	243,408,848	210,238,838
Change in unearned premium (Note 10)	17,024,557	(13,673,731)
Change in unexpired risk reserve ("URR") (Note 10)	(26,301,545)	76,264
	234,131,860	196,641,371
Net insurance premium revenue	348,307,404	285,214,968

21 Investment income – (net)

	2019 AED	2018 AED
Dividend income from financial investments	9,166	9,166
Net income from investment properties (Note 6)	712,733	787,712
Fair value gains / (losses) on financial investments at FVTPL	357,650	(32,033)
Impairment of investment properties	-	(1,383,626)
	1,079,549	(618,781)

22 Social contributions

Social contributions during the year amounted to AED 4,000 (2018: AED 5,880).

23 Basic and diluted earnings per share

	2019 AED	2018 AED (Restated)
Profit for the year (in AED)	3,534,639	19,435,722
Weighted average number of shares	115,500,000	115,500,000
Basic and diluted earnings per share (in AED)	0.03	0.17

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

24 Related party balances and transactions

The Company, in the normal course of business, collects premiums, settles claims and enters into transactions with other business enterprises that fall within the definition of a related party as defined by International Accounting Standard 24 (Revised). Related parties include the Company's major shareholders, directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel. The Company's management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

24.1 Amounts due from/to related parties included in the statement of financial position were as follows:

	2019 AED	2018 AED
Due from Parent company (premium and repo receivable)	5,188,394	-
Due from directors (premium receivable)	45,482	1,594
Due from other related parties (premium receivable)	10,350,647	12,578,468
Due to parent company (commission payable)	(911,096)	(23,101,766)
Due to other related parties (claim payable)	(133,724)	(97,248)
Fixed deposits placed with parent company	21,150,000	40,650,000
Bank balances placed with parent company	21,226,749	34,617,772
Bank borrowings from parent company (Note 17)	-	(34,046,908)

Balances due from and to related parties are interest free and repayable on demand.

24.2 Transactions with related parties during the year were as follows:

	2019 AED	2018 AED
Gross written premiums (parent company)	74,916,981	29,867,862
Gross written premiums (directors)	67,998	116,556
Gross written premiums (other related parties)	19,308,666	20,357,159
Claims paid (parent company)	(35,287,649)	(27,999,107)
Claims paid (directors)	(3,756)	(1,124,355)
Claims paid (other related parties)	(3,486,647)	(4,415,689)
Dividends (parent company)	(8,715,498)	(13,073,247)
Dividends (directors)	(1,406,934)	(2,105,186)
Interest costs (parent company)	(1,109,403)	(1,214,781)

24 Related party balances and transactions (continued)

24.3 Compensation of board of directors and key management personnel were as follows:

	2019 AED	2018 AED
Short-term benefits	5,417,643	5,373,362
Long-term benefits	274,550	417,452
Board of directors' remuneration	1,840,000	1,460,000

25 General and administrative expenses

	2019 AED	2018 AED
Staff costs (Note 25.1)	28,683,117	27,515,027
Professional fees	2,340,387	1,522,061
Marketing expenses	258,090	323,920
Communication expenses	938,482	771,221
Travel and entertainment expenses	243,199	420,236
Depreciation of property and equipment	1,433,128	1,337,276
Amortisation of intangible assets	1,333,116	1,100,072
Depreciation of investment properties	-	422,714
Rental costs – operating leases	1,111,689	1,149,788
Administration expenses	1,612,298	343,940
Utilities and maintenance	2,555,237	599,449
Supervision and training fees	2,783,953	2,624,805
Bank charges	787,563	1,731,133
Other expenses	558,526	3,827,364
	44,638,785	43,689,006

25.1 Staff costs

	2019 AED	2018 AED
Salaries and allowances	24,591,377	22,242,019
Employees' end of service benefits	1,075,499	690,137
Staff insurance	1,402,203	1,112,567
Other staff benefits	1,614,038	3,470,304
	28,683,117	27,515,027

26 Other expenses

Other expenses represent expenses that are not attributable to the underwriting activities of the Company.

27 Contingent liabilities

	2019 AED	2018 AED
Letters of guarantee	10,690,028	10,675,633

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

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

28 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. It is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of claims. The objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

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

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

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical locations and type of industries covered.

28.1 Frequency and severity of claims

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

The Company has the right not to renew individual policies, re-price the risk, impose deductibles and reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation).

28 Insurance risk (continued)

28.1 Frequency and severity of claims (continued)

The reinsurance arrangements include excess of loss and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set limit of AED 300,000 for motor insurance and AED 12,000 for medical insurance class of business in any one policy. In addition to the overall Company reinsurance programme, business units are permitted to purchase additional facultative reinsurance protection, if needed. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends adjustments to claims. The claims are reviewed individually at least once a year and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

The following tables disclose the concentration of insurance liabilities by line of business. The amounts are the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from the insurance contracts:

	As at 31 December 2019			As at 31 December 2018		
	Gross AED	Reinsurers' share AED	Net AED	Gross AED	Reinsurers' share AED	Net AED
Marine and aviation	4,949,844	(3,674,467)	1,275,377	11,019,360	(9,838,313)	1,181,047
Motor	47,747,083	(20,468,225)	27,278,858	53,736,446	(24,850,701)	28,885,745
Engineering, Fir and General accidents and others	92,004,984	(70,292,976)	21,712,008	110,129,684	(86,976,391)	23,153,293
Medical	310,799,920	(116,739,233)	194,060,687	247,238,775	(85,535,897)	161,702,878
Life	14,795,489	(4,981,714)	9,813,775	2,378,976	(2,343,813)	35,163
	470,297,320	(216,156,615)	254,140,705	424,503,241	(209,545,115)	214,958,126

The concentration by sector at the end of the year is broadly consistent with the prior year.

28.2 Sources of uncertainty in the estimation of future claim payments

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

28 Insurance risk (continued)

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

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

The liability for these contracts comprise a provision for IBNR and a provision for reported claims not yet paid at the end of the reporting period.

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

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

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

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

	2019		2018	
Type of risk	**Gross loss ratio**	**Net loss ratio**	**Gross loss ratio**	**Net loss ratio**
Motor	29%	26%	26%	11%
Marine and aviation	(105)%	44%	102%	42%
Medical and life	104%	90%	91%	84%
Engineering, fire, general accidents and others	17%	11%	29%	17%
	84%	79%	75%	73%

28 Insurance risk (continued)

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

Based on the simulations performed, the impact on profit of a change of 1% in the insurance claims and loss adjustment expenses for both gross and net of reinsurance recoveries would be as follows:

	2019 Gross AED	2018 Gross AED	**2019 Net AED**	2018 Net AED
Impact of an increase of 1% in claims ratio	(4,527,496)	(3,387,912)	(2,388,437)	(1,914,869)
Impact of a decrease of 1% in claims ratio	4,527,496	3,387,912	2,388,437	1,914,869

28.3 Process used to decide on assumptions

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

The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (for example, paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market- based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

28 Insurance risk (continued)

28.3 Process used to decide on assumptions (continued)

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that a weighted average of different techniques have been selected for individual accident years or groups of accident years within the same class of business. The Company has an internal actuary and independent external actuaries are also involved in the valuation of technical reserves of the Company and has used historical data for the past 9 years.

The Company did not change its assumptions for the insurance contracts during the year.

28.4 Concentration of insurance risk

Substantially all of the Company's underwriting activities are carried out in the United Arab Emirates. In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Company, in the normal course of business, enters into arrangement with other parties for reinsurance purposes.

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

29 Capital risk management

The Company's objectives when managing capital, which the Company considers to be the equity as shown in the statement of financial position, are:

- to comply with the insurance capital requirements required by U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its Operations;
- to protect its policyholders' interest;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

In U.A.E., Insurance Authority 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.

The table below summarises the minimum required capital of the Company and the total capital held.

	2019 AED	2018 AED
Total capital held	115,500,000	110,000,000
Minimum regulatory capital	100,000,000	100,000,000

The U.A.E. Insurance Authority has issued resolution no. 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing insurance companies and AED 250 million for reinsurance companies. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the U.A.E. should be owned by U.A.E. or G.C.C. national individuals or corporate bodies. The Company is in compliance with these rules.

As per Article (8) of Section (2) of financial regulations issued for insurance companies in the UAE, the Company shall at all times comply with the requirement of solvency margins. As of 31 December 2019, the Company is confident of complying with solvency margins.

29 Capital risk management (continued)

29.1 Gearing ratio

The Company reviews the capital structure on a regular basis. As part of this review, the Company considers the cost of capital and the risks associated with capital.

The gearing ratio at the year end was as follows:

	2019 AED	2018 AED (Restated)
Debt (i)	-	34,046,908
Bank balances and cash (Note 12)	(203,186,147)	(231,042,244)
Net debt	(203,186,147)	(196,995,336)
Equity (ii)	190,166,651	194,555,151
Net debt to equity ratio	Favorable	Favorable

A favourable net debt to equity ratio is when the net debt is in excess of equity.

(i) Debt is defined as bank borrowings (Note 17).
(ii) Equity includes share capital, statutory reserve, voluntary reserve, cumulative changes in fair value of FVOCI investments and retained earnings.

30 Financial instruments

30.1 Significant accounting policies

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

30 Financial instruments (continued)

30.2 Categories of financial instruments

	2019 AED	2018 AED (Restated)
Financial assets		
FVOCI investments – debt	71,846,613	67,182,979
FVOCI investments – equity	713,556	753,665
FVTPL investments	4,599,938	4,242,288
Statutory deposit – at amortised cost	10,000,000	10,000,000
Insurance and other receivables – at amortised cost	241,344,341	225,001,198
Fixed deposits – at amortised cost	175,534,426	175,086,407
Bank balances and cash – at amortised cost	27,651,721	55,955,837
	531,690,595	538,222,374
Financial liabilities		
Insurance and other payables – at amortised cost	132,986,485	143,283,503
Bank borrowings – at amortised cost	-	34,046,908
	132,986,485	177,330,411

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values due to their short-term nature.

30.3 Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

30 Financial instruments (continued)

30.3 Fair value measurements (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2018.

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

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

Financial assets	Fair value as at 2019 AED	Fair value as at 2018 AED	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
FVOCI investments						
Quoted debt	71,846,613	67,182,979	Level 1	Quoted bid prices in an active market.	None.	Not applicable
Quoted equity	713,556	753,665	Level 1	Quoted bid prices in an active market.	None.	Not Applicable
FVTPL investments						
Funds	4,599,938	4,242,288	Level 1	Quoted bid prices in an active market.	None.	Not applicable

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

31 Financial risk

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk (which includes: foreign currency risk, equity price risk and interest rate risk), credit risk and liquidity risk.

31.1 Market risk

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's market risks arise primarily from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities, to the extent they are exposed to general and specific market movements. Management sets limits on the exposure to currency and interest rate risk that may be acceptable, which are monitored on a regular basis.

Market risk exposures are measured using sensitivity analysis. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

31.1.1 Foreign currency risk

There are no significant exchange rate risks as all monetary assets and monetary liabilities are denominated in Arab Emirates Dirhams, other G.C.C. currencies or US Dollars to which the Dirham is fixed.

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

31.1.2 Equity price risk

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

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Company's:

- profit for the year would have decreased/increased by AED 459,994 (2018: AED 424,228) in the case of financial investments at FVTPL.
- other comprehensive income and equity would have increased/decreased by AED 71,356 (2018: AED 75,367) in the case of financial investments at FVOCI.

31 Financial risk (continued)

31.1 Market risk (continued)

31.1.2 Equity price risk (continued)

Method and assumptions for sensitivity analysis:

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

31.1.3 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Company. The Company is not significantly exposed to interest rate risk on its financial investments in debt instruments and term deposits and bank borrowings since they carry fixed interest rates. As such, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

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

31 Financial risk (continued)

31.2 Credit risk

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

Key areas where the Company is exposed to credit risk are:
- reinsurance contract assets;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from other insurance companies;
- investments in debt instruments;
- bank balances and cash; and
- fixed deposits

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

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

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

For insurance and other receivables, the Company applied the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected impairment provision for insurance and other receivables. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

31 Financial risk (continued)

31.2 Credit risk (continued)

On that basis, the impairment provision as at 31 December 2019 and 31 December 2018 was determined as follows for insurance and other receivables based on the expected loss rates disclosed in Note 11:

	Not Yet Due AED	< 90 days AED	91-180 days AED	181-270 days AED	271 – 365 days AED	> 365 days AED	Total AED
31 December 2019							
Gross carrying amount - insurance and other receivables	115,178,861	84,000,817	15,834,879	10,748,533	7,846,378	35,274,238	268,883,706
Impairment provision (note 11)	(1,151,789)	(3,176,446)	(2,511,552)	(3,362,352)	(2,438,295)	(26,396,564)	(39,036,998)
	114,027,072	80,824,371	13,323,327	7,386,181	5,408,083	8,877,674	229,846,708
31 December 2018							
Gross carrying amount - insurance and other receivables	77,250,961	74,906,405	27,629,585	6,931,252	8,689,851	36,215,067	231,623,121
Impairment provision (note 11)	(772,510)	(7,442,315)	(2,754,639)	(685,246)	(2,703,728)	(23,876,820)	(38,235,258)
	76,478,451	67,464,090	24,874,946	6,246,006	5,986,123	12,338,247	193,387,863

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. Insurance and other receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of insurance and other receivables.

There is no significant concentration of credit risk with respect to cash and bank balances, as the Company holds cash accounts in a large number of financial institutions. The credit risk on liquid funds is limited because the counterparties are registered banks with sound financial positions. The table below presents an analysis of bank balances and cash and fixed deposits by rating agency designation at the end of the reporting period based on Moody's rating or its equivalent for the main banking relationships:

	2019 AED	2018 AED
Aa3	5,054,481	10,199,323
A1	115,890	118,673
A2	1,060,353	778,532
A3	55,001,000	30,000,000
Baa1	141,882,082	189,778,433
Not rated	72,341	167,283
	203,186,147	231,042,244

31 Financial risk (continued)

31.2 Credit risk (continued)

At the end of the reporting period, the Company's maximum exposure to credit risk, from insurance receivables situated outside the U.A.E. were as follows:

	2019 AED	2018 AED
Europe	55,368,269	7,565,239
Other G.C.C. countries	1,393,581	6,859

All of the Company's debt investments measured at fair value through other comprehensive income are considered to have low credit risk, and the impairment charge recognised during the year was therefore limited to 12 months' expected losses.

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

31.3 Liquidity risk

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities at maturity date. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities to ensure that funds are available to meet its commitments for liabilities as they fall due.

The table below summarises the maturity profile of the Company's financial assets, financial liabilities, insurance contract liabilities and reinsurance contracts assets held. The maturity analysis has been presented on a contractual undiscounted cash flow basis except for insurance contract liabilities and reinsurance contract assets held which have been presented on their expected cash flows. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

31 Financial risk (continued)

31.3 Liquidity risk (continued)

	Less than 30 days AED	31-90 days AED	91-180 days AED	181 - 365 days AED	Above 365 days AED	No maturity date AED	Total AED
31 December 2019							
FVOCI investments - debt	-	-	-	-	71,846,613	-	71,846,613
FVOCI investments - equity	-	-	-	-	713,556	-	713,556
FVTPL investments	4,599,938	-	-	-	-	-	4,599,938
Statutory deposit	-	-	-	-	-	10,000,000	10,000,000
Insurance and other receivables	114,639,587	82,675,461	14,638,869	15,873,268	12,767,814	749,342	241,344,341
Fixed deposits	-	29,987,195	24,987,068	56,622,604	63,937,559	-	175,534,426
Bank balances and cash	27,651,721	-	-	-	-	-	27,651,721
	146,891,246	112,662,656	39,625,937	72,495,872	149,265,542	10,749,342	531,690,595
Insurance and other payables	9,243,414	36,697,434	34,421,094	26,279,232	15,705,684	10,639,627	132,986,485
	9,243,414	36,697,434	34,421,094	26,279,232	15,705,684	10,639,627	132,986,485

31 Financial risk (continued)

31.3 Liquidity risk (continued)

	Less than 30 days AED	31-90 days AED	91-180 days AED	181 - 365 days AED	Above 365 days AED	No maturity date AED	Total AED
31 December 2018 (Restated)							
FVOCI investments - debt	-	-	-	-	67,182,979	-	67,182,979
FVOCI investments - equity	-	-	-	-	753,665	-	753,665
FVTPL investments	4,242,288	-	-	-	-	-	4,242,288
Statutory deposit	-	-	-	-	-	10,000,000	10,000,000
Insurance and other receivables	51,150,890	86,873,825	30,443,870	30,055,300	26,477,313	-	225,001,198
Fixed deposits		44,939,548	-	40,286,453	89,860,406	-	175,086,407
Bank balances and cash	55,955,837	-	-	-	-	-	55,955,837
	111,349,015	131,813,373	30,443,870	70,341,753	184,274,363	10,000,000	538,222,374
Insurance and other payables	34,530,480	23,343,934	20,029,636	12,379,216	53,000,237	-	143,283,503
Bank borrowings	-	34,046,908	-	-	-	-	34,046,908
	34,530,480	57,390,842	20,029,636	12,379,216	53,000,237	-	177,330,411

31 Financial risk (continued)

31.4 Operational risk

Operational risk is the risk of loss arising from system failures, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access, authorisation, and reconciliation procedures, staff education and assessment processes.

32 Segment information

The Company is organised into two segments: Underwriting and investments. Underwriting segment incorporates all classes of insurance including fire, marine, medical, motor, general accident, life and other classes of insurance.

Investments segment includes investments in U.A.E. marketable equity securities, term deposits with banks, investment properties, trading investments and other securities. These segments are the basis on which the Company reports its primary segment information to the Chief Executive Officer. Insurance premium represents the total income arising from insurance contracts. The Company does not conduct any business outside U.A.E. There are no transactions between the business segments.

The following is an analysis of the Company's revenue classified by major underwriting departments:

	2019 AED	2018 AED
Motor	46,741,292	43,275,484
Marine and aviation	5,084,298	4,474,322
Life	61,850,205	792,093
Medical	410,887,149	379,483,011
Engineering, fire, general accidents and others	90,402,606	81,834,219
	614,965,550	509,859,129

32 Segment information (continued)

	For the year ended 31 December 2019			For the year ended 31 December 2018		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment revenue	614,965,550	-	614,965,550	509,859,129	-	509,859,129
Segment result	(2,834,818)	10,906,886	8,072,068	19,566,860	9,964,065	29,530,925
Unallocated costs (net)			(4,537,429)			(10,095,203)
Profit for the year			3,534,639			19,435,722

	As at 31 December 2019			As at 31 December 2018 (Restated)		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment assets	513,296,112	268,509,538	781,805,650	495,918,915	263,597,841	759,516,756
Unallocated assets			41,937,449			72,384,351
Total assets			823,743,099			831,901,107
Segment liabilities	627,895,758	-	627,895,758	598,269,319	34,046,908	632,316,227
Unallocated liabilities			5,680,690			5,029,729
Total liabilities			633,576,448			637,345,956

33 Dividend and directors' remuneration

At the Annual General Meeting held on 15 April 2019, the shareholders approved a cash dividend of AED 11 million (at 10 fils per share) and 5% bonus share of AED 5.5 million (2018: at the Annual General Meeting held on 7 March 2018, the shareholders approved a cash dividend of AED 16.5 million (at 15 fils per share) for 2017). The shareholders also approved Board of Directors' remuneration of AED 1.5 million for 2018 (2018: AED 1.5 million for 2017).

The Board of Directors propose that a 5% bonus share of AED 5.775 million to be issued to the shareholders in 2020. Further, the Board of Directors propose Board of Directors remuneration of AED 350,000 for 2019. These are subject to approval by the shareholders at the Annual General Meeting and have not been included as a liability in these financial statements.

34 Prior year adjustments and comparative information

(a) The comparative figures for the previous year have been restated due to correction of prior period error relating to the accounting assets and liabilities arising from capitation agreements. At the inception of the agreement and before the services are provided, the Company recorded an asset in form of deferred capitation fee and a payable to the capitation service provider. The effect of the correction of this error is the reversal of the deferred asset and payable to the service provider, recorded in "Insurance and other receivables" and "Insurance and other payables" respectively.

(b) The comparative figures for the previous year have been restated due to correction of prior period error relating to the accounting for commission expense and commission income arising from an agreement with a Bank to propose, issue and administer credit life insurance policies in favor of the customers of the Bank and an agreement with a reinsurance company to transfer policies and benefits reinsured under the agreement respectively. At the inception of the agreements and before the services are provided, the Company recorded commission expense and a payable to the Bank as well as commission income and a receivable from the reinsurance company. The effect of the correction of this error is the reversal of the commission expense and the commission income and the amortisation of each over the period of the respective agreement.

Basic and diluted earnings per share for the year ended 31 December 2018 reduced from AED 0.19 to AED 0.17. This correction of prior year error, does not affect the balances and amounts previously reported as at 1 January 2018 since the agreements were entered into by the Company on 1 December 2018. It also does not affect the net cash generated from / used in operating, investing and financing activities since the correction of the error is within the operating activities line items only with no impact on the cash used in operating activities.

(c) The comparative figures for the previous year have been restated due to correction of prior period error relating to the classification of third party administration ("TPA") fees and the related deferred asset. The Company accounted for the TPA fees within "Commission incurred" and the related deferred asset within "Deferred acquisition cost". The effect of the correction of this error is the reclassification of the TPA fees to "Gross claims settled" and the deferred asset to "Advances and prepayments" within "Insurance and other receivables".

34 Prior year adjustments and comparative information (continued)

The reconciliation of previously reported and restated amounts in the statement of financial position as at 31 December 2018 and 1 January 2019 is as follows:

	As previously reported as at 31 December 2018 (Audited)	Adjustment (a)	Adjustment (b)	Adjustment (c)	Adjusted as at 31 December 2018 (Audited)
	AED	AED	AED	AED	AED
Deferred acquisition cost	24,708,115	-	21,539,683	(8,437,108)	37,810,690
Deferred commission income	7,865,908	-	22,616,667	-	30,482,575
Insurance and other receivables	274,553,802	(44,427,800)	-	8,437,108	238,563,110
Insurance and other payables	187,711,303	(44,427,800)	-	-	143,283,503
Total assets	854,789,224	(44,427,800)	21,539,683	-	831,901,107
Total liabilities	659,157,089	(44,427,800)	22,616,667	-	637,345,956
Retained earnings	21,974,663	-	(1,076,984)	-	20,897,679
Total equity	195,632,135	-	(1,076,984)	-	194,555,151
Total equity and liabilities	854,789,224	(44,427,800)	21,539,683	-	831,901,107

	As previously reported as at 1 January 2018 (Audited)	Adjustment (a)	Adjustment (b)	Adjustment (c)	Adjusted as at 1 January 2018 (Audited)
	AED	AED	AED	AED	AED
Deferred acquisition cost	22,978,881	-	-	(7,581,273)	15,397,608
Insurance and other receivables	247,921,882	(19,615,722)	-	7,581,273	235,887,433
Insurance and other payables	184,498,760	(19,615,722)	-	-	164,883,038
Total assets	844,211,395	(19,615,722)	-	-	824,595,673
Total liabilities	625,062,030	(19,615,722)	-	-	605,446,308
Total equity and liabilities	844,211,395	(19,615,722)	-	-	824,595,673

34 Prior year adjustments and comparative information (continued)

The reconciliation of previously reported and restated amounts in the income statement and statement of comprehensive income for the year ended 31 December 2018 is as follows:

	As previously reported as at 31 December 2018 (Audited)	Adjustment (a)	Adjustment (b)	Adjustment (c)	Adjusted as at 31 December 2018 (Audited)
	AED	AED	AED	AED	AED
Gross claims settled	(338,791,224)	-	-	(18,922,124)	(357,713,348)
Commission incurred	(78,075,760)	-	22,634,921	18,922,124	(36,518,715)
Gross commission earned	40,624,095	-	(22,616,667)	-	18,007,428
Net commission incurred	(37,451,665)	-	18,254	18,922,124	(18,511,287)
Gross underwriting profit	57,222,979	-	18,254	-	57,241,233
General and administrative expenses	(42,593,768)	-	(1,095,238)	-	(43,689,006)
Net underwriting profit	20,643,844	-	(1,076,984)	-	19,566,860
Profit for the year	20,512,706	-	(1,076,984)	-	19,435,722
Total comprehensive income for the year	15,853,303	-	(1,076,984)	-	14,776,319

35 Reclassification

An amount of AED 7,865,908 was reclassified from "Insurance and other payables" to "Deferred commission income" relating to deferred commission income previously classified as insurance and other payables to conform with current year presentation.

36 Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 19 February 2020.