

**AL BUHAIRA NATIONAL INSURANCE COMPANY P.S.C.  
AND ITS SUBSIDIARY**

**Independent auditor's report and consolidated financial statements  
for the year ended 31 December 2018**

## **AL BUHAIRA NATIONAL INSURANCE COMPANY P.S.C. AND ITS SUBSIDIARY**

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## **Directors' report**

The Board of Directors has pleasure in submitting their report and the audited financial statements for the year ended 31 December 2018.

## **Incorporation and registered offices**

Al Buhaira National Insurance Company P.S.C. – Sharjah, is incorporated as a public shareholding Company by an Emiri Decree issued by His Highness, The Ruler of Sharjah on 16 May 1978. The Company is subject to the regulations of UAE Federal Law No. 6 of 2007, concerning the formation of Insurance Authority of U.A.E. The Company is registered in the Insurance Companies register of Insurance Authority of UAE under registration number 15. The address of the Company's registered corporate office is P.O. Box 6000, Sharjah, United Arab Emirates.

## **Principal activities**

The principal activity of the Company is the writing of insurance of all types - other than savings and accumulation of funds. The Group operates through its Head Office in Sharjah and has branches in Dubai, Abu Dhabi, Al Ain, Khorfakkan, Fujairah and Ajman.

## **Financial position and results**

The consolidated financial position and results of the Group for the year ended 31 December 2018 are set out in the accompanying consolidated financial statements.

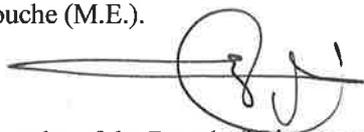
## **Directors**

The following were the Directors of the Group for the year ended 31 December 2018:

Sheikh Faisal Bin Khalid Sultan Al Qasimi (Chairman)  
Sheikh Abdulla Mohd Ali Al Thani (Vice Chairman)  
Sheikh Khaled Abdulla Sultan Al Qasimi (Managing Director)  
Mr. Abdalla Juma Al Sari (Director)  
Mr. Rashid Ali Rashid Dimas Al Suwaidi (Director)  
Mr. Humaid Mohamed Humaid Mohamed Shattaf (Director)  
Mr. Ali Mohammed Kayed (Director)  
Mr. Nader T. Qaddumi (General Manager)

## **Auditors**

The consolidated financial statements for the year ended 31 December 2018 have been audited by Deloitte & Touche (M.E.).



By order of the Board of Directors  
Managing Director

13 March 2019

## INDEPENDENT AUDITOR'S REPORT

**The Shareholders of  
Al Buhaira National Insurance Company P.S.C.  
Sharjah  
United Arab Emirates**

### **Report on the audit of the consolidated financial statements**

#### **Opinion**

We have audited the consolidated financial statements of **Al Buhaira National Insurance Company P.S.C. (the "Company") and its subsidiary (together the "Group")**, Sharjah, United Arab Emirates which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Al Buhaira National Insurance Company P.S.C. (the "Company") and its subsidiary (together the "Group")**, Sharjah, United Arab Emirates as at 31 December 2018 and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of Group's consolidated financial statements in United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with 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 consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(Cont'd...)

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
AL BUHAIRA NATIONAL INSURANCE COMPANY P.S.C. (continued)**

**Key audit matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Valuation of insurance contract liabilities and reinsurance contract assets</i></b></p> <p>As at 31 December 2018, insurance contract liabilities and reinsurance contract assets amounted to AED 419 million and AED 255 million respectively, as detailed in note 9 to these consolidated financial statements.</p> <p>As set out in notes 3.4 and 4.2.1, valuation of these liabilities requires professional judgment and also involve number of assumptions made by management. Reinsurance contract assets includes amounts that the Group is entitled to receive under the reinsurance contracts and, more specifically, the share of the reinsurer in the insurance contract liabilities recorded by the Group.</p> <p>This is particularly the case for those liabilities that are based on the best-estimate of technical reserves that includes 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 related technical reserves. A range of methods are used by management and the independent external actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Changes in these assumptions can result in material impacts to the valuation of these liabilities.</p> <p>As a result of all the above factors, we consider the valuation of insurance contract liabilities and reinsurance contract assets as key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Evaluating and testing the claims handling and case reserve setting processes of the Group including allocation of reinsurance portion of claims.</li> <li>• Assessing the design and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process.</li> <li>• Evaluating and testing the data used in the actuarial reserving process.</li> <li>• Checking samples of claims case reserves through comparing the estimated amount of the case reserve to appropriate documentation, such as reports from loss adjusters, confirmations obtained from lawyers, reinsurance contracts etc.</li> <li>• Re-performing reconciliations between the claims data recorded in the Group's systems and the data used in the actuarial reserving calculations.</li> <li>• Evaluating the objectivity and competence of independent external actuary.</li> <li>• Checking samples of unearned premium with appropriate documentation.</li> </ul> <p>In addition, with the assistance of our internal actuarial specialists, we:</p> <ul style="list-style-type: none"> <li>• performed necessary reviews to ascertain whether the results are appropriate for valuation of insurance contract liabilities and reinsurance contract assets.</li> <li>• reviewed the actuarial report compiled by the independent external actuary of the Group and calculations underlying these provisions, particularly the following areas:               <ul style="list-style-type: none"> <li>• Appropriateness of the calculation methods and approach (actuarial best practice)</li> <li>• Review of assumptions</li> <li>• Consistency between valuation periods</li> <li>• General application of financial and mathematical rules.</li> </ul> </li> </ul>

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**INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF  
AL BUHAIRA NATIONAL INSURANCE COMPANY P.S.C. (continued)**

**Key audit matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of investment properties</i></p> <p>Investment properties represented 52% of total assets at the end of the reporting period. The Management has appointed an independent external valuer for valuation of investment properties.</p> <p>Selection of appropriate valuation method requires exercise of judgment and investment method requires use of certain assumptions and judgments.</p> <p>The valuation of investment properties, as detailed in Note 6, requires significant judgement and estimates by management and the independent external valuers. The existence of significant estimation and judgement, coupled with change in valuation assumption used could result in material misstatement.</p> <p>We consider the valuation of investment properties a key audit matter, given the significant measurement uncertainty and judgements involved.</p>	<p>We obtained an understanding of management’s process of valuing investment properties. Further, we performed following:</p> <ul style="list-style-type: none"> <li>• assessed the competence, capabilities and objectivity of independent external valuer;</li> <li>• discussed the scope of external valuers work and reviewed their terms of engagement to ensure that there are no unusual terms or conditions;</li> <li>• we verified the accuracy, completeness and relevance of the input data used for deriving fair values;</li> <li>• using our internal valuation experts we evaluated the methodology used and appropriateness of key assumptions and</li> <li>• assessed the adequacy of disclosures included in consolidated financial statements.</li> </ul>

**Other information**

The Board of Directors and management is responsible for the other information. The other information comprises the annual report of the Company. We have obtained Directors’ report, which we obtained prior to the date of this auditor’s report and the remaining of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor’s report thereon.

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

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

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

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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
AL BUHAIRA NATIONAL INSURANCE COMPANY P.S.C. (continued)**

**Other information (continued)**

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Directors are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
AL BUHAIRA NATIONAL INSURANCE COMPANY P.S.C. (continued)**

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated financial statements or, if such disclosure 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**Report on other Legal and Regulatory Requirements**

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

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of account;

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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
AL BUHAIRA NATIONAL INSURANCE COMPANY P.S.C. (continued)**

**Report on other Legal and Regulatory Requirements (continued)**

- iv) the financial information included in the Directors' report is consistent with the books of account of the Group;
- v) as disclosed in Note 7 to the consolidated financial statements, the Group has purchased and invested in shares during the financial year ended 31 December 2018;
- vi) Note 21 to the consolidated financial statements discloses material related party transactions and balances, and the terms under which they were conducted;
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has, during the financial year ended 31 December 2018, contravened any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2018; and

Further, as required by the U.A.E. Federal Law No. 6 of 2007 and the related Financial Regulations for Insurance Companies, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit. The Group is in the process of complying with the requirements of the Financial Regulations for Insurance Companies issued by the Insurance Authority pertaining to Article (8) of Section (2) and Article (3) of Section (1), relating to maintenance of solvency margin; and asset distribution and allocation limits respectively.

Deloitte & Touche (M.E.)



Signed by:  
Samir Madbak  
Registration No. 386  
13 March 2019  
Sharjah, United Arab Emirates

**Consolidated statement of financial position**  
**At 31 December 2018**

	Notes	2018 AED	2017 AED
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	5,483,592	4,551,314
Investment properties	6	909,540,601	920,540,601
Investments in securities	7	41,743,147	54,130,626
Statutory deposit	8	10,000,000	10,000,000
<b>Total non-current assets</b>		<b>966,767,340</b>	<b>989,222,541</b>
<b>Current assets</b>			
Reinsurance contract assets	9	254,548,035	236,351,384
Insurance and other receivables	10	283,368,048	328,993,672
Bank balances and cash	11	229,198,956	202,286,221
<b>Total current assets</b>		<b>767,115,039</b>	<b>767,631,277</b>
<b>Total assets</b>		<b>1,733,882,379</b>	<b>1,756,853,818</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	250,000,000	250,000,000
Statutory reserve	13.1	115,017,742	111,467,989
Voluntary reserve	13.2	200,000,000	200,000,000
Cumulative changes in fair value		(21,109,373)	(5,975,607)
Retained earnings		91,396,253	108,189,775
<b>Total equity</b>		<b>635,304,622</b>	<b>663,682,157</b>
<b>Non-current liabilities</b>			
Provision for employees' end of service indemnity	14	36,065,474	34,080,440
Bank borrowings	15	361,991,436	361,570,797
<b>Total non-current liabilities</b>		<b>398,056,910</b>	<b>395,651,237</b>
<b>Current liabilities</b>			
Insurance contract liabilities	9	418,737,448	459,052,971
Insurance and other payables	16	179,093,885	160,296,451
Bank borrowings	15	102,689,514	78,171,002
<b>Total current liabilities</b>		<b>700,520,847</b>	<b>697,520,424</b>
<b>Total liabilities</b>		<b>1,098,577,757</b>	<b>1,093,171,661</b>
<b>Total equity and liabilities</b>		<b>1,733,882,379</b>	<b>1,756,853,818</b>



Chairman



General Manager

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

**Consolidated statement of income**  
**For the year ended 31 December 2018**

	Notes	2018 AED	2017 AED
Insurance premium revenue	17	495,615,251	537,401,188
Insurance premium ceded to reinsurers	17	(281,479,428)	(243,950,099)
<b>Net insurance premium revenue</b>	17	<b>214,135,823</b>	<b>293,451,089</b>
Gross claims incurred	9	(298,580,642)	(373,805,504)
Insurance claims recovered from insurers	9	131,182,992	125,475,612
<b>Net claims incurred</b>	9	<b>(167,397,650)</b>	<b>(248,329,892)</b>
Gross commission earned		61,799,032	62,734,997
Less: commission paid		(29,129,966)	(24,721,544)
<b>Net commission earned</b>		<b>32,669,066</b>	<b>38,013,453</b>
<b>Underwriting profit</b>		<b>79,407,239</b>	<b>83,134,650</b>
General and administrative expenses relating to underwriting activities		(53,644,357)	(52,387,020)
<b>Net underwriting profit</b>		<b>25,762,882</b>	<b>30,747,630</b>
Investment and other income	18	38,402,026	49,733,063
Finance costs		(22,502,594)	(16,127,809)
Unallocated general and administrative expenses		(6,164,787)	(12,118,300)
<b>Profit for the year</b>	19	<b>35,497,527</b>	<b>52,234,584</b>
<b>Basic earnings per share</b>	20	<b>0.14</b>	<b>0.21</b>

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

**Consolidated statement of comprehensive income**  
**For the year ended 31 December 2018**

	2018 AED	2017 AED
Profit for the year	35,497,527	52,234,584
<b>Other comprehensive (loss)/income</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Unrealised loss on revaluation of available-for-sale investments	-	(2,055,471)
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Decrease in fair value of investments carried at FVOCI	(11,171,516)	-
Gain on sale of investment carried at FVOCI	6,930	-
Transfer to consolidated statement of income on sale of available-for-sale investments	-	648,961
Reclassification adjustment relating to available-for-sale investment impaired during the year	-	5,000,000
<b>Total other comprehensive (loss)/income for the year</b>	<b>(11,164,586)</b>	<b>3,593,490</b>
<b>Total comprehensive income for the year</b>	<b>24,332,941</b>	<b>55,828,074</b>

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

**Consolidated statement of changes in equity  
For the year ended 31 December 2018**

	Share capital AED	Statutory reserve AED	Voluntary reserve AED	Cumulative changes in fair value AED	Retained earnings AED	Total AED
Balance at 31 December 2016	250,000,000	106,244,531	200,000,000	(9,569,097)	87,578,649	634,254,083
Profit for the year	-	-	-	-	52,234,584	52,234,584
Other comprehensive income for the year	-	-	-	3,593,490	-	3,593,490
Total comprehensive income for the year	-	-	-	3,593,490	52,234,584	55,828,074
Transfer to statutory reserve	-	5,223,458	-	-	(5,223,458)	-
Board of Directors' remuneration (Note 27)	-	-	-	-	(1,400,000)	(1,400,000)
Dividends (Note 27)	-	-	-	-	(25,000,000)	(25,000,000)
Balance at 31 December 2017	250,000,000	111,467,989	200,000,000	(5,975,607)	108,189,775	663,682,157
Impact on adoption of IFRS 9 (Note 3.15)	-	-	-	-	(26,310,476)	(26,310,476)
Transfer within equity on adoption of IFRS 9 (Note 3.15)	-	-	-	(5,783,989)	5,783,989	-
Restated balance at 1 January 2018	250,000,000	111,467,989	200,000,000	(11,759,596)	87,663,288	637,371,681
Profit for the year	-	-	-	-	35,497,527	35,497,527
Other comprehensive loss	-	-	-	(11,171,516)	6,930	(11,164,586)
Total comprehensive income for the year	-	-	-	(11,171,516)	35,504,457	24,332,941
Transfer to statutory reserve	-	3,549,753	-	-	(3,549,753)	-
Transfer to retained earnings on sale of investments at FVOCI	-	-	-	1,821,739	(1,821,739)	-
Board of Directors' remuneration (Note 27)	-	-	-	-	(1,400,000)	(1,400,000)
Dividends (Note 27)	-	-	-	-	(25,000,000)	(25,000,000)
<b>Balance at 31 December 2018</b>	<b>250,000,000</b>	<b>115,017,742</b>	<b>200,000,000</b>	<b>(21,109,373)</b>	<b>91,396,253</b>	<b>635,304,622</b>

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

**Consolidated statement of cash flows**  
**For the year ended 31 December 2018**

	2018 AED	2017 AED
<b>Cash flows from operating activities</b>		
Profit for the year	35,497,527	52,234,584
Adjustments for:		
Depreciation of property and equipment	997,727	1,648,260
Provision for credit loss	-	4,500,000
Interest income on deposits	(7,655,647)	(4,391,999)
Dividend from investments in securities	(1,293,518)	(1,195,017)
Net rental income from investment properties	(40,325,970)	(48,660,874)
Impairment on available for sale financial assets	-	5,000,000
Change in fair value of investment properties	11,000,000	-
Gain on sale of available for sale financial assets	-	(394,885)
Provision for employees' end of service indemnity - net	3,241,411	2,899,692
Gain on disposal of property and equipment	-	(3,351)
Finance costs	22,502,594	16,127,809
<b>Operating cash flows before changes in assets and liabilities</b>	<b>23,964,124</b>	<b>27,764,219</b>
Decrease in insurance and other receivables	19,315,148	66,211,169
Increase in reinsurance contract assets	(18,196,651)	(7,072,887)
Increase/(decrease) in insurance and other payables	18,797,434	(31,219,047)
Increase in statutory deposits	-	(4,000,000)
Decrease in insurance contract liabilities	(40,315,523)	(60,107,541)
<b>Cash generated from/(used in) operating activities</b>	<b>3,564,532</b>	<b>(8,424,087)</b>
Employees' end of service indemnity paid	(1,256,377)	(1,705,429)
<b>Net cash generated from/(used in) operating activities</b>	<b>2,308,155</b>	<b>(10,129,516)</b>
<b>Cash flows from investing activities</b>		
Increase in fixed deposits with bank under lien or with maturity after three months	(22,171,488)	(45,831,247)
Increase in margin deposits	(300,000)	-
Purchase of investments in securities	(1,985,476)	(19,022,969)
Proceeds from sale of investments in securities	3,208,369	16,737,625
Purchase of property and equipment	(1,930,005)	(2,006,733)
Proceeds from disposal of property and equipment	-	4,023
Interest income received	7,655,647	4,391,999
Dividends received from investments in securities	1,293,518	1,195,017
Net rental income from investment properties	40,325,970	48,660,874
<b>Net cash generated from investing activities</b>	<b>26,096,535</b>	<b>4,128,589</b>
<b>Cash flows from financing activities</b>		
Increase in bank borrowings - net	24,939,151	30,352,429
Interest costs paid	(22,502,594)	(16,127,809)
Dividends paid	(25,000,000)	(25,000,000)
Directors' remuneration paid	(1,400,000)	(1,400,000)
<b>Net cash used in financing activities</b>	<b>(23,963,443)</b>	<b>(12,175,380)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4,441,247</b>	<b>(18,176,307)</b>
Cash and cash equivalents at the beginning of the year	11,230,780	29,407,087
<b>Cash and cash equivalents at the end of the year (Note 11)</b>	<b>15,672,027</b>	<b>11,230,780</b>

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

**Notes to the consolidated financial statements  
For the year ended 31 December 2018**

**1. General information**

Al Buhaira National Insurance Company P.S.C. (the "Company") is incorporated as a public shareholding company by an Emiri Decree issued by His Highness, The Ruler of Sharjah on 16 May 1978. The Company is subject to the regulations of UAE Federal Law No. 6 of 2007, concerning the Establishment of Insurance Authority of U.A.E. and is registered in the Insurance Companies register of Insurance Authority of U.A.E. under registration Number 15. The address of the Company's registered corporate office is P.O. Box 6000, Sharjah, United Arab Emirates.

The Group consists of Al Buhaira National Company P.S.C. and its subsidiary (the "Group") as disclosed in Note 3.3 to the consolidated financial statements.

The principal activity of the Company is the writing of insurance of all types - other than savings and accumulation of funds. The Group operates through its Head Office in Sharjah and has branches in Dubai, Abu Dhabi, Al Ain, Khorfakkan, Fujairah and Ajman.

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

**2.1 New IFRS applied with material effect on the consolidated financial statements**

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognized in the consolidated financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures. Any adjustments to carrying amount of financial assets and liabilities at the date of transitions were recognized in opening retained earnings and other reserves of the current year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'. Comparatives for statement of cash flows are not affected on account of this adoption of IFRS 9.

There were no changes to the classification and measurement of financial liabilities.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described on Note 3.15.

**2.2 New and revised IFRS applied with no material effect on the consolidated financial statements**

- Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income;
- and the prepayment asset or deferred income liability is non-monetary.

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

**2. Application of new and revised International Financial Reporting Standards (“IFRS”)  
(continued)**

**2.2 New and revised IFRS applied with no material effect on the consolidated financial statements  
(continued)**

- Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.
- Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions.
- Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.
- IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9.
- IFRS 15 *Revenue from Contracts with Customer* : In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

- Amendments to IFRS 15 *Revenue from Contracts with Customers* to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

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

**2. Application of new and revised International Financial Reporting Standards (“IFRS”)**  
 (continued)

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

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRS	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 <i>Business Combinations</i> , IFRS 11 <i>Joint Arrangements</i> , IAS 12 <i>Income Taxes</i> and IAS 23 <i>Borrowing Costs</i> .	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively;</li> <li>• Assumptions for taxation authorities' examinations;</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and</li> <li>• The effect of changes in facts and circumstances.</li> </ul>	
IFRS 16 <i>Leases</i>	1 January 2019
IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	
Amendments to IFRS 9 <i>Financial Instruments</i> : Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments to IAS 19 <i>Employee benefits</i> : relating to plan amendments, curtailments or settlements.	1 January 2019
Amendments to IAS 28 <i>Investment in Associates and Joint Ventures</i> : Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019

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

**2. Application of new and revised International Financial Reporting Standards (“IFRS”)  
(continued)**

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

<b>New and revised IFRS</b>	<b>Effective for annual periods beginning on or after</b>
<p><i>IFRS 17 Insurance Contracts</i></p> <p>IFRS 17 requires insurance 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 2021.</p> <p>Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.</p>	<p>1 January 2021</p> <p>Effective date deferred indefinitely. Adoption is still permitted.</p>

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments except for IFRS 17, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

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

**3. Significant accounting policies**

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

**3.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates Federal Law No. (2) of 2015 and United Arab Emirates Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations.

The Company is in the process of complying with the requirements of the Financial Regulations for Insurance Companies issued by the Insurance Authority especially pertaining to Article (8) of Section (2) and Article (3) of Section (1), relating to maintenance of solvency margin; and asset distribution and allocation limits respectively.

**Notes to the consolidated financial statements  
For the year ended 31 December 2018 (continued)****3. Significant accounting policies (continued)****3.2 Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial instruments that have been measured at revalued amounts, amortised cost or fair value as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

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

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

**3.3 Basis of consolidation**

The consolidated financial statements of Al Buhaira National Insurance Company P.S.C. and its subsidiary (the "Group") incorporate the financial statements of the Company and the entity controlled by the Company (its subsidiary).

Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

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

**3. Significant accounting policies (continued)**

**3.3 Basis of consolidation (continued)**

The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and consolidated statement of other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Details of the Group's subsidiary at 31 December 2018 is as below:

<b>Name of subsidiary</b>	<b>Place of incorporation and operation</b>	<b>Proportion of ownership interest and voting power held</b>	<b>Principal activity</b>
Al Buhaira Economic Investments Establishment	Sharjah, U.A.E.	100%	Investing in economic projects.

**3.4 Insurance contracts**

The principal accounting policies are set out below.

*3.4.1 Definition, recognition and measurement*

The Group issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

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

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

**3. Significant accounting policies (continued)**

**3.4 Insurance contracts (continued)**

*3.4.2 Short-term insurance contracts*

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

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

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

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

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

For all these insurance contracts, premiums are recognised as revenue (earned premiums) on time-proportion basis wherein revenue from an insurance contract is recognised over the effective period of the policy with the exception of marine, where the UPR is recognised as fixed proportion of the written premiums as required in the financial regulation issued by Insurance Authority. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability.

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

Unallocated loss adjustment expense reserves correspond to the provision representing future claim expenses and related handling costs that are not case specific. It represents all other expenses and costs that are related to the adjudication of claims but cannot be assigned to a specific claim and is calculated based on recommendation of Group's external actuarial valuation report.

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

**3. Significant accounting policies (continued)**

**3.4 Insurance contracts (continued)**

*3.4.3 Reinsurance contracts*

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Group reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

*3.4.4 Insurance contract liabilities*

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the end of the reporting period, in addition for claims incurred but not reported.

The reinsurers' portion of the above outstanding claims and unearned premium is classified as reinsurance contract assets in the consolidated financial statements.

*3.4.5 Salvage and subrogation reimbursements*

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

*3.4.6 Liability adequacy test*

At the end of each reporting period, the Group assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision is created.

*3.4.7 Receivables and payables related to insurance contracts*

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

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

**3. Significant accounting policies (continued)**

**3.4 Insurance contracts (continued)**

*3.4.8 Policy acquisition costs*

Commissions and other acquisition costs are accounted on an incurred basis.

**3.5 Revenue recognition**

*3.5.1 Insurance contract income*

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these consolidated financial statements (Note 3.4).

*3.5.2 Commission income*

Commission income is recognised when the reinsurance premium is ceded based on the terms and percentages agreed with the reinsurers.

*3.5.3 Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

*3.5.4 Dividend income*

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

*3.5.5 Rental income*

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

**3.6 General and administrative expenses**

Direct expenses are charged to the respective departmental revenue accounts. Indirect expenses are allocated to departmental revenue accounts on the basis of gross written premiums of each department. Other administration expenses are charged to profit or loss as unallocated general and administrative expenses.

**3.7 Foreign currencies**

The financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of a group entity are expressed in Arab Emirates Dirhams ("AED"), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

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

**3. Significant accounting policies (continued)**

**3.7 Foreign currencies (continued)**

In preparing the financial statements of individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the year in which they arise.

**3.8 Employee benefits**

*3.8.1 Defined contribution plan*

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

*3.8.2 Annual leave and leave passage*

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

*3.8.3 Provision for employees' end of service indemnity*

Provision is also made for the full amount of end of service indemnity due to non-U.A.E. national employees in accordance with the U.A.E. Labour Law and is based on current remuneration and their period of service at the end of the reporting period.

The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service indemnity is disclosed as a non-current liability.

**3.9 Property and equipment**

Land is stated at its cost.

Other property and equipment are carried at cost less accumulated depreciation and any accumulated 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.

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

**3. Significant accounting policies (continued)**

**3.9 Property and equipment (continued)**

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

The useful lives considered in the calculation of depreciation for the assets are as follows:

	Years
Furniture and equipment	5
Computer equipment	5
Office fixture and fittings	10
Residential villa	15

**3.10 Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs.

Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. 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 profit or loss 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. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the period of retirement or disposal.

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

**3.11 Impairment of tangible assets**

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

**3. Significant accounting policies (continued)**

**3.11 Impairment of tangible assets (continued)**

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

**3.12 Provisions**

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

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

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

**3.13 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**3.14 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group has no finance leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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

**3. Significant accounting policies (continued)**

**3.15 Financial instruments: Accounting policies applied from 1 January 2018**

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL). Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- (i) debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- (ii) debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVOCI);
- (iii) all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:
  - a. the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and
  - b. the Group may irrevocably designate a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

**Cash and bank and insurance and other receivables**

Cash and bank and insurance and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short- term receivables when the recognition of interest would be immaterial.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

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

**3. Significant accounting policies (continued)**

**3.15 Financial instruments: Accounting policies applied from 1 January 2018 (continued)**

**Equity instruments at FVOCI**

Investments in equity instruments/funds at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments in equity instruments/funds, but reclassified to retained earnings. The Group has designated all investments in equity instruments that are not held for trading as FVOCI.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

**Debt instruments at amortised cost or at FVOCI**

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models. When a debt instrument measured at FVOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. Debt instruments that are subsequently measured at amortised cost or at FVOCI are subject to impairment.

**Financial assets at FVTPL**

Financial assets at FVTPL are:

- (i) assets with contractual cash flows that are not SPPI; or/and
- (ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- (iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Fair value option: A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an "accounting mismatch").

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

**3. Significant accounting policies (continued)**

**3.15 Financial instruments: Accounting policies applied from 1 January 2018 (continued)**

**Reclassifications**

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period, there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made.

**Impairment**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss model (ECLs). The Group recognises loss allowances for expected credit losses on bank balances including statutory and fixed deposits and insurance and other receivables that are not measured at FVTPL.

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).
- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Group has elected to measure loss allowances for bank balances including statutory and fixed deposits, insurance and other receivables at an amount equal to life time ECLs.

Loss allowance for financial investments measured at amortised costs are deducted from gross carrying amount of assets.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue costs or effort. This includes both quantitative and qualitative information and analysis, based on Group's historical experience and informed credit assessment and including forward-looking information.

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

Impairment losses related to bank balances including statutory and fixed deposits and insurance and other receivables are presented separately in the consolidated statement of income.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of the grade of the investment.

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

**3. Significant accounting policies (continued)**

**3.15 Financial instruments: Accounting policies applied from 1 January 2018 (continued)**

**Measurement of ECL**

The Group employs statistical models for ECL calculations. ECLs are a probability-weighted estimate of credit losses.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

These parameters will be derived from our internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information.

**Credit-impaired financial assets**

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. At each reporting date, the Company assesses whether financial assets carried at amortised costs are credit-impaired.

**Derecognition of financial assets**

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

On derecognition of a financial asset measured at amortised cost or measured at FVTPL, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair value of securities reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

**Presentation of allowance for ECL in the consolidated financial statements**

Loss allowances for ECL are presented in the in the consolidated financial statements as follows:

- for financial assets measured at amortised cost (insurance and other receivables and cash and bank): as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the consolidated statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in revaluation reserve and recognised in other comprehensive income;

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

**3. Significant accounting policies (continued)**

**3.15 Financial instruments: Accounting policies applied from 1 January 2018 (continued)**

**Impact on consolidated financial statements**

The following table reconciles the carrying original measurement categories and amounts in accordance with IAS 39 and new measurement categories with those under IFRS 9 for the Group's financial assets as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount	Remeasurement	New carrying Amount under IFRS 9
			AED	AED	AED
<b>Financial assets</b>					
Insurance and other receivables (a)	Loans and receivables	Amortised costs	328,993,672	(26,310,476)	302,683,196
Investment securities – equity (b)	Available for sale	FVOCI - equity	54,130,626	-	54,130,626
Bank balances including statutory and fixed deposits (a)	Loans and receivables	Amortised costs	202,286,221	-	202,286,221

- a) Insurance and other receivables and bank balances including statutory and fixed deposits, that were classified as loans and receivables under IAS 39 are now classified as amortised cost. An increase of AED 26,310,476, in the provision for impairment over insurance and other receivable balances was recognized at 1 January 2018 on adoption of IFRS 9.
- b) Investments in equity were classified as available-for-sale securities earlier and are classified as FVOCI - equity as per IFRS 9.

The impact from the adoption of the final phase of IFRS 9 as at 1 January 2018 has been to decrease retained earnings by AED 20,526,487.

	<b>Retained earnings AED</b>
Closing balance under IAS 39 as at 31 December 2017	108,189,775
Impact on recognition of Expected Credit Losses - Insurance and other receivables	(26,310,476)
Impact of previously impaired equity investments transferred to cumulative change in fair value reserve	5,783,989
<b>Opening balance as at 1 January 2018 as per IFRS 9</b>	<b>87,663,288</b>

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

	<b>AED</b>
<b>Loss allowance as at 31 December 2017 under IAS 39</b>	30,297,042
Additional impairment recognized at 1 January 2018 on Insurance and other receivables	26,310,476
<b>Loss allowance as at 1 January 2018 as per IFRS 9</b>	<b>56,607,518</b>

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

**3. Significant accounting policies (continued)**

**3.16 Financial instruments: Accounting policies applied until 31 December 2017**

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at held for trading, which are initially measured at fair value.

Financial assets of the Group are classified into the following specified categories: bank balances and cash, available-for-sale investments (AFS investments) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

*3.16.1 Bank balances and cash*

Bank balances and cash comprise cash on hand and fixed deposits and current and call accounts with banks that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

*3.16.2 AFS investments*

Listed shares held by the Group that are traded in an active market and unquoted shares that are not traded in active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the cumulative changes in fair value of available-for-sale investment reserve with the exception of impairment losses, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the cumulative change in fair value is reclassified to profit or loss.

Dividend on AFS investments are recognised in profit or loss when the Group's right to receive the dividend is established.

*3.16.3 Loans and receivables*

Insurance and other receivables (excluding prepayments) that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are initially measured at fair value, plus transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*3.16.4 Impairment of financial assets*

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

For investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

**3. Significant accounting policies (continued)**

**3.16 Financial instruments: Accounting policies applied until 31 December 2017 (continued)**

*3.16.4 Impairment of financial assets (continued)*

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

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

When an AFS securities is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

With the exception of AFS, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

*3.16.5 Derecognition of financial assets*

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

**3.17 Financial liabilities and equity instruments issued by the Group**

*3.17.1 Classification as debt or equity*

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

*3.17.2 Equity instruments*

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

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

**3. Significant accounting policies (continued)**

**3.17 Financial liabilities and equity instruments issued by the Group (continued)**

*3.17.3 Financial liabilities*

Financial liabilities are classified as 'other financial liabilities'.

*3.17.4 Other financial liabilities*

Insurance and other payables and bank borrowings are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except for short term payable when the recognition of interest would be immaterial.

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

*3.17.5 Derecognition of financial liabilities*

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

*3.17.6 Dividend distribution*

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

**4. Critical accounting judgements and key sources of estimation uncertainty**

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

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

**4.1 Critical accounting judgements**

The following are the critical judgements, apart from those involving estimations (see 4.2 below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

*4.1.1 Classification of investments*

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

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

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

**4.1 Critical accounting judgements (continued)**

*4.1.2 Business model assessment*

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

*4.1.3 Significant increase in credit risk*

As explained in note 3, ECL are measured as an allowance equal to lifetime ECL for assets. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

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

*4.1.4 Classification of properties*

In the process of classifying properties, management has made various judgments. Judgments are needed to determine whether a property qualifies as an investment property, property and equipment, property under development and/or property held for sale. Management develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment, property under development and property held for sale. In making its judgment, management has considered the detailed criteria and related guidance set out in IAS 2 – Inventories, IAS 16 – Property, Plant and Equipment, and IAS 40 – Investment Property, with regards to the intended use of the property.

**4.2 Key sources of estimation uncertainty**

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

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

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

**4.2 Key sources of estimation uncertainty (continued)**

*4.2.1 The ultimate liability arising from claims made under insurance contracts*

The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of each reporting period. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on external actuarial assessment, taking into account the historical data of the claims reported and settlement pattern. Such method takes into account the best estimates of the future contractual cash flows estimated based on the historical data. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

*4.2.2 Calculation of loss allowance*

When measuring ECL and IFRS 9, the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

An estimate of the collectible amount of insurance receivables as per IAS 39, as is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Group evaluating, the credit and liquidity position of the policyholders and the insurance companies, historical recovery rates including detailed investigations carried out during 2017 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the profit or loss at the time of collection.

*4.2.3 Liability adequacy test*

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Group makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of the liability. Any deficiency is immediately charged to the profit or loss.

*4.2.4 Valuation of unquoted equity instruments*

Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models. In the absence of an active market for these investments or any recent transactions that could provide evidence of the current fair value, management estimates the fair value of these instruments using expected cash flows discounted at current rates for similar instruments or other valuation models.

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

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

**4.2 Key sources of estimation uncertainty (continued)**

*4.2.5 Depreciation of property and equipment*

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. Management has not considered any residual value as it is deemed immaterial.

*4.2.6 Revaluation of investment properties*

The investment properties are carried at fair value, with changes in the fair value being recognized in the consolidated statement of income. The management engaged independent valuation specialists to assess fair value during the year. The fair value of plots of land was determined based on the acceptable approach that reflects recent transactions prices for similar properties. The fair value of buildings was determined using investment method. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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

5. Property and equipment	Land AED	Furniture and equipment AED	Computer equipment AED	Office fixture and fittings AED	Residential villa AED	Total AED
<i>Cost</i>						
At 31 December 2016	649,000	6,080,628	11,397,279	5,404,002	1,057,827	24,588,736
Additions	-	224,760	1,575,983	205,990	-	2,006,733
Disposals	-	(10,850)	(3,881,792)	-	-	(3,892,642)
31 December 2017	649,000	6,294,538	9,091,470	5,609,992	1,057,827	22,702,827
Additions	-	82,874	1,525,672	321,459	-	1,930,005
Write offs	-	-	(172,585)	-	-	(172,585)
<b>31 December 2018</b>	<b>649,000</b>	<b>6,377,412</b>	<b>10,444,557</b>	<b>5,931,451</b>	<b>1,057,827</b>	<b>24,460,247</b>
<i>Accumulated depreciation</i>						
At 31 December 2016	-	4,790,903	9,690,172	4,856,321	1,057,827	20,395,223
Charge for the year	-	457,488	945,470	245,302	-	1,648,260
Disposals	-	(10,850)	(3,881,120)	-	-	(3,891,970)
31 December 2017	-	5,237,541	6,754,522	5,101,623	1,057,827	18,151,513
Charge for the year	-	439,991	307,645	250,091	-	997,727
Write offs	-	-	(172,585)	-	-	(172,585)
<b>31 December 2018</b>	<b>-</b>	<b>5,677,532</b>	<b>6,889,582</b>	<b>5,351,714</b>	<b>1,057,827</b>	<b>18,976,655</b>
<i>Carrying amount</i>						
<b>31 December 2018</b>	<b>649,000</b>	<b>699,880</b>	<b>3,554,975</b>	<b>579,737</b>	<b>-</b>	<b>5,483,592</b>
31 December 2017	649,000	1,056,997	2,336,948	508,369	-	4,551,314

At 31 December 2018, the cost of fully depreciated property and equipment that was still in use amounted to AED 14.4 million (2017: AED 13.1 million).

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

**6. Investment properties**

Investment properties comprises the following at fair value:

	<b>2018</b>	2017
	<b>AED</b>	AED
Plots of land	<b>82,340,000</b>	81,893,949
Buildings	<b>827,200,601</b>	838,646,652
	<u><b>909,540,601</b></u>	<u>920,540,601</u>

Movement during the year is as follows:

	<b>2018</b>	2017
	<b>AED</b>	AED
Fair value at the beginning of the year	<b>920,540,601</b>	920,540,601
Change in fair value during the year (Note 18)	<b>(11,000,000)</b>	-
<b>Fair value at the end of the year</b>	<u><b>909,540,601</b></u>	<u>920,540,601</u>

The fair value of the Group's investments properties as at 31 December 2018 has been arrived at on the basis of valuations carried on the respective dates by independent valuers who are not related to the Group and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

The fair value of plots of land was determined based on the acceptable approach that reflects recent transactions prices for similar properties. The fair value of buildings was determined using investment method. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group's investment properties are classified as Level 3 in the fair value hierarchy as at 31 December 2018 (2017: Level 3).

Investment property amounting to AED 853 million (2017: AED 872 million) is mortgaged to a bank towards credit facilities granted to the Group (Note 15).

The rental proceeds from Al Khan, Al Nahda and Al Buhairah Corniche Towers are assigned to a bank against credit facilities granted to the Group (Note 15).

The property rental income earned by the Group from its investment properties, which are leased out under operating leases, and direct operating expenses arising on the investment property are as follows:

	<b>2018</b>	2017
	<b>AED</b>	AED
Rental income	<b>61,158,357</b>	67,816,510
Direct operating expenses	<b>(20,832,387)</b>	(19,155,636)
	<u><b>40,325,970</b></u>	<u>48,660,874</u>

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

**7. Investments in securities**

	2018 AED	2017 AED
<b>Equity at FVOCI</b>		
Quoted – at fair value	30,299,491	-
Unquoted – at fair value	11,443,656	-
	<u>41,743,147</u>	<u>-</u>
<b>Equity at available-for-sale</b>		
Quoted – at fair value	-	36,322,096
Unquoted – at fair value	-	17,808,530
	<u>-</u>	<u>54,130,626</u>

Movement during the year is as follows:

	2018 AED	2017 AED
Fair value at the beginning of the year	54,130,626	52,856,907
Purchases during the year	1,985,476	19,022,969
Disposals during the year	(3,201,439)	(15,693,779)
Decrease in fair value	(11,171,516)	(2,055,471)
Fair value at the end of the year	<u>41,743,147</u>	<u>54,130,626</u>

	<u>Within U.A.E.</u>		<u>Outside U.A.E.</u>		<u>Total</u>	
	2018 AED	2017 AED	2018 AED	2017 AED	2018 AED	2017 AED
- Quoted	30,299,491	36,322,096	-	-	30,299,491	36,322,096
- Unquoted	7,309,691	13,674,565	4,133,965	4,133,965	11,443,656	17,808,530
	<u>37,609,182</u>	<u>49,996,661</u>	<u>4,133,965</u>	<u>4,133,965</u>	<u>41,743,147</u>	<u>54,130,626</u>

As required by the circular No. 411/2018 of SCA at reporting date, investment in securities includes net investment with Abraaj Group amounting to AED 2,109,375.

**8. Statutory deposit**

In accordance with the requirements of Federal Law No. 6 of 2007 on Establishment of Insurance Authority of U.A.E. and Organisation of its operations, the Group maintains a bank deposit of AED 10 million (31 December 2017: AED 10 million) as a statutory deposit.

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

**9. Insurance contract liabilities and reinsurance contract assets**

	<b>2018</b>	2017
	<b>AED</b>	AED
<b>Insurance contract liabilities</b>		
Claims reported unsettled	152,292,439	189,440,280
Claims incurred but not reported	57,651,003	53,906,363
Unallocated loss adjustment exposure reserve	4,938,265	2,972,530
Unearned premium	203,855,741	212,733,798
<b>Total insurance contract liabilities, gross</b>	<b>418,737,448</b>	459,052,971
<b>Recoverable from reinsurers</b>		
Claims reported unsettled	94,804,778	102,274,706
Claims incurred but not reported	29,761,560	19,893,760
Unallocated loss adjustment expense reserve	-	200
Unearned premium	129,981,697	114,182,718
<b>Total reinsurers' share of insurance liabilities</b>	<b>254,548,035</b>	236,351,384
<b>Net</b>		
Claims reported unsettled	57,487,661	87,165,574
Claims incurred but not reported	27,889,443	34,012,603
Unallocated loss adjustment exposure reserve	4,938,265	2,972,330
Unearned premium	73,874,044	98,551,080
	<b>164,189,413</b>	222,701,587

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

9. Insurance contract liabilities and reinsurance contract assets (continued)

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

	2018			2017		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
<b>Claims</b>						
Notified claims	189,440,280	(102,274,706)	87,165,574	244,628,303	(112,907,659)	131,720,644
Incurred but not reported	53,906,363	(19,893,760)	34,012,603	50,789,092	(23,403,204)	27,385,888
Unallocated loss adjustment expense reserve	2,972,530	(200)	2,972,330	3,462,065	(210)	3,461,855
<b>Total at the beginning of the year</b>	246,319,173	(122,168,666)	124,150,507	298,879,460	(136,311,073)	162,568,387
Claims settled during the year	(330,018,108)	128,785,320	(201,232,788)	(426,365,791)	139,618,019	(286,747,772)
Claims incurred	298,580,642	(131,182,992)	167,397,650	373,805,504	(125,475,612)	248,329,892
<b>Total at the end of the year</b>	214,881,707	(124,566,338)	90,315,369	246,319,173	(122,168,666)	124,150,507
<b>Notified claims</b>						
Incurred but not reported	152,292,439	(94,804,778)	57,487,661	189,440,280	(102,274,706)	87,165,574
Unallocated loss adjustment expense reserve	57,651,003	(29,761,560)	27,889,443	53,906,363	(19,893,760)	34,012,603
	4,938,265	-	4,938,265	2,972,530	(200)	2,972,330
<b>Total at the end of the year</b>	214,881,707	(124,566,338)	90,315,369	246,319,173	(122,168,666)	124,150,507
<b>Unearned premium</b>						
<b>Total at the beginning of the year</b>	212,733,798	(114,182,718)	98,551,080	220,281,052	(92,967,424)	127,313,628
Increase during the year	203,855,741	(129,981,697)	73,874,044	212,733,798	(114,182,718)	98,551,080
Release during the year	(212,733,798)	114,182,718	(98,551,080)	(220,281,052)	92,967,424	(127,313,628)
Net decrease during the year (Note 17)	(8,878,057)	(15,798,979)	(24,677,036)	(7,547,254)	(21,215,294)	(28,762,548)
<b>Total at the end of the year</b>	203,855,741	(129,981,697)	73,874,044	212,733,798	(114,182,718)	98,551,080

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

**10. Insurance and other receivables**

	<b>2018</b>	2017
	<b>AED</b>	AED
<b>Receivables arising from insurance and reinsurance contracts</b>		
Due from policyholders	207,933,207	217,213,879
Due from reinsurance companies	20,858,859	25,034,381
Due from insurance companies	88,940,144	97,212,426
Provision for credit loss	(56,607,518)	(30,297,042)
	<u>261,124,692</u>	<u>309,163,644</u>
<b>Other receivables</b>		
Staff receivables	2,719,109	2,810,492
Rent receivable	7,999,002	6,248,657
Prepayments and others	11,525,245	10,770,879
	<u>283,368,048</u>	<u>328,993,672</u>

The Group has adopted a policy of dealing with credit worthy counter parties. Adequate credit assessment is made before accepting any insurance contracts from any counter party. The average credit period is 120 days.

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

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

The expected credit loss rate used to compute the loss allowance for the receivables outstanding between 0-90 days was between 2% to 37% and outstanding more than 90 days 40%.

Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customer. Of the due from policyholders balance at the end of the year, AED 33 million (2017: AED 22 million) is due from the Group's largest customer. There are 8 (2017: 9) other customers who represent more than 30% (2017: 34%) of the total balance of due from policy holders.

The geographical allocation of receivables arising from insurance and reinsurance contracts is as follows:

**31 December 2018**

	<b>Inside UAE</b>	<b>Outside UAE</b>	<b>Total</b>
	<b>AED</b>	<b>AED</b>	<b>AED</b>
Due from policy holders	207,933,207	-	207,933,207
Due from insurance companies	87,919,038	1,021,106	88,940,144
Due from reinsurance companies	1,145,564	19,713,295	20,858,859
Less: Provision for credit loss	(56,607,518)	-	(56,607,518)
	<u>240,390,291</u>	<u>20,734,401</u>	<u>261,124,692</u>

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

## 10. Insurance and other receivables (continued)

31 December 2018

	Due from policyholders AED	Due from insurance companies AED	Due from reinsurance companies AED	Total AED
<b>Inside UAE</b>				
Less than 60 days	66,408,775	25,297,924	1,005,869	92,712,568
61 to 120 days	53,105,883	23,265,979	-	76,371,862
121 to 180 days	22,626,930	3,929,628	14,720	26,571,278
181 to 270 days	12,924,086	3,781,067	-	16,705,153
271 to 365 days	8,666,258	2,108,745	52,127	10,827,130
More than 365 days	44,201,275	29,535,695	72,848	73,809,818
	<u>207,933,207</u>	<u>87,919,038</u>	<u>1,145,564</u>	<u>296,997,809</u>
Less: Provision for credit loss	(56,607,518)	-	-	(56,607,518)
	<u><u>151,325,689</u></u>	<u><u>87,919,038</u></u>	<u><u>1,145,564</u></u>	<u><u>240,390,291</u></u>
	Due from Policyholders AED	Due from insurance companies AED	Due from reinsurance companies AED	Total AED
<b>Outside UAE</b>				
Less than 60 days	-	114,052	6,670,347	6,784,399
61 to 120 days	-	360,263	247,775	608,038
121 to 180 days	-	120	119,795	119,915
181 to 270 days	-	55,472	554,431	609,903
271 to 365 days	-	-	3,268	3,268
More than 365 days	-	491,199	12,117,679	12,608,878
	<u>-</u>	<u>1,021,106</u>	<u>19,713,295</u>	<u>20,734,401</u>

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

**10. Insurance and other receivables (continued)**

31 December 2017

	Inside UAE AED	Outside UAE AED	Total AED
Due from policy holders	217,213,879	-	217,213,879
Due from insurance companies	95,068,411	2,144,015	97,212,426
Due from reinsurance companies	919,848	24,114,533	25,034,381
Less: Provision for credit loss	(30,297,042)	-	(30,297,042)
	<u>282,905,096</u>	<u>26,258,548</u>	<u>309,163,644</u>

	Due from policyholders AED	Due from insurance companies AED	Due from reinsurance companies AED	Total AED
Inside UAE				
Less than 60 days	48,182,772	20,150,302	93,267	68,426,341
61 to 120 days	57,334,025	27,751,105	669,570	85,754,700
121 to 180 days	31,034,346	11,574,701	59,332	42,668,379
181 to 270 days	29,598,642	6,285,107	-	35,883,749
271 to 365 days	20,223,251	3,493,276	-	23,716,527
More than 365 days	30,840,843	25,813,920	97,679	56,752,442
	<u>217,213,879</u>	<u>95,068,411</u>	<u>919,848</u>	<u>313,202,138</u>
Less: Provision for credit loss	(30,297,042)	-	-	(30,297,042)
	<u>186,916,837</u>	<u>95,068,411</u>	<u>919,848</u>	<u>282,905,096</u>

	Due from policyholders AED	Due from insurance companies AED	Due from reinsurance companies AED	Total AED
Outside UAE				
Less than 60 days	-	352,739	11,431,384	11,784,123
61 to 120 days	-	347,953	2,262,815	2,610,768
121 to 180 days	-	652,280	954,182	1,606,462
181 to 270 days	-	5,273	946,905	952,178
271 to 365 days	-	6,238	1,015,144	1,021,382
More than 365 days	-	779,532	7,504,103	8,283,635
	<u>-</u>	<u>2,144,015</u>	<u>24,114,533</u>	<u>26,258,548</u>

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

**10. Insurance and other receivables (continued)**

*Movements in provision for credit loss:*

	2018 AED	2017 AED
Balance at the beginning of the year	30,297,042	25,797,042
Initial application of IFRS 9 (note 3.15)	26,310,476	-
Allowance made during the year	-	4,500,000
<b>Balance at the end of the year</b>	<b>56,607,518</b>	<b>30,297,042</b>

In determining the recoverability of an insurance receivable, the Company considers any change in the credit quality of the insurance receivable from the date credit was initially granted up to the reporting date.

Accordingly, the directors believe that there is no further credit provision required in excess of the available provision for credit loss.

**11. Bank balances and cash**

	2018 AED	2017 AED
Cash on hand	213,602	142,365
Bank balances:		
Current accounts	11,010,132	6,949,941
Call accounts	4,448,293	4,138,474
Margin deposits	873,000	573,000
Fixed deposits	212,653,929	190,482,441
<b>Bank balances and cash</b>	<b>229,198,956</b>	<b>202,286,221</b>
Less: Deposits under lien (Note 15)	(68,032,771)	(36,337,547)
Less: Deposits with original maturity of more than three months	(144,621,158)	(154,144,894)
Less: Margin deposits	(873,000)	(573,000)
<b>Cash and cash equivalents</b>	<b>15,672,027</b>	<b>11,230,780</b>

The interest rate on fixed deposits with banks ranges from 1% to 4.85% (2017: 1% to 3.75%) per annum. All fixed deposits are held in local banks in the United Arab Emirates.

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

**12. Share capital**

	<b>2018</b>	2017
	<b>AED</b>	AED
Authorised, issued and fully paid: 250 million ordinary shares of AED 1 each (2017: 250 million ordinary shares of AED 1 each)	<u><b>250,000,000</b></u>	<u>250,000,000</u>

**13. Reserves**

**13.1 Statutory reserve**

In accordance with U.A.E. Federal Commercial Companies Law Number (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.

**13.2 Voluntary reserve**

The voluntary reserve is established through transfers from profit for the year as recommended by the Board of Directors and approved by the Shareholders at the Annual General Meeting. The reserve is distributable based on a recommendation by the Board of Directors, approved by a Shareholders' resolution.

**14. Provision for employees' end of service indemnity**

Movements in the net liability were as follows:

	<b>2018</b>	2017
	<b>AED</b>	AED
Balance at the beginning of the year	<b>34,080,440</b>	32,886,177
Amounts charged during the year	<b>3,241,411</b>	2,899,692
Amounts paid during the year	<b>(1,256,377)</b>	(1,705,429)
	<u><b>36,065,474</b></u>	<u>34,080,440</u>

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

**15. Bank borrowings**

	<b>2018</b>	2017
	<b>AED</b>	AED
Bank overdraft	28,760,153	18,958,315
Term loans	435,920,797	420,783,484
	<u>464,680,950</u>	<u>439,741,799</u>
The bank borrowings are repayable as follows:		
On demand or within one year	102,689,514	78,171,002
In the second year	75,279,360	70,879,360
In the third and subsequent years	286,712,076	290,691,437
	<u>464,680,950</u>	<u>439,741,799</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(102,689,514)</u>	<u>(78,171,002)</u>
Amount due for settlement after 12 months (shown under non-current liabilities)	<u>361,991,436</u>	<u>361,570,797</u>

Bank overdrafts are repayable on demand and carry out interest rates ranging from 0.5% to 2.75% plus 3 months EIBOR (2017: 0.5% to 2.75% plus 3 months EIBOR) per annum.

The term loans description, maturity dates, and classification are set in the table below:

	Note	Maturity	<b>2018</b>	2017
			<b>AED</b>	AED
Loan 1	(i)	31 May 2024	13,541,645	16,041,673
Loan 2	(ii)	31 December 2021	30,059,640	40,079,520
Loan 3	(iii)	31 October 2025	68,333,306	75,000,000
Loan 4	(iv)	31 December 2025	53,518,550	61,074,055
Loan 5	(v)	30 June 2023	146,117,656	178,588,236
Loan 6	(vi)	1 May 2024	50,000,000	50,000,000
Loan 7	(vii)	27 August 2023	74,350,000	-
			<u>435,920,797</u>	<u>420,783,484</u>

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

**15. Bank borrowings (continued)**

Main features of bank borrowings:

- Bank loans are obtained to finance the construction of investment properties and to meet its operating capital requirements.
  - Bank overdraft is payable on demand.
- (i) Bank loan for the amount of AED 20,000,000 was obtained in May 2016 to be repaid on monthly instalments of AED 208,333 till May 2024 with interest rate of 2.5% plus 3 months EIBOR.
  - (ii) Bank loan for the amount of AED 80,000,000 was obtained in December 2013 to be repaid on monthly instalments of AED 834,990 till December 2021 with interest rate of 2.5% plus 3 months EIBOR.
  - (iii) Bank loan for the amount of AED 75,000,000 was obtained in November 2017 to be repaid on monthly instalments of AED 833,333 commencing from May 2018 till October 2025 with interest rate 2.75% plus 1 month EIBOR.
  - (iv) Bank loan for the amount of AED 68,000,000 was obtained in January 2017 to be repaid on monthly instalments of AED 629,629 till December 2025 with interest rate of 2.35% plus 1 month EIBOR.
  - (v) Bank loan for the amount of AED 276,000,000 was obtained in November 2014 to refinance original facility and expend additional borrowing to be repaid on quarterly instalment of AED 8,117,647 till June 2023 with interest rate of 2.35% plus EIBOR rate paid every 3 months.
  - (vi) Bank loan for the amount of AED 50,000,000 was obtained in May 2017, AED 25,000,000 is to be repaid on monthly instalments of AED 694,444 commencing from January 2019 till December 2021, whereas remaining balance is to be repaid in two installment of AED 12,500,000 each on May 2023 & May 2024 and bears interest rate of 2.35% plus 1 month EIBOR.
  - (vii) Bank loan for the amount of AED 75,000,000 was obtained in August 2018. AED 2,600,000 is to be repaid on four quarterly instalments of AED 650,000 commencing from November 2018, AED 5,500,000 is to be repaid on five quarterly instalments of AED 1,100,000 commencing from November 2019, AED 7,200,000 is to be repaid on four quarterly instalments of AED 1,800,000 commencing from February 2021, AED 8,800,000 is to be repaid on four quarterly instalments of AED 2,200,000 commencing from February 2022, AED 28,400,000 is to be repaid on two quarterly instalments of AED 14,200,000 commencing from February 2023, whereas the remaining amount of AED 22,500,000 is to be repaid in one installment on August 2023 and bears interest rate of 2.35% plus 3 month EIBOR.

At 31 December 2018, bank borrowings were secured by lien on fixed deposits amounting to AED 68 million (2017: AED 36 million), mortgage of investment properties with fair value of 853 million (2017: AED 872 million) and assignment of rental proceeds from certain investment properties.

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

**16. Insurance and other payables**

	<b>2018</b>	2017
	<b>AED</b>	AED
<b>Payables arising from insurance and reinsurance contracts:</b>		
Claims payables	28,461,422	26,144,231
Due to insurance companies	19,565,221	17,232,724
Due to reinsurance companies	97,251,349	73,369,902
Portfolio withdrawal	-	11,248,423
Premium received in advance	487,502	242,480
<b>Other payables</b>		
Rental income received in advance	5,956,526	6,554,729
Accrued expenses and other payable	14,707,741	13,752,248
Due to employees	12,664,124	11,751,714
	<u>179,093,885</u>	<u>160,296,451</u>

Due to employees include AED 11.79 million (2017: AED 10.79 million) being the employees' contribution to the Provident Fund and interest thereon. The Group's contribution amounting to AED 11.79 million (2017: AED 10.79 million) is included under provision for employees' end of service indemnity and provident fund in these consolidated financial statements.

**17. Net insurance premium revenue**

	<b>2018</b>	2017
	<b>AED</b>	AED
<b>Gross premium written</b>		
Gross premium written	486,737,194	529,853,934
Change in unearned premium (Note 9)	8,878,057	7,547,254
	<u>495,615,251</u>	<u>537,401,188</u>
<b>Reinsurance premium ceded</b>		
Reinsurance premium ceded	(297,278,407)	(265,165,393)
Change in unearned premium (Note 9)	15,798,979	21,215,294
	<u>(281,479,428)</u>	<u>(243,950,099)</u>
<b>Net insurance premium revenue</b>	<u>214,135,823</u>	<u>293,451,089</u>

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

**18. Investment and other income**

	<b>2018</b>	2017
	<b>AED</b>	AED
Interest income on deposits	7,655,647	4,391,999
Dividend from investments	1,293,518	1,195,017
Gain on sale of available for sale financial assets	-	425,138
Impairment loss on available for sale financial assets	-	(5,000,000)
Decrease in fair value of investment properties (Note 6)	(11,000,000)	-
Rental income (Note 6)	40,325,970	48,660,874
Other income	126,891	60,035
	<u>38,402,026</u>	<u>49,733,063</u>

**19. Profit for the year**

Profit for the year has been arrived at after charging the following expenses:

	<b>2018</b>	2017
	<b>AED</b>	AED
Staff costs	33,201,541	31,053,247
Depreciation of property and equipment	997,727	1,648,260

**20. Basic earnings per share**

	<b>2018</b>	2017
Profit for the year (in AED)	35,497,527	52,234,584
Number of shares	<u>250,000,000</u>	<u>250,000,000</u>
Basic and diluted earnings per share (in AED)	<u>0.14</u>	<u>0.21</u>

Basic earnings per share has been calculated by dividing the profit for the year by the number of shares outstanding at the end of the reporting period. Diluted earnings per share as of 31 December 2018 and 31 December 2017 are equivalent to basic earnings per share as the Group did not issue any new instrument that would impact earnings per share when executed.

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

**21. Related party transactions**

Related parties include the Group's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

At the end of the reporting period, amounts due from/to related parties included under due from policyholders and gross outstanding claims were as follows:

	2018 AED	2017 AED
Due from policyholders	37,772,029	28,047,646
Gross outstanding claims	7,378,588	2,612,377

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received and no expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

**Transactions:**

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

	2018 AED	2017 AED
Gross premium	13,147,167	14,265,099
Claims paid	2,343,572	4,911,941

Premiums are charged to related parties at rates agreed with the management.

**Compensation of board of directors/key management personnel**

	2018 AED	2017 AED
Short-term benefits	4,516,336	3,913,900
Long-term benefits	293,669	261,292
Directors' fees	1,400,000	1,400,000

**22. Contingent liabilities**

	2018 AED	2017 AED
Letters of guarantee	21,180,477	16,760,602

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

**22. Contingent liabilities (continued)**

22.1 Legal proceedings

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial statements if settled unfavourably.

**23. Insurance risk**

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

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

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

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

23.1 *Frequency and severity of claims*

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

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

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

**23. Insurance risk (continued)**

*23.1 Frequency and severity of claims (continued)*

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

*23.2 Sources of uncertainty in the estimation of future claim payments*

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

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group 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 insurance claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Insurance contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the reporting date.

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

In calculating the estimated cost of unpaid claims (both reported and not), the Group'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 reinsurance) are analysed below by type of risk where the insured operates for current and prior year premiums earned.

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

**23. Insurance risk (continued)**

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

	2018	2017
<b>Type of risk</b>		
Motor	<u>97%</u>	<u>98%</u>
Non-Motor	<u>89%</u>	<u>90%</u>

*23.3 Process used to decide on assumptions*

The risks associated with these insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Group's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Group 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. The Group has also involved an independent external actuary in the valuation of technical reserves of the Group.

*23.4 Concentration of insurance risk*

Substantially all of the Group's underwriting activities are carried out in the United Arab Emirates.

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

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

*23.5 Sensitivity of underwriting profit and losses*

The contribution by the insurance operations is a profit of AED 25.8 million for the year ended 31 December 2018 (2017: profit of AED 30.8 million). The Group does not foresee any major impact from insurance operations to the Group's results and expects to increase the contribution by insurance operations to the profitability due to the following reasons:

The Group has an overall retention level of 39% (2017: 50%) and the same is mainly contributed by motor and medical class of business. The Group tries to arrange appropriate excess of loss reinsurance cover to guard against major financial impact.

The Group earns a gross commission income of AED 61.8 million (2017: AED 62.7 million). These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

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

**24. Capital risk management**

The Group's objectives when managing capital are:

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

In U.A.E., Insurance Authority specifies the minimum amount and type of capital that must be held by the Group 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 Group and the total capital held.

	<b>2018</b>	2017
	<b>AED</b>	AED
Total capital held	<b>250,000,000</b>	250,000,000
Minimum regulatory capital	<b>100,000,000</b>	100,000,000

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 reinsurance 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. The Group is in compliance with the minimum capital requirements.

Further, as per Article (8) of section (2) of financial regulations issued for insurance companies in U.A.E., the Company shall at all times comply with the requirements of solvency margin. As of 31 December 2018, the Company had a solvency deficit and the Company is in the process of complying with the requirements of solvency margin.

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

**24. Capital risk management (continued)**

*24.1 Gearing ratio*

The Group reviews the capital structure on a semi-annual basis. As part of this review, the Group considers the cost of capital and the risks associated with capital.

The gearing ratio at the year end was as follows:

	<b>2018</b>	2017
	<b>AED</b>	AED
Debt (i)	<b>464,680,950</b>	439,741,799
Bank balances and cash (ii)	<b>(239,198,956)</b>	(212,286,221)
	<b>225,481,994</b>	227,455,578
Equity (iii)	<b>635,304,622</b>	663,682,157
Net debt to equity ratio	<b>0.35</b>	0.34

- (i) Debt is defined as bank borrowings (see Note 15).
- (ii) Bank balances and cash includes statutory deposit.
- (iii) Equity comprises of capital, reserves, cumulative changes in fair value and retained earnings.

**25. Financial instruments**

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

*25.1 Significant accounting policies*

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

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

## 25. Financial instruments (continued)

## 25.2 Categories of financial instruments

31 December 2018

	Amortised cost AED	FVOCI AED	Total AED
<b>Financial assets</b>			
Investments in securities	-	41,743,147	41,743,147
Insurance and other receivables	271,842,803	-	271,842,803
Bank balances and cash (including statutory deposit)	239,198,956	-	239,198,956
<b>Total financial assets</b>	<u>511,041,759</u>	<u>41,743,147</u>	<u>552,784,906</u>
			<b>At amortised cost AED</b>
<b>Financial liabilities</b>			
Bank borrowings			464,680,950
Insurance and other payables			172,649,857
<b>Total financial liabilities</b>			<u>637,330,807</u>

31 December 2017

	Loans and receivables AED	Available- for-sale AED	Total AED
<b>Financial assets</b>			
Available-for-sale investments	-	54,130,626	54,130,626
Insurance and other receivables	318,222,793	-	318,222,793
Bank balances and cash (including statutory deposit)	212,286,221	-	212,286,221
<b>Total financial assets</b>	<u>530,509,014</u>	<u>54,130,626</u>	<u>584,639,640</u>
			<b>At amortised cost AED</b>
<b>Financial liabilities</b>			
Bank borrowings			439,741,799
Insurance and other payables			153,499,242
<b>Total financial liabilities</b>			<u>593,241,041</u>

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

**25. Financial instruments (continued)**

**25.3 Fair value measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group 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.

*25.3.1 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 consolidated financial statements approximate their fair values.

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

The fair values of financial and non-financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the audited annual consolidated financial statements for the year ended 31 December 2017.

*25.3.3 Fair value measurements recognised in the consolidated statement of financial position*

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

	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31 December 2018 AED	31 December 2017 AED				
<b>FVOCI/ Available for sale investments</b>						
Quoted equity securities	30,299,491	36,322,096	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	11,443,656	17,808,530	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets were determined based on the latest available audited/historical financial information.	Net asset value	Higher the net assets, value of the investees, higher the fair value.

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

**25. Financial instruments (continued)**

**25.3 Fair value measurements (continued)**

*Reconciliation of FVOCI/AFS investments, movements in level 3 financial assets measured at fair value:*

	2018 AED	2017 AED
Balance at the beginning of the year	17,808,530	17,808,530
Changes in fair value	(6,364,874)	-
	<hr/> <hr/>	<hr/> <hr/>
<b>Balance at the end of the year</b>	<b>11,443,656</b>	<b>17,808,530</b>

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

**25.4 Market risk**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

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

**25.5 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.

**25.6 Credit risk**

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

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

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

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

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

**25. Financial instruments (continued)**

**25.6 Credit risk (continued)**

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

The Group 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 Group. Management information reported to the Group includes details of provisions for impairment on insurance 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 reinsurers is carried out by the Group.

Insurance receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of insurance receivable.

For insurance receivables the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Notes 13.5 include further details on the loss allowance for these assets respectively.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

**25.7 Liquidity risk**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group 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.

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

**25. Financial instruments (continued)**

**25.7 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 reporting date 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 was as follows:

	Less than 1 month AED	1 to 3 months AED	3 months to 1 year AED	1 year to 5 years AED	More than 5 years AED	Total AED
<b>31 December 2018</b>						
<b>Financial assets</b>						
Investments in securities	-	-	-	41,743,147	-	41,743,147
Insurance and other receivables excluding prepayments	40,590,436	187,246,118	44,006,249	-	-	271,842,803
Bank balances and cash	15,972,027	10,861,497	202,365,432	-	-	229,198,956
Statutory deposit	-	-	-	-	10,000,000	10,000,000
	<u>56,562,463</u>	<u>198,107,615</u>	<u>246,371,681</u>	<u>41,743,147</u>	<u>10,000,000</u>	<u>552,784,906</u>
<b>Financial liabilities</b>						
Bank borrowing	3,200,738	15,169,108	84,319,668	326,225,700	35,765,736	464,680,950
Insurance and other payables (excluding premium and rental received in advance)	11,786,590	9,070,335	151,792,932	-	-	172,649,857
	<u>14,987,328</u>	<u>24,239,443</u>	<u>236,112,600</u>	<u>326,225,700</u>	<u>35,765,736</u>	<u>637,330,807</u>
	Less than 1 month AED	1 to 3 months AED	3 months to 1 year AED	1 year to 5 years AED	More than 5 years AED	Total AED
<b>31 December 2017</b>						
<b>Financial assets</b>						
Investments in securities	-	-	-	54,130,626	-	54,130,626
Insurance and other receivables excluding prepayments	59,476,946	177,635,082	81,110,765	-	-	318,222,793
Bank balances and cash	11,230,780	10,413,811	180,641,630	-	-	202,286,221
Statutory deposit	-	-	-	-	10,000,000	10,000,000
	<u>70,707,726</u>	<u>188,048,893</u>	<u>261,752,395</u>	<u>54,130,626</u>	<u>10,000,000</u>	<u>584,639,640</u>
<b>Financial liabilities</b>						
Bank borrowing	1,672,953	11,463,552	65,034,497	240,164,204	121,406,593	439,741,799
Insurance and other payables (excluding premium and rental received in advance)	10,788,397	19,470,715	123,240,130	-	-	153,499,242
	<u>12,461,350</u>	<u>30,934,267</u>	<u>188,274,627</u>	<u>240,164,204</u>	<u>121,406,593</u>	<u>593,241,041</u>

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

**25. Financial instruments (continued)**

**25.8 Interest risk**

The Group's exposure to interest rate risk relates to its bank deposits and bank borrowings. During the year, bank deposits carried interest at the range of 1% to 4.85% per annum (2017: 1% to 3.75% per annum). Bank loans carried an interest rate in the range of 0.5% to 2.75% plus three months EIBOR per annum (2017: 0.5% to 2.75% plus three months EIBOR per annum).

If interest rates had been 50 basis points lower throughout the year and all other variables were held constant, the Group's profit for the year ended 31 December 2018 and equity as at 31 December 2018 would decrease by approximately AED 1,233,529 (2017: AED 1,222,739).

The Group's sensitivity to interest rates has not changed significantly from the prior year.

**25.9 Equity price risk**

*25.9.1 Sensitivity analysis*

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Group's other comprehensive income and equity would have increased/decreased by AED 4.2 million (2017: AED 5.4 million).

*25.9.2 Method and assumptions for sensitivity analysis*

- The sensitivity analysis has been done based on the exposure to equity price risk at the reporting date.
- At the end of the reporting period, 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 profit or loss and equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

**26. Segment information**

The Group is organised into three business segments: general insurance, life assurance and investments. The general insurance segment incorporates all classes of general insurance including fire, marine, medical, motor, general accident and other classes of insurance. The life assurance segment includes group life insurance.

Investments segment includes investments in equity securities, investment properties and statutory deposit.

These segments are the basis on which the Group reports its primary segment information to the Chief Operating decision maker. Insurance premium represents the total income arising from insurance contracts. There are no transactions between the business segments.

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

26. Segment information (continued)													
a)	<i>Segment consolidated statement of income for the year ended 31 December 2018</i>												
	Marine AED	Fire AED	Accident and liabilities AED	General and others AED	Life AED	Total insurance AED	Investments AED	Total AED					
Gross written premiums	41,032,927	38,401,578	284,019,650	112,867,847	10,415,192	486,737,194	-	486,737,194					486,737,194
Change in unearned premiums	565,124	(546,168)	(404,852)	8,222,733	1,041,220	8,878,057	-	8,878,057					8,878,057
	41,598,051	37,855,410	283,614,798	121,090,580	11,456,412	495,615,251	-	495,615,251					495,615,251
Premiums ceded to reinsurance	36,463,219	34,392,845	136,320,497	80,176,827	9,925,019	297,278,407	-	297,278,407					297,278,407
Change in unearned premiums	(493,481)	101,700	1,196,768	(17,390,910)	786,944	(15,798,979)	-	(15,798,979)					(15,798,979)
	35,969,738	34,494,545	137,517,265	62,785,917	10,711,963	281,479,428	-	281,479,428					281,479,428
Net earned premiums	5,628,313	3,360,865	146,097,533	58,304,663	744,449	214,135,823	-	214,135,823					214,135,823
Gross claims paid	(13,123,130)	(8,729,497)	(181,922,203)	(117,437,256)	(8,806,022)	(330,018,108)	-	(330,018,108)					(330,018,108)
Gross outstanding claims, UALE, URR and IBNR - 1 January 2018	35,352,597	13,698,482	157,668,517	27,770,182	11,829,395	246,319,173	-	246,319,173					246,319,173
Gross outstanding claims, UALE, URR and IBNR - 31 December 2018	(32,031,642)	(13,208,545)	(136,734,382)	(20,692,419)	(12,214,719)	(214,881,707)	-	(214,881,707)					(214,881,707)
	(9,802,175)	(8,239,560)	(160,988,068)	(110,359,493)	(9,191,346)	(298,580,642)	-	(298,580,642)					(298,580,642)

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

26. Segment information (continued)	Marine AED	Fire AED	Accident and liabilities AED	General and Others AED	Life AED	Total insurance AED	Investments AED	Total AED
<i>a) Segment consolidated statement of income for the year ended 31 December 2018 (continued)</i>								
Reinsurance recoveries	7,714,435	6,610,725	64,181,056	42,551,654	7,727,450	128,785,320	-	128,785,320
Reinsurance outstanding claims, UALE, URR and IBNR - 1 January 2018	(24,188,710)	(10,691,517)	(75,561,479)	(2,640,956)	(9,086,004)	(122,168,666)	-	(122,168,666)
Reinsurance outstanding claims, UALE, URR and IBNR - 31 December 2018	22,974,970	9,550,016	69,476,635	13,120,100	9,444,617	124,566,338	-	124,566,338
Net incurred claims	6,500,695	5,469,224	58,096,212	53,030,798	8,086,063	131,182,992	-	131,182,992
	(3,301,480)	(2,770,336)	(102,891,856)	(57,328,695)	(1,105,283)	(167,397,650)	-	(167,397,650)
Net commissions	11,099,351	5,488,404	3,628,104	9,911,842	2,541,365	32,669,066	-	32,669,066
Net underwriting results	13,426,184	6,078,933	46,833,781	10,887,810	2,180,531	79,407,239	-	79,407,239
Investment properties income	-	-	-	-	-	-	29,325,970	29,325,970
Net gain from investment in securities and other investments	-	-	-	-	-	-	9,076,056	9,076,056
Net income before operating and administrative expenses	13,426,184	6,078,933	46,833,781	10,887,810	2,180,531	79,407,239	38,402,026	117,809,265
Operating and administrative expenses	(5,541,061)	(5,288,390)	(31,174,139)	(10,845,662)	(795,105)	(53,644,357)	(28,667,381)	(82,311,738)
Net operating results	7,885,123	790,543	15,659,642	42,148	1,385,426	25,762,882	9,734,645	35,497,527

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

26. Segment information (continued)

b) Segment consolidated statement of income for the year ended 31 December 2017

	Marine AED	Fire AED	Accident and liabilities AED	General and others AED	Life AED	Total insurance AED	Investments AED	Total AED
Gross written premiums	41,569,845	43,315,704	305,345,495	126,554,562	13,068,328	529,853,934	-	529,853,934
Change in unearned premiums	2,473,786	(1,356,655)	10,128,400	(4,255,293)	557,016	7,547,254	-	7,547,254
	44,043,631	41,959,049	315,473,895	122,299,269	13,625,344	537,401,188	-	537,401,188
Premiums ceded to reinsurance	34,574,123	40,438,451	150,588,023	27,608,587	11,956,209	265,165,393	-	265,165,393
Change in unearned premiums	1,948,387	(1,123,055)	(21,154,066)	(1,126,814)	240,254	(21,215,294)	-	(21,215,294)
	36,522,510	39,315,396	129,433,957	26,481,773	12,196,463	243,950,099	-	243,950,099
Net earned premiums	7,521,121	2,643,653	186,039,938	95,817,496	1,428,881	293,451,089	-	293,451,089
Gross claims paid	(5,045,880)	(11,315,366)	(256,238,311)	(146,135,847)	(7,630,387)	(426,365,791)	-	(426,365,791)
Gross outstanding claims, UALE, URR and IBNR - 1 January 2017	20,740,817	20,813,942	177,770,625	69,552,412	10,001,664	298,879,460	-	298,879,460
Gross outstanding claims, UALE, URR and IBNR - 31 December 2017	(35,352,597)	(13,698,482)	(157,668,517)	(27,770,182)	(11,829,395)	(246,319,173)	-	(246,319,173)
	(19,657,660)	(4,199,906)	(236,136,203)	(104,353,617)	(9,458,118)	(373,805,504)	-	(373,805,504)

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

26. Segment information (continued)

b) Segment consolidated statement of income for the year ended 31 December 2017 (continued)

	Marine AED	Fire AED	Accident and liabilities AED	General and Others AED	Life AED	Total insurance AED	Investments AED	Total AED
Reinsurance recoveries	3,223,770	9,297,431	75,585,171	45,253,537	6,258,110	139,618,019	-	139,618,019
Reinsurance outstanding claims, UALE, URR and IBNR - 1 January 2017	(13,639,751)	(16,565,484)	(64,917,423)	(33,437,769)	(7,750,646)	(136,311,073)	-	(136,311,073)
Reinsurance outstanding claims, UALE, URR and IBNR - 31 December 2017	24,188,710	10,691,517	75,561,479	2,640,956	9,086,004	122,168,666	-	122,168,666
Net incurred claims	13,772,729	3,423,464	86,229,227	14,456,724	7,593,468	125,475,612	-	125,475,612
	(5,884,931)	(776,442)	(149,906,976)	(89,896,893)	(1,864,650)	(248,329,892)	-	(248,329,892)
Net commissions	8,897,451	7,105,461	12,895,249	6,214,068	2,901,224	38,013,453	-	38,013,453
Net underwriting results	10,533,641	8,972,672	49,028,211	12,134,671	2,465,455	83,134,650	-	83,134,650
Investment properties income	-	-	-	-	-	-	48,660,874	48,660,874
Net gain from investment in securities and other investments	-	-	-	-	-	-	1,072,189	1,072,189
Net income before operating and administrative expenses	10,533,641	8,972,672	49,028,211	12,134,671	2,465,455	83,134,650	49,733,063	132,867,713
Operating and administrative expenses	(4,329,920)	(5,695,491)	(27,995,067)	(13,442,602)	(923,940)	(52,387,020)	(23,746,109)	(76,133,129)
Provision for doubtful debts	-	-	-	-	-	-	-	(4,500,000)
Net operating results	6,203,721	3,277,181	21,033,144	(1,307,931)	1,541,515	30,747,630	25,986,954	52,234,584

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

26. Segment information (continued)

c) Segment consolidated statement of financial position is as follows:

	31 December 2018					31 December 2017				
	General insurance AED	Life insurance AED	Investments AED	Elimination AED	Total AED	General insurance AED	Life insurance AED	Investments AED	Elimination AED	Total AED
Segment assets	746,840,151	27,839,161	959,282,754	(79,687)	1,733,882,379	750,822,043	27,684,107	980,919,885	(2,572,217)	1,756,853,818
Segment liabilities	634,088,614	22,691,507	441,877,323	(79,687)	1,098,577,757	644,483,787	23,921,879	427,338,212	(2,572,217)	1,093,171,661

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

**27. Dividend**

The Directors propose that no dividend or Board of Directors' remuneration to be paid for the year 2018.

At the annual general meeting held on 9 April 2018, the Shareholders approved a cash dividend of 10 fils per share amounting to AED 25 million for 2017 (2017: AED 25 million for 2016) and Board of Directors' remuneration amounting to AED 1.4 million (2017: AED 1.4 million)

**28. Approval of the consolidated financial statements**

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 13 March 2019.