TAKAFUL EMARAT - INSURANCE (PSC) AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Takaful Emarat - Insurance (PSC) (the "Company") and its subsidiary (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC)

Key audit matters (continued)

Key audit matter	How the matter was addressed in the audit
Valuation of takaful contract liabilities and retakaful assets *(refer to note 6 of the consolidated financial statements)*	
We focused on this balance because of the complexity involved in the estimation process, and the significant judgements that management and the directors make in determining the appropriateness and adequacy of the liability. The liabilities which includes claims reported and not settled, incurred but not reported and mathematical reserve 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 assets are recognised when the related gross insurance liability is recognised according to the terms of the relevant retakaful contracts and their recoverability is subject to the probability of default and probable losses in the event of default by respective retakaful counterparties. The actuarial valuation of takaful contract liabilities and retakaful assets was carried out by an independent actuary. Note 6 to the consolidated financial statements describes the elements that make up the takaful contract liabilities and retakaful assets balance.	The work that we performed to address the valuation of takaful contract liabilities included the following procedures: • The evaluation and testing of key controls around the claims handling and reserve setting processes of the group along with the recognition and release of retakaful assets. We examined evidence of the operation of controls over the valuation of individual claims reserves, such as large loss review controls and internal peer reviews (whereby reviewers examine documentation supporting claims reserves and consider if the amount recorded in the consolidated financial statements is valued appropriately). • We checked samples of claims reserves and the respective share of retakaful assets, through comparing the estimated amount of the reserve to appropriate documentation, such as reports from third party administrators. • We reviewed management's reconciliation of the underlying group data recorded in the policy administration systems with the data used in the actuarial reserving calculations. • We tied the takaful contract liabilities and retakaful assets as recommended by the group's actuary to the liabilities and assets in the consolidated financial statements. • We 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 obtained the retakaful treaty summary for the year and verified the details in the summary to the respective agreements. • We reviewed the ratios of retakaful assets to related takaful contact liabilities to identify any variance from retakaful treaty arrangements.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC)

Key audit matters (continued)

Key audit matter	**How the matter was addressed in the audit**
Revenue recognition *(refer to note 19 of the consolidated financial statements)*	
Gross contributions written comprise the total contributions receivable for the whole period of cover provided 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 contributions of the medical and life business is provided for to cover portions of risk which have not expired at the reporting date. The reserves are required to be calculated in accordance with the requirements of the Insurance Law relating to insurance companies. The actuarial valuation of unearned contributions reserve and the retakaful share thereof was carried out by an independent actuary.	The work that we performed to address this key audit matter included the following procedures: • We assessed whether the Group's revenue recognition policies complied with IFRS and tested the implementation of those policies. Specifically, we considered whether the contributions on insurance policies are accounted for on the date of inception of policies, by testing a sample of revenue items to insurance contracts, with a specific focus on transactions which occurred near 31 December 2018. • We evaluated the relevant IT systems 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 consolidated financial statements to the reserve balance computed by the Group's actuary. • We recalculated the unearned contributions reserve based on the earning period of insurance contracts existing as of 31 December 2018. • We obtained an understanding and reviewed the accounting treatment for contributions received based on the product classification of the policy. • We also tested a risk based sample of journal entries posted to revenue accounts to identify any unusual or irregular items, and we tested the reconciliations between the policy master file and its financial ledgers.

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Key audit matters (continued)

Key audit matter	**How the matter was addressed in the audit**
***Recoverability of takaful receivables** (refer to note 5 of the consolidated financial statements)*	
The Company has amounts of takaful receivables that are overdue and not impaired (as disclosed in note 5 to the consolidated financial statements). The key associated risk is the recoverability of receivables. Management's related provision is subjective and is influenced by assumptions concerning the probability of default and probable losses in the event of default.	The work that we performed to address this key audit matter included the following procedures: • We compared the historical provision for bad debts to the actual amounts written off, to determine whether the management's estimation techniques were reasonable. • We also considered the adequacy of provisions for bad debts for significant customers, taking into account specific credit risk assessments for each customer based on time past due, the existence of any disputes over the balance outstanding, the history of settlement of receivables and the existence of any liabilities with the same counterparties which reduce the net exposure. • We discussed with management and reviewed correspondences, where relevant, to identify any disputes and assess whether appropriately considered in the bad debt provision. • We verified the netting off of retakaful receivable and payable balances and ensured the same is appropriately disclosed.
***Valuation of unquoted investments** (refer to note 4 of the consolidated financial statements)*	
Given the ongoing market volatility and macroeconomic uncertainty, investment valuation continues to be an area of inherent risk. The risk is not uniform for all investment types, and is greatest where the investments are hard to value because quoted prices are not readily available.	The work that we performed to address this key audit matter included the following procedures: • Reviewed the valuation working provided by the client. • We obtained and reviewed the supporting documents for the above working. • We assessed both the methodology and assumptions used by management in the calculation of the year end values. • We reviewed the latest performance of the investment company and assessed whether the valuation is appropriate as compared to the performance of the company.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC) (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in the audit
Measurement of acquisition costs on takaful life policies *(refer to note 8 of the consolidated financial statements)*	
We focused on this area because of the complexity involved in the estimation process, and the significant judgements that management make with respect to the measurement of acquisition costs on takaful life policies and in determining the effective term of takaful life policies. The Group acertains the effective term of the life policies and the model is reviewed by the external actuary for appropriateness of the effective term of the life policies. The Group is amortising the acquisition costs in the same proportion as the fee income for each year over the effective term of the takaful life policies.	The work that we performed to address this key audit matter included the following procedures: • We carried out procedures, on a sample basis, to test whether details of the specific policies provided to the external actuary by the Company agreed to the underlying policy documents. • We also carried out procedures, on a sample basis, to check the completeness and accuracy of the policy data provided to the external actuary. In addition, on a sample basis, we recalculated the amount of acquisition costs to be deferred as at year end and the corresponding amortization charge recorded in the income statement.

Other information

Management is responsible for the other information. Other information consists of the Directors' report and Shariah Board report (but does not include the consolidated financial statements and our auditors' report thereon), which we obtained prior to the date of this auditors' report. We expect to obtain the remaining sections of the Group's 2018 Annual Report after the date of our auditors' report.

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC) (continued)

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC) (continued)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

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

i) the Company has maintained proper books of account;

ii) we have obtained all the information we considered necessary for the purposes of our audit;

iii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Articles of Association of the Company and the UAE Federal Law No. (2) of 2015;

iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;

v) investments in shares and stocks during the year ended 31 December 2018, are disclosed in note 4 to the consolidated financial statements;

vi) note 28 reflect material related party transactions and the terms under which they were conducted;

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC) (continued)

Report on other legal and regulatory requirements (continued)

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 or its Articles of Association which would have a material impact on its activities or its consolidated financial position; and

viii) note 36 to the consolidated financial statements reflects the social contributions made during the year.

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

For Ernst & Young

Signed by:
Ashraf Abu-Sharkh
Partner
Registration No. 690

3 March 2019

Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	*2018* *AED*	*2017* *AED*
TAKAFUL OPERATIONS' ASSETS			
Cash and bank balances	3	**60,939,584**	85,965,659
Financial instruments	4	**178,577,125**	120,385,821
Takaful receivables and other assets	5	**128,407,631**	98,271,687
Retakaful contract assets	6	**241,259,789**	146,249,065
Investment properties	7	**38,921,256**	38,772,429
Deferred policy acquisition cost	8	**63,563,930**	49,966,632
TOTAL TAKAFUL OPERATIONS' ASSETS		**711,669,315**	539,611,293
SHAREHOLDERS' ASSETS			
Cash and bank balances	3	**62,748,453**	20,940,754
Financial instruments	4	**107,294,556**	73,574,944
Takaful receivables and other assets	5	**34,540,816**	75,242,203
Statutory deposit	9	**4,000,000**	4,000,000
Property and equipment	10	**51,048,764**	49,231,162
Intangible assets	11	**4,897,937**	2,205,315
Receivable from policyholders		**62,217,380**	76,026,057
TOTAL SHAREHOLDERS' ASSETS		**326,747,906**	301,220,435
TOTAL ASSETS		**1,038,417,221**	840,831,728
TAKAFUL OPERATIONS' LIABILITIES AND DEFICIT			
Takaful operations liabilities			
Takaful and other payables	12	**191,510,540**	154,858,622
Takaful contract liabilities	6	**492,248,900**	349,509,319
Payable to shareholders		**62,217,380**	76,026,057
TOTAL TAKAFUL OPERATIONS' LIABILITIES		**745,976,820**	580,393,998
DEFICIT IN POLICYHOLDERS' FUND AND QARD HASSAN FROM SHAREHOLDERS			
Deficit in policyholders' fund	31	**(34,307,505)**	(40,782,705)
Qard Hassan from shareholders	31	**34,307,505**	40,782,705
NET DEFICIT IN POLICYHOLDERS' FUND AND QARD HASSAN FROM SHAREHOLDERS		**-**	-
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND DEFICIT		**745,976,820**	580,393,998

The accompanying notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2018

	Notes	*2018* *AED*	*2017* *AED*
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Takaful and other payables	12	**71,732,509**	50,564,229
Borrowings	13	**53,234,001**	58,520,000
Provision for employees' end of service benefits	14	**2,443,215**	2,545,369
TOTAL SHAREHOLDERS' LIABILITIES		**127,409,725**	111,629,598
SHAREHOLDERS' EQUITY			
Share capital	15	**150,000,000**	150,000,000
Statutory reserve	16	**6,526,302**	5,121,798
Accumulated losses		**(7,135,626)**	(6,313,666)
Cumulative changes in fair value of investments	4 (b)	**15,640,000**	-
TOTAL SHAREHOLDERS' EQUITY		**165,030,676**	148,808,132
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		**292,440,401**	260,437,730
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND DEFICIT AND SHAREHOLDERS' LIABILITIES AND EQUITY		**1,038,417,221**	840,831,728

Fadi Hindi
Chief Executive Officer

Wasim Ahmad
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	*2018 AED*	*2017 AED*
Attributable to policyholders:			
Gross contribution written	19	**599,067,782**	583,618,135
Changes in unearned contributions	19	**(68,134,216)**	58,488,647
Takaful contributions earned	19	**530,933,566**	642,106,782
Retakaful contributions	19	**(321,049,958)**	(283,053,233)
Change in unearned contributions	19	**48,373,370**	2,040,575
Retakaful contributions ceded	19	**(272,676,588)**	(281,012,658)
Net earned contributions	19	**258,256,978**	361,094,124
Gross claims incurred	20	**(385,503,143)**	(385,984,725)
Retakaful share of claims incurred	20	**264,295,699**	211,821,968
Net claims incurred	20	**(121,207,444)**	(174,162,757)
Change in reserves	21	**(54,485,363)**	(62,506,460)
Net change in fair value of policyholders investment linked contracts	21	**5,158,552**	(2,151,877)
Net takaful income		**87,722,723**	122,273,030
Wakalah fees	22	**(77,922,845)**	(109,766,490)
Investment income, net	23	**(2,284,678)**	3,661,592
Change in fair value of investment property	7	**(1,040,000)**	-
Net surplus from takaful operations		**6,475,200**	16,168,132
Attributable to shareholders:			
Wakalah fees from policyholders	22	**77,922,845**	109,766,490
Investment income, net	23	**34,160,387**	15,354,845
Change in fair value of investment property	7	**-**	134,184
Other income	24	**16,200,236**	5,416,692
Commission incurred	8	**(36,851,006)**	(42,990,921)
General and administrative expenses	25	**(83,862,618)**	(85,037,235)
Recovery of Qard Hassan to policyholders' fund	31	**6,475,200**	16,168,132
Profit for the year attributable to shareholders		**14,045,044**	18,812,187
Basic and diluted profit per share	26	**0.09**	0.13
Other comprehensive income	4 (b)	**15,640,000**	-
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		**29,685,044**	18,812,187

The accompanying notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital AED	*Statutory reserve AED*	*Accumulated losses AED*	*Cumulative changes in fair value AED*	*Total AED*
Balance at 1 January 2018	150,000,000	5,121,798	(6,313,666)	-	148,808,132
Total comprehensive income for the year	-	-	14,045,044	15,640,000	29,685,044
Cash dividend (Note 17)	-	-	(12,375,000)	-	(12,375,000)
Zakat approved (Note 18)	-	-	(1,087,500)	-	(1,087,500)
Transfer to statutory reserve	-	1,404,504	(1,404,504)	-	-
Balance at 31 December 2018	**150,000,000**	**6,526,302**	**(7,135,626)**	**15,640,000**	**165,030,676**
Balance at 1 January 2017	150,000,000	3,240,579	(11,278,446)	-	141,962,133
Total comprehensive income for the year	-	-	18,812,187	-	18,812,187
Cash dividend (Note 17)	-	-	(10,500,000)	-	(10,500,000)
Zakat approved (Note 18)	-	-	(1,466,188)	-	(1,466,188)
Transfer to statutory reserve	-	1,881,219	(1,881,219)	-	-
Balance at 31 December 2017	150,000,000	5,121,798	(6,313,666)	-	148,808,132

The accompanying notes 1 to 37 form part of these consolidated financial statements.

TAKAFUL EMARAT - INSURANCE (PSC) and its subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	*2018* *AED*	*2017* *AED*
OPERATING ACTIVITIES			
Profit for the year		**14,045,044**	18,812,187
Adjustments for:			
Depreciation and amortisation of property and equipment and intangible assets	10,11	**3,587,818**	1,684,317
Realised loss on sale of investments at fair value through profit or loss	23	**(3,659,829)**	(18,258,145)
(Gain) / loss on revaluation of investments carried at fair value through profit or loss	4	**(16,915,658)**	2,123,868
Other investment income, net		**1,236,037**	(5,034,037)
Provision for doubtful debts	5	**6,086,618**	8,219,708
Change in fair value of investment properties	7	**1,040,000**	(134,184)
Provision for employees' end of service benefits	14	**413,904**	1,281,077
		5,833,934	8,694,791
Changes in operating assets and liabilities:			
Changes in retakaful contract assets		**(95,010,724)**	(50,543,828)
Changes in takaful receivables and other assets		**4,478,826**	(82,603,428)
Changes in deferred policy acquisition cost		**(13,597,298)**	(6,467,008)
Changes in takaful contract liabilities		**142,739,581**	11,969,970
Changes in takaful and other payables		**57,088,698**	77,219,265
Cash generated from/ (used in) operations		**101,533,017**	(41,730,238)
Employees' end of service benefits paid	14	**(516,058)**	(478,708)
Net cash generated from/ (used in) operating activities		**101,016,959**	(42,208,946)
INVESTING ACTIVITIES			
Change in deposits with maturity of more than three months		**12,944,000**	(8,168,000)
Purchase of investments at fair value through profit or loss		**(225,379,363)**	(191,356,585)
Purchase of investments at fair value through OCI		**(16,921,470)**	-
Proceeds from sale of investments at fair value through profit or loss		**186,605,404**	147,918,933
Deposit		**-**	23,000,000
Held to maturity investment		**-**	1,000,000
Purchase of intangible assets		**(3,408,919)**	(1,581,663)
Purchase of property and equipment		**(5,933,161)**	(47,534,413)
Proceeds from disposal of property and equipment		**8,000**	5,034,037
Addition to investments properties		**(1,188,827)**	(232,429)
Net cash used in investing activities		**(53,274,336)**	(71,920,120)
FINANCING ACTIVITIES			
Dividend paid		**(12,375,000)**	(10,500,000)
Zakat payment		**(356,000)**	(1,466,188)
Borrowings	13	**(5,285,999)**	38,675,000
Net cash (used in)/ from financing activities		**(18,016,999)**	26,708,812
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**29,725,624**	(87,420,254)
Cash and cash equivalents at the beginning of the year		**72,488,413**	159,908,667
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**102,214,037**	72,488,413

The accompanying notes 1 to 37 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Takaful Emarat - Insurance (PSC), Dubai, United Arab Emirates (the "Company") is a public stock company incorporated in the Emirate of Dubai – United Arab Emirates, pursuant to decree No. 62 for the year 2007 issued by the Ministry of Economy on 6 February, 2007, and is subject to the provisions of the UAE Federal Law No. 2 of 2015 ("Companies Law").

The Company carries out takaful activities in Health Insurance, Life Insurance and Credit and Saving Insurance in accordance with the Islamic Sharia'a and within the provisions of the Articles of Association of the Company.

The registered address of the Company is P.O. Box 64341, Dubai, United Arab Emirates.

During 2017, the Company established a new subsidiary, Modern Tech Investment, for investment purposes. These consolidated financial statements incorporate the financial statements of the Company and its subsidiary (collectively referred to as the "Group").

On 2018, the Company has received the approval from the Insurance Authority for the acquisition of all shares of Al Hilal Takaful PSC. However, as the Company has not yet obtained control of the said company and finalisation of necessary requirements are still ongoing, they are not consolidating the results of Al Hilal Takaful as at 31 December 2018.

These consolidated financial statements were authorised for issue by circulation on 28 February 2019.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

Accounting convention
The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets carried at fair value. The consolidated financial statements have been presented in UAE Dirhams (AED).

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (no more than 12 months) and more than 12 months after the reporting date (more than 12 months) is presented in the respective notes.

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and applicable requirements of United Arab Emirates Laws.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its investees that are considered subsidiaries as at 31 December 2018. Subsidiaries are investees that the Group has control over. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the owners of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The Group comprises of the Company and the under-mentioned subsidiary.

Subsidiary	***Principal activity***	***Country of incorporation***	***Ownership***	
			2018	2017
Modern Tech Investment	Investment	United Arab Emirates	**100%**	100%

Modern Tech Investment was established during the year ended 31 December 2017 for the purpose of holding investments.

On 2018, the Company has received the approval from the Insurance Authority for the acquisition of all shares of Al Hilal Takaful PSC. However, as the Company has not yet obtained control of the said company and finalisation of necessary requirements are still ongoing, they are not consolidating the results of Al Hilal Takaful as at 31 December 2018.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New standards and interpretations effective after 1 January 2018

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard and amendment is described below. Although these new standards and amendments applied for the first time in 2018, they did not have a material impact on the annual consolidated financial statements of the Group.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New standards and interpretations effective after 1 January 2018 (continued)

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group applies IFRS 15 using the modified retrospective application. Given insurance contracts are scoped out of IFRS 15, the main impact of the new standard is on the accounting for income from investments and therefore this standard did not affect the Group's consolidated financial statements.

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.

During 2018, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2018. The Group intends to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial assets and liabilities in its reporting period starting on 1 January 2018.

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 Group's consolidated financial statements.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New standards and interpretations effective after 1 January 2018 (continued)

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 Group's consolidated 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's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, 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 Group's consolidated 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 Group's consolidated financial statements.

Standards issued but not yet effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

The nature and the impact of the new standards and amendments applicable to the Group are described below:

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)
Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16
The Group plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The application of standard will not have any impact on the Group's consolidated 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 2022, 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. Group is currently evaluating the expected impact.

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 consolidated financial statements of the Group.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Takaful contributions

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

Life assurance contracts
In respect of the short term life assurance contracts, premiums are recognised as revenue (earned premiums) proportionately over the period of coverage. The portion of the premium received in respect of in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before the deduction of the commission.

In respect of long term life assurance contracts, premiums are recognised as revenue (earned premiums) when they become payable by the contract holder. Premiums are shown before deduction of commission.

Premiums for group credit life policies are recognised when it is paid by the contract holder.

A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums are recognised.

The liability is based on the assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions.

Where a life assurance contract has a single premium or limited number of premium payments due over a significantly shorter period than the period during which the benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contract in-force or for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at the end of each reporting period using the assumptions established at the inception of the contract.

Claims and benefits payable to contract holders are recorded as expenses when they are incurred.

Takaful contributions earned
Earned takaful contributions are taken to income over the terms of the takaful contract to which they relate on a pro-rata basis. Unearned takaful contributions represent the portion of net takaful contributions accounted for which relate to periods of risk that extent beyond the end of the financial year; they are calculated based on a time apportionment basis over the exposure to contracts. The change in the provision for unearned contributions is taken to the statement of takaful operations and accumulated surplus in order to recognize revenue over the period to cover the takaful risks.

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Claims
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Provision for outstanding claims reported is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by the management based on current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. Provision for incurred but not reported claims is included within additional reserve.

The Group generally estimates its claims based on previous experience. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the statement of takaful operations for that year.

Retakaful share of claims incurred
Retakaful share of claims is recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Policy acquisition costs
Commissions and other costs directly related to the acquisition and renewal of takaful contracts are charged to the consolidated statement of income when incurred. If the commission and associated costs are for services provided in future periods then they are deferred and amortised over the life of the related takaful policy

Investment income
Profit from investment deposits is recognised on a time proportion basis. Dividend income is accounted for when the right to receive payment is established. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the weighted average cost and are recorded on occurrence of the sale transaction.

Liability adequacy test
At each consolidated statement of financial position date the Group assesses whether its recognised takaful liabilities are adequate using current estimates of future cash flows under its takaful contracts. If that assessment shows that the carrying amount of its takaful liabilities is inadequate in light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision is created.

The Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the consolidated statement of financial position date.

Foreign currency translation
The presentation currency is UAE Dirhams (AED). This is also the functional currency of the Group. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the consolidated statement of income, except when it relates to items when gains or losses are recognised directly in equity, the gain or loss is then recognised net of the exchange component in the consolidated statement of comprehensive income.

Segment reporting
For management purposes, the Company is organised into two business segments; takaful and investment operations. The takaful operations comprise the takaful business undertaken by the Company on behalf of policyholders. Investment operations comprise investments and cash management for the Company's own account. No operating segments have been aggregated to form the above reportable operating segments.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Except for Wakalah fees, allocation charges and Qard Hassan, no other inter-segment transactions occurred during the year. Segment income, expenses and results include transactions between business segments which will then be eliminated on consolidation.

Product classification
Takaful contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Takaful contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

Once a contract has been classified as a takaful contract, it remains a takaful contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this year, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as takaful contracts after inception, if insurance risk becomes significant.

The Group issues long term takaful contracts with an investment linked component. The Group classifies such contracts as takaful contracts based on significance of insurance risk. Takaful contracts with no significant insurance risk are classified as investment contracts. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur.

For takaful contracts, contributions, surrenders and maturities, changes in fair values of underlying assets and changes in reserves are recognised in the statement of comprehensive income. For investment contracts, changes in fair values of underlying assets and changes in reserves are recognised in the statement of comprehensive income and contributions and surrenders and maturities are directly recognised under investment contracts.

Property and equipment
Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred, if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation is provided on a straight line basis over the estimated useful lives of the following classes of assets:

Building	22 years
Office equipment	5 years
Furniture and fixtures	10 years
Motor vehicles	5 years

The assets' residual values, and useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year end and adjusted prospectively.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties
Investment properties are measured initially 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 statement of comprehensive income in the year in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when 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 statement of comprehensive income in the year of retirement or disposal.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Intangible assets
Intangible assets represents software acquired by the Group which is stated at cost less accumulated amortisation and impairment losses, if any. Cost of the software represents the costs incurred to acquire and bring the software to use.

Amortisation is recognised on a straight line basis over the useful life of the software, from the date it is available for use. The useful life of the software is estimated to be 5 years.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses are recognised in the statement of comprehensive income.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred acquisition costs (DAC)
Commissions that vary with and are related to the acquisition of new investment and takaful contracts are treated as prepayments (DAC) to the extent that the commission relates to the future provision of services by the parties to whom payments are made, when the degree of completeness of the service can be reliably measured and the Group is confident of future economic benefit from the introduction acquired. Prepaid commission is expensed through statement of comprehensive income over a period determined by policy features chosen by the contract holder introduced in return for the commission payment. The periods over which it is expensed range from five to thirty months. Commissions for which liability arises on completion of a significant act without the expectation of the delivery of further services are recognised in expenses when incurred. For investment contract introductions where costs are deferred, no costs are deferred beyond the point at which the introducer is considered to have fulfilled his contractual obligations and is not expected or obliged to perform further services.

Trade and settlement date accounting
All "regular way" purchases and sales of financial assets are recognised on the "trade date", i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

a. Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs that are attributable to the acquisition of the financial asset.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at fair value through profit or loss where the Group's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held to maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortised cost.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and bank balances, investments at fair value through profit and loss, takaful receivables and other assets, and retakaful contract assets.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

a. Financial assets (continued)

Subsequent measurement (continued)
Financial assets at fair value through profit or loss
Financial assets at FVPL include financial assets held for trading and those designated upon initial recognition as at FVPL. Investments typically bought with the intention to sell in the near future are classified as held for trading. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. For investments to be designated as at FVPL, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in 'Fair value gains and losses'. Interest is accrued and presented in 'Investment income', using the effective interest rate (EIR). Dividend income is recorded in 'Investment income' when the right to the payment has been established.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are measured at amortised cost, using the EIR method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Investment income' in the statement of comprehensive income. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited to the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The group evaluates whether evaluates whether the ability and intention to sell its AFS financial assets in the near term is stillappropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactivemarkets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

a. Financial assets (continued)

Derecognition of financial assets
A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: (a) the Group has transferred substantially all the risks and rewards of the asset or
  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets
An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of comprehensive income. Impairment is determined as follows:

(a) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
(b) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Cash and bank balances
Cash and bank balances comprise cash in hand, balances with banks and unrestricted deposits with a maturity of less than 12 months from the date of placement.

For the purpose of the cash flows statement, cash and cash equivalents comprise cash in hand, balances with banks and unrestricted deposits with a maturity of less than three months from the date of placement.

Takaful receivables
Takaful receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, takaful receivables are measured at amortised cost, using the effective interest rate method. The carrying value of takaful receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of comprehensive income.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

b. Financial liabilities

Initial recognition and measurement
Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit and loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include takaful and other payables, takaful contract liabilities and borrowings.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial liabilities (continued)

Subsequent measurement
Subsequent measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit and loss
Financial liabilities at fair value through profit and loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on designated or held for trading liabilities are recognised in fair value gains and losses in the consolidated statement of comprehensive income.

The Group has not designated any financial liabilities as at fair value through profit and loss upon initial recognition.

Interest bearing loans and borrowings
After initial recognition, interest bearing loans and borrowings, and issued notes are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the consolidated statement of comprehensive income.

Takaful contract liabilities
(i) Unearned contributions
Unearned contributions are those proportions of contributions written in a year that relate to period of risk after the reporting date. Unearned contribution is calculated on a daily prorate basis or "1/365" method. The proportion attributable to subsequent year is deferred as a provision for unearned contributions.

(ii) Claims incurred but not reported
A provision is made for the estimated excess of potential claims over unearned contributions and for claims incurred but not reported at the financial position date.

The reserves represent the management's best estimates on the basis of:
a) claims reported during the year
b) delay in reporting these claims
c) claims handling provision

(iii) Claims reported and unsettled
Outstanding claims are recognised when claims are intimated. Outstanding claims reported are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, after reduction for the recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the contract expires, is discharged or is cancelled.

(iv) Mathematical reserves
The mathematical reserve is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience and industry mortality tables. Adjustments to the balance of the fund are effected by charging to statement of comprehensive income.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial liabilities (continued)

Takaful contract liabilities (continued)

(v) Policyholders' investment linked contracts at fair value
For unit linked policies, liability is equal to the policy account values. The investment component of these insurance contracts are designated as at fair value through profit and loss.

Investment contract liabilities
Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value, this being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition investment contract liabilities are measured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the consolidated statement of financial position and are not recognised as gross premium or claims in the consolidated statement of comprehensive income.

Fair value adjustments are performed at each reporting date and are recognised in the income statement in "movement in investment contract liabilities". For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit prices at the reporting date are valued on a fair value basis adjusted to take account of the effect on the liabilities of the deferred tax on unrealised gains on assets in the fund.

Non-unitised contracts are subsequently also carried at fair value, which is determined by using valuation techniques such as discounted cash flows and stochastic modelling. Models are validated, calibrated and periodically reviewed by an independent qualified person.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value of the contract cannot be less than the surrender value.

When contracts contain both a financial risk component and a significant takaful risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any contributions relating to the takaful risk component are accounted for on the same basis as takaful contracts and the remaining element is accounted for as a deposit through the consolidated statement of financial position as described above.

Borrowings
Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Surplus / deficit in policyholders' fund
Surplus in policyholders' funds represents accumulated gains on takaful operations and are distributed among the policyholders. The timing, quantum and the basis of distribution are determined by the Group and are approved by its Fatwa and Shari'a Supervisory Board.

Deficits in participants' funds are financed through Qard Hasan by the Group and thereafter fully provided for by the Group. Accordingly, assets, liabilities, revenue and expenses relating to the policyholders' funds are recognized in the consolidated financial statements of the Group.

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits
The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Retakaful contracts held
The Group cedes insurance risk in the normal course of business for all of its businesses. Retakaful contract assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related retakaful contract.

Retakaful contract assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the consolidated statement of comprehensive income. Gains or losses on buying reinsurance are recognised in the consolidated statement of comprehensive income immediately at the date of purchase and are not amortised. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Offsetting of retakaful receivable and payable balances
The Group discloses the net the receivable or payable position in the consolidated financial statements for each reinsurer per segment.

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Contingencies
Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement
The Group measures financial instruments, such as, equity instruments, and non-financial assets such as investment properties, at fair value at each balance sheet 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 to by the Group.

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 Group 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 consolidated financial statements are categorised 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 consolidated financial statements on a recurring basis, the Group 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.

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed in Note 30.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of properties
Management decides on acquisition whether a property will be used as owner-occupied property or for renting out to third parties. If used as owner-occupied property, the value in use of the property is determined as part of the cash generating unit to which it belongs. Otherwise, the asset is classified as investment property and its fair value is determined on an individual asset basis.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)
Classification of investments
Management decides on acquisition of an investment whether it should be classified as of fair value through profit or loss, at fair value through OCI or at amortised cost.

Claims incurred but not reported
A provision is made for the estimated excess of potential claims over unearned premiums and for claims incurred but not reported at the financial position date.

The reserves represent the management's best estimates on the basis of:
a) claims reported during the year
b) delay in reporting these claims
c) claims handling provision

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provision for outstanding claims, whether reported or not
Considerable judgement by management is required in the estimation of amounts due to policyholders arising from claims made under takaful contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claim settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

Impairment losses on deferred acquisition costs
The Group reviews its deferred acquisitions costs on a regular basis to assess whether a provision for impairment should be recorded in statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required.

Impairment losses on takaful receivables
The Group reviews its takaful receivables on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

In addition to specific provisions against individually significant insurance receivables, the Group also makes a collective impairment provision against takaful receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for insurance receivables within each grade and is adjusted to reflect current economic changes.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty (continued)

Mathematical reserve
The Group values its mathematical reserves based on actuarial valuations which relies on several underlying assumptions such as government yield curve for growth rates, discount rates and inflation as well as mortality rates, morbidity, longevity, investment returns, expenses, lapse and surrender rates, discount rates and partial withdrawal assumptions to estimate the value of insurance contract liabilities on a reasonable basis.

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

Useful lives of property and equipment
The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Fair value measurement of financial instruments
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

3 CASH AND CASH EQUIVALENTS

	2018		*2017*	
	Takaful Operations AED	***Shareholders' Operations AED***	*Takaful Operations AED*	*Shareholders' Operations AED*
Cash and bank balances	**38,689,584**	**48,524,453**	61,715,659	10,772,754
Deposits	**22,250,000**	**14,224,000**	24,250,000	168,000
Restricted deposit – Employee pension	**-**	**-**	-	10,000,000
	60,939,584	**62,748,453**	85,965,659	20,940,754
Less: Deposits maturing in more than three months	**(17,250,000)**	**(4,224,000)**	(24,250,000)	(168,000)
Restricted deposit - Employee pension	**-**	**-**	-	(10,000,000)
Total	**43,689,584**	**58,524,453**	61,715,659	10,772,754

The deposits carry profit rates ranging from 1.75% to 3.40% per annum with maturity dates ranging from 6 March 2018 to 28 September 2019.

4 FINANCIAL INSTRUMENTS

	2018 AED	*2017 AED*
At fair value through profit or loss (Note 4(a))	**253,310,213**	193,960,765
Available-for-sale (Note 4(b))	**32,561,468**	-
	285,871,681	193,960,765

4(a) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018			
	Attributable to individual life policyholders AED	***Attributable to shareholders AED***	***Attributable to takaful operations AED***	***Total AED***
Mutual funds	**95,191,773**	**263,614**	-	**95,455,387**
Sukuk investments	**22,337,663**	**14,894,175**	**45,946,741**	**83,178,579**
Equity investments – quoted	-	**45,638,532**	**15,100,948**	**60,739,480**
Equity investments – unquoted	-	**13,936,767**	-	**13,936,767**
Total	**117,529,436**	**74,733,088**	**61,047,689**	**253,310,213**

The borrowing of AED 21.03 million is from commercial bank in United Arab Emirates and is utilised to purchase Sukuks of an equivalent amount, which is pledged against the borrowing. The borrowing carries a profit rate of 1.25% above the 3-month EIBOR.

	2017			
	Attributable to individual life policyholders AED	*Attributable to shareholders AED*	*Attributable to takaful operations AED*	*Total AED*
Mutual funds	73,314,638	1,257,092	-	74,571,730
Sukuk investments	15,121,390	24,471,085	31,949,793	71,542,268
Equity investments – quoted	-	33,910,000	-	33,910,000
Equity investments – unquoted	-	13,936,767	-	13,936,767
Total	88,436,028	73,574,944	31,949,793	193,960,765

4 FINANCIAL INSTRUMENTS (continued)

4(a) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Movements during the year were as follows:

	2018			
	Attributable to individual life policyholders AED	***Attributable to shareholders AED***	***Attributable to takaful operation AED***	***Total AED***
At beginning of the year	**88,436,028**	**73,574,944**	**31,949,793**	**193,960,765**
Purchases during the year	**56,599,170**	**96,094,630**	**62,192,325**	**214,886,125**
Transfers	**-**	**(46,925,077)**	**46,925,077**	**-**
Disposals during the year	**(22,347,210)**	**(77,471,834)**	**(72,633,291)**	**(172,452,335)**
Change in fair value during the year	**(5,158,552)**	**29,460,425**	**(7,386,215)**	**16,915,658**
Total	**117,529,436**	**74,733,088**	**61,047,689**	**253,310,213**

	2017			
	Attributable to individual life policyholders AED	*Attributable to shareholders AED*	*Attributable to takaful operation AED*	*Total AED*
At beginning of the year	55,969,153	78,419,683	-	134,388,836
Purchases during the year	71,757,382	100,539,280	19,059,923	191,356,585
Transfers	-	(24,606,613)	24,606,613	-
Disposals during the year	(41,442,384)	(76,675,229)	(11,543,175)	(129,660,788)
Change in fair value during the year	2,151,877	(4,102,177)	(173,568)	(2,123,868)
Total	88,436,028	73,574,944	31,949,793	193,960,765

4(b) AVAILABLE-FOR-SALE (AFS)

	2018 AED	*2017 AED*
Shares – quoted	**32,561,468**	-

A fair value gain amounting to AED 15.64 million (2017: nil) has been recognised in the consolidated statement of other comprehensive income.

5 TAKAFUL RECEIVABLES AND OTHER ASSETS

	2018		
	Takaful operations AED	*Shareholder's operations AED*	*Total AED*
Takaful receivables	**132,115,908**	**-**	**132,115,908**
Provision for impairment	**(21,088,450)**	**-**	**(21,088,450)**
	111,027,458	**-**	**111,027,458**
Receivable from retakaful companies	**9,414,403**	**-**	**9,414,403**
Prepaid expenses	**-**	**3,749,724**	**3,749,724**
Other receivables*	**7,965,770**	**30,791,092**	**38,756,862**
	128,407,631	**34,540,816**	**162,948,447**
Movement in the allowance for doubtful debts			
Balance at the beginning of the year	**15,264,454**	**-**	**15,264,454**
Impairment provision made during the year	**8,696,793**	**-**	**8,696,793**
Bad debts written off	**(2,872,797)**	**-**	**(2,872,797)**
Balance at the end of the year	**21,088,450**	**-**	**21,088,450**

	2018		
	Takaful operations AED	*Shareholder's operations AED*	*Total AED*
Takaful receivables and other assets – Inside UAE			
Takaful receivables	**132,115,908**	**-**	**132,115,908**
Provision for impairment – Takaful receivables	**(21,088,450)**	**-**	**(21,088,450)**
	111,027,458	**-**	**111,027,458**
Receivable from retakaful companies	**3,940,639**	**-**	**3,940,639**
Prepaid expenses	**-**	**3,749,724**	**3,749,724**
Other receivables	**7,965,770**	**30,791,092**	**38,756,862**
	122,933,867	**34,540,816**	**157,474,683**
Takaful receivables and other assets – Outside UAE			
Receivable from retakaful companies	**5,473,764**	**-**	**5,473,764**
	5,473,764	**-**	**5,473,764**

5 TAKAFUL RECEIVABLES AND OTHER ASSETS (continued)

	2017		
	Takaful operations AED	*Shareholder's operations AED*	*Total AED*
Takaful receivables	69,522,658	-	69,522,658
Provision for impairment	(12,594,454)	-	(12,594,454)
	56,928,204	-	56,928,204
Receivable from retakaful companies	3,804,335	-	3,804,335
Provision for impairment	(2,670,000)	-	(2,670,000)
Prepaid expenses	-	4,173,425	4,173,425
Other receivables*	40,209,148	71,068,778	111,277,926
	98,271,687	75,242,203	173,513,890
Movement in the allowance for doubtful debts			
Balance at the beginning of the year	2,268,206	-	2,268,206
Impairment provision made during the year	14,586,736	-	14,586,736
Provision utilised during the year	(1,590,488)	-	(1,590,488)
Balance at the end of the year	15,264,454	-	15,264,454

	2017		
	Takaful operations AED	*Shareholder's operations AED*	*Total AED*
Takaful receivables and other assets – Inside UAE			
Takaful receivables	69,522,658	-	69,522,658
Provision for impairment – Takaful receivables	(12,594,454)	-	(12,594,454)
	56,928,204	-	56,928,204
Receivable from retakaful companies	36,354	-	36,354
Prepaid expenses	-	4,173,425	4,173,425
Other receivables	40,209,148	71,068,778	111,277,926
	97,173,706	75,242,203	172,415,909
Takaful receivables and other assets – Outside UAE			
Receivable from retakaful companies	3,767,981	-	3,767,981
Provision for impairment – Retakaful receivables	(2,670,000)	-	(2,670,000)
	1,097,981	-	1,097,981

*During the year, other receivables of AED 40.64 million was settled through the acquisition of quoted shares (Financial instrument through profit or loss: AED 23.72 million and AFS: AED 16.92 million) from a third party. The underlying investment is related to an affiliated entity (Note 4).

5 TAKAFUL RECEIVABLES AND OTHER ASSETS (continued)

The following table provides an ageing analysis of unimpaired receivables and other assets (excluding prepaid expenses)

2018

	Less than 30 days AED	***30-90 days AED***	***91 to 180 days AED***	***181 to 270 days AED***	***271 to 365 days AED***	***> 365 days AED***	***Total AED***
Inside UAE:							
Takaful receivables	**68,935,808**	**5,729,510**	**16,020,570**	**9,650,430**	**8,833,623**	**1,857,517**	**111,027,458**
Receivable from retakaful companies	**-**	**2,235,148**	**1,489,891**	**-**	**179,244**	**36,356**	**3,940,639**
Other receivables	**-**	**-**	**42,506,586**	**-**	**-**	**-**	**42,506,586**
Total	**68,935,808**	**7,964,658**	**60,017,047**	**9,650,430**	**9,012,867**	**1,893,873**	**157,474,683**
Outside UAE:							
Receivable from retakaful companies	**1,194,312**	**238,848**	**3,169,226**	**112,500**	**8,650**	**750,228**	**5,473,764**
Total	**1,194,312**	**238,848**	**3,169,226**	**112,500**	**8,650**	**750,228**	**5,473,764**

2017

	Less than 30 days AED	*30-90 days AED*	*91 to 180 days AED*	*181 to 270 days AED*	*271 to 365 days AED*	*> 365 days AED*	*Total AED*
Inside UAE:							
Takaful receivables	24,262,004	10,041,279	6,231,322	8,202,406	8,191,193	-	56,928,204
Receivable from retakaful companies	-	36,354	-	-	-	-	36,354
Other receivables	111,277,926	-	-	-	-	-	111,277,926
Total	135,539,930	10,077,633	6,231,322	8,202,406	8,191,193	-	168,242,484
Outside UAE:							
Receivable from retakaful companies	157,900	357,649	-	-	-	582,432	1,097,981
Total	157,900	357,649	-	-	-	582,432	1,097,981

Unimpaired accounts receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over accounts receivable.

6 TAKAFUL CONTRACT LIABILITIES AND RETAKAFUL CONTRACT ASSETS

	2018 *AED*	*2017* *AED*
Gross takaful contract liabilities		
Claims reported	**130,492,669**	87,338,194
Claims incurred but not reported	**41,343,887**	38,881,602
Unearned contributions	**198,811,908**	130,677,692
Mathematical reserves	**4,071,000**	4,175,803
Policyholders' investment linked contracts at fair value	**117,529,436**	88,436,028
	492,248,900	349,509,319
Retakaful contract assets		
Retakaful share of claims reported	**100,766,807**	64,232,891
Retakaful share of claims incurred but not reported	**25,591,191**	16,737,632
Retakaful share of unearned contributions	**111,977,162**	63,603,793
Retakaful share of mathematical reserve	**2,924,629**	1,674,749
	241,259,789	146,249,065
Net takaful contract liabilities		
Claims reported	**29,725,862**	23,105,303
Claims incurred but not reported	**15,752,696**	22,143,970
Unearned contributions	**86,834,746**	67,073,899
Mathematical reserves	**1,146,371**	2,501,054
Policyholders' investment linked contracts at fair value	**117,529,436**	88,436,028
	250,989,111	203,260,254

	2018 *AED*	*2017* *AED*
Movement in payable to policyholders of investment linked contracts		
Opening balance	**88,436,028**	55,969,153
Gross contribution	**74,756,548**	91,823,595
Allocation charges	**(18,157,378)**	(20,066,213)
Redemptions and other charges	**(22,347,210)**	(41,442,384)
Change in fair value	**(5,158,552)**	2,151,877
Closing balance	**117,529,436**	88,436,028

7 INVESTMENT PROPERTIES

	2018 *AED*	*2017* *AED*
Plot of land	**15,000,000**	15,000,000
Residential apartments	**22,500,000**	23,540,000
	37,500,000	38,540,000
Work in Progress	**1,421,256**	232,429
	38,921,256	38,772,429

Movement during the year

2018	***Land*** ***AED***	***Residential apartments*** ***AED***	***Total*** ***AED***
Fair value at beginning of the year	**15,000,000**	**23,540,000**	**38,540,000**
Change in fair value during the year	-	**(1,040,000)**	**(1,040,000)**
Fair value at end of the year	**15,000,000**	**22,500,000**	**37,500,000**

2017	*Land* *AED*	*Residential apartments* *AED*	*Total* *AED*
Fair value at beginning of the year	14,928,495	23,477,321	38,405,816
Change in fair value during the year	71,505	62,679	134,184
Fair value at end of the year	15,000,000	23,540,000	38,540,000

The carrying value of land and residential apartments represents its fair value as at 31 December 2018 as determined by an independent valuation expert, in accordance with relevant appraisal and valuation standards. The basis of determination of fair value is the amounts for which the property could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The date of revaluation was 31 December 2018.

During the year, the Board of Directors resolved to transfer the investment properties from shareholders' operations to policyholders' operations.

8 DEFERRED POLICY ACQUISITION COST

	2018 *AED*	*2017* *AED*
Balance as at beginning of the year	**49,966,632**	43,499,624
Commission paid during the year	**50,448,304**	49,457,929
Amortisation for the year	**(36,851,006)**	(42,990,921)
Balance at the end of the year	**63,563,930**	49,966,632

As per Article (3) of Section 7 of the Financial Regulations for Takaful Insurance Companies, the shareholders account should bear all operational, administrative and general expenses for takaful insurance business. Accordingly, effective from 1 January 2017, the commission incurred related to medical business has been classified in the consolidated statement of comprehensive income as attributable to shareholders.

9 STATUTORY DEPOSIT

Statutory deposit is maintained in accordance with the requirements of UAE Federal Law No. 6 of 2007 for the purpose of carrying on takaful operations in the United Arab Emirates and is not available to finance the day to day operations of the Company. This deposit carries a profit rate of 3.40% (2017: 0.8%) per annum.

10 PROPERTY AND EQUIPMENT

	Building AED	*Office equipment AED*	*Furniture and fixtures AED*	*Motor vehicles AED*	*Capital work in progress AED*	*Total AED*
Balance at 1 January 2017	-	3,026,062	7,583,918	163,700	-	10,773,680
Additions during the year	-	352,359	90,564	-	47,091,490	47,534,413
Balance at 31 December 2017	-	3,378,421	7,674,482	163,700	47,091,490	58,308,093
Additions during the year	78,343	161,162	350,486	8,269	7,778,881	8,377,141
Disposals during the year	-	(1,669,594)	(3,838,043)	-	-	(5,507,637)
Transfers	-	1,109,486	6,722,147	-	(10,274,241)	(2,442,608)
Reclass of completed building	44,596,130	-	-	-	(44,596,130)	-
Balance at 31 December 2018	**44,674,473**	**2,979,475**	**10,909,072**	**171,969**	-	**58,734,989**
Accumulated depreciation:						
Balance at 1 January 2017	-	2,425,071	5,813,239	63,975	-	8,302,285
Depreciation for the year	-	418,371	323,535	32,740	-	774,646
Balance at 31 December 2017	-	2,843,442	6,136,774	96,715	-	9,076,931
Depreciation for the year	1,183,092	308,912	1,345,950	33,567	-	2,871,521
Disposals during the year	-	(1,597,488)	(2,664,739)	-	-	(4,262,227)
Balance at 31 December 2018	**1,183,092**	**1,554,866**	**4,817,985**	**130,282**	-	**7,686,225**
Carrying amount:						
Balance at 31 December 2018	**43,491,381**	**1,424,609**	**6,091,087**	**41,687**	-	**51,048,764**
Balance at 31 December 2017	-	534,979	1,537,708	66,985	47,091,490	49,231,162

AED 32.2 million loan was taken from Commercial Bank of Dubai for the purchase of new building to be used as office space (Note 13).

11 INTANGIBLE ASSETS

	Software AED	*Work in Progress AED*	*Total AED*
Cost:			
Balance at 1 January 2017	8,507,395	-	8,507,395
Additions during the year	1,581,663	-	1,581,663
Balance at 31 December 2017	10,089,058	-	10,089,058
Additions during the year	1,051,403	2,357,516	3,408,919
Balance at 31 December 2018	**11,140,461**	**2,357,516**	**13,497,977**
Accumulated amortisation:			
Balance at 1 January 2017	6,974,072	-	6,974,072
Amortisation for the year	909,671	-	909,671
Balance at 31 December 2017	7,883,743	-	7,883,743
Amortisation for the year	716,297	-	716,297
Balance at 31 December 2018	**8,600,040**	-	**8,600,040**
Carrying amount:			
Balance at 31 December 2018	**2,540,421**	**2,357,516**	**4,897,937**
Balance at 31 December 2017	2,205,315	-	2,205,315

12 TAKAFUL AND OTHER PAYABLES

	2018		
	Takaful operations AED	***Shareholder's operations AED***	***Total AED***
Retakaful payables	**176,474,084**	**32,135,238**	**208,609,322**
Accrued expenses and other payables	**15,036,456**	**39,597,271**	**54,633,727**
	191,510,540	**71,732,509**	**263,243,049**

	2017		
	Takaful operations AED	*Shareholder's operations AED*	*Total AED*
Retakaful payables	111,805,237	23,855,225	135,660,462
Accrued expenses and other payables	43,053,385	26,709,004	69,762,389
	154,858,622	50,564,229	205,422,851

12 TAKAFUL AND OTHER PAYABLES (continued)

	2018		
	Takaful operations AED	***Shareholder's operations AED***	***Total AED***
Inside UAE			
Retakaful payables	**135,661,684**	**25,552,086**	**161,213,770**
Payable to insurance agents	-	**5,074,813**	**5,074,813**
Payable to insurance brokers	-	**13,991,661**	**13,991,661**
Payable to staff	-	**1,837,692**	**1,837,692**
Other payables	**15,036,456**	**18,693,105**	**33,729,561**
	150,698,140	**65,149,357**	**215,847,497**
Outside UAE			
Retakaful payables	**40,812,400**	**6,583,152**	**47,395,552**

	2017		
	Takaful operations AED	*Shareholder's operations AED*	*Total AED*
Inside UAE			
Retakaful payables	96,434,759	11,618,245	108,053,004
Payable to insurance agents	-	2,822,820	2,822,820
Payable to insurance brokers	-	11,913,260	11,913,260
Payable to staff	-	4,363,912	4,363,912
Other payables	43,053,385	4,389,092	47,442,477
	139,488,144	35,107,329	174,595,473
Outside UAE			
Retakaful payables	15,370,478	15,456,900	30,827,378

13 BORROWINGS

The borrowings of AED 53.23 million (31 December 2017: 58.52 million) consist of two parts. AED 21.03 million was taken from First Gulf Bank and has been utilised to purchase Tier 1 Sukuks, which are pledged against the borrowings (Note 4). The value of pledged Sukuks as at 31 December 2018 was AED 22.07 million. The borrowings carry a profit rate of 2.5% per annum above the 3-month EIBOR and have a maturity period of three months. AED 32.2 million loan was taken from Commercial Bank of Dubai for the purchase of new building to be used as office space.

The Group's borrowings arising from financing activities include the above loans from First Gulf Bank and Commercial Bank of Dubai (2018: AED 53,234,000, 2017: AED 58,520,000, respectively). The decrease of AED 5,286,000 in the carrying amount during 2018 consists of AED 2,485,371 and AED 2,800,629 of redemption of leveraged sukuk and repayment of loan from Commercial Bank of Dubai, respectively.

14 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

Movement in the provision for employees' end of service benefits during the year was as follows:

	2018 *AED*	*2017* *AED*
Balance at the beginning of the year	**2,545,369**	1,743,000
Charge for the year	**413,904**	1,281,077
Paid during the year	**(516,058)**	(478,708)
Balance at the end of the year	**2,443,215**	2,545,369

15 SHARE CAPITAL

	2018 *AED*	*2017* *AED*
Authorised, issued and fully paid:		
150,000,000 ordinary shares of AED 1 each	**150,000,000**	150,000,000
	150,000,000	150,000,000

The Company has resolved to increase the authorised capital by AED 100 million.

16 STATUTORY RESERVE

In accordance with the UAE Federal Law No. 2 of 2015, 10% of the net profit of the Company has to be transferred to a non-distributable legal reserve until such reserve equals 50% of the paid up share capital of the Company. Accordingly, AED 1,404,504 (2017: AED 1,881,219) has been transferred to the statutory reserve during the year

17 PROPOSED AND PAID DIVIDENDS

	2018 *AED*	*2017* *AED*
Cash dividend for 2018 of AED 0.0825 per share (declared and paid)	**12,375,000**	-
Cash dividend for 2017 of AED 0.07 per share (declared and paid)	-	10,500,000
	12,375,000	10,500,000
Proposed for approval at Annual General Meeting: (2018: Cash dividend of AED 0.0825 per share)	**12,375,000**	-
	12,375,000	-

18 ZAKAT

Zakat is payable by the shareholders. Management has informed the shareholders the amount of Zakat payable by each shareholder. Zakat paid in current year amounted to AED 356,000 for 2018 and amounted to AED 694,588 for 2017.

19 NET EARNED CONTRIBUTIONS

	2018			2017		
	Medical AED	***Life and savings AED***	***Total AED***	*Medical AED*	*Life and savings AED*	*Total AED*
Gross contributions written	**516,772,804**	**82,294,978**	**599,067,782**	485,099,454	98,518,681	583,618,135
Change in unearned contributions	**(67,448,582)**	**(685,634)**	**(68,134,216)**	58,157,393	331,254	58,488,647
Takaful contributions earned	**449,324,222**	**81,609,344**	**530,933,566**	543,256,847	98,849,935	642,106,782
Retakaful contributions	**311,322,126**	**9,727,832**	**321,049,958**	273,436,057	9,617,176	283,053,233
Change in unearned contributions	**(47,814,686)**	**(558,684)**	**(48,373,370)**	(2,246,586)	206,011	(2,040,575)
Retakaful contributions ceded	**263,507,440**	**9,169,148**	**272,676,588**	271,189,471	9,823,187	281,012,658
Net earned contributions	**185,816,782**	**72,440,196**	**258,256,978**	272,067,376	89,026,748	361,094,124

20 CLAIMS INCURRED

2018

	Gross			*Retakaful*			*Net*		
	Medical AED	*Life AED*	*Total AED*	*Medical AED*	*Life AED*	*Total AED*	*Medical AED*	*Life AED*	*Total AED*
Takaful claims paid	334,928,594	4,941,322	339,869,916	(214,372,841)	(4,535,384)	(218,908,225)	120,555,753	405,938	120,961,691
Movement in provision for claims reported and unsettled	18,109,562	25,061,380	43,170,942	(11,813,023)	(24,720,892)	(36,533,915)	6,296,539	340,488	6,637,027
Movement in provision for claims incurred but not reported	2,481,656	(19,371)	2,462,285	(8,815,014)	(38,545)	(8,853,559)	(6,333,358)	(57,916)	(6,391,274)
Claims recorded in the statement of comprehensive income	**355,519,812**	**29,983,331**	**385,503,143**	**(235,000,878)**	**(29,294,821)**	**(264,295,699)**	**120,518,934**	**688,510**	**121,207,444**

2017

	Gross			*Retakaful*			*Net*		
	Medical AED	*Life AED*	*Total AED*	*Medical AED*	*Life AED*	*Total AED*	*Medical AED*	*Life AED*	*Total AED*
Takaful claims paid	345,245,920	2,698,202	347,944,122	(161,225,109)	(2,361,436)	(163,586,545)	184,020,811	336,766	184,357,577
Movement in provision for claims reported and unsettled	22,524,850	1,335,455	23,860,305	(42,149,998)	(993,897)	(43,143,895)	(19,625,148)	341,558	(19,283,590)
Movement in provision for claims incurred but not reported	14,477,820	(297,522)	14,180,298	(5,316,750)	225,222	(5,091,528)	9,161,070	(72,300)	9,088,770
Claims recorded in the statement of comprehensive income	382,248,590	3,736,135	385,984,725	(208,691,857)	(3,130,111)	(211,821,968)	173,556,733	606,024	174,162,757

21 CHANGE IN RESERVES

	2018 *AED*	*2017* *AED*
Changes in mathematical reserve – takaful life	**(1,358,794)**	(322,721)
Change in reserve relating to takaful life products	**50,685,605**	64,981,058
Change in fair value-individual life policyholders (Note 4)	**5,158,552**	(2,151,877)
	54,485,363	62,506,460

22 WAKALAH FEES

Wakalah fees for the year ended 31 December 2018 amounted to AED 77,922,845 (31 December 2017: AED 109,766,490).

For group life, individual medical and group medical policies, wakalah fees were charged up to 16.75% to 25% of gross takaful contributions. For life takaful policies, wakalah fees were charged at a maximum of 50% of takaful risk contributions. Wakalah fees are approved by the Sharia'a Supervisory Board and is charged to the statement of comprehensive income when incurred.

23 INVESTMENT INCOME - NET

	2018 *AED*	*2017* *AED*
Return on investment in fixed deposits	**6,140,412**	5,876,087
Realised gain on sale of investments at fair value through profit or loss	**3,659,829**	18,258,145
Fair value changes on investments at fair value through profit or loss (Note 4)	**22,074,210**	(4,275,745)
Dividend income	**600,000**	500,000
Investment management charges	**(598,742)**	(1,342,050)
	31,875,709	19,016,437
Attributable to shareholders	**34,160,387**	15,354,845
Attributable to policyholders	**(2,284,678)**	3,661,592
	31,875,709	19,016,437

24 OTHER INCOME

	2018 *AED*	*2017* *AED*
Surrender and other charges on unit linked policies	**15,719,940**	4,774,929
Others	**480,296**	641,763
	16,200,236	5,416,692

25 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 *AED*	*2017* *AED*
Salaries and other benefits	**35,957,743**	31,417,912
Third party administrator expenses	**9,190,119**	17,569,951
Legal and professional fees	**6,493,237**	2,688,857
Provision for impairment (Note 5)	**6,086,617**	8,219,708
Policy overhead expenses	**4,744,390**	5,738,957
IT expenses	**4,223,134**	3,740,343
Depreciation and amortization (Note 10 and 11)	**3,587,818**	1,698,271
Authority fees	**3,561,447**	3,740,343
Marketing expenses	**2,453,996**	2,780,658
Rent and related expenses	**1,454,387**	2,005,724
Other expenses	**4,936,428**	5,436,511
	82,689,316	85,037,235

26 BASIC AND DILUTED PROFIT PER SHARE

	2018 *AED*	*2017* *AED*
Profit for the year attributable to shareholders (in AED)	**14,045,044**	18,812,187
Weighted average number of shares outstanding during the year	**150,000,000**	150,000,000
Profit per share (AED)	**0.09**	0.13

No figures for diluted earnings per share are presented as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

27 FATWA AND SHARIA'A SUPERVISORY BOARD

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

28 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. The pricing policies and terms of these transactions are approved by the Group's management.

The significant balances outstanding at 31 December in respect of related parties included in the consolidated financial statements are as follows:

	2018 *AED*	*2017* *AED*
Affiliates of major shareholders:		
Due from equity investments	**3,321,526**	3,321,526
Outstanding claims	**1,657,198**	925,307
Equity Investments – quoted	**5,139,436**	19,110,000

28 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2018 *AED*	*2017* *AED*
Affiliates of major shareholders:		
Contributions	**8,831,156**	34,731,704
Claims	**900,612**	925,307

Compensation of the key management personnel is as follows:

	2018 *AED*	*2017* *AED*
Short term employee benefits	**6,535,396**	6,004,543
End of service benefits	**571,573**	276,287
	7,106,969	6,280,830

Outstanding balances at the year-end arise in the normal course of business. For the years ended 31 December 2018 and 31 December 2017, the Group has not recorded any impairment of amounts owed by related parties.

29 SEGMENT INFORMATION

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

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

Except for Wakalah fees, allocation charges and Qard Hassan, no other inter-segment transactions occurred during the year. Segment income, expenses and results include transactions between business segments which will then be eliminated on consolidation shown below.

	2018					
	Underwriting			***Shareholders***		
	Medical AED	***Life AED***	***Total AED***	***Investments AED***	***Others AED***	***Total AED***
Segment revenue	**449,324,223**	**81,609,343**	**530,933,566**	**34,160,387**	**92,949,779**	**127,110,166**
Segment result	**61,835,099**	**22,562,946**	**84,398,045**	**34,160,387**	**92,949,779**	**127,110,166**
Wakala fees	**(56,811,283)**	**(21,111,562)**	**(77,922,845)**	-	-	-
Commission incurred	-	-	-	-	**(36,851,006)**	**(36,851,006)**
General and administrative expenses	-	-	-	-	**(82,689,316)**	**(82,689,316)**
Recovery of Qard Hassan to policyholders' fund.	-	-	-	-	**6,475,200**	**6,475,200**
Profit / (loss) attributable to policyholders / shareholders	**5,023,816**	**1,451,384**	**6,475,200**	**34,160,387**	**(20,115,343)**	**14,045,044**

29 SEGMENT INFORMATION (continued)

2017

	Underwriting			*Shareholders*		
	Medical AED	*Life AED*	*Total AED*	*Investments AED*	*Others AED*	*Total AED*
Segment revenue	543,256,847	98,849,935	642,106,782	15,354,845	115,317,366	130,672,211
Segment result	101,330,505	24,604,117	125,934,622	15,354,845	115,317,366	130,672,211
Wakala fees	(86,031,488)	(23,735,002)	(109,766,490)	-		
Commission incurred	-	-	-	-	(42,990,921)	(42,990,921)
General and administrative expenses	-	-	-	-	(85,037,235)	(85,037,235)
Recovery of Qard Hassan to policyholders' fund.	-	-	-	-	16,168,132	16,168,132
Profit / (loss) attributable to policyholders / shareholders	15,299,017	869,115	16,168,132	15,354,845	3,457,342	18,812,187

2018

	Medical AED	**Life and savings AED**	**Underwriting total AED**	**Shareholders' investments AED**	**Unallocated others AED**	**Total AED**	**Total AED**
Segment assets	**496,282,350**	**215,386,965**	**711,669,315**	**170,043,009**	**94,487,517**	**264,530,526**	**976,199,841**
Segment liabilities	**521,187,935**	**162,571,505**	**683,759,440**	**21,034,629**	**106,375,096**	**127,409,725**	**811,169,165**

2017

	Medical AED	*Life and savings AED*	*Underwriting total AED*	*Shareholders' investments AED*	*Unallocated others AED*	*Total AED*	*Total AED*
Segment assets	358,307,789	181,303,504	539,611,293	77,574,944	147,619,434	225,194,378	764,805,671
Segment liabilities	363,546,586	140,821,355	504,367,941	23,520,000	88,109,598	111,629,598	615,997,539

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to materially curtail the scale of its operations or to undertake a transaction on adverse terms.

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

30 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair value
The fair values of assets and liabilities are determined using similar valuation techniques and assumptions as used in the audited annual financial statements for the year ended 31 December 2017.

Fair value measurements recognised in the statement of financial position
The following table provides an analysis of assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

	2018			
	Level 1	***Level 2***	***Level 3***	***Total***
	AED	***AED***	***AED***	***AED***
Assets				
Investments at fair value through profit or loss				
Equity investments - quoted	**60,739,480**	-	-	**60,739,480**
Equity investments - unquoted	-		**13,936,767**	**13,936,767**
Mutual funds	-	**95,455,387**	-	**95,455,387**
Sukuk investments	**83,178,579**	-	-	**83,178,579**
Available-for-sale	**32,561,468**	-	-	**32,561,468**
Investment property	-	**38,921,256**	-	**38,921,256**
	176,479,527	**134,376,643**	**13,936,767**	**324,792,937**
Liabilities				
Investment linked contracts	-	**21,034,629**	-	**21,034,629**

	2017			
	Level 1	*Level 2*	*Level 3*	*Total*
	AED	*AED*	*AED*	*AED*
Assets				
Investments at fair value through profit or loss				
Equity investments - quoted	33,910,000	-	-	33,910,000
Equity investments - unquoted			13,936,767	13,936,767
Mutual funds	-	74,571,730	-	74,571,730
Sukuk investments	71,542,269	-	-	71,542,269
Investment property	-	38,772,429	-	38,772,429
	105,452,269	113,344,159	13,936,767	232,733,195
Liabilities				
Investment linked contracts	-	88,436,028	-	88,436,028

31 POLICY HOLDERS' FUND

	2018 *AED*	*2017* *AED*
Deficit in policy holders' fund		
Balance at the beginning of the year	**(40,782,705)**	(56,950,837)
Surplus for the year recovered	**6,475,200**	16,168,132
Balance at the end of the year	**(34,307,505)**	(40,782,705)
Qard Hassan from shareholders		
Balance at beginning of year	**40,782,705**	56,950,837
Deficit recovered during the year	**(6,475,200)**	(16,168,132)
Balance at the end of the year	**34,307,505**	40,782,705
Total deficit in policyholders' fund	**-**	-

32 RISK MANAGEMENT

(i) Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Group's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the Chief Operating Officer and senior managers.

The board of directors meets regularly to approve any commercial, regulatory and organisational decisions. The Chief Operating Officer under the authority delegated from the board of directors defines the Group's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

The Group's current enterprise risk management framework is formally documented and divided into three phases. The Group's enterprise risk management framework is established to identify and analyse the key risks faced by the Group to set appropriate controls and manage those risks. As part of the risks identification process, the Group uses risk based capital model to assess the capital requirement and uses stress analysis to apply changes to capital. The Group's risk appetite is derived from the changes to capital.

(ii) Capital management framework

The primary objective of the Group's capital management is to comply with the regulatory requirements in the UAE and to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

(iii) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Group are also subject to regulatory requirements within the jurisdiction where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

32 RISK MANAGEMENT (continued)

***(iv)* Asset liability management (ALM) framework**

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The Chief Operating Officer actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts.

The Chief Operating Officer regularly monitors the financial risks associated with the Group's other financial assets and liabilities not directly associated with insurance liabilities.

32A Takaful risk

The principal risk the Group faces under takaful contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of takaful contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements.

Frequency and amounts of claims
The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly medical, group life and personal accident risks. These are regarded as short-term takaful contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Medical, group life and personal accident
Medical insurance is designed to compensate the contract holders for medical costs. Group life and personal accident insurance entitles the contract holders or their beneficiaries to specified amounts in case of death or permanent or partial disability. For medical insurance, the main risks are illness and related healthcare costs.

Individual Life
For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. Group wide reinsurance limits on any single life insured and on all high-risk individuals insured are in place.

The Group has adequate retakaful arrangements to protect its financial viability against such claims for all the above classes.

Geographical concentration of risks
The takaful risk arising from takaful contracts is primarily concentrated mainly in the United Arab Emirates. The geographical concentration of risks is similar to last year.

Retakaful risk
In common with other insurance companies, in order to minimise financial exposure arising from large takaful claims, the Group, in the normal course of business, enters into arrangements with other parties for retakaful purposes. Such retakaful arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the retakaful is effected under treaty, facultative and excess of loss reinsurance contracts.

Retakaful ceded contracts do not relieve the Group from its obligations to policyholders and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the retakaful agreements.

32 RISK MANAGEMENT (continued)

32A Takaful risk (continued)

Retakaful risk (continued)
To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers. The Group deals with reinsurers approved by the Board of Directors.

The three largest reinsurers account for 88% of amounts due from reinsurance companies at 31 December 2018 (2017: 90%).

The Group has a large ceding allowance which covers claim risks, including catastrophic risk. The Group's reserve performance is monitored frequently to ensure adequacy of reserves.

32B Financial risk

The Group's principal financial instruments include financial assets and financial liabilities which comprise financial investments (at fair value through profit or loss), receivables arising from takaful and retakaful contracts, statutory deposits, cash and cash equivalents, and takaful and other payables.

The Group does not enter into derivative transactions.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, foreign currency risk, profit rate risk and equity price risk. The board reviews and agrees policies for managing each of these risks and they are summarised below:

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Group, the maximum exposure to credit risk to the Group is the carrying value as disclosed in the consolidated statement of financial position.

The following policies and procedures are in place to mitigate the Group's exposure to credit risk:

- The Group only enters into takaful and retakaful contracts with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from takaful and retakaful contracts are monitored on an ongoing basis in order to reduce the Group's exposure to bad debts.
- The Group seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Group's investments at fair value through profit or loss are managed by the Chief Operating Officer in accordance with the guidance of the Board of Directors.
- The Group's bank balances are maintained with a range of international and local banks in accordance with limits set by the management.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position:

	2018 *AED*	*2017* *AED*
Bank balances	**123,688,037**	106,906,413
Statutory deposit	**4,000,000**	4,000,000
Takaful and other receivables	**162,948,447**	173,509,189
Retakaful share of claims reported and unsettled	**100,766,807**	64,232,891
Investments at fair value through profit or loss	**270,231,681**	180,023,999
Available-for-sale	**32,561,468**	-
	694,196,440	528,672,492

Currency risk
Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

32 RISK MANAGEMENT (continued)

32B Financial risk (continued)

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in UAE Dirhams or US Dollars to which the UAE Dirham is pegged.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its commitments associated with insurance contracts and financial liabilities when they fall due. Liquidity requirements are monitored on a monthly basis.

The maturity profile of the financial assets and financial liabilities at the reporting date based on contractual repayment arrangements was as follows:

2018	*Less than three months AED*	*From three months to one year AED*	*Over one year AED*	*Total AED*
Financial assets				
Bank balances	**87,214,037**	**36,474,000**	-	**123,688,037**
Statutory deposit	-	-	**4,000,000**	**4,000,000**
Takaful receivables and other assets	**70,130,120**	**90,174,226**	**2,644,101**	**162,948,447**
Retakaful share of outstanding claims	**100,766,807**	-	-	**100,766,807**
Investments at fair value through profit or loss	-	**91,597,716**	**178,633,965**	**270,231,681**
Available-for-sale	-	**32,561,468**	-	**32,561,468**
Total	**258,110,964**	**250,807,410**	**185,278,066**	**694,196,440**
Financial liabilities				
Takaful and other payables	**88,239,528**	**140,549,373**	**34,454,148**	**263,243,049**
Outstanding claims	**130,492,668**	-	-	**130,492,668**
Borrowings	-	-	**53,234,001**	**53,234,001**
Policyholders' investment linked contracts at fair value	-	-	**117,529,436**	**117,529,436**
Total	**218,732,196**	**140,549,373**	**205,217,585**	**564,499,154**

2017	*Less than three months AED*	*From three months to one year AED*	*Over one year AED*	*Total AED*
Financial assets				
Bank balances	82,597,105	24,250,000	-	106,847,105
Statutory deposit	-	-	4,000,000	4,000,000
Takaful receivables and other assets	146,133,362	26,503,342	877,186	173,513,890
Retakaful share of outstanding claims	64,232,891	-	-	64,232,891
Investments at fair value through profit or loss	-	122,418,497	71,542,268	193,960,765
Total	292,963,358	173,171,839	76,419,454	542,554,651
Financial liabilities				
Takaful and other payables	178,347,706	27,075,145	-	205,422,851
Outstanding claims	87,338,194	-	-	87,338,194
Borrowings	700,000	2,100,000	55,720,000	58,520,000
Policyholders' investment linked contracts at fair value	-	88,436,028	-	88,436,028
Total	266,385,900	117,611,173	55,720,000	439,717,073

32 RISK MANAGEMENT (continued)

32B Financial risk (continued)

Profit rate risk
Profit rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market profit rates. Floating rate instruments expose the Group to cash flow profit risk, whereas fixed profit rate instruments expose the Group to fair value profit risk.

The Group is exposed to profit rate risk on certain of its investment in financial instruments held at fair value though profit or loss, designated upon initial recognition, statutory deposits and bank loan. The Group limits profit rate risk by monitoring changes in profit rates in the currencies in which its cash and interest bearing investments and borrowings are denominated.

	Increase in basis points	*Effect on results for the year AED*
2018		
Profit bearing assets	**+100**	**2,759,349**
Expense bearing liabilities	**+100**	**532,340**
2017		
Profit bearing assets	+100	1,059,603
Expense bearing liabilities	+100	585,200

Any movement in profit rates in the opposite direction will produce exactly opposite results.

Equity price risk
Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The price risk is managed by outsourcing the trading of securities held by the Company to professional brokers. However, the activities of brokers are also monitored and supervised by the management.

The following table shows the sensitivity of fair values to 5% increase or decrease as at 31 December:

	Favourable change AED	*Unfavourable change AED*
2018		
At fair value	**12,665,511**	**(12,665,511)**
2017		
At fair value	9,698,038	(9,698,038)

32C Operational risk

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

33 CONTINGENCIES

Contingent liabilities
At 31 December 2018 the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 967,537 (2017: AED 1,011,924).

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

Capital commitments
At 31 December 2018, the group's capital commitment amounted to AED 37 million with respect to acquisition of an insurance company based in United Arab Emirates (2017: AED 37 million).

Other Commitments
The Group has lease agreements which are payable as follows:

	2018 AED	*2017 AED*
Less than one year	**218,594**	1,065,671
Between one and five years	-	-
	218,594	1,065,671

34 FINANCIAL REGULATIONS

	2018 AED	*2017 AED*
Minimum Capital Requirement (MCR)	**100,000,000**	100,000,000
Solvency Capital Requirement (SCR)	**112,372,403**	84,050,008
Minimum Guarantee Fund (MGF)	**50,022,148**	74,398,248
Own Funds	**(25,282,142)**	23,934,595
Basic Own Funds	**(25,282,142)**	23,934,595
Ancillary Own Funds		
MCR Solvency Margin Deficit	**(125,282,142)**	(76,065,405)
SCR Solvency Margin Deficit	**(137,654,544)**	(60,115,413)
MGF Solvency Margin Deficit	**(75,304,290)**	(50,463,653)

As per Article (8) of Section 2 of the financial regulations issued for insurance companies in UAE, the Company shall at all times comply with the requirements of Solvency Margin. As of 31 December 2018, the Company had solvency deficit of AED 125.28 million as compared to the Minimum Capital Requirements of AED 100 million.

35 TECHNICAL PROVISION

	2018 *AED*	*2017* *AED*
Claims reported and unsettled	**130,492,669**	87,338,194
Claims incurred but not reported	**41,343,887**	38,881,602
Unearned contributions	**198,811,908**	130,677,692
Mathematical reserve	**4,071,000**	4,175,803
Policyholders' investment linked contracts at fair value	**117,529,436**	88,436,028
Technical provisions	**492,248,900**	349,509,319

Medical business	*2018* *AED*	*2017* *AED*
Claims reported and unsettled	**103,330,375**	85,220,813
Claims incurred but not reported	**40,665,866**	38,184,210
Unearned contributions	**195,583,038**	128,134,455
Technical provisions	**339,579,279**	251,539,478

Life business	*2018* *AED*	*2017* *AED*
Claims reported and unsettled	**27,162,294**	2,117,381
Claims incurred but not reported	**678,021**	697,392
Unearned contributions	**3,228,870**	2,543,237
Mathematical reserve	**4,071,000**	4,175,803
Policyholders' investment linked contracts at fair value	**117,529,436**	88,436,028
Technical provisions	**152,669,621**	97,969,841

36 SOCIAL CONTRIBUTIONS

The Company has not made any social contributions during the year ended 31 December 2018 (31 December 2017: AED Nil).

37 CLAIMS DEVELOPMENT SCHEDULE

Since all claims settled are short-term in nature, the claims development schedule is not applicable.