

Abu Dhabi National Takaful Company PSC

REPORT OF THE BOARD OF DIRECTORS' AND
FINANCIAL STATEMENTS

31 DECEMBER 2018

Abu Dhabi National Takaful Company PSC

REPORT OF THE BOARD OF DIRECTORS'

31 DECEMBER 2018

Board of Directors

Chairman

Mr. Khamis Buharoon

Vice Chairman

Mr. Khalid Deemas Al Suwaidi

Directors

Mr. Khalifa A. Khamis Al Rumaithi

Mr. Khalid Al Mansouri

Mr. Syed Aamir Zahidi

Mr. Dhafer Farooq Luqman

Mr. Nasser Al Mur Al Zaabi

Chief Executive Officer

Mr. Osama Abdeen

Sharia'a Supervisory Board

Sheikh Esam Mohamed Ishaq

Sheikh Nizam Yaqubi

Sheikh Osaid Kailani

Auditors

Ernst & Young

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

Year ended 31 December 2018

Dear Shareholders

Peace be upon you.....

It gives us pleasure to present to you the annual report on the company's activities and its audited financial statements for the year ended 31 December 2018, along with the Fatwa & Sharia'a Supervisory Board, Independent Auditor Reports and a detailed corporate governance report complying with the corporate governance code of UAE Securities and Commodities Authority.

Company performance

The company continues its strategy by concentrating on risk assessment and accepting only the more profitable underwriting contracts while avoiding those prone to greater risks. This approach enables us to improve our technical results by 20% despite the current circumstances experienced by the insurance industry as a result of severe competition in the market.

The audited financial statements supported with notes demonstrate the development made by the company. The company recorded another year of growth with net profit of AED 68.3 million during the financial year ended 31 December 2018, achieving 16% increase comparing to prior year. The following highlights the company results in comparison with the same period last year:

- The total gross contributions reached AED 384.5 million as comparing AED 373.8 million for the year ended 31 December 2018.
- Net claims incurred for year 2018 reached AED 49.4 million comparing to AED 39.4 million for year 2017. The net loss ratio is 29.1% comparing to 25.6% for the prior year.
- Technical results reached AED 113.1 million as comparing AED 93.7 million for the prior year.
- Net investment income and other income reached AED 25.8 million comparing to AED 15.2 million for the prior year.
- Total assets size reached AED 1,015.2 million and has risen by about 8% comparing to the prior year.
- Total cash, bank balances and deposits reached AED 564.7 million comparing to AED 537 million at the end of prior year, all of which are deposited with UAE banks.
- Net profit for the year ended 31 December 2018 is AED 68.3 million comparing to AED 59.1 million for the prior year. Basic and diluted earnings per share is AED 0.68 comparing to AED 0.59 for the prior year.
- Shareholder's equity at 31 December 2018 reached AED 339.7 million comparing to AED 308.4 million prior year.

Our existing portfolio consists of well balanced and diversified products which enable the company to explore many opportunities for profitable growth going forward. The company will continue its efforts to enhance products, customer services as well as widening of distribution channels to gain a competition advantage in the market place. This will lead to growth of takaful written contributions and achieve higher returns for our shareholders and policyholders.

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS continued

Year ended 31 December 2018

Distribution of Profits

The net profits achieved by the company during the year ended 31 December 2018 amounted to AED 68,345,536. In accordance with article (58) of articles of association of the company, we propose to the general assembly to distribute AED 20,000,000, which represents 20% of the paid up capital, as cash dividend.

Board of Directors Recommendations

The Board of Directors shall present the general assembly of **Abu Dhabi National Takaful Co. PSC** the recommendations below for approval:

- 1) The Annual Report of the Board of Directors, Fatwa & Sharia'a Supervisory Committee report and the External Auditors' report for the year ended 31 December 2018.
- 2) The statement of financial position and income statement for the year ended 31 December 2018.
- 3) The profit distribution for the year ended 31 December 2018 amounting to AED 68,345,536 is as follows:

	<i>AED</i>
Proposed cash dividend of 20% of the paid up capital	20,000,000
Transfer to legal reserve	6,834,554
Board of Directors remunerations	4,867,668
Retained earnings, carried forward	<u>36,643,314</u>
	<u>68,345,536</u>

- 4) Release of the Directors, External Auditors and members of the Fatwa & Sharia'a Supervisory Board for their works during the year ended 31 of December 2018.
- 5) Appoint the External Auditors for the year ending 31 December 2019 and agree on their fees.

Valued Shareholders,

On this occasion, and on your behalf we extend profound gratitude and great appreciation to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of UAE and His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, the Deputy Supreme Commander of the UAE Armed Forces. May Allah, the Almighty preserve them for their kind patronage to the Islamic insurance industry.

We would like also to express our sincere thanks and appreciation to the Fatwa & Sharia'a Supervisory Board members for their guidance to ensure that we fully abide by the glorious principles of Islamic Sharia'a, Insurance Authority as well as other concerned parties for their support and cooperation provided to us.

We also seize this opportunity to laud the efforts made by company staff members for their dedication and commitment for the sake of the company success and servicing our policyholders.

Furthermore, we extend our heartfelt thanks to our valued shareholders and other stakeholders inside and outside the UAE for their unlimited support to **Abu Dhabi National Takaful Co. PSC**.

Finally, we ask the Almighty Allah, to bless our activities and guide us to the right path.


Khamis Buharoon
Chairman of Board of Directors

Abu Dhabi National Takaful Company PSC

FINANCIAL STATEMENTS

31 DECEMBER 2018

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABU DHABI NATIONAL TAKAFUL COMPANY PSC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Abu Dhabi National Takaful Company PSC (the “Company”), which comprise the statement of financial position as at 31 December 2018, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“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 *Auditors’ responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors’ responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

1) Valuation of outstanding claims and retakaful share of outstanding claims

The estimation of outstanding claims and retakaful share of outstanding claims involve a significant degree of judgement. The liabilities amounting to AED 161,370,383 (note 8) are based on a best-estimate of the ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods may be used 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.

Retakaful share of outstanding claims amounting to AED 121,536,904 (note 8) are recognised when the related gross outstanding claims is recognised according to the terms relevant to the retakaful contracts and their recoverability is subject to the probability of default and probable losses in the event of default by respective retakaful counter parties.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI NATIONAL TAKAFUL COMPANY PSC continued

Report on the Audit of the Financial Statements continued

1) *Valuation of outstanding claims and retakaful share of outstanding claims* continued

We assessed management's calculation of outstanding claims and retakaful share of outstanding claims by performing audit procedures, which included among others:

- The evaluation and testing of key controls around the claims handling and reserve settling processes of the Company along with the recognition and release of retakaful share of outstanding claims. We examined evidence of the operation of controls over the valuation of individual claims reserves.
- We checked samples of claims reserves and the respective share of retakaful share of claims reserve, through comparing the estimated amount of the reserve to documentation, such as reports from loss adjusters.
- We reviewed the subsequent settlement of claims and compared them to the claims reserve as at year end.
- We reviewed the actuarial report prepared by the actuary appointed by the Company and involved our actuarial specialist team members, to apply industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices.
- We reviewed the ratios of retakaful share of outstanding claims to gross outstanding claims reserve to identify any variance from retakaful treaty arrangements.

2) *Revenue Recognition*

Gross contributions written comprise the total contributions receivable for the whole period of cover by contracts entered into during the accounting period, and are recognised on the date on which the policy commences. At the end of each year, a proportion of net retained contribution is provided for as an unearned contributions reserve to cover portions of risk that have not expired at the reporting date. The reserve is required to be calculated in accordance with the requirements of the UAE Insurance Law relating to insurance companies.

We assessed management's calculation of gross contribution written amounting to AED 384,451,559 and net unearned contributions reserve amounting to AED 295,923,746 (note 8) by performing audit procedures, which included among others:

- We assessed whether the Company's revenue recognition policies complied with IFRS and tested the implementation of those policies. Specifically, we considered whether the contribution on takaful policies are accounted for on the date of inception of policies, with the exception of contribution income on marine cargo policies which is accounted for on the expected date of voyage, by testing a sample of revenue items to takaful contracts.
- We evaluated and tested the operating effectiveness of the internal controls over the recording of revenue in the correct period.
- We compared the unearned contributions reserve balance as per the financial statements to the reserve balance computed by the Company's actuary.
- We recalculated on a sample basis the unearned contributions reserve based on the earning period of takaful contracts existing as of 31 December 2018.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI NATIONAL TAKAFUL COMPANY PSC continued

Report on the Audit of the Financial Statements continued

Other information

Other information consists of the information included in the Annual Report of the Board of Directors, other than the financial statements and our auditors' report thereon. Management is responsible for the other information.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI NATIONAL TAKAFUL COMPANY PSC continued

Report on the Audit of the Financial Statements continued

Auditors' responsibilities for the audit of the financial statements continued

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

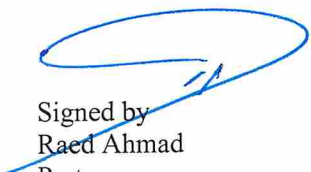
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI NATIONAL TAKAFUL COMPANY PSC continued

Report on Other Legal and Regulatory Requirements

We report that:

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, the UAE Federal Law No. (6) of 2007 and the Articles of Association of the Company;
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Report of the Board of Directors is consistent with the books of account and records of the Company;
- v) investments in shares and stocks are included in note 7 to the financial statements and include purchases made by the Company during the year ended 31 December 2018;
- vi) note 9 reflects material related party transactions and the terms under which they were conducted; and
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened, during the financial year ended 31 December 2018, any of the applicable provisions of the UAE Federal Law No. (2) of 2015, the UAE Federal Law No. (6) of 2007 or of its Articles of Association which would have a material impact on its activities or its financial position as at 31 December 2018.



Signed by
Raed Ahmad
Partner
Ernst & Young
Registration No 811

18 February 2019
Abu Dhabi

Abu Dhabi National Takaful Company PSC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 AED	2017 AED
ASSETS			
Takaful Operations Assets			
Financial assets designated at fair value through profit or loss	7	13,379,098	14,605,766
Financial assets designated at fair value through other comprehensive income	7	554,849	-
Retakaful share of unearned contributions	8	68,997,143	64,557,346
Prepaid expenses and other assets		16,824,490	8,384,439
Retakaful share of outstanding claims	8	121,536,904	145,642,410
Contributions and retakaful balances receivables	10	13,740,200	9,075,392
Bank deposits	5	335,936,014	204,982,242
Cash and bank accounts	5	50,159,035	164,903,183
Total Takaful Operations Assets		621,127,733	612,150,778
Shareholders' assets			
Property and equipment	11	20,334,463	21,989,084
Statutory deposit	6	10,000,000	10,000,000
Financial assets designated at fair value through profit or loss	7	47,025,856	59,115,084
Financial assets designated at fair value through other comprehensive income	7	79,843,283	40,709,624
Investments properties	12	19,720,000	19,600,000
Deferred policy acquisition costs		31,925,356	4,767,142
Prepaid expenses and other assets		6,617,065	4,454,743
Bank deposits	5	160,189,464	159,496,508
Cash and bank accounts	5	18,433,368	7,600,391
Total shareholders' assets		394,088,855	327,732,576
TOTAL ASSETS		1,015,216,588	939,883,354
Takaful Operations Liabilities			
Takaful payables	19	11,798,816	6,696,415
Outstanding claims	8	161,370,383	184,471,805
Retakaful payables	19	78,996,407	76,719,705
Accrued expenses and other liabilities		7,190,480	11,826,506
Unearned retakaful commission income		3,625,435	3,868,896
Unearned contributions	8	364,920,889	319,684,659
Total Takaful Operations Liabilities		627,902,410	603,267,986
Shareholders' liabilities			
Accrued expenses and other liabilities		18,364,142	15,596,157
Provision for end of service benefits	18	8,358,564	7,063,477
Total shareholders' liabilities		26,722,706	22,659,634
Total liabilities		654,625,116	625,927,620
Policyholders' fund			
Surplus of Life policyholders takaful fund		17,577,087	5,556,594
Distribution payable to life takaful fund policyholders		3,250,205	-
Deficit of General policyholders takaful fund		(8,767,283)	(17,484,545)
Loan from shareholders	17	8,767,283	17,484,545
Investment revaluation reserve		3,026	-
Total policyholders' fund		20,830,318	5,556,594
Shareholders' equity			
Share capital	13	100,000,000	100,000,000
Legal reserve	14	41,791,425	34,956,871
General reserve	15	42,500,000	42,500,000
Investment revaluation reserve		220,224	7,291,256
Retained earnings		155,249,505	123,651,013
Total shareholders' equity		339,761,154	308,399,140
TOTAL LIABILITIES, POLICYHOLDERS' FUND AND SHAREHOLDERS' EQUITY		1,015,216,588	939,883,354

Khamis Buharoon
Chairman of the Board of Directors

Osama Abdeen
Chief Executive Officer

The attached notes 1 to 29 form part of these financial statements.

Abu Dhabi National Takaful Company PSC

STATEMENT OF INCOME

For the year ended 31 December 2018

	Notes	2018 AED	2017 AED
Attributable to policyholders			
Gross contributions written		383,295,889	373,639,052
Retakaful contributions accepted		1,155,670	141,303
Retakaful contributions ceded		<u>(173,517,979)</u>	<u>(41,427,167)</u>
Net written contributions		210,933,580	332,353,188
Change in net unearned contribution provision		<u>(40,796,433)</u>	<u>(178,516,576)</u>
Net earned contributions		170,137,147	153,836,612
Commissions earned		<u>12,576,445</u>	<u>12,269,999</u>
Gross Takaful Income		<u>182,713,592</u>	<u>166,106,611</u>
Gross claims paid		<u>(160,034,072)</u>	<u>(129,630,891)</u>
Retakaful share of accepted claims paid		(349,873)	(1,225,077)
Retakaful share of ceded claims paid		<u>116,163,807</u>	<u>90,726,495</u>
Net paid claims		<u>(44,220,138)</u>	<u>(40,129,473)</u>
Change in outstanding claim		25,343,560	9,273,875
Change in retakaful share of outstanding claims		(24,087,648)	(6,701,838)
Change in incurred but not reported claims reserve		(2,091,732)	20,779
Change in retakaful share of incurred but not reported claims reserve		(17,857)	371,979
Change in unallocated loss adjustment expense		<u>(4,372,601)</u>	<u>(2,251,114)</u>
Net claims incurred		<u>(49,446,416)</u>	<u>(39,415,792)</u>
Takaful income		133,267,176	126,690,819
Other income		<u>2,009,370</u>	<u>1,079,655</u>
Takaful Operating Profit		135,276,546	127,770,474
Policyholders' investment income	20	10,834,121	4,938,225
Mudareb share	21	(3,791,942)	(1,481,467)
Wakalah fees	21	<u>(116,024,376)</u>	<u>(131,579,926)</u>
Surplus (Deficit) of takaful result for the year		<u>26,294,349</u>	<u>(352,694)</u>
Attributable to shareholders			
Shareholders' investment and other income, net	22	12,996,948	9,138,389
Mudareb share from policyholders	21	4,903,261	1,481,467
Takaful expense		<u>(22,128,258)</u>	<u>(33,105,942)</u>
Wakalah fees from policyholders	21	116,024,376	131,579,926
General and administrative expenses	23	<u>(52,168,053)</u>	<u>(44,113,818)</u>
Decrease (increase) in provision of loan from shareholders	17	<u>8,717,262</u>	<u>(5,909,288)</u>
Net profit for the year		<u>68,345,536</u>	<u>59,070,734</u>
Basic and diluted earnings per share	24	<u>0.68</u>	<u>0.59</u>

The attached notes 1 to 29 form part of these financial statements.

Abu Dhabi National Takaful Company PSC

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>2018</i> <i>AED</i>	<i>2017</i> <i>AED</i>
Net profit for the year	<u>68,345,536</u>	<u>59,070,734</u>
Other comprehensive loss		
Items that will not be reclassified subsequently to statement of income:		
Decrease in fair value of investments at fair value through other comprehensive income, net	(12,115,854)	(483,045)
Board of directors remuneration (note 9)	<u>(4,867,668)</u>	<u>(5,111,051)</u>
Other comprehensive loss for the year	<u>(16,983,522)</u>	<u>(5,594,096)</u>
Total comprehensive income for the year	<u>51,362,014</u>	<u>53,476,638</u>

The attached notes 1 to 29 form part of these financial statements.

Abu Dhabi National Takaful Company PSC

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital AED	Legal reserve AED	General reserve AED	Investment revaluation reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2017	100,000,000	29,049,798	42,500,000	10,147,998	89,224,706	270,922,502
Gain on disposal of investments at fair value through other comprehensive income	-	-	-	(2,373,697)	2,373,697	-
Net profit for the year	-	-	-	-	59,070,734	59,070,734
Other comprehensive loss	-	-	-	(483,045)	(5,111,051)	(5,594,096)
Total comprehensive income for the year	-	-	-	(483,045)	53,959,683	53,476,638
Transfer to legal reserve	-	5,907,073	-	-	(5,907,073)	-
Dividends paid	-	-	-	-	(16,000,000)	(16,000,000)
Balance at 31 December 2017	<u>100,000,000</u>	<u>34,956,871</u>	<u>42,500,000</u>	<u>7,291,256</u>	<u>123,651,013</u>	<u>308,399,140</u>
Balance at 1 January 2018	100,000,000	34,956,871	42,500,000	7,291,256	123,651,013	308,399,140
Loss on disposal of investments at fair value through other comprehensive income	-	-	-	5,044,822	(5,044,822)	-
Net profit for the year	-	-	-	-	68,345,536	68,345,536
Other comprehensive loss	-	-	-	(12,115,854)	(4,867,668)	(16,983,522)
Total comprehensive income for the year	-	-	-	(12,115,854)	63,477,868	51,362,014
Transfer to legal reserve	-	6,834,554	-	-	(6,834,554)	-
Dividends paid (note 16)	-	-	-	-	(20,000,000)	(20,000,000)
Balance at 31 December 2018	<u>100,000,000</u>	<u>41,791,425</u>	<u>42,500,000</u>	<u>220,224</u>	<u>155,249,505</u>	<u>339,761,154</u>

The attached notes 1 to 29 form part of these financial statements.

Abu Dhabi National Takaful Company PSC

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 AED	2017 AED
OPERATING ACTIVITIES			
Net profit for the year		68,345,536	59,070,734
Adjustments for:			
Depreciation of property and equipment	11	3,355,726	3,172,729
Movement of unearned contributions, net		40,796,433	178,516,576
Investment and other income		(26,057,361)	(13,626,056)
Net movement in provision for end of service benefits		1,295,087	709,120
Movement in provision for doubtful debts	10	(1,000,000)	-
Movement in provision of loan from shareholders	17	(8,717,262)	5,909,288
Increase in fair value of investments properties	22	(120,000)	(377,275)
Decrease (increase) in fair value of investments at fair value through profit or loss	20 & 22	2,347,658	(67,138)
Surplus of life policyholders takaful fund		17,577,087	5,556,594
Mudareb share from proposed distribution to Life takaful fund policyholders		(1,111,319)	-
Gain on disposal of property and equipment	22	(1,366)	(6,145)
Operating profit before movements in working capital:		96,710,219	238,858,427
Prepaid and other assets		(10,602,373)	(3,331,173)
Contributions and retakaful balances receivables		(3,664,808)	3,522,397
Deferred policy acquisition costs		(27,158,214)	(1,593,477)
Movement of outstanding claims, net		1,004,084	(3,814,816)
Distribution of life takaful fund policyholders		(1,195,070)	-
Movement in provision of loan from shareholders		8,717,262	(5,909,288)
Takaful payables		5,102,401	1,123,661
Retakaful payables		2,276,702	10,913,463
Accrued expenses and other liabilities		(1,624,658)	4,064,953
Unearned retakaful commission income		(243,461)	(246,867)
Cash from operations		69,322,084	243,587,280
Directors' remuneration paid		(5,111,051)	(3,877,509)
Net cash from operating activities		64,211,033	239,709,771
INVESTING ACTIVITIES			
Movement in investments		(40,833,098)	(7,223,564)
Purchase of property and equipment	11	(1,701,201)	(1,127,758)
Proceeds from disposal of property and equipment		1,462	6,500
Investment and other income received		26,057,361	13,626,056
Increase in term deposits		(140,768,577)	(131,879,247)
Net cash used in investing activities		(157,244,053)	(126,598,013)
FINANCING ACTIVITY			
Dividends paid	16	(20,000,000)	(16,000,000)
Net cash used in financing activity		(20,000,000)	(16,000,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(113,033,020)	97,111,758
Cash and cash equivalents at 1 January		200,191,718	103,079,960
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	87,158,698	200,191,718

The attached notes 1 to 29 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

1 CORPORATE INFORMATION

Abu Dhabi National Takaful Company PSC (the “Company”) is a public shareholding company which was incorporated in Abu Dhabi, United Arab Emirates (“UAE”) on 16 November 2003. The Company is registered in accordance with the UAE Federal Law No. (8) of 1984 (as amended). The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984.

The Company carries out takaful and retakaful activities of all classes in accordance with the provisions of the UAE Federal Law No. (6) of 2007 regarding the Establishment of the Insurance Authority and Insurance Operations. The Company is domiciled and operates in the UAE and its registered address is P.O. Box 35335, Abu Dhabi, UAE.

The financial statements of Abu Dhabi National Takaful Company PSC for the year ended 31 December 2018 have been authorised for issue in accordance with a resolution of the Board of Directors on 18 February 2019.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the International Financial Reporting Standards and applicable requirements of the laws of the UAE.

The financial statements are prepared under the historical cost convention as modified for re-measurement of investment securities and investment properties at fair value.

The financial statements are presented in United Arab Emirates Dirhams (“AED”) being the functional and presentation currency of the Company.

Effective 2017, the Company revised the presentation of its financial statements in accordance with Appendix 1 of the Financial Regulations for Takaful Insurance Companies issued by the Insurance Authority.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

During the year, the Company has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2018:

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17). The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2022 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as FVPL; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for certain designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

The Company has early applied the IFRS 9 from 1 January 2010. Application of the other phases of the standard did not affect the Company’s non-insurance financial assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. This standard is not applicable to the Company, as the Company will adopt IFRS 17 Insurance Contracts, which will become effective for reporting periods beginning on or after 1 January 2022.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company's financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Company's financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Company's financial statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Company's financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, with the Company not opting for early adoption. These have, therefore, not been applied in preparing these financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, it substantially carries forward the requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of this Standard.” The Company is currently in the process of assessing the potential impact of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Company is currently in the process of assessing the potential impact of IFRS 17 on its financial statements and plans to adopt the standard on the required effective date.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company does not expect any effect on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. This standard is not applicable to the Company.

Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

Amendments to IAS 28 *Long-term interests in associates and joint ventures*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

Amendments to IAS 28 *Long-term interests in associates and joint ventures* continued

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

Annual Improvements 2015-2017 cycle

These improvements include:

IFRS 3 *Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Company.

IFRS 11 *Joint Arrangements*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. Since the Company does not have joint arrangements, the amendments will not have an impact on its financial statements.

IAS 12 *Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. This standard is not applicable to the Company.

IAS 23 *Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. This standard is not applicable to the Company.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Takaful contracts

Definition

Takaful contracts are those contracts when the Company (the operator) has accepted takaful risk on behalf of takaful funds from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

Recognition and measurement

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

These contracts are casualty and property takaful contracts.

Casualty takaful contracts protect the policyholders 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. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property takaful contracts mainly compensate the policyholders for damage suffered to their properties or for the value of property lost. Policyholders 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).

For all these takaful contracts, contributions are recognised as revenue (earned contributions) proportionally over the period of coverage. The portion of contributions received on in-force contracts that relates to unexpired risks at the end of the reporting period date is reported as the unearned contribution liability.

Claims and loss adjustment expenses are charged to the statement of income (attributable to the policyholders) as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

Retakaful contract assets

Retakaful contract assets include retakaful share of outstanding claims (including share of claims incurred but not reported – IBNR) and retakaful share of unearned contributions.

Contracts entered into by the Company for retakaful under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements of takaful contracts are classified as retakaful contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Takaful contracts entered into by the Company under which the contract holder is involved in takaful activities are included with takaful contracts. The benefits to which the Company is entitled under its retakaful contracts held are recognised as retakaful contract assets. The Company assesses its retakaful contract assets for impairment on a regular basis. If there is objective evidence that the retakaful contract asset is impaired, the Company reduces the carrying amount of the retakaful contract assets to its recoverable amount and recognises that impairment loss in the statement of income. Amounts recoverable from or due to retakaful holders are measured consistently with the amounts associated with the retakaful contracts and in accordance with the terms of each retakaful contract.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Takaful contracts continued

Takaful contract liabilities

Takaful contract liabilities include outstanding claims (OSLR), claims incurred but not reported (“IBNR”), unearned contribution reserve (UCR) and the provision for allocated and unallocated loss adjustment expenses (ALAE/ULAE).

Takaful contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the statement of financial position date, in addition for claims incurred but not reported.

The unearned contribution reserve considered in the Takaful contract liabilities comprise the estimated proportion of the gross contributions written which relates to the periods of Takaful subsequent to the reporting period date. Unearned contributions are calculated on a time proportion basis over the effective period of the policy. The proportion attributable to subsequent periods is deferred as unearned contributions reserve. The Company provides unearned contribution reserve based on actual terms of the policy.

The liability relating to IBNR and ALAE/ULAE reserve is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

The retakaful portion towards the above outstanding claims, claims incurred but not reported and unearned contributions reserve is classified as retakaful share of outstanding claims and retakaful share of unearned contributions in the financial statements.

Salvage and subrogation reimbursements

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

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the takaful contract liabilities net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the statement of income initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Receivables and payables related to takaful contracts

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

If there is objective evidence that the takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivable accordingly and recognises that impairment loss in the statement of income.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business.

Dividend income

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

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the income statement.

Other income

Other income is accrued on a time basis, by reference to the principal outstanding and at the effective rate of return applicable.

Retakaful income and expenses

Retakaful income is recognised when retakaful is entered into and retakful expenses are recognised when the policies are issued.

Foreign currencies

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retransferred 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 recognised in the statement of income in the period in which they arise.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairment losses, if any. The cost of property and equipment is their purchase cost, together with any incidental expenses of acquisition.

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

Depreciation is calculated so as to write off the cost of property and equipment on a straight-line basis over their expected useful economic lives.

The principal annual rates used for this purpose are:

Building	3.33%
Furniture, fixtures and office equipment	20%
Computer equipment and accessories	25 - 33.33%
Motor vehicles	25%

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment properties

Investment properties are held for the generation of income or capital appreciation and are initially measured at cost, including transaction costs. 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 income statement in the year 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 income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use.

Impairment of tangible assets

At the end of each reporting period, the Company 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use.

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 the statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 the statement of income, 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.

Provisions

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

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Employee benefits

An accrual is made for 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 reporting period.

Provision is also made for end of service benefits due to non-UAE national employees in accordance with the Company's policy, which is at least equal to the benefits payable in accordance with UAE Labour Law, for their period of service up to the end of the reporting period.

Pension contributions are made in respect of UAE national employees to the Abu Dhabi Pension Authority, calculated in accordance with Government regulations. Such contributions are charged to the statement of income during the employees' period of service.

Financial assets

Classification and measurement

The Company has the following financial assets: cash and cash equivalents, contributions and retakaful balances receivables, investments at fair value through other comprehensive income and investments at fair value through profit or loss. The classification depends on the nature of the financial asset and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalent include cash on hand and deposits held at call with banks with original maturities of three months or less.

Contributions and retakaful balances receivables

Takaful and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective rate or return method, less any impairment. Return income is recognised by applying the effective rate of return, except for short term receivables when the recognition of return income would be immaterial.

Investments at fair value through other comprehensive income (equity instruments)

Investments at fair value through other comprehensive income (equity instruments) are initially recorded at cost and subsequently measured at fair value. Subsequent changes in fair value and gains or losses arising on disposal are recognised in other comprehensive income and dividend income is credited to statement of income when the right to receive the dividend is established.

Investments at fair value through other comprehensive income (debt instruments)

Investments at fair value through other comprehensive income (debt instruments) are initially recorded at cost and subsequently measured at fair value. Interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Investments at fair value through profit or loss

Investments at fair value through profit or loss are initially recorded at cost and subsequently measured at fair value. Subsequent changes in fair value and gains or losses arising on disposal are recognised in statement of income, profit from debt securities is recognized in statement of income and dividend income is credited to statement of income when the right to receive the dividend is established.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

Derecognition of financial assets

The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset.

Financial liabilities and equity instruments

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.

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 Company are recorded at the proceeds received, net of direct issue costs.

Trade payables and accruals

Trade payables and accruals are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective rate of return, with the expense recognised on an effective yield basis.

The effective rate of return is a method of calculating the amortised cost of a financial liability and of allocating the expense over the relevant period. The effective rate of return is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired.

Deficit in policyholders' fund

Deficit in the policyholders' fund is financed by the shareholders through a profit free loan "Qard – Hasan". The Company maintains a full provision against such loans.

Dividends distribution

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

Fair value measurement

The Company measures financial instruments, such as investments carried at fair value through other comprehensive income and non-financial assets investment properties, at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Fair value measurement continued

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and investment properties is provided in note 29.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

While applying the accounting policies as stated in Note 3, management of the Company has made certain judgements, estimates and assumptions 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. 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. The significant judgements and estimates made by management, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year are:

Classification of investments

Management decides on acquisition of an equity investment whether it should be classified as carried at fair value through profit or loss or through other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Fair value of investment properties

External valuers may be involved for valuation of significant assets, such as investment properties. Selection criteria for valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

The management, in conjunction with the Company's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Fair value of unquoted equity investments

Fair 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, net asset base of investee or other valuation models.

Impairment of contributions and retakaful balances receivables

An estimate of the collectible amount of takaful and other receivables is made when collection of the full amount is no longer probable. This determination of whether the takaful and other receivables are impaired entails the Company in evaluating the credit and liquidity position of the policyholders and the takaful companies, historical recovery rates including detailed investigations carried out and feedback received from the legal department. Impairment of takaful and other receivables as at 31 December 2018 amounted to AED 1,350,000 (2017: AED 2,350,000).

The ultimate liability arising from claims made under takaful contracts

The estimation of ultimate liability arising from the claims made under takaful contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of the reporting period. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Gross provision for IBNR as at 31 December 2018 amounted to AED 41,322,860 (2017: AED 39,231,126) as detailed in note 8.

Liability adequacy test

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

5 CASH AND CASH EQUIVALENTS

	2018 AED	2017 AED
Cash and bank accounts	68,592,403	172,503,574
Term deposits	<u>496,125,478</u>	<u>364,478,750</u>
Cash and bank balances	564,717,881	536,982,324
Less: term deposits with original maturity of more than three months	<u>(477,559,183)</u>	<u>(336,790,606)</u>
Cash and cash equivalents	<u>87,158,698</u>	<u>200,191,718</u>

Term deposits represent deposits held with Islamic financial institutions in UAE, are denominated in UAE Dirhams and carry profit at the prevailing expected market rates ranging from 3.15% to 5% per annum (2017: 1.75% to 3.15%).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

6 STATUTORY DEPOSIT

In accordance with the requirements of UAE Federal Law No. (6) of 2007 regarding the Establishment of the Insurance Authority and Insurance Operations, the Company maintains a bank deposit of AED 10,000,000 which cannot be utilised without the consent of the UAE Insurance Authority. The statutory deposit is held with a commercial bank in UAE, a related party (note 9).

7 INVESTMENTS

7(a) Investments at fair value through other comprehensive income

	<i>2018</i> <i>AED</i>	<i>2017</i> <i>AED</i>
Quoted securities	50,306,755	19,603,105
Unquoted securities	<u>30,091,377</u>	<u>21,106,519</u>
	<u>80,398,132</u>	<u>40,709,624</u>

The geographical concentration of investments is as follows:

Within UAE	39,975,411	25,783,442
Outside UAE	<u>40,422,721</u>	<u>14,926,182</u>
	<u>80,398,132</u>	<u>40,709,624</u>

7(b) Investments at fair value through profit or loss

	<i>2018</i> <i>AED</i>	<i>2017</i> <i>AED</i>
Unquoted securities	<u>60,404,954</u>	<u>73,720,850</u>

The geographical concentration of investments is as follows:

Within UAE	26,488,236	30,468,686
Outside UAE	<u>33,916,718</u>	<u>43,252,164</u>
	<u>60,404,954</u>	<u>73,720,850</u>
Total investments	<u>140,803,086</u>	<u>114,430,474</u>

Investments held by the Company as at 31 December 2018 are sharia'a compliant.

Abu Dhabi National Takaful company has no transactions during the period or investments with Abraj Group outstanding as at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

8 RETAKAFUL CONTRACT ASSETS AND TAKAFUL CONTRACT LIABILITIES

	2018 AED	2017 AED
Gross		
Takaful contract liabilities comprise of:		
Reported claims	119,256,479	144,600,039
Claims incurred but not reported	41,322,860	39,231,126
Unallocated loss adjustment expense reserve	<u>791,044</u>	<u>640,640</u>
Outstanding claims	161,370,383	184,471,805
Unearned contributions reserve	<u>364,920,889</u>	<u>319,684,659</u>
	<u>526,291,272</u>	<u>504,156,464</u>
Recoverable from retakaful		
Takaful contract assets comprise of:		
Reported claims	91,976,457	116,064,106
Claims incurred but not reported	<u>29,560,447</u>	<u>29,578,304</u>
Retakaful share of outstanding claims	121,536,904	145,642,410
Retakaful share of unearned contributions	<u>68,997,143</u>	<u>64,557,346</u>
	<u>190,534,047</u>	<u>210,199,756</u>
Takaful liabilities - net		
Reported claims	27,280,022	28,535,933
Claims incurred but not reported	11,762,413	9,652,822
Unallocated loss adjustment expense reserve	<u>791,044</u>	<u>640,640</u>
Unearned contributions reserve	39,833,479	38,829,395
	<u>295,923,746</u>	<u>255,127,313</u>
	<u>335,757,225</u>	<u>293,956,708</u>

During 2017, the Company modified its retakaful arrangement with one of the retakaful companies on its existing and future life policies whereby the concerned retakaful company will no longer require the Company to pay retakaful share of unearned contributions in advance. Accordingly, the retakaful company returned to the Company the payments already received in this regard. Going forward, the earned portion of the contributions will be paid to the concerned retakaful company on a monthly basis.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

8 RETAKAFUL CONTRACT ASSETS AND TAKAFUL CONTRACT LIABILITIES continued

The movement in the retakaful contract assets and takaful contract liabilities during the year is as follows:

	Year ended 31 December 2018			Year ended 31 December 2017		
	Gross AED	Retakaful AED	Net AED	Gross AED	Retakaful AED	Net AED
CLAIMS						
Reported claims	144,600,039	116,064,106	28,535,933	153,873,914	122,765,944	31,107,970
Incurred but not reported	39,231,126	29,578,304	9,652,822	39,251,905	29,206,325	10,045,580
Unallocated loss adjustment expense reserve	<u>640,640</u>	<u>-</u>	<u>640,640</u>	<u>1,490,661</u>	<u>-</u>	<u>1,490,661</u>
Total at 1 January	184,471,805	145,642,410	38,829,395	194,616,480	151,972,269	42,644,211
Claims settled	(164,606,139)	(116,163,807)	(48,442,332)	(133,957,103)	(90,726,495)	(43,230,608)
Net claims incurred	<u>141,504,717</u>	<u>92,058,301</u>	<u>49,446,416</u>	<u>123,812,428</u>	<u>84,396,636</u>	<u>39,415,792</u>
Total at 31 December	<u>161,370,383</u>	<u>121,536,904</u>	<u>39,833,479</u>	<u>184,471,805</u>	<u>145,642,410</u>	<u>38,829,395</u>
Reported claims	119,256,479	91,976,457	27,280,022	144,600,039	116,064,106	28,535,933
Incurred but not reported	41,322,860	29,560,447	11,762,413	39,231,126	29,578,304	9,652,822
Unallocated loss adjustment expense reserve	<u>791,044</u>	<u>-</u>	<u>791,044</u>	<u>640,640</u>	<u>-</u>	<u>640,640</u>
Total at 31 December	<u>161,370,383</u>	<u>121,536,904</u>	<u>39,833,479</u>	<u>184,471,805</u>	<u>145,642,410</u>	<u>38,829,395</u>
UNEARNED CONTRIBUTION						
Total at 1 January	319,684,659	64,557,346	255,127,313	242,244,752	165,634,015	76,610,737
Increase during the year	364,920,889	68,997,143	295,923,746	319,684,659	64,557,346	255,127,313
Release during the year	<u>(319,684,659)</u>	<u>(64,557,346)</u>	<u>(255,127,313)</u>	<u>(242,244,752)</u>	<u>(165,634,015)</u>	<u>(76,610,737)</u>
Net increase during the year	<u>45,236,230</u>	<u>4,439,797</u>	<u>40,796,433</u>	<u>77,439,907</u>	<u>(101,076,669)</u>	<u>178,516,576</u>
Total at 31 December	<u>364,920,889</u>	<u>68,997,143</u>	<u>295,923,746</u>	<u>319,684,659</u>	<u>64,557,346</u>	<u>255,127,313</u>

9 RELATED PARTIES

Related parties comprise the shareholders, Directors and key management personnel of the Company and those entities in which they have a significant interest and the ability to control or exercise significant influence in financial and operational decisions. Details of significant transactions with a related party in the normal course of business are as follows:

	2018 AED	2017 AED
Gross contributions written	<u>79,945,027</u>	<u>76,943,049</u>
Takaful expenses	<u>2,750,476</u>	<u>10,525,228</u>
Profit on term deposits	<u>70,703</u>	<u>68,528</u>
Statutory deposit at 31 December	<u>10,000,000</u>	<u>10,000,000</u>

Information on the statutory deposit is disclosed in note 6.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

9 RELATED PARTIES continued

The remuneration of key management personnel during the year was as follows:

	2018 AED	2017 AED
Short-term benefits	<u>6,627,322</u>	<u>5,279,212</u>
Long-term benefits	<u>211,237</u>	<u>215,317</u>

The remuneration of key management personnel is based on the remuneration agreed in their employment contracts as approved by the Board of Directors.

Directors' remuneration in relation to the year ended 31 December 2018 of AED 4,867,668 which is subject to the approval of the shareholders at the forthcoming Annual General Meeting, was proposed and reflected in other comprehensive income in the statement of comprehensive income.

Directors' remuneration in relation to the year ended 31 December 2017 amounted to AED 5,111,051 and was reflected in other comprehensive income for the year ended 31 December 2017. This remuneration was approved by the shareholders at the Annual General Meeting held on 9 April 2018 and was paid later on during the month.

10 CONTRIBUTIONS AND RETAKAFUL BALANCES RECEIVABLES

	2018 AED	2017 AED
Due from policyholders, net of provision	12,739,920	8,180,764
Due from insurance and reinsurance companies, net of provision	<u>1,000,280</u>	<u>894,628</u>
	<u>13,740,200</u>	<u>9,075,392</u>

Amounts due from policyholders, insurance and retakaful companies balances consist of a large number of policyholders, insurance and retakaful companies. The Company's terms of business require amounts to be paid in accordance with arrangements reached with the policyholders, insurance and retakaful companies and no interest is charged on the accounts.

Before accepting any new customer, the Company assesses the potential customer's credit quality and defines credit limits by customer. In determining the recoverability of a takaful receivable, the Company considers any change in the credit quality of the takaful receivable from the date credit was initially granted up to the reporting date.

As at 31 December 2018, balances due from policyholders, insurance and reinsurance companies at a nominal value of AED 1,350,000 (2017: AED 2,350,000) were impaired and fully provided for.

Movement in provisions for doubtful debts is as follows:

	2018 AED	2017 AED
At 1 January	2,350,000	2,350,000
Reversals	<u>(1,000,000)</u>	<u>-</u>
At 31 December	<u>1,350,000</u>	<u>2,350,000</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

10 CONTRIBUTIONS AND RETAKAFUL BALANCES RECEIVABLES continued

As at 31 December, the ageing of unimpaired takaful receivables is as follows:

	<i>Not past due AED</i>	<i>Past due but not impaired</i>			<i>Total AED</i>
		<i>91 - 180 days AED</i>	<i>181 - 360 days AED</i>	<i>More than 360 days AED</i>	
2018	10,973,996	2,766,204	-	-	13,740,200
2017	9,075,392	-	-	-	9,075,392

11 PROPERTY AND EQUIPMENT

	<i>Building AED</i>	<i>Furniture, fixtures and office equipment AED</i>	<i>Computer equipment and accessories AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
2018					
Cost:					
At 1 January 2018	18,982,731	8,094,874	7,079,136	1,002,900	35,159,641
Additions	-	867,663	833,538	-	1,701,201
Disposals	-	(132,702)	(2,240)	-	(134,942)
At 31 December 2018	<u>18,982,731</u>	<u>8,829,835</u>	<u>7,910,434</u>	<u>1,002,900</u>	<u>36,725,900</u>
Depreciation:					
At 1 January 2018	2,849,921	5,239,634	4,404,093	676,909	13,170,557
Charge for the year	632,353	1,232,257	1,357,733	133,383	3,355,726
Relating to disposals	-	(132,607)	(2,239)	-	(134,846)
At 31 December 2018	<u>3,482,274</u>	<u>6,339,284</u>	<u>5,759,587</u>	<u>810,292</u>	<u>16,391,437</u>
Net carrying amount:					
31 December 2018	<u>15,500,457</u>	<u>2,490,551</u>	<u>2,150,847</u>	<u>192,608</u>	<u>20,334,463</u>
2017					
Cost:					
At 1 January 2017	18,982,731	8,029,609	6,551,146	924,900	34,488,386
Additions	-	214,697	835,061	78,000	1,127,758
Disposals	-	(149,432)	(307,071)	-	(456,503)
At 31 December 2017	<u>18,982,731</u>	<u>8,094,874</u>	<u>7,079,136</u>	<u>1,002,900</u>	<u>35,159,641</u>
Depreciation:					
At 1 January 2017	2,217,568	4,112,076	3,590,480	533,852	10,453,976
Charge for the year	632,353	1,276,736	1,120,583	143,057	3,172,729
Relating to disposals	-	(149,178)	(306,970)	-	(456,148)
At 31 December 2017	<u>2,849,921</u>	<u>5,239,634</u>	<u>4,404,093</u>	<u>676,909</u>	<u>13,170,557</u>
Net carrying amount:					
31 December 2017	<u>16,132,810</u>	<u>2,855,240</u>	<u>2,675,043</u>	<u>325,991</u>	<u>21,989,084</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

12 INVESTMENT PROPERTIES

	2018 AED	2017 AED
At 1 January	19,600,000	19,222,725
Increase in fair value	<u>120,000</u>	<u>377,275</u>
At 31 December	<u>19,720,000</u>	<u>19,600,000</u>

Investment properties are stated at fair value which represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The investment properties were valued as at 31 December 2018 by an independent valuer which valued the properties at AED 19,720,000 (2017: AED 19,600,000) using the sales comparison method utilizing the evidence of transactions and/or current asking prices of similar sites and applying some adjustments based on market research.

13 SHARE CAPITAL

	2018 AED	2017 AED
<i>Authorized, issued and fully paid</i>		
100,000,000 shares of AED 1 each	<u>100,000,000</u>	<u>100,000,000</u>

At 31 December 2018, 41,664,219 shares or 41.66% of total share capital (2017: 41,664,219 shares or 41.66% of total share capital) were held by Abu Dhabi Islamic Bank PJSC and 58,335,781 shares or 58.34% of total share capital (2017: 58,335,781 shares or 58.34% of total share capital) were held by UAE nationals and other institutions.

14 LEGAL RESERVE

In accordance with the provisions of the UAE Federal Commercial Companies Law No. (2) of 2015, and the Company's articles of association, the Company is required to transfer annually to a legal reserve account an amount equivalent to 10% of its annual net profit, until such reserve reaches 50% of the paid up capital of the Company. This reserve is not available for distribution.

15 GENERAL RESERVE

Transfers to and from the general reserve are made at the discretion of the Board of Directors and are subject to the shareholders' approval. This reserve may be used for such purposes as they deem fit.

16 DIVIDENDS

For the year ended 31 December 2018, the Board of Directors proposed a cash dividend of AED 20,000,000 at a rate of AED 0.2 per share. The 2018 proposed cash dividend is subject to approval of the shareholders at the forthcoming Annual General Meeting.

For the year ended 31 December 2017, cash dividend of AED 20,000,000 at a rate of AED 0.2 per share was approved by shareholders on 9 April 2018 and it was paid in April 2018.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

17 LOAN FROM SHAREHOLDERS

	<i>2018</i> <i>AED</i>	<i>2017</i> <i>AED</i>
At 1 January	(17,484,545)	(11,575,257)
Net surplus (deficit) allocated to shareholders' loan	<u>8,717,262</u>	<u>(5,909,288)</u>
At 31 December	<u>(8,767,283)</u>	<u>(17,484,545)</u>

18 PROVISION FOR END OF SERVICE BENEFITS

	<i>2018</i> <i>AED</i>	<i>2017</i> <i>AED</i>
At 1 January	7,063,477	6,354,357
Charged during the year	1,388,537	1,028,160
Paid during the year	<u>(93,450)</u>	<u>(319,040)</u>
At 31 December	<u>8,358,564</u>	<u>7,063,477</u>

19 TAKAFUL AND RETAKAFUL PAYABLES

	<i>2018</i> <i>AED</i>	<i>2017</i> <i>AED</i>
Takaful payables comprise of:		
Due to policyholders	5,529,563	1,596,876
Due to takaful companies	<u>6,269,253</u>	<u>5,099,539</u>
	<u>11,798,816</u>	<u>6,696,415</u>
Retakaful payables comprise of:		
Due to retakaful companies	39,910,427	40,414,925
Retakaful deposit retained	<u>39,085,980</u>	<u>36,304,780</u>
	<u>78,996,407</u>	<u>76,719,705</u>

The average credit period is 60 to 90 days terms. The Company has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

20 POLICYHOLDERS' INVESTMENT INCOME

	<i>2018</i> <i>AED</i>	<i>2017</i> <i>AED</i>
Return on short-term investment accounts and deposits	10,806,586	4,331,955
Dividend income and profit on investments, net	433,775	568,656
(Loss) gain on disposal of investments, net	(2,147)	57,362
Decrease in fair value of investments at fair value through profit or loss	<u>(404,093)</u>	<u>(19,748)</u>
	<u>10,834,121</u>	<u>4,938,225</u>

21 MUDAREB SHARE AND WAKALAH FEES

The shareholders manage the policyholder's fund and charge 35% (2017: 30%) of investment income earned by policyholders' fund as mudareb share.

During the year, the shareholders charged 20% Mudarab share on the proposed distribution to life takaful fund policyholders of the surplus recognised in the life policyholders takaful fund as of 31 December 2017 of AED 5,556,594. This charge was approved by the Shari'a Committee and the Insurance Authority and is in accordance with the financial regulations for Takaful Companies.

The shareholders manage the takaful operations for the policyholders and charge the following percentage of gross takaful contributions as Wakalah fees, as follows;

- Marine hull, aviation and energy 35% (2017: 35%)
- Family Takaful 35% (2017: 35%)
- Motor 25% (2017: 35%)
- Medical 22.5% (2017: 35%)
- All other takaful classes 35% (2017: 35%)

22 SHAREHOLDERS' INVESTMENT AND OTHER INCOME, NET

	<i>2018</i> <i>AED</i>	<i>2017</i> <i>AED</i>
Return on short-term investment accounts and deposits	4,887,294	3,981,542
Dividend income and profit on investments, net	9,007,587	3,609,537
(Loss) gain on disposal of investments	(65,804)	120,212
(Decrease) increase in fair value of investments at fair value through profit or loss	(1,943,565)	86,886
Increase in fair value of investment properties (note 12)	120,000	377,275
Rental income, net	990,070	956,792
Gain on disposal of furniture and equipment	<u>1,366</u>	<u>6,145</u>
	<u>12,996,948</u>	<u>9,138,389</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

23 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 AED	2017 AED
Staff costs	40,754,554	34,532,616
Rental expenses	1,254,452	1,105,591
Depreciation of property and equipment (note 11)	3,355,726	3,172,729
Other expenses	<u>6,803,321</u>	<u>5,302,882</u>
	<u>52,168,053</u>	<u>44,113,818</u>

24 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2018 AED	2017 AED
Net profit for year (AED)	<u>68,345,536</u>	<u>59,070,734</u>
Ordinary shares in issue throughout the year	<u>100,000,000</u>	<u>100,000,000</u>
Basic and diluted earnings per share (AED)	<u>0.68</u>	<u>0.59</u>

25 SEGMENT INFORMATION

Primary segment information

For operating purposes, the Company is organised into two main business segments:

- Underwriting of takaful business incorporating all classes of takaful including fire, marine, motor, general accident, engineering, energy and family takaful. This business is conducted fully within the UAE.
- Investments incorporating investments in UAE marketable equity securities, short-term investments with banks and other securities.

Information regarding the Company's reportable segments is presented below:

Segment revenue and results

	2018			2017		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Direct revenue	353,801,144	23,831,069	377,632,213	309,690,102	14,076,614	323,766,716
Direct costs	(218,524,598)	-	(218,524,598)	(181,919,628)	-	(181,919,628)
Takaful expenses	<u>(22,128,258)</u>	<u>-</u>	<u>(22,128,258)</u>	<u>(33,105,942)</u>	<u>-</u>	<u>(33,105,942)</u>
Segment results	113,148,288	23,831,069	136,979,357	94,664,532	14,076,614	108,741,146
Unallocated costs			<u>(68,633,821)</u>			<u>(49,670,412)</u>
Net profit for the year			<u>68,345,536</u>			<u>59,070,734</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

25 SEGMENT INFORMATION continued

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues in the year (2017: AED nil).

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3.

Segment assets and liabilities

	2018			2017		
	<i>Underwriting AED</i>	<i>Investments AED</i>	<i>Total AED</i>	<i>Underwriting AED</i>	<i>Investments AED</i>	<i>Total AED</i>
Segment assets	303,183,128	656,648,564	959,831,692	395,442,049	501,910,766	897,352,815
Unallocated assets			<u>55,384,896</u>			<u>42,530,539</u>
Total assets			<u>1,015,216,588</u>			<u>939,883,354</u>
Segment liabilities	627,380,431	521,979	627,902,410	602,763,776	504,210	603,267,986
Unallocated liabilities			<u>26,722,706</u>			<u>22,659,634</u>
Total liabilities			<u>654,625,116</u>			<u>625,927,620</u>
Capital expenditure	-	1,701,201	<u>1,701,201</u>	-	1,127,758	<u>1,127,758</u>

Gross takaful contributions revenue from underwriting departments

The following is an analysis of the Company's revenues classified by major underwriting departments.

	<i>2018 AED</i>	<i>2017 AED</i>
Motor	38,309,938	32,844,189
Medical	128,051,587	121,650,574
Energy	-	5,333,628
Workmen's compensation and miscellaneous accidents	28,809,524	35,262,757
Fire	33,897,775	32,326,080
Engineering	10,617,577	6,801,208
Marine	707,020	5,956,987
Family takaful	<u>144,058,138</u>	<u>133,604,932</u>
	<u>384,451,559</u>	<u>373,780,355</u>

26 TAKAFUL RISK

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

For a portfolio of takaful contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its takaful contracts is that the actual claims and benefit payments exceed the estimated amount of the takaful liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Takaful 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

26 TAKAFUL RISK continued

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

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

Frequency and severity of claims

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

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

The retakaful arrangements include excess and catastrophe coverage. The effect of such retakaful arrangements is that the Company should not suffer net takaful losses of a set limit of AED 250,000 in any one motor policy and AED 1,500,000 for any one non-motor policy. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually 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 Company actively manages and pursues early settlement of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments

Claims on takaful contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and an element of the claims provision includes incurred but not reported claims ("IBNR"). The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some takaful contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

26 TAKAFUL RISK continued

Sources of uncertainty in the estimation of future claim payments continued

In estimating the liability for the cost of reported claims not yet paid, the Company considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

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

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

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

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

Process used to decide on assumptions

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

The choice of selected results for each accident year of each class of business depends on an assessment of the techniques 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 Companies of accident years within the same class of business.

Claims development process

The following schedules reflect the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last four years on an accident year basis for motor and an underwriting year basis for non motor:

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

26 TAKAFUL RISK continued

Motor - gross

Accident year

	<i>2014 and earlier AED'000</i>	<i>2015 AED'000</i>	<i>2016 AED'000</i>	<i>2017 AED'000</i>	<i>2018 AED'000</i>	<i>Total AED'000</i>
At the end of the accident year	75,875	42,633	46,379	32,841	23,959	-
One year later	52,625	29,609	20,241	19,171	-	-
Two years later	46,126	24,080	20,617	-	-	-
Three years later	45,061	24,163	-	-	-	-
Four years later	51,518	-	-	-	-	-
Current estimate of cumulative claims	51,518	24,163	20,617	19,171	23,959	139,428
Cumulative payments to date	(45,083)	(23,156)	(17,241)	(13,010)	(10,929)	(109,418)
Liability recognised in the statement of financial position	6,435	1,007	3,376	6,161	13,030	30,010

Non motor and non life - gross

Underwriting year

	<i>2014 and earlier AED'000</i>	<i>2015 AED'000</i>	<i>2016 AED'000</i>	<i>2017 AED'000</i>	<i>2018 AED'000</i>	<i>Total AED'000</i>
At the end of the underwriting year	39,314	44,412	52,497	109,371	58,174	-
One year later	67,899	60,577	74,846	121,196	-	-
Two years later	69,487	34,455	49,366	-	-	-
Three years later	37,901	56,419	-	-	-	-
Four years later	98,073	-	-	-	-	-
Current estimate of cumulative claims	98,073	56,419	49,366	121,196	58,174	383,228
Cumulative payments to date	(80,359)	(44,066)	(44,974)	(109,903)	(18,532)	(297,835)
Liability recognised in the statement of financial position	17,714	12,353	4,392	11,293	39,642	85,393

Concentration of takaful risk

Substantially all of the Company's underwriting activities are carried out in the UAE.

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

To minimise its exposure to significant losses from retakaful insolvencies, the Company evaluates the financial condition of its retakaful and monitors concentration of credit risk arising from similar geographic regions, activities or economic characteristics of the retakaful companies. The Company remains liable to its policyholders for the portion covered by retakaful to the extent that any retakaful does not meet the obligations assumed under the retakaful agreements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

26 TAKAFUL RISK continued

Sensitivity of underwriting profit and losses

The contribution by the takaful operations to the profit of the Company for the year ended 31 December 2018 amounts to AED 46.5 million (2017: AED 45 million). The Company does not foresee any adverse change in the contribution of takaful profit due to the following reasons:

The Company has an overall risk retention level of 44.2% (2017: 41.1 %) on a net earned contributions basis. Because of low risk retention of 90% (2017: 91%) of the volume of the business and limited exposure in high retention areas like Motor, the Company is comfortable to maintain a net loss ratio in the region of 2% to 59% (2017: 7% to 53%) and does not foresee any serious financial impact in the takaful net profit.

The Company has commission earning of 11% (2017: 13%) of the takaful operating profit predominantly from retakaful placement which remains as a comfortable source of income.

27 FINANCIAL INSTRUMENTS

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, retakaful assets and 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 takaful and investment contracts. The risks that the Company primarily faces due to the nature of its investments and underwriting business are market price risk, credit risk and liquidity risk.

Fair value of financial instruments

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

An analysis of financial instruments that are measured subsequent to initial recognition at fair value into levels 1 to 3 is provided in note 28.

Capital risk management

The Company has established the following capital management objectives, policies and approach to manage the risks that affect its capital position.

The Company's objectives when managing capital are:

- to comply with the capital requirements required by the UAE Federal Law No. (6) of 2007 regarding the Establishment of the Insurance Authority and Insurance Operations
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing takaful contracts commensurately with the level of risk.

In UAE, the local takaful regulator specifies the minimum amount and type of capital that must be held by the Company in addition to its takaful liabilities. The minimum required capital (presented below) must be maintained at all times throughout the year. The Company is subject to local takaful solvency regulations with which it has complied during the year. The Company has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

27 FINANCIAL INSTRUMENTS continued

Capital risk management continued

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

	<i>2018</i> <i>AED</i>	<i>2017</i> <i>AED</i>
Total shareholders' equity	<u>339,761,154</u>	<u>308,399,140</u>
Minimum regulatory capital	<u>100,000,000</u>	<u>100,000,000</u>

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 an insurance firm and AED 250 million for a reinsurance firm. 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 Gulf Cooperation Council national individuals or corporate bodies. The Company is complying with the above requirements.

Significant accounting policies

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

Categories of financial instruments

	<i>2018</i> <i>AED</i>	<i>2017</i> <i>AED</i>
Financial assets		
Statutory deposit	10,000,000	10,000,000
Investments	140,803,086	114,430,474
Retakaful contract assets	190,534,047	210,199,756
Contributions and Retakaful balances receivables	13,740,200	9,075,392
Cash and bank balances	<u>564,717,881</u>	<u>536,982,324</u>
Total	<u>919,795,214</u>	<u>880,687,946</u>
Takaful		
Takaful contract liabilities	526,291,272	504,156,464
Takaful and Retakaful payables	<u>90,795,223</u>	<u>83,416,120</u>
Total	<u>617,086,495</u>	<u>587,572,584</u>

Profit return rate risk management

The Company is not exposed to significant profit return rate risks as its profit return-sensitivity assets are repriced frequently.

The Company's rate of return risk is mainly attributable to its bank deposits.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

27 FINANCIAL INSTRUMENTS continued

Foreign currency risk

The Company is not exposed to significant foreign currency risk as substantially all financial assets and financial liabilities are denominated in AED or US Dollars to which the AED is pegged.

Market price risk

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

Credit risk management

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

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

- Retakafuls' share of takaful liabilities;
- Amounts due from retakaful in respects of claims already paid;
- Amounts due from takaful contract holders;
- Amounts due from takaful intermediaries; and
- Amounts due from banks for its bank balances and fixed deposits.

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

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

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company.

Management information reported to the Company includes details of provisions for impairment on takaful receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for retakaful is carried out by the Company. Details on concentration of amounts due from policyholders is disclosed in note 10. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policy holders.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

27 FINANCIAL INSTRUMENTS continued

Credit risk management continued

The credit risk on liquid funds maintained with banks is limited because the counterparties are reputable local banks closely monitored by the regulatory body.

At 31 December 2018, all of the deposits were placed with 7 banks (2017: 6 banks). Management is confident that this concentration at year end does not result in any credit risk to the Company as these banks are major banks operating in the UAE and are highly regulated by the Central Bank.

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

Liquidity risk management

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. Bank facilities, the policy holders and the retakaful, are the major sources of funding for the Company and the liquidity risk for the Company is assessed to be low.

The table below summarises the maturity profile of the Company's financial liabilities with maturities determined on the basis of the remaining period from the end of the reporting period to the contractual maturity / repayment date.

The maturity profile is monitored by management to ensure adequate liquidity is maintained.

	<i>Current AED</i>	<i>Non-current AED</i>	<i>Total AED</i>
<i>Financial liabilities at 31 December 2018</i>			
Takaful and retakaful payables	90,795,222	-	90,795,222
Takaful contract liabilities	<u>283,973,081</u>	<u>242,318,191</u>	<u>526,291,272</u>
Total	<u>374,768,303</u>	<u>242,318,191</u>	<u>617,086,494</u>
<i>Financial liabilities at 31 December 2017</i>			
Takaful and retakaful payables	83,416,120	-	83,416,120
Takaful contract liabilities	<u>302,966,772</u>	<u>201,189,692</u>	<u>504,156,464</u>
Total	<u>386,382,892</u>	<u>201,189,692</u>	<u>587,572,584</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

27 FINANCIAL INSTRUMENTS continued

Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	<i>Current AED</i>	<i>Non-current AED</i>	<i>Total AED</i>
31 December 2018			
Assets			
Cash and bank balances	564,717,881	-	564,717,881
Statutory deposits	-	10,000,000	10,000,000
Financial assets designated at fair value through other comprehensive income	80,398,132	-	80,398,132
Financial assets designated at fair value through income	60,404,954	-	60,404,954
Retakaful share of unearned contributions	68,997,143	-	68,997,143
Contributions and Retakaful balance receivables	13,740,200	-	13,740,200
Deferred acquisition costs	31,925,356	-	31,925,356
Retakaful share of outstanding claims	121,536,904	-	121,536,904
Prepaid expenses and other assets	23,441,555	-	23,441,555
Property and equipment	-	20,334,463	20,334,463
Investment property	-	19,720,000	19,720,000
Total assets	965,162,125	50,054,463	1,015,216,588
Liabilities			
Takaful payables	11,798,816	-	11,798,816
Outstanding claims	161,370,383	-	161,370,383
Retakaful payables	78,996,407	-	78,996,407
Accrued expenses and other liabilities	25,554,622	-	25,554,622
Unearned retakaful commission income	3,625,435	-	3,625,435
Unearned contributions	122,602,698	242,318,191	364,920,889
Provision for end of service benefits	8,358,564	-	8,358,564
Total liabilities	412,306,925	242,318,191	654,625,116
31 December 2017			
Assets			
Cash and bank balances	536,982,324	-	536,982,324
Statutory deposits	-	10,000,000	10,000,000
Financial assets designated at fair value through other comprehensive income	40,709,624	-	40,709,624
Financial assets designated at fair value through income	73,720,850	-	73,720,850
Retakaful contract assets	64,557,346	-	64,557,346
Prepaid expenses and other assets	12,839,182	-	12,839,182
Contributions and Retakaful balance receivables	9,075,392	-	9,075,392
Deferred acquisition costs	4,767,142	-	4,767,142
Retakaful share of outstanding claims	145,642,410	-	145,642,410
Property and equipment	-	21,989,084	21,989,084
Investment property	-	19,600,000	19,600,000
Total assets	888,294,270	51,589,084	939,883,354
Liabilities			
Takaful payables	6,696,415	-	6,696,415
Outstanding claims	184,471,805	-	184,471,805
Retakaful payables	76,719,705	-	76,719,705
Accrued expenses and other liabilities	27,422,663	-	27,422,663
Unearned retakaful commission income	3,868,896	-	3,868,896
Unearned contributions	118,494,967	201,189,692	319,684,659
Provision for end of service benefits	7,063,477	-	7,063,477
Total liabilities	424,737,928	201,189,692	625,927,620

Fair value of financial assets and liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

28 FAIR VALUE MEASUREMENTS

The following table provides fair value hierarchy of the Company's assets measured at fair value.

	<i>Level 1 AED</i>	<i>Level 2 AED</i>	<i>Level 3 AED</i>	<i>Total AED</i>
31 December 2018				
Investments at fair value through other comprehensive income				
Equities	50,306,755	9,319,066	20,772,311	80,398,132
Investments at fair value through profit or loss	-	60,404,954	-	60,404,954
Investment properties	-	-	19,720,000	19,720,000
Total	<u>50,306,755</u>	<u>69,724,020</u>	<u>40,492,311</u>	<u>160,523,086</u>
31 December 2017				
Investments at fair value through other comprehensive income				
Equities	19,603,105	-	21,106,519	40,709,624
Investments at fair value through profit or loss	-	73,720,850	-	73,720,850
Investment properties	-	-	19,600,000	19,600,000
Total	<u>19,603,105</u>	<u>73,720,850</u>	<u>40,706,519</u>	<u>134,030,474</u>

There were no transfers between levels 1, 2 and 3 in 2018 and 2017.

29 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>2018 AED</i>	<i>2017 AED</i>
Bank guarantees	<u>572,453</u>	<u>1,381,515</u>

Bank guarantees were issued in the normal course of business.