Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance

Financial statements for the year ended
31 December 2019

Directors' report

The directors submit their report for the year ended 31 December 2019.

Incorporation and registered offices

Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance - Dubai (the "Company") is a public shareholding company and was registered in 1992 under U.A.E. Federal Law No. (2) of 2015 relating to commercial companies in U.A.E. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its Operations and is registered in the Insurance Companies Register of Insurance Authority of U.A.E under registration number 6. The address of the Company's registered office is P.O. Box 1993, Dubai, United Arab Emirates.

Principal activities

The Company started issuing short term takaful contracts from 1 February 2015 in connection with non-life takaful such as motor, marine, fire, engineering, medical and general accident risks (collectively known as general takaful) and the name of the Company was changed to Arabian Scandinavian Insurance Company (PLC) - Takaful ASCANA Insurance. The Company only operates in U.A.E., through its Dubai and Abu Dhabi office.

Financial position and results

The financial position and results of the Company for the year ended 31 December 2019 are set out in the accompanying financial statements.

Directors

The following were the Directors of the Company for the year ended 31 December 2019:

- H.H. Sheikh Butti Bin Maktoum Bin Juma Al Maktoum
- Mr. Khaled Habib Mohammed Al Redha
- Mr. Majid Mohammed Amin Al Kazim
- Mr. Ahmad Mohammed Amin Al Kazim
- Mr. Faisal Aqeel Mohammed Al Bastaki
- Mr. Mahmoud Mohammed Hadi Hassan
- Dr. Mohammad Salim Ahmad Al Olama

Auditors

Grant Thornton were appointed as auditors of the Company for the year ended 31 December 2019 and being eligible, have offered themselves for re-appointment. The Directors have proposed their appointment as auditors of the Company for the year ending 31 December 2020.

These financial statements for the year ended 31 December 2019 (including comparatives) were approved by the Board of Directors on 11 March 2020 and were signed on their behalf by:

Mr. Ahmad Mohammed Amin Al Kazim
Vice Chairman

Dubai, United Arab Emirates

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Independent auditor's report

To the shareholder of Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance (the "Company"), Dubai, United Arab Emirates which comprise the statement of financial position as at 31 December 2019, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Company for the year ended 31 December 2019. 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.

i) Valuation of takaful contract liabilities and retakaful contract assets

The estimation of liabilities arising from takaful contracts such as outstanding claims, incurred but not reported claims, unallocated loss adjustment expenses and unearned premium reserve, as

Independent auditor's report

To the shareholder of Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

i) Valuation of takaful contract liabilities and retakaful contract assets (continued)

disclosed in note 7 to the financial statements, involves a significant degree of judgement. These liabilities are based on the best-estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and the pattern of risk distribution over the coverage period. Actuarial computations have been used to determine these provisions. Underlying these computations are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Since the determination of such a provision requires the expertise of an external valuation expert who incorporates significant assumptions, judgements and estimations, the valuation of these liabilities was significant to our audit.

We assessed management's calculations of the takaful contract liabilities and retakaful contract assets by performing the following procedures:

- We tested the underlying company data to source documentation;
- We applied our industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices;
- Understood and tested the governance process in place to determine the takaful contract liabilities and retakaful contract assets, including testing the associated financial reporting control framework;
- We performed independent re-computations on selected classes of business, particularly focusing on the largest and most uncertain reserves. For these classes we compared our re-computed claims reserves to those booked by management, and sought to understand any significant differences;
- For the remaining classes we evaluated the methodology and assumptions, or performed a diagnostic check to identify and follow up any anomalies; and
- We involved our own actuarial specialist to assist us in performing our procedures in this area.

Based on the work performed, we considered the methodology and assumptions used by management to be appropriate.

ii) Valuation of investment properties

Company holds investment properties under the fair value model as at 31 December 2019 amounting to AED 166 million (2018: 269.4 million), as detailed in note 13. The fair value estimate requires significant judgement and estimates by management and independent external valuers. The Company has involved independent external valuers in order to value the investment properties for the purpose of determining the fair value for inclusion in the financial statements. The existence of significant estimation and judgement coupled with change in valuation assumptions used could result in material change. Therefore, the valuation of these investment properties was significant to our audit.

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Independent auditor's report

To the shareholder of Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

ii) Valuation of investment properties (continued)

Our audit procedures, among others, included:

- Discussion with the independent valuer to understand the basis of valuation for each property and other judgements used in performing the valuation;
- Assessing the competence, capabilities, and objectivity of external valuers; and
- Assessing the appropriateness of the key assumptions and methodologies used.

Other information

Management is responsible for the other information. The other information comprises the information included in the Directors' Report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and accordingly we do 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.

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

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

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

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

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Independent auditor's report

To the shareholder of Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance (continued)

Report on the audit of the financial statements (continued)

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 year 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.

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Independent auditor's report

To the shareholder of Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance (continued)

Report on other Legal and Regulatory Requirements

Further, as required by the Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations and UAE Federal Law No. (2) of 2015, we report that:

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

ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations and UAE Federal Law No. (2) of 2015;

iii) the Company has maintained proper books of account;

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

v) note 10 to the financial statements discloses purchase of shares by the Company during the year ended 31 December 2019;

vi) note 9 to the financial statements discloses material related party transactions, and the terms under which they were conducted; and

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2019 any of the applicable provisions of the Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations and UAE Federal Law No.(2) of 2015 or of its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2019.

Grant Thornton

GRANT THORNTON
Farouk Mohamed
Registered Auditor Number 86

Grant Thornton P.O. Box: 1620 DUBAI-U.A.E. Public Accountants

Dubai, 11 March 2020

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of financial position
As at 31 December 2019

	Notes	2019 AED'000	2018 AED'000
ASSETS			
Takaful operations' assets			
Cash and bank balances	5	**72,121**	97,497
Takaful and retakaful receivables	6	**16,068**	28,112
Retakaful contract assets:			
Unearned contribution	7	**8,807**	12,196
Claims reported unsettled	7	**8,187**	14,291
Claims incurred but not reported	7	**4,616**	5,684
Additional unexpired risk reserve	7	**-**	498
Prepayments and other receivables	8	**9,498**	7,992
Due from related parties	9	**5,897**	10,721
Deferred policy acquisition cost		**8,161**	7,843
Total takaful operations' assets		**133,355**	184,834
Shareholders' assets			
Cash and bank balances	5	**151,458**	18,980
Statutory deposits	11	**10,000**	10,000
Prepayments and other receivables	8	**2,049**	3,668
Due from policyholders	12	**33,336**	58,499
Other financial assets measured at fair value through other comprehensive income (FVTOCI)	10	**1,939**	1,939
Other financial assets measured at fair value through profit and loss (FVTPL)	10	**515**	27,938
Investment properties	13	**165,994**	269,356
Property and equipment	14	**2,304**	809
Total shareholders' assets		**367,595**	391,189
Total assets		**500,950**	576,023

The accompanying notes 1 to 40 form an integral part of these financial statements.

Statement of financial position (continued)

As at 31 December 2019

	Notes	2019 AED'000	2018 AED'000
LIABILITIES, POLICYHOLDERS' FUND AND EQUITY			
Takaful operations' liabilities and policyholders' fund			
Takaful operations' liabilities			
Takaful and retakaful payables	15	**44,404**	55,116
Takaful contract liabilities:			
Unearned contribution	7	**68,032**	76,732
Claims reported unsettled	7	**18,324**	24,319
Claims incurred but not reported	7	**21,429**	29,623
Unallocated loss adjustments expense reserve	7	**2,261**	1,671
Additional unexpired risk reserve	7	**6,335**	1,821
Other liabilities	16	**5,023**	5,905
Due to related parties	9	**6**	1
Due to shareholders	12	**33,336**	58,499
Deferred discount		**1,963**	2,267
Total takaful operations' liabilities		**201,113**	255,954
Policyholders' fund			
Deficit in policyholders' fund	17	**(67,758)**	(71,120)
Qard Hassan from shareholders	17	**67,758**	71,120
Total policyholders' fund		**-**	-
Liabilities and policyholders' fund		**201,113**	255,954
Shareholders' liabilities and equity			
Shareholders' liabilities			
Provision for employees' end of service indemnity	18	**2,473**	2,353
Other liabilities	16	**7,145**	6,839
Lease liabilities	2	**1,074**	-
Due to related parties	9	**37**	-
Total shareholders' liabilities		**10,729**	9,192
Shareholders' equity			
Share capital	19	**154,000**	154,000
Statutory reserve	20	**63,572**	63,572
Voluntary reserve	21	**50,064**	50,064
Investments revaluation reserve - FVTOCI	22	**(484)**	(484)
Retained earnings		**21,956**	43,725
Total shareholders' equity		**289,108**	310,877
Total shareholders' liabilities and equity		**299,837**	320,069
Total liabilities, policyholders' fund and equity		**500,950**	576,023

These financial statements were approved by the Board of Directors on 11 March 2020 and were signed on their behalf by:

Mr. Ahmad Mohammed Amin Al Kazim
Vice Chairman

The accompanying notes 1 to 40 form an integral part of these financial statements.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of income
For the year ended 31 December 2019

	Notes	2019 AED'000	2018 AED'000
Attributable to policyholders			
Takaful income			
Gross takaful contribution	23	**141,431**	168,498
Retakaful share of accepted business		**(111)**	(82)
Retakaful share of ceded business		**(26,743)**	(40,614)
Net takaful contribution	23	**114,577**	127,802
Net transfer to unearned contribution reserves and additional unexpired risk reserves	23	**300**	24,048
Net takaful contribution earned	23	**114,877**	151,850
Discount received on retakaful contributions		**5,263**	6,570
Policy fees		**17**	26
Total takaful income		**120,157**	158,446
Takaful expenses			
Gross claims incurred	24	**(117,289)**	(170,071)
Retakaful share of accepted business claims		**785**	216
Retakaful share of ceded business claims		**33,668**	60,662
Net claims incurred	24	**(82,836)**	(109,193)
Provision for takaful contract liabilities	24	**5,996**	6,511
Retakaful share of claims reported unsettled	24	**(6,104)**	(5,075)
Increase in claims incurred but not reported – net	24	**7,125**	8,209
Increase in unallocated loss adjustments expenses – net	24	**(590)**	(116)
Net takaful claims incurred	24	**(76,409)**	(99,664)
Other takaful expenses		**-**	-
Total takaful expenses		**(76,409)**	(99,664)
Net takaful income		**43,748**	58,782
Investment income	25	**2,443**	1,722
Other income		**333**	543
Wakala fees	26	**(42,429)**	(50,549)
Mudarib's fee	26	**(733)**	(517)
Surplus for the year attributable to policyholders		**3,362**	9,981

The accompanying notes 1 to 40 form an integral part of these financial statements.

	Notes	2019 AED'000	2018 AED'000
Attributable to shareholders			
Investment (loss)/income	25	**(3,906)**	11,735
Other income		**4,297**	61
Wakala fees from policyholders	26	**42,429**	50,549
Mudarib's fees	26	**733**	517
Policy acquisition cost		**(18,472)**	(22,498)
General and administrative expenses	27	**(33,846)**	(28,396)
(Loss)/income for the year before Qard Hassan and Zakat		**(8,765)**	11,968
Provision against Qard Hassan to policyholders		**3,362**	9,981
(Loss)/income for the year before Zakat		**(5,403)**	21,949
Zakat	28	**(966)**	(1,114)
(Loss)/profit for the year attributable to shareholders		**(6,369)**	20,835
Earnings per share	29	**(0.04)**	0.14

The accompanying notes 1 to 40 form an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2019

	2019 AED'000	2018 AED'000
Attributable to shareholders		
(Loss)/profit for the year	**(6,369)**	20,835
Other comprehensive income	**-**	-
Total comprehensive (loss)/income for the year attributable to shareholders	**(6,369)**	20,835

The accompanying notes 1 to 40 form an integral part of these financial statements.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of changes in equity
For the year ended 31 December 2019

	Share capital AED'000	Statutory reserve AED'000	Voluntary reserve AED'000	Investments revaluation reserve - FVTOCI AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2017	154,000	61,488	50,064	(484)	29,594	294,662
Profit for the year	-	-	-	-	20,835	20,835
Total comprehensive income for the year	-	-	-		20,835	20,835
Transfer to statutory reserve	-	2,084	-	-	(2,084)	-
Dividend paid (note 39)	-	-	-	-	(4,620)	(4,620)
Balance at 31 December 2018	**154,000**	**63,572**	**50,064**	**(484)**	**43,725**	**310,877**
Loss for the year	-	-	-	-	**(6,369)**	**(6,369)**
Total comprehensive loss for the year	-	-	-	-	**(6,369)**	**(6,369)**
Dividend paid (note 39)	-	-	-	-	**(15,400)**	**(15,400)**
Balance at 31 December 2019	**154,000**	**63,572**	**50,064**	**(484)**	**21,956**	**289,108**

The accompanying notes 1 to 40 form an integral part of these financial statements.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of cash flows
For the year ended 31 December 2019

	Notes	2019 AED'000	2018 AED'000
Cash flows from operating activities			
(Loss)/profit for the year		**(6,369)**	20,835
Adjustments for:			
Depreciation of property and equipment	14	**904**	287
Fair value loss on investment properties	13	**13,112**	6,440
Unrealised loss on other financial assets at FVTPL	10	**-**	655
Gain on sale of property and equipment	25	**(41)**	-
Realised loss on sale of other financial assets at FVTPL	25	**27**	2,155
Realised loss on sale of investment property	25	**4,700**	-
Dividend income from Financial investment at FVTPL and FVTOCI	25	**(551)**	(1,638)
Expected credit losses	27	**5,291**	3,732
Provision for employees' end of service benefits	18	**239**	242
Other investment income	13	**(14,004)**	(19,474)
Profit on wakala deposits	25	**(3,251)**	(2,762)
Operating cash flows before changes in operating assets and liabilities		**57**	10,472
Change in retakaful contract assets		**11,059**	5,007
Change in takaful and retakaful receivables		**11,511**	(7,512)
Change in due from related parties		**66**	(238)
Change in prepayments and other receivables		**113**	(6,666)
Change in deferred policy acquisition costs		**(318)**	2,915
Change in takaful contract liabilities		**(17,785)**	(38,583)
Change in takaful and retakaful payables		**(10,712)**	(1,373)
Change in other liabilities		**538**	852
Change in lease liabilities		**1,074**	-
Change in deferred discount		**(304)**	142
Change in due to related parties		**42**	(64)
Cash used in operations		**(4,659)**	(35,048)
Employee's end of service benefits paid	18	**(119)**	(86)
Zakat paid		**(1,114)**	(516)
Net cash used in operating activities		**(5,892)**	(35,650)
Cash flows from investing activities			
Purchase of property and equipment	14	**(2,600)**	(515)
Proceeds from sale of property and equipment		**242**	-
Purchase of other financial assets	10	**(3,853)**	(27,265)
Proceeds from sale of other financial assets		**31,249**	39,570
Proceeds from sale of investment property		**85,550**	-
Rental income received		**14,004**	19,474
Profit received on wakala deposit		**3,251**	2,762
Dividend received		**551**	1,638
(Increase)/decrease in wakala deposits with maturity over 3 months		**(62,000)**	20,000
Net cash generated from investing activities		**66,394**	55,664

The accompanying notes 1 to 40 form an integral part of these financial statements.

Statement of cash flows (continued)

For the year ended 31 December 2019

	Notes	2019 AED'000	2018 AED'000
Cash flows from financing activities			
Dividend paid	39	**(15,400)**	(4,620)
Cash used in financing activities		**(15,400)**	(4,620)
Net increase in cash and cash equivalents		**45,102**	15,394
Cash and cash equivalents at the beginning of the year		**36,477**	21,083
Cash and cash equivalents at the end of the year	30	**81,579**	36,477

The accompanying notes 1 to 40 form an integral part of these financial statements.

1 Legal status and activities

Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance - Dubai (the "Company") is a public shareholding company and was registered in 1992 under U.A.E. Federal Law No. (2) of 2015 relating to commercial companies in U.A.E. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its Operations and is registered in the Insurance Companies Register of Insurance Authority of U.A.E under registration number 6. The address of the Company's registered office is P.O. Box 1993, Dubai, United Arab Emirates.

The Shareholders Extraordinary General Assembly Meeting held on 19 March 2014 approved conversion of the Company's business from conventional insurance to Takaful insurance. The Board of Directors appointed a Fatwa and Sharia'a Supervisory Board for overseeing the compliance with Sharia'a.

The Company started issuing short term takaful contracts from 1 February 2015 in connection with life and non-life takaful such as motor, marine, fire, engineering, medical and general accident risks (collectively known as general takaful) and the name of the Company was changed to Arabian Scandinavian Insurance Company P.L.C. - Takaful ASCANA Insurance. The Company only operates in U.A.E., through its Dubai and Abu Dhabi offices.

2 Statement of compliance with IFRS

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by International Accounting Standards Board (IASB) and interpretations thereof issued by the International Financial Reporting Interpretation Committee and in compliance with the applicable requirements of UAE Federal Law No. (2) of 2015 relating to commercial companies, and of UAE Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations, concerning takaful companies and agents. These financial statements are prepared in UAE Dirhams ("AED"), rounded to the nearest thousand.

Standards, interpretations and amendments to existing standards

a) Standards, interpretations and amendments to existing standards that are effective in 2019

Certain standards, interpretations and amendments to existing standards, issued by the IASB, that are effective for the accounting period beginning on or after 1 January 2019 are relevant to the Company and have been applied for the first time. The nature and impact of these standards, interpretations and amendments is described in the accounting policies.

Standard number	Title	Effective date
IFRS 16	Leases	1 January 2019

IFRS 16 supersedes IAS 17 "Leases", IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Company adopted IFRS 16 using the modified retrospective transition approach of adoption with the date of initial application of 1 January 2019. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

2 Statement of compliance with IFRS (continued)

Standards, interpretations and amendments to existing standards (continued)

a) Standards, interpretations and amendments to existing standards that are effective in 2019 (continued)

The impact arising from the implementation of this standard in these financial statements is as follows:

	2019 AED'000
Right to use assets	
Balance as at 1 January 2019	1,583
Depreciation charge for the year	(528)
Balance as at 31 December 2019	1,055
Lease liability	
Balance as at 1 January 2019	1,583
Funding cost on lease liability	57
Lease payments made during the year	(566)
Balance as at 31 December 2019	1,074

Amounts recognised in the income statement

	2019 AED'000
General and administrative expenses	
Funding cost on lease liability	57
Depreciation of right to use assets	528
	585

Several other amendments and interpretations apply for the first time in 2019, but do not have any material impact on the consolidated financial statements of the Company.

b) Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company

Standard number	Title	Effective date
IFRS 17	Insurance contracts	1 January 2022

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

Company is currently evaluating the expected impact on the financial statements.

There are no other standards and interpretations issued but not yet adopted that the directors anticipate to have a material effect on the reported income or net assets of the Company.

3 Summary of significant accounting policies

Accounting convention

These financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement bases are described in more detail in the accounting policies.

3 Summary of significant accounting policies (continued)

Product classification

Takaful contracts are those contracts where a group of policyholders (the policyholders) mutually guarantee one another against prescribed uncertain future events of loss or damage, where the Company acts as a Wakil (agent) on their behalf in managing the Islamic Takaful insurance operations in consideration for a Wakala fee. The Takaful amounts (contributions) paid net of the Wakala fee are considered as funds available for Mudarba, where the Company acts as Mudarib, investing some of these funds in consideration of a pre-agreed share of the realised profit or loss, (Mudarib fee) if any. The policyholders further donate their contribution to those other policyholders who suffer a prescribed event of loss or damage, payable per the policies of the Company, in its capacity as an agent.

In case of deficit in policyholders operation, such deficit is funded by the shareholders as a Qard Hasan (profit free loan).

Surplus/deficit in policyholders' fund

If the surplus in the policyholders' fund at the end of a year is sufficiently large, a percentage of the surplus shall be distributed between policyholders that have not made a claim, in proportion to their risk contributions to the fund after accounting for reserves. The distributions will be approved by the Company's Fatwa and Shari'a Supervisory Board. Any remaining surplus after the distribution will remain in the policyholders' fund.

A deficiency in policyholders' fund is made good by a profit free loan (Qard Hasan) from the shareholders' fund. This Qard Hasan is to be repaid from future surpluses arising from takaful operations on a priority basis. This Qard Hasan is tested for impairment annually and the portion of the Qard Hasan that is considered impaired is charged to the statement of income.

On liquidation of the fund, the accumulated surplus in the policyholders' fund, if any, after meeting all obligations (including repayment of the outstanding amount of Qard Hasan), will be dealt with after consulting with the Company's Fatwa and Shari'a Supervisory Board. In case of an accumulated deficit, any Qard Hasan outstanding at the time of liquidation will not be repayable by the policyholders' fund and the shareholders' fund will forego such outstanding amount.

Any deficit in the policyholders' fund, except for deficits arising from a decline in the fair value of securities, is financed by the shareholders through a Qard Hasan (loan without any profit). The Company maintains a full provision against the Qard Hasan.

Property and equipment

Property and equipment are carried at cost less any accumulated depreciation and any identified impairment losses.

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.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on 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 statement of income.

The useful life considered in the calculation of depreciation of all the assets is 4 years.

3 Summary of significant accounting policies (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. 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. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of income in the period in which they arise.

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.

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

Fair value is determined by open market values based on valuations performed by independent surveyors.

Leases

The Company has adopted IFRS 16 – Leases on its effective date of 1 January 2019 using the modified retrospective transition approach. IFRS 16 replaces IAS 17 'Leases'. Leases are recorded in the statement of financial position in the form of a right-to-use asset and a lease liability.

Subsequent to implementation of IFRS 16, the Company recognises a right-to-use asset and a lease liability at the lease commencement date.

The right-to-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus as initial direct costs incurred. The right-to-use is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-to-use or the end of the lease term. The estimated useful life of the right-to-use asset is determined on the same basis as those of property and equipment. In addition, the right-to-use is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

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

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

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

The Company presents right-to-use assets that do not meet the definition of investment property in 'Property and equipment' and the lease liabilities as a separate item in the statement of financial position.

3 Summary of significant accounting policies (continued)

Leases (continued)

The Company has adopted IFRS 16 using the modified retrospective transition approach as of 1 January 2019 and therefore the comparative information has not been restated. All rights-to-use assets were measured at their carrying amounts as if the standard had been applied since the commencement date but discounted using the lessee's incremental borrowing rate at the date of initial application. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of funding cost on the remaining balance of the liability for each period.

Revenue recognition

The Company has adopted IFRS 15 Revenue from Contracts with Customers with effect from 1 January 2018. IFRS 15 establishes a single comprehensive five-step model for entities to use in accounting for revenue arising from contracts with customers. It has superseded the following revenue Standards and Interpretations upon its effective date:

- IAS 18, Revenue;
- IAS 11, Construction Contracts;
- IFRIC 13, Customer Loyalty Programmes;
- IFRIC 15, Agreements for the Construction of Real Estate;
- IFRIC 18, Transfers of Assets from Customers; and
- SIC 31, Revenue-Barter Transactions Involving Advertising Services.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The Company assessed the impact of IFRS 15 which is not material to the financial statements as at the reporting date and as at the date of the initial application, 1 January 2018, since significant portion of its revenue is in accordance with IFRS 4, Insurance Contracts.

Gross Takaful contributions

Gross takaful contributions comprise the total contributions receivable for the whole period of cover provided by Takaful contracts entered into during the accounting period and are recognised on the date on which the Takaful policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of Takaful contracts executed in prior accounting periods. Contributions collected by intermediaries but not yet received, are assessed based on estimates from Takaful operations or past experience and are included in Takaful contributions.

Unearned contributions are those proportions of contributions written in a year that relate to period of risk after the reporting date. Unearned contribution is calculated in accordance with Federal Law No.6 of 2007. The proportion attributable to subsequent year is deferred as a provision for unearned contributions.

Discounts earned

Discounts earned are recognised at the time policies are written. Discount earned on outwards retakaful contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

Wakala fees

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

3 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Profit income
Profit income is recognised on an accrual basis taking into account effective funding cost rates on the instrument, on a time proportionate basis when it becomes receivable.

Rental income
Rental income from investment property is recognised on a straight-line basis over the term of the lease.

Dividend income
Dividend income is recognised when the right to receive payment is established.

Retakaful contribution

Gross retakaful contribution written comprise the total contribution payable for the whole cover provided by contracts entered into during the period and are recognised on the inception date of the policy. Contributions include any adjustments arising in the accounting period in respect of retakaful contracts incepting in prior accounting periods. Unearned retakaful contributions are those proportions of contribution written in a year that relate to periods of risk after the reporting date. Unearned retakaful contributions are deferred over the term of the underlying direct Takaful policies for risks-attaching contracts and over the term of the retakaful contract for losses occurring contracts.

Gross retakaful contribution on life are recognised as an expense on the earlier of the date when contribution are payable or when the policy becomes effective.

The Company cedes Takaful risk in the normal course of business for all of its businesses. Retakaful assets represent balances due from retakaful companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the retakaful contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the retakaful can be measured reliably. The impairment loss is recorded in the statement of income.

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

The Company also assumes retakaful risk in the normal course of business for takaful contracts where applicable. Contributions and claims on assumed retakaful are recognised as income and expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the reinsured business. Retakaful liabilities represent balances due to retakaful companies. Amounts payable are estimated in a manner consistent with the associated retakaful contract. Contributions and claims are presented on a gross basis for both ceded and assumed retakaful.

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

Claims

Claims incurred comprise actual claims and other related costs paid and incurred in the year, and movement in outstanding claims. Claim handling costs are recognised at the time of registering the claims.

On account of uncertainties involved in non-motor claim recoveries, salvage and subrogation rights are recognised only at the time of actual recovery. For motor claim recoveries, salvage is accounted for at the time of registering the claims.

3 Summary of significant accounting policies (continued)

Claims (continued)

Provision for outstanding claims represents the estimated settlement values of all claims notified, but not settled at the statement of financial position date on the basis of individual case estimates.

The reinsurers' portion towards the above outstanding claims is classified as retakaful contract assets and shown as current assets in the statement of financial position.

Provision for IBNR

Provision for Incurred But Not Reported ("IBNR") claims is made at the statement of financial position date based on an actuarial estimate obtained from an independent actuary in accordance with the financial regulations for takaful companies issued by the Takaful Authority UAE.

Provision for ULAE

Provision for Unallocated Loss Adjustment Expenses (ULAE) which cannot be allocated to specific claims, is made at the statement of financial position date based on actuarial estimates obtained from an independent actuary in accordance with the financial regulations for insurance companies issued by the Insurance Authority, UAE.

Liability adequacy test

All recognised takaful contract liabilities including provision for outstanding claims are subject to liability adequacy test at each reporting date. This involves comparison of current estimates of all contractual cash flows attached to these liabilities with their carrying amounts. Estimates of contractual cash flows include expected claim handling costs and recoveries from third parties. Any deficiency in carrying amounts is charged to the income statement by establishing a provision for losses arising from liability adequacy test.

Unearned premium reserve

Unearned Premium Reserve (UPR) represents that portion of premiums earned, gross of retakaful, which relates to the period of takaful subsequent to the statement of financial position date and is mainly computed on linear method based on the outstanding period from the date of statement of financial position up to the date of the maturity of the policy based on actuarial estimates obtained from an independent actuary in accordance with the financial regulations for insurance companies issued by the Insurance Authority, UAE.

Retakaful premium

Ceded retakaful premiums are accounted for in the same accounting periods in which the premiums for the related direct takaful are recorded and the unearned portion is calculated on linear basis in accordance with retakaful arrangements in place.

Retakaful assets

Amounts recoverable under retakaful contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

3 Summary of significant accounting policies (continued)

Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs. Regular way purchases and sales of financial assets are recognised on the date on which the Company commits to purchase or sell the asset i.e. the trade date. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished.

Classification and subsequent measurement of financial assets

For the purposes of subsequent measurement, the Company classifies its financial assets into the following categories:

i) Financial assets at amortised cost

Financial assets at amortised cost are those financial assets for which:

- the Company's business model is to hold them in order to collect contractual cash flows; and

- the contractual terms give rise on specific dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

After initial recognition these are measured at amortised cost using the effective funding cost method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

These are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Financial assets at amortised cost comprise statutory deposits, cash and cash equivalents, due from related parties and most other receivables.

ii) Financial assets at fair value through other comprehensive income ('FVTOCI')

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

iii) Financial assets at fair value through profit and loss ('FVTPL')

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in statement of income.

Dividend income on investments in equity instruments at FVTPL is recognised in statement of income when the Company's right to receive the dividends is established.

Fair value measurement

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted prices at the close of business on the statement of financial position date. Investments in unquoted securities are measured at fair value, considering observable market inputs and unobservable financial data of investees.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Classification and subsequent measurement of financial assets (continued)

Gains or losses on subsequent measurement

Gain or loss arising from change in fair value of investments at FVTOCI is recognised in other comprehensive income and reported within the fair value reserve for investments at FVTOCI within equity. When the asset is disposed of, the cumulative gain or loss recognised in other comprehensive income is not reclassified from the equity reserve to income statement, but is reclassified to retained earnings.

Classification and subsequent measurement of financial liabilities

Financial liabilities comprise amounts due to related parties and most other payables.
Financial liabilities are measured subsequently at amortised cost using the effective funding cost method.

Impairment and uncollectability of financial assets

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- financing commitments issued.

The Company measures loss allowances at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL are measured.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

ECL are probability-weighted estimates of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- undrawn financing commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3 Summary of significant accounting policies (continued)

Receivables and payables related to takaful contracts

Receivables and payables are recognised when due. These include amounts due to and from takaful brokers, re-insurers and takaful contract holders. If there is objective evidence that the takaful receivables are impaired, the Company reduces the carrying amount of the takaful receivables accordingly and realises the impairment loss in the income statement.

Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered such as paid vacation leave and bonuses) is recognised in the period in which the service is rendered.

Provision for employees' end of service benefits

A provision for employees' end of service benefits is made for the full amount due to employees for their periods of service up to the reporting date in accordance with the UAE Labour Law and is reported as separate line item under non-current liabilities. The entitlement to end of service benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period as specified in the UAE Labour Law. The expected costs of these benefits are accrued over the period of employment.

Foreign currency transactions

Transactions in foreign currencies are translated to AED at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to AED at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each statement of financial position date or whenever there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment losses are recognised in the income statement. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Short term operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, current accounts and fixed deposits which have original maturities of less than 3 months and are free from lien.

3 Summary of significant accounting policies (continued)

Provisions, contingent liabilities and contingent assets

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued.

Other details for reserves are mentioned in notes 20, 21 and 22 to the financial statements.

Retained earnings include all current and prior period retained profits or losses.

Dividend payable to equity shareholders is included in other liabilities only when the dividend has been approved in a general assembly meeting prior to the reporting date.

Segment reporting

Under IFRS 8 "Operating Segments", reported segments' profits are based on internal management reporting information that is regularly reviewed by the chief operating decision maker. The measurement policies used by the Company for segment reporting under IFRS 8 are the same as those used in its financial statements.

4 Critical accounting estimates and judgements in applying accounting policies

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Outstanding claims, IBNR, ULAE and UPR

The estimation of the ultimate liability (outstanding claims, IBNR and ULAE) arising from claims and UPR made under takaful contracts is the Company's most critical accounting estimate. These estimates are continually reviewed and updated, and adjustments resulting from this review are reflected in the income statement. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends (including actuarial calculations), is an appropriate basis for predicting future events.

Classification of investment property and related fair value judgement

The Company makes judgement to determine whether a property qualifies as investment property and follows the guidance of IAS 40 'Investment Property' to consider whether any owner-occupied property is not significant and is classified accordingly as investment property.

Fair value of investment property is estimated by an independent professional valuer for disclosure purposes only, considering the rental yield (income approach). This estimate was made considering market rent and average rental yield. Fair value was dependent on market factors and availability of information.

Fair value of unquoted securities

Fair value of unquoted securities has been determined by the management based on Earnings Multiple and Net Assets Value Techniques using observable market data of comparable public entities, certain discount factors and unobservable financial data of respective non-public investees. Actual results may substantially be different. Further information on using the estimates is mentioned in note 10.

Provision for doubtful debts

Management reviews the provision for doubtful debts at each reporting date by assessing the recoverability of takaful and retakaful receivables. For non-takaful receivables the recoverability is assessed, and provisions are created in compliance with the simplified approach under the IFRS 9 methodology.

5 Cash and bank balances

	2019 AED'000	2018 AED'000
Cash on hand	**70**	70
Bank balances:		
Wakala deposits	**142,000**	80,000
Current accounts	**81,509**	36,407
	223,579	116,477
Attributable to:		
Shareholders	**151,458**	18,980
Policyholders	**72,121**	97,497
	223,579	116,477

The profit rates on the Wakala deposits with banks range from 2.50 % to 3.50% (2018: 2.40% to 3.85%).

Wakala deposits amounting to AED 142 million (2018: AED 80 million) have maturity more than three months.

All cash and bank balances are maintained within U.A.E.

6. Takaful and retakaful receivables

	2019 AED'000	2018 AED'000
Takaful receivable	**16,413**	24,072
Receivables from takaful companies	**4,109**	4,309
Receivables from retakaful companies	**1,811**	5,463
	22,333	33,844
Less: Expected credit losses	**(6,265)**	(5,732)
	16,068	28,112
Inside UAE:		
Takaful receivables	**16,413**	4,309
Receivables from takaful companies	**4,109**	24,072
Receivables from retakaful companies	**169**	1,344
	20,691	29,725
Less: Expected credit losses	**(6,265)**	(5,732)
	14,426	23,993
Outside UAE:		
Receivables from retakaful companies	**1,642**	4,119

The Company has adopted a policy of dealing with credit worthy counter parties. Adequate credit assessment is made before accepting a takaful contract from any counter party. The average credit period on takaful receivable is 90 days. The takaful receivables outstanding between 90 days and 180 days are monitored by the Company for recoverability. The takaful receivables outstanding greater than 180 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience in addition to specific provision made on identified customers.

6. Takaful and retakaful receivables (continued)

Movement in the expected credit losses	2019 AED'000	2018 AED'000
Balance at the beginning of the year	**5,732**	2,000
Recognised during the year	**533**	3,732
Balance at the end of the year	**6,265**	5,732

7. Takaful contract liabilities and retakaful contract assets

	2019 AED'000	2018 AED'000
Gross		
Takaful contract liabilities:		
Unearned contribution	**68,032**	76,732
Claims reported unsettled	**18,324**	24,319
Claims incurred but not reported	**21,429**	29,623
Unallocated loss adjustments expense reserve	**2,261**	1,671
Additional unexpired risk reserve	**6,335**	1,821
Total takaful contract liabilities, gross	**116,381**	134,166
Recoverable from retakaful		
Retakaful contract assets:		
Unearned contribution	**8,807**	12,196
Claims reported unsettled	**8,187**	14,291
Claims incurred but not reported	**4,616**	5,684
Additional unexpired risk reserve	**-**	498
Total retakaful share of takaful contract liabilities	**21,610**	32,669
Net		
Unearned contribution	**59,225**	64,536
Claims reported unsettled	**10,137**	10,028
Claims incurred but not reported	**16,813**	23,939
Unallocated loss adjustments expense reserve	**2,261**	1,671
Additional unexpired risk reserve	**6,335**	1,323
	94,771	101,497

8. Prepayments and other receivables

	2019 AED'000	2018 AED'000
Receivable from policy holders	**8,391**	4,917
Advances and deposits	**145**	3,409
Accrued profit	**1,348**	1,165
Rent receivable	**523**	510
Prepaid expenses	**620**	409
Other receivables	**520**	1,250
	11,547	11,660
Attributable to:		
Shareholders	**2,049**	3,668
Policyholders	**9,498**	7,992
	11,547	11,660

9. Related parties

At the reporting date, amounts due from/to related parties were as follows:

	2019 AED'000	2018 AED'000
Due from related parties:		
Related parties due to common directorship		
Al Redha Insurance Brokers (LLC), Dubai	**10,536**	10,704
Others	**119**	17
	10,655	10,721
Less: Expected credit losses	**(4,758)**	-
	5,897	10,721
Due to related parties:		
Related parties due to common ownership		
Others	**43**	1

All due from related parties are attributable to policy holders.

	2019 AED'000	2018 AED'000
Movement in the expected credit losses		
Balance at the beginning of the year	-	-
Recognised during the year	**4,758**	-
Balance at the end of the year	**4,758**	-

	2019 AED'000	2018 AED'000
Due to related parties:		
Shareholders	**37**	-
Policyholders	**6**	1
	43	1

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

During the year, the Company entered into the following transactions with related parties:

	2019 AED'000	2018 AED'000
Transactions with related parties:		
Contribution written for related parties	**1,438**	947
Management expenses (net)	**999**	1,155
Contribution written through a related party broker	**12,161**	17,242
Policy acquisition cost paid	**1,567**	2,225
Claims paid	**569**	276
Claims paid through related party broker	**54**	145

Key management personnel remuneration:

	2019 AED'000	2018 AED'000
Short-term benefits	**2,303**	1,639
Long-term benefits	**320**	385
Board of directors' remuneration	**1,050**	400

10. Other financial assets

The Company's other financial assets at the end of reporting year are detailed below:

	2019 AED'000	2018 AED'000
Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Unquoted U.A.E. equity securities (a)	1,939	1,939
Other financial assets measured at fair value through profit and loss (FVTPL)		
Quoted U.A.E. equity securities (b)	-	27,423
Unquoted U.A.E. equity securities (a)	515	515
	515	27,938

(a) The Company holds investments in unquoted equity securities of three entities as at 31 December 2019 (2018: three entities). These investments have been fair valued by an independent valuer based on an Earnings Multiple (2018: Earnings multiples) using observable market data of comparable public entities, certain discount factors and unobservable financial data of these non-public investees. Unobservable financial data used in determining the fair values of these unquoted securities has been extracted from their latest available audited financial statements for the ended 31 December 2018 (2018: financial statements for the year ended 31 December 2017).

(b) Fair values have been determined by reference to quoted prices at the reporting date. During the year, the Company purchased quoted equity securities amounting to AED 3.8 million (2018: 27.27 million) while sold quoted securities amounting to AED 31.27 million (2018: 41.73 million).

All other financial assets measured at fair value through other comprehensive income (FVTOCI) are attributable to Shareholders.

All other financial assets measured at fair value through profit and loss (FVTPL) are attributable to Shareholders.

The movement in other financial assets are as follows:

	Fair value through other comprehensive income		Fair value through profit or loss	
	2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
Fair value, at the beginning of the year	1,939	1,939	27,938	43,053
Purchased during the year	-	-	3,853	27,265
Sold during the year	-	-	(31,276)	(41,725)
Change in fair value	-	-	-	(655)
Fair value, at the end of the year	1,939	1,939	515	27,938

11. Statutory deposits

	2019 AED'000	2018 AED'000
Held with a local bank in Dubai, UAE	**10,000**	10,000

Statutory deposit represents a Wakala deposit under lien against the guarantees issued in favour of Insurance Authority of U.A.E. in accordance with Article 42 of United Arab Emirates (U.A.E.) Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its Operations.

12. Due from policyholders/due to shareholders

The balance consists of the net of Wakala fees balances that is due to the shareholders from the policyholders amounting to AED 33.34 million (2018: 58.5 million).

13. Investment properties

	Land AED'000	Other real estate AED'000	Total AED'000
Balance at 1 January 2019	**11,179**	**258,177**	**269,356**
Change in fair value during the year (note 25)	**(986)**	**(12,126)**	**(13,112)**
Sold during the year	**-**	**(90,250)**	**(90,250)**
Balance at 31 December 2019	**10,193**	**155,801**	**165,994**
Balance at 1 January 2018	11,897	263,899	275,796
Change in fair value during the year (note 25)	(718)	(5,722)	(6,440)
Balance at 31 December 2018	11,179	258,177	269,356

On 31 December 2019, Pioneer Surveyors & Loss Adjusters and The Technical and Loss Adjusting Services Company LLC, independent and experienced professional valuers estimated the fair value of investment property at AED 164.5 million and AED 167.5 million respectively (2018: Pioneer Surveyors & Loss Adjusters and The Technical and Loss Adjusting Services Company LLC, independent and experienced professional valuers estimated the fair value of investment property at AED 268.8 million and AED 269.9 million respectively). Company recognises the average of fair value from both valuers. The valuers hold relevant professional qualifications and experience. Investment property is held for capital appreciation and rental purposes.

Investment property amounting to AED 6.1 million (2018: AED 6.7 million) is registered in the name of related parties in trust and for the benefit of the Company.

All investment properties are located in U.A.E.

The property rental income earned by the Company from its investment properties, which are leased under operating leases on an annual basis and the direct operating expenses arising in the management of the investment properties are as follows:

	2019 AED'000	2018 AED'000
Rental income	**18,310**	20,743
Direct operating expenses	**(4,306)**	(1,269)
Income from investment properties (note 25)	**14,004**	19,474

14. Property and equipment

	Furniture and fixtures AED'000	Motor vehicles AED'000	Right-to-use assets AED'000	Total AED'000
Cost				
At 1 January 2019	4,131	352	-	4,483
Additions during the year	1,017	-	1,583	2,600
Disposal during the year	-	(330)	-	(330)
At 31 December 2019	**5,148**	**22**	**1,583**	**6,753**
Accumulated depreciation				
At 1 January 2019	3,589	85	-	3,674
Charge for the year	310	66	528	904
Disposal during the year	-	(129)	-	(129)
At 31 December 2019	**3,899**	**22**	**528**	**4,449**
Carrying value				
At 31 December 2019	**1,249**	**-**	**1,055**	**2,304**
Cost				
At 1 January 2018	3,946	22	-	3,968
Additions during the year	185	330	-	515
At 31 December 2018	4,131	352	-	4,483
Accumulated depreciation				
At 1 January 2018	3,368	19	-	3,387
Charge for the year	221	66	-	287
At 31 December 2018	3,589	85	-	3,674
Carrying value				
At 31 December 2018	542	267	-	809

31 December 2019, the cost of fully depreciated property and equipment that was still in use amounted to AED 3.137 million (2018: AED 3.174 million).

15. Takaful and retakaful payables

	2019 AED'000	2018 AED'000
Payable arising from takaful activities	**12,340**	14,310
Due to takaful companies	**14,989**	17,899
Due to retakaful companies	**17,075**	22,907
	44,404	55,116

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

16. Other liabilities

	2019 AED'000	2018 AED'000
Premium reserve withheld	**4,181**	4,968
Deferred rental income	**1,281**	2,567
Accrued expenses	**1,954**	1,140
Zakat payable	**966**	1,114
Lease liability	**1,074**	-
Other	**2,712**	2,955
	12,168	12,744
Attributable to:		
Shareholders	**7,145**	6,839
Policyholders	**5,023**	5,905
	12,168	12,744

17. Qard Hasan

	2019 AED'000	2018 AED'000
(i) Deficit in policyholders' fund:		
As at 1 January	**(71,120)**	(81,101)
Deficit during the year	**3,362**	9,981
As at 31 December	**(67,758)**	(71,120)
(ii) Qard Hasan from shareholders		
As at 1 January	**71,120**	81,101
Provision during the year	**(3,362)**	(9,981)
As at 31 December	**67,758**	71,120

The shareholders have funded the deficit in the policyholders' fund in accordance with the Company's policy through a Qard Hasan (profit free loan with no repayment terms). During the current year the policyholders fund reported a surplus amounting to AED 3.4 million (2018: Surplus of AED 9.9 million).

18. Provision for employees' end of service indemnity

	2019 AED'000	2018 AED'000
Balance at the beginning of the year	**2,353**	2,197
Charged during the year	**239**	242
Paid during the year	**(119)**	(86)
Balance at the end of the year	**2,473**	2,353

19. Share capital

	2019 AED'000	2018 AED'000
Authorised and issued and fully paid: 154,000,000 ordinary shares of AED 1 each (2018: 154,000,000)	**154,000**	154,000

20. Statutory reserve

In accordance with U.A.E. Law No. (2) of 2015, 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. For the year ended 31 December 2019, no transfer has been made to the statutory reserve as Company made a loss (2018: a transfer of AED 2.2 million was made).

21. Voluntary reserve

The Company had set up the voluntary reserve by transferring 10% of annual profit as per the clause in the earlier Articles of Association which required at least 10% of the Company's annual profit must be transferred to voluntary reserve until it is suspended by an Ordinary General Meeting upon recommendations of the Board of Directors or when the reserve reaches 50% of the paid up capital of Company and this reserve can be utilised for purposes determined by the General meeting up on recommendation of the Board of Directors.

During 2016, the Company had amended its Articles of Association and the clause related to voluntary reserve states that a voluntary purpose 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 General meeting.

22. Investments revaluation reserve - FVTOCI

This reserve records gains and losses arising from changes in fair value of other financial assets measured at fair value through other comprehensive income (FVTOCI).

23. Net takaful contributions

2019	**Gross AED'000**	**Retakaful share AED'000**	**Net AED'000**
Takaful contracts: Gross contributions written	**141,431**	**(26,854)**	**114,577**
Movement in unearned contributions and additional unexpired risk reserves	**4,186**	**(3,886)**	**300**
Takaful contributions revenue	**145,617**	**(30,740)**	**114,877**

2018	Gross AED'000	Retakaful share AED'000	Net AED'000
Takaful contracts: Gross contributions written	168,498	(40,696)	127,802
Movement in unearned contributions and additional unexpired risk reserves	21,756	2,292	24,048
Takaful contributions revenue	190,254	(38,404)	151,850

24. Claims incurred

2019	Gross AED'000	Retakaful share AED'000	Net AED'000
Takaful claims paid	**117,289**	**(34,453)**	**82,836**
Movement in provision for claims reported unsettled	**(5,996)**	**6,104**	**108**
Movement in provision for claims incurred but not reported	**(8,193)**	**1,068**	**(7,125)**
Movement in provision for unallocated loss adjustment expense	**590**	**-**	**590**
Claims recorded in the statement of income	**103,690**	**(27,281)**	**76,409**

2018	Gross AED'000	Retakaful share AED'000	Net AED'000
Takaful claims paid	170,071	(60,878)	109,193
Movement in provision for claims reported unsettled	(6,511)	5,075	(1,436)
Movement in provision for claims incurred but not reported	(10,433)	2,224	(8,209)
Movement in provision for unallocated loss adjustment expense	116	-	116
Claims recorded in the statement of income	153,243	(53,579)	99,664

25. Investment income

	2019 AED'000	2018 AED'000
Loss on disposal of other financial assets at FVTPL	**(27)**	(2,155)
Unrealised loss on other financial assets at FVTPL	**-**	(655)
Profit on wakala deposit	**3,251**	2,762
Dividends from other financial assets: measured at FVTPL	**551**	1,638
Fair value loss on investment properties (note 13)	**(13,112)**	(6,440)
Loss on sale of investment property	**(4,700)**	-
Gain on sale of property and equipment	**41**	-
Income from investment properties (note 13)	**14,004**	19,474
Expenses allocated to investment	**(1,471)**	(1,167)
	(1,463)	13,457
Attributable to:		
Policyholders	**2,443**	1,722
Shareholders	**(3906)**	11,735
	(1,463)	13,457

26. Wakala and Mudarib's fees

Wakala fees

Wakala fee for the year ended 31 December 2019 amounted to AED 42.4 million (2018: AED 50.5 million) the fee is calculated at maximum of 30% of gross contribution of AED 141.4 million (2018: AED 168.5 million) without any deduction of policy acquisition cost. Wakala fee is charged to the statement of income when incurred.

Mudarib's fee

The shareholders also manage the policyholders' investment funds and charge Mudarib's fee. Mudarib's fee is charged at 30% of realised investment income.

27. General and administrative expenses

	2019 AED'000	2018 AED'000
Staff cost	**16,390**	13,475
Expected credit losses	**5,291**	3,732
Administrative expenses	**4,025**	3,771
Policy registration fees	**2,218**	1,544
Board of directors' remuneration (note 9)	**1,050**	400
Legal and professional fees	**978**	1,376
Insurance	**588**	590
End of service benefits and pension	**416**	374
Depreciation	**904**	287
Rent	**304**	860
Bank charges	**300**	407
Marketing expenses	**290**	387
Other expenses	**1092**	1,193
	33,846	28,396

28. Zakat

Zakat on behalf of shareholders is accounted as per the Articles and Memorandum of Associations of the Company and is approved by the Company Fatwa and Sharia'a Supervisory Boards amounted to AED 0.966 million (2018: AED 1.1 million).

29. Earnings per share

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

	2019	2018
(Loss)/profit for the year (in AED'000)	**(6,369)**	20,835
Number of ordinary shares outstanding	**154,000,000**	154,000,000
Basic and diluted earnings per share (in AED)	**(0.04)**	0.14

Diluted earnings per share as of 31 December 2019 and 31 December 2018 are equivalent to basic earnings per share as the Company did not issue any new instrument that would impact earnings per share when executed.

30. Cash and cash equivalents

For the purposes of statement of cash flows, cash and cash equivalents include cash and bank balances net of wakala deposits in banks with maturity over three months. Cash and cash equivalents at the end of the year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2019 AED'000	2018 AED'000
Cash and bank balances (note 5)	**223,579**	116,477
Wakala deposits with maturity over 3 months	**(142,000)**	(80,000)
	81,579	36,477

31. Segmental information

For management purposes the Company is organised into two business segments; general takaful management and investment. The general takaful segment comprises the takaful business undertaken by the Company on behalf of Policyholders. Investment comprises investment and cash management for the Company's own account. No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on profit or loss which in certain respects is measured differently from profit or loss in the financial statements.

Except for Wakala fees, and Qard Hassan, no other inter-segment transactions occurred during the year. If any other transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties.

31. Segmental information (continued)

The following table presents segment information for the years ended 31 December 2019 and 31 December 2018.

	2019			2018		
	Attributable to policyholders AED'000	Attributable to shareholders AED'000	Total AED'000	Attributable to policyholders AED'000	Attributable to shareholders AED'000	Total AED'000
Takaful						
Total takaful income	120,157	-	120,157	158,446	-	158,446
Total takaful expenses	(76,409)	-	(76,409)	(99,664)	-	(99,664)
Net takaful income	43,748	-	43,748	58,782	-	58,782
Wakala fees	(42,429)	42,429	-	(50,549)	50,549	-
Mudarib's fee	(733)	733	-	(517)	517	-
Investment income	2,443	-	2,443	1,722	-	1722
Other income	333	-	333	543	-	543
	3,362	43,162	46,524	9,981	51,066	61,047
Investment						
Investment (loss)/income	-	(3,906)	(3,906)	-	11,735	11,735
Other income	-	4,297	4,297	-	61	61
Policy acquisition cost	-	(18,472)	(18,472)	-	(22,498)	(22,498)
Unallocated other income and expenses	-	(33,846)	(33,846)	-	(28,396)	(28,396)
Profit/(loss) for the year before Zakat	3,362	(8,765)	(5,403)	9,981	11,968	21,949

31. Segmental information (continued)

Other information

	Takaful		Investment		Total	
	2019	2018	**2019**	2018	**2019**	2018
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Segment assets	**133,355**	184,834	**367,595**	391,189	**500,950**	576,023
Segment liabilities	**201,113**	255,954	**10,729**	9,192	**211,842**	265,146
Capital expenditure	**-**	-	**1,017**	515	**1,017**	515
Depreciation	**-**	-	**376**	287	**376**	287

32. Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its operations. The Company manages its capital on a basis of its minimum regulatory capital position presented in the table below:
- 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., the local insurance regulator specifies the minimum amount and type of capital that must be held by the Company in addition to its insurance liabilities. The minimum required capital (presented in the table below) must be maintained at all times throughout the year.

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

	2019 AED	2018 AED
Minimum regulatory capital	**100,000,000**	100,000,000
Share capital held	**154,000,000**	154,000,000

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

33. Financial instruments

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, retakaful assets and takaful liabilities. In particular, the key financial risk is that the in the long-term its investment proceeds are not sufficient to fund the obligations arising from its takaful contracts. The most important components of this financial risk are profit rate risk, equity price risk, foreign currency risk and credit risk.

These risks arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and financial liabilities are profit rate risk and equity price risk.

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.

33. Financial instruments (continued)

Categories of financial instruments

	2019 AED'000	2018 AED'000
Financial assets		
Other financial assets measured at FVTOCI	**1,939**	1,939
Other financial assets measured at FVTPL	**515**	27,938
Statutory deposits	**10,000**	10,000
Takaful and retakaful receivables	**26,995**	39,363
Due from related parties	**5,897**	10,721
Cash and bank balances	**223,579**	116,477
Total financial assets	**268,925**	206,438
Financial liabilities		
Takaful and retakaful payables	**51,110**	60,325
Due to related parties	**43**	1
Total financial liabilities	**51,153**	60,326

Management considers that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

34. Risk management

Takaful risk

The risk under any one takaful contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of takaful contract, this risk is random and therefore unpredictable.

For a portfolio of takaful contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its takaful contracts is that the actual claims and benefit payments exceed the carrying amount of the takaful liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insured 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 takaful 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 takaful underwriting strategy to diversify the type of takaful risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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

Frequency and severity of claims

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

34. Risk management (continued)

Takaful risk (continued)

Frequency and severity of claims (continued)

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

The retakaful arrangements include excess and catastrophe coverage. The effect of such retakaful arrangements is that the Company should not suffer net takaful losses of a set limit of AED 200,000, AED 20,000 and AED 400,000 in any one policy for motor, medical and other non-motor respectively. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually every 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.

Sources of uncertainty in the estimation of future claim payments

Claims on takaful 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 compared to 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 takaful company until many years after the event that gave rise to the claims. For some takaful 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. 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.

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

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

34. Risk management (continued)

Takaful risk (continued)

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

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 retakaful) are analysed below by type of risk where the insured operates for current and prior year contribution earned.

Type of risk

	2019	2018
Motor	**54%**	62%
Non-motor	**98%**	79%

Process used to decide on assumptions

The risks associated with these takaful contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual takaful contracts carried out at the reporting date 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 choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business.

Concentration of risks

The Takaful risk arising from takaful contracts is concentrated mainly in the United Arab Emirates.

The table below sets out the concentration of contract liabilities by type of contract:

2019	**Gross liabilities AED'000**	**Retakaful share of liabilities AED'000**	**Net liabilities AED'000**
Motor	**10,318**	**(3,156)**	**7,162**
Non-motor	**8,006**	**(5,031)**	**2,975**
Total	**18,324**	**(8,187)**	**10,137**

34. Risk management (continued)

Takaful risk (continued)

Concentration of risks (continued)

2018	Gross liabilities AED'000	Reinsurance share of liabilities AED'000	Net liabilities AED'000
Motor	10,869	(2,892)	7,977
Non-motor	13,450	(11,399)	2,051
Total	24,319	(14,291)	10,028

Retakaful risk

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

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

Financial risk

Market risk
The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, profit rates and equity price risk.

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

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:

- retakaful' share of takaful liabilities;
- amounts due from retakaful in respect of claims already paid;
- amounts due from takaful contract holders; and
- amounts due from takaful intermediaries;

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 the management annually.

34. Risk management (continued)

Financial risk (continued)

Credit risk (continued)

Retakaful is used to manage takaful risk. This does not, however, discharge the Company's liability as primary policyholder. If a retakaful fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of retakaful company 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 management includes details of provisions for impairment on takaful receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for retakaful is carried out by the Company.

Takaful 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 takaful receivable.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristic, other than takaful receivables at the end of reporting period amounting to AED 1.6 million (2018: AED 2.5 million). The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks registered in the United Arab Emirates.

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.

The following table provides an age analysis of receivables arising from insurance.

	Neither past due nor impaired	Past due				Past due and impaired	Total
		<120 days	120 -180 days	>180 days	Total		
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2019	**5,983**	**8,312**	**2,157**	**5,881**	**22,333**	**(6,265)**	**16,068**
31 December 2018	13,297	6,899	3,396	10,252	33,844	(5,732)	28,112

Liquidity risk

Ultimate responsibility for liquidity risk management rests with management, 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.

34. Risk management (continued)

Financial risk (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Company's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the end of the reporting period to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of the financial assets and financial liabilities at the reporting date based on contractual repayment arrangements is given below:

2019	Less than 90 days AED'000	91-180 days AED'000	181-365 days AED'000	Above 365 days AED'000	Total AED'000
Financial assets					
At FVTOCI	-	-	-	1,939	1939
At fair value through profit or loss	-	-	-	515	515
Statutory deposits	-	-	-	10,000	10,000
Takaful and retakaful receivables	10,459	10,554	5,040	942	26,995
Due from related parties	3,121	1,535	960	281	5,897
Cash and bank balances - profit bearing	-	35,000	107,000	-	142,000
Cash and bank balances - non-profit bearing	81,579	-	-	-	81,579
	95,159	47,089	113,000	13,677	268,925
Financial liabilities					
Takaful and retakaful payables	21,392	7,356	16,189	6,173	51,110
Due to related parties	43	-	-	-	43
	21,435	7,356	16,189	6,173	51,153

34. Risk management (continued)

Financial risk (continued)

Liquidity risk (continued)

2018	Less than 90 days AED'000	91-180 days AED'000	181-365 days AED'000	Above 365 days AED'000	Total AED'000
Financial assets					
At FVTOCI	-	-	-	1,939	1,939
At fair value through profit or loss	10,469	-	-	17,469	27,938
Statutory deposits	-	-	-	10,000	10,000
Takaful and retakaful receivables	16,144	13,824	7,786	1,609	39,363
Due from related parties	4,698	4,500	1,523		10,721
Cash and bank balances - profit bearing	-	35,000	45,000	-	80,000
Cash and bank balances - non-profit bearing	36,477	-	-	-	36,477
	67,788	53,324	54,309	31,017	206,438
Financial liabilities					
Takaful and retakaful payables	22,317	14,755	13,846	9,407	60,325
Due to related parties	1	-	-	-	1
	22,318	14,755	13,846	9,407	60,326

Equity price risk

Sensitivity analysis

At the reporting date 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 statement of income/comprehensive income would have increased/decreased by AED 0.3 million (2018: AED 3 million).

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 reporting date if equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on statement of income and other comprehensive income has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

35. 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. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Fair value of financial instruments carried at amortised cost

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

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 in the audited annual financial statements for the year ended 31 December 2018.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at 31 December 2019 AED'000	Fair value as at 31 December 2018 AED'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Financial assets at FVTOCI						
Unquoted equity securities	**1,939**	1,939	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of investees, higher the fair value.
Financial assets at FVTPL						
Quoted equity securities	-	27,423	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	**515**	515	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of the investees, higher the fair value.

35. Fair value measurements (continued)

There were no transfers between each of level 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.

The movement in level 3 financial assets were due to change in fair value of investments classified as FVOCI.

36. Contingent liabilities

	2019 AED'000	2018 AED'000
Letters of guarantees	10,347	10,470

37. Fatwa and Shari'a Supervisory Board

The Company's business activities are subject to the supervision of its Fatwa and Shari'a Supervisory Board (FSSB) consisting of three members appointed by the shareholders. FSSB performs a supervisory role in order to determine whether the operations of the Company are conducted in accordance with Shari'a rules and principles.

According to the Company's Fatwa and Shari'a Supervisory Board, the Company is required to identify any income deemed to be derived from transactions not acceptable under Islamic Shari'a rules and principles, as interpreted by Fatwa and Shari'a Supervisory Board, and to set aside such amount in a separate account for Shareholders who may resolve to pay the same for local charitable causes and activities.

38. Directors' remuneration

For the year ended 31 December 2019, the shareholders approved the Board of Directors' remuneration of AED 1.1 million (2018: AED 0.4 million). The directors' remuneration for the year 2020 shall be decided at the Annual General Meeting.

39. Paid and proposed dividends

At the Annual General Meeting held on 15 April 2019, the shareholders approved a cash dividend of 10% of share capital, AED 0.1 fils per share, amounting to AED 15.4 million for the year 2019 (2018: cash dividend of 3% of share capital, AED 0.03 fils per share, amounting to AED 4.62 million for the year 2018).

40. Post-reporting date events

The Board of Directors has proposed to transfer the voluntary reserve to the statutory reserve up to the limit where statutory reserve equals 50% of the paid-up share capital and to transfer the remaining reserve to retained earnings. The decision is approved by the Board on 11 March 2020 and is further subject to approval by the Shareholders at the Annual General Meeting.