

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

Financial statements for the year ended
31 December 2018

Directors' report

The directors submit their report for the year ended 31 December 2018.

Incorporation and registered offices

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

Principal activities

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

Financial position and results

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

Directors

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

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

Auditors

Grant Thornton were appointed as auditors of the Company for the year ended 31 December 2018 and being eligible, have offered themselves for re-appointment. The Directors have proposed their appointment as auditors of the Company for the year ending 31 December 2019.

These financial statements for the year ended 31 December 2018 (including comparatives) were approved by the Board of Directors on 26-02-2019 and were signed on their behalf by:



Mr. Ahmad Mohammed Amin Al Kazim
Managing Director

Dubai, United Arab Emirates

**Grant Thornton
United Arab Emirates**

Rolex Tower
Level 23
Sheikh Zayed Road
P.O. Box 1620
Dubai

T +971 4 388 9925

F +971 4 388 9915

Independent auditor's report

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance (the "Company"), Dubai, United Arab Emirates which comprise the statement of financial position as at 31 December 2018, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Other Matter

The financial statements for the financial year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 28 February 2018.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Company for the year ended 31 December 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

i) Valuation of takaful contract liabilities and retakaful contract assets

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

Independent auditor's report

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

Key audit matters (continued)**i) Valuation of takaful contract liabilities and retakaful contract assets (continued)**

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

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

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

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

ii) Valuation of investment properties

Company holds investment properties under the fair value model as at 31 December 2018 amounting to AED 269.4 million (2017: 275.8 million), as detailed in note 13. The fair value estimate requires significant judgement and estimates by management and independent external valuers. The Company has involved independent external valuers in order to value the investment properties for the purpose of determining the fair value for inclusion in the financial statements. The existence of significant estimation and judgement coupled with change in valuation assumptions used could result in material change. Therefore, the valuation of these investment properties was significant to our audit.

Our audit procedures, among others, included:

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

Independent auditor's report

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

Key audit matters (continued)

ii) Valuation of investment properties (continued)

- Assessing the appropriateness of the key assumptions and methodologies used; and
- We involved our own valuation specialist to assist us in performing our procedures in this area.

Other information

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

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

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

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

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

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

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

Auditor's Responsibilities for the audit of the Financial Statements

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

Independent auditor's report

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

Auditor's Responsibilities for the audit of the Financial Statements (continued)

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

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

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

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

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

Independent auditor's report

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

Report on other Legal and Regulatory Requirements

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

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations and UAE Federal Law No. (2) of 2015;
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Directors' Report, in so far as it relates to these financial statements, is consistent with the books of account of the Company;
- v) note 10 to the financial statements discloses purchase of shares by the Company during the year ended 31 December 2018;
- vi) note 9 to the financial statements discloses material related party transactions, and the terms under which they were conducted; and
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations and UAE Federal Law No.(2) of 2015 or of its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2018.


GRANT THORNTON
Farouk Mohamed
Registered Auditor Number 86



Dubai, 26 February 2019

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of financial position
As at 31 December 2018

	Notes	2018 AED'000	2017 AED'000
ASSETS			
Takaful operations' assets			
Cash and bank balances	5	97,497	116,377
Takaful and retakaful receivables	6	28,112	24,332
Retakaful contract assets			
Unearned contribution	7	12,196	9,927
Claims reported unsettled	7	14,291	19,366
Claims incurred but not reported	7	5,684	7,908
Additional unexpired risk reserve	7	498	475
Prepayments and other receivables	8	7,992	3,857
Due from related parties	9	10,721	10,483
Other financial assets measured at fair value through profit and loss (FVTPL)	10	-	8,750
Deferred policy acquisition cost		7,843	10,758
Total takaful operations' assets		184,834	212,233
Shareholders' assets			
Cash and bank balances	5	18,980	4,706
Statutory deposits	11	10,000	10,000
Prepayments and other receivables	8	3,668	1,137
Due from policyholders	12	58,499	56,674
Other financial assets measured at fair value through other comprehensive income (FVTOCI)	10	1,939	1,939
Other financial assets measured at fair value through profit and loss (FVTPL)	10	27,938	34,303
Investment properties	13	269,356	275,796
Property and equipment	14	809	581
Total shareholders' assets		391,189	385,136
Total assets		576,023	597,369

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

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of financial position (continued)
As at 31 December 2018

	Notes	2018 AED'000	2017 AED'000
LIABILITIES, POLICYHOLDERS' FUND AND EQUITY			
Takaful operations' liabilities and policyholders' fund			
Takaful operations' liabilities			
Takaful and retakaful payables	15	55,116	56,489
Takaful contract liabilities			
Unearned contribution	7	76,732	97,391
Claims reported unsettled	7	24,319	30,830
Claims incurred but not reported	7	29,623	40,056
Unallocated loss adjustments expense reserve	7	1,671	1,555
Additional unexpired risk reserve	7	1,821	2,917
Other liabilities	16	5,905	5,296
Due to related parties	9	1	1
Due to shareholders	12	58,499	56,674
Deferred discount		2,267	2,125
Total takaful operations' liabilities		255,954	293,334
Policyholders' fund			
Deficit in policyholders' fund	17	(71,120)	(81,101)
Qard Hassan from shareholders	17	71,120	81,101
Total policyholders' fund		-	-
Liabilities and policyholders' fund		255,954	293,334
Shareholders' liabilities and equity			
Shareholders' liabilities			
Provision for employees' end of service indemnity	18	2,353	2,197
Other liabilities	16	6,839	7,112
Due to related parties	9	-	64
Total shareholders' liabilities		9,192	9,373
Shareholders' equity			
Share capital	19	154,000	154,000
Statutory reserve	20	63,572	61,488
Voluntary reserve	21	50,064	50,064
Investments revaluation reserve - FVTOCI	22	(484)	(484)
Retained earnings		43,725	29,594
Total shareholders' equity		310,877	294,662
Total shareholders' liabilities and equity		320,069	304,035
Total liabilities, policyholders' fund and equity		576,023	597,369

These financial statements were approved by the Board of Directors on 26-02- 2019 and were signed on their behalf by:


Mr. Ahmad Mohammed Amin Al Kazim
Managing Director

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

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of income
For the year ended 31 December 2018

	Notes	2018 AED'000	2017 AED'000
Attributable to policyholders			
Takaful income			
Gross takaful contribution	23	168,498	233,736
Retakaful share of accepted business		(82)	(95)
Retakaful share of ceded business		(40,614)	(54,378)
Net takaful contribution	23	127,802	179,263
Net transfer to unearned contribution reserves and additional unexpired risk reserves	23	24,048	(26,008)
Net takaful contribution earned	23	151,850	153,255
Discount received on retakaful contributions		6,570	7,350
Policy fees		26	235
Total takaful income		158,446	160,840
Takaful expenses			
Gross claims incurred	24	(170,071)	(160,478)
Retakaful share of accepted business claims		216	362
Retakaful share of ceded business claims		60,662	47,526
Net claims incurred	24	(109,193)	(112,590)
Provision for takaful contract liabilities	24	6,511	673
Retakaful share of claims reported unsettled	24	(5,075)	(1,325)
Increase in claims incurred but not reported – net	24	8,209	(11,923)
Increase in unallocated loss adjustments expenses – net	24	(116)	(308)
Net takaful claims incurred	24	(99,664)	(125,473)
Other takaful expenses		-	-
Total takaful expenses		(99,664)	(125,473)
Net takaful income		58,782	35,367
Investment income	25	1,722	2,157
Other income		543	553
Wakala fees	26	(50,549)	(70,121)
Mudarib's fee	26	(517)	(647)
Surplus /(deficit) for the year attributable to policyholders		9,981	(32,691)

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

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of income (continued)
For the year ended 31 December 2018

	Notes	2018 AED'000	2017 AED'000
Attributable to shareholders			
Investment income	25	11,735	15,022
Other income		61	93
Wakala fees from policyholders	26	50,549	70,121
Mudarib's fees	26	517	647
Policy acquisition cost		(22,498)	(20,492)
General and administrative expenses	27	(28,396)	(26,709)
Income for the year before Qard Hassan and Zakat		11,968	38,682
Provision against Qard Hassan to policyholders		9,981	(32,691)
Income for the year before Zakat		21,949	5,991
Zakat	28	(1,114)	(516)
Profit for the year attributable to shareholders		20,835	5,475
Earnings per share	29	0.14	0.04

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

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of comprehensive income
For the year ended 31 December 2018

	2018 AED'000	2017 AED'000
Attributable to shareholders		
Profit for the year	<u>20,835</u>	<u>5,475</u>
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Net fair value loss on investments at FVTOCI	<u>-</u>	<u>(367)</u>
Other comprehensive loss for the year	<u>-</u>	<u>(367)</u>
Total comprehensive income for the year attributable to shareholders	<u><u>20,835</u></u>	<u><u>5,108</u></u>

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

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of changes in equity
For the year ended 31 December 2018

	Share capital AED'000	Statutory reserve AED'000	Voluntary reserve AED'000	Investments revaluation reserve - FVTOCI AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2016	154,000	60,940	50,064	(117)	50,847	315,734
Profit for the year	-	-	-	-	5,475	5,475
Other comprehensive loss for the year	-	-	-	(367)	-	(367)
Total comprehensive income for the year	-	-	-	(367)	5,475	5,108
Transfer to statutory reserve	-	548	-	-	(548)	-
Dividend paid (Note 39)	-	-	-	-	(26,180)	(26,180)
Balance at 31 December 2017	154,000	61,488	50,064	(484)	29,594	294,662
Profit for the year	-	-	-	-	20,835	20,835
Total comprehensive income for the year	-	-	-	-	20,835	20,835
Transfer to statutory reserve	-	2,084	-	-	(2,084)	-
Dividend paid (Note 39)	-	-	-	-	(4,620)	(4,620)
Balance at 31 December 2018	154,000	63,572	50,064	(484)	43,725	310,877

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

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of cash flows
For the year ended 31 December 2018

	Notes	2018 AED'000	2017 AED'000
Cash flows from operating activities			
Profit for the year		20,835	5,475
Adjustments for:			
Depreciation of property and equipment	14	287	198
Fair value loss on investment properties	25	6,440	6,151
Unrealised loss on other financial assets at FVTPL	10	655	2,191
Realised loss/(gain) on sale of other financial assets at FVTPL	25	2,155	(2,384)
Realised gain on sale of property and equipment		-	(74)
Dividend income from Financial investment at FVTPL and FVTOCI	25	(1,638)	(2,686)
Allowance for doubtful debts	6	3,732	564
Provision for employees' end of service benefits	18	242	218
Other investment income	13	(19,474)	(20,038)
Profit on wakala deposits	25	(2,762)	(2,246)
Operating cash flows before changes in operating assets and liabilities		10,472	(12,631)
Change in retakaful contract assets		5,007	13,190
Change in takaful and retakaful receivables		(7,512)	(4,035)
Change in due from related parties		(238)	(922)
Change in prepayments and other receivables		(6,666)	(24)
Change in deferred policy acquisition costs		2,915	(3,387)
Change in takaful contract liabilities		(38,583)	25,701
Change in takaful and retakaful payables		(1,373)	12,909
Change in other liabilities		852	(288)
Change in deferred discount		142	55
Change in due to related parties		(64)	51
Cash (used in)/generated from operations		(35,048)	30,619
Employee's end of service benefits paid	18	(86)	(21)
Zakat paid		(516)	(1,499)
Net cash (used in)/generated from operating activities		(35,650)	29,099
Cash flows from investing activities			
Purchase of property and equipment	14	(515)	(185)
Proceeds from sale of property and equipment		-	135
Purchase of other financial assets	10	(27,265)	(62,307)
Proceeds from sale of other financial assets		39,570	49,556
Rental income received		19,474	20,038
Profit received on wakala deposit		2,762	2,246
Dividend received		1,638	2,686
Increase in wakala deposits with maturity over 3 months		20,000	(50,000)
Net cash generated from/(used in) investing activities		55,664	(37,831)

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

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of cash flows (continued)
For the year ended 31 December 2018

	Notes	2018 AED'000	2017 AED'000
Cash flows from financing activities			
Dividend paid	39	(4,620)	(26,180)
Cash used in financing activities		(4,620)	(26,180)
Net increase/(decrease) in cash and cash equivalents		15,394	(34,912)
Cash and cash equivalents at the beginning of the year		21,083	55,995
Cash and cash equivalents at the end of the year	30	36,477	21,083

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

Arabian Scandinavian Takaful Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

1 Legal status and activities

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

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

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

2 Statement of compliance with IFRS

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

2.1 Standards, interpretations and amendments to existing standards

a) Standards, interpretations and amendments to existing standards that are effective in 2018

Certain standards, interpretations and amendments to existing standards, issued by the IASB, that are effective for the accounting period beginning on or after 1 January 2018 are relevant to the Company and have been applied for the first time. The nature and impact of these standards, interpretations and amendments is described in the accounting policies.

Standard number	Title	Effective date
IFRS 15	Revenue from Contracts with Customers – New	January 1, 2018
IFRS 9	IFRS 9 Financial Instruments – Amendments	January 1, 2018

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

- IFRS 16 'Leases' brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting,

2 Statement of compliance with IFRS (continued)

2.1 Standards, interpretations and amendments to existing standards (continued)

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

however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from contracts with customers' has also been applied.

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

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

The Company has yet to assess the impact of these standards on the financial statements.

3 Summary of significant accounting policies

3.1 Accounting convention

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

3.2 Product classification

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

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

3.3 Surplus/deficit in policyholders' fund

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

3 Summary of significant accounting policies (continued)

3.3 Surplus/deficit in policyholders' fund (continued)

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

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

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

3.4 Property and equipment

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

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in statement of income.

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

3.5 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of income in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

3 Summary of significant accounting policies (continued)

3.5 Investment properties (continued)

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

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

3.6 Revenue recognition

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

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

The five steps in the model are as follows:

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

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

Gross Takaful contributions

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

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

3 Summary of significant accounting policies (continued)

3.6 Revenue recognition (continued)

Discounts earned

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

Wakala fees

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

Profit income

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

Rental income

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

Dividend income

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

3.7 Retakaful contribution

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.7 Retakaful contribution (continued)

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

Contributions and claims are presented on a gross basis for both ceded and assumed retakaful.

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

3.8 Claims

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

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

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

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

3.9 Provision for IBNR

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

3.10 Provision for ULAE

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

3 Summary of significant accounting policies (continued)

3.11 Liability adequacy test

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

3.12 Unearned premium reserve

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

3.13 Retakaful premium

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

3.14 Retakaful assets

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

3.15 Financial instruments

a) Recognition, initial measurement and derecognition

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

3 Summary of significant accounting policies (continued)

3.15 Financial instruments (continued)

b) Classification and subsequent measurement of financial assets

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

i) Financial assets at amortised cost

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

- the Company's business model is to hold them in order to collect contractual cash flows; and
- the contractual terms give rise on specific dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

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

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

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

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.15 Financial instruments (continued)

b) Classification and subsequent measurement of financial assets (continued)

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

Fair value measurement

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

Gains or losses on subsequent measurement

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

c) Classification and subsequent measurement of financial liabilities

Financial liabilities comprise amounts due to related parties and most other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method.

d) Impairment and uncollectability of financial assets

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.15 Financial instruments (continued)

d) Impairment and uncollectability of financial assets (continued)

Measurement of ECL

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn financing commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover.

The Company has assessed that the impact of IFRS 9 is not material on the financial statements of the Company as at the reporting date and as at the date of initial application, January 2018.

e) Offsetting financial instruments

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

3.16 Receivables and payables related to takaful contracts

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

3.17 Employee benefits

a) Short-term employee benefits

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

b) Provision for employees' end of service benefits

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

3 Summary of significant accounting policies (continued)

3.18 Foreign currency transactions

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

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

3.19 Impairment of non-financial assets

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

3.20 Operating leases

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

3.21 Cash and cash equivalents

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

3.22 Provisions, contingent liabilities and contingent assets

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

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

3 Summary of significant accounting policies (continued)

3.22 Provisions, contingent liabilities and contingent assets (continued)

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

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

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

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

3.23 Equity, reserves and dividend payments

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

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

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

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

3.24 Segment reporting

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

4 Critical accounting estimates and judgements in applying accounting policies

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

Outstanding claims, IBNR, ULAE and UPR

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

Classification of investment property and related fair value judgement

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

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

Fair value of unquoted securities

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

Provision for doubtful debts

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

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

5 Cash and bank balances

	2018 AED'000	2017 AED'000
Cash on hand	70	16
Bank balances:		
Wakala deposits	80,000	100,000
Current accounts	36,407	21,067
	<u>116,477</u>	<u>121,083</u>
Attributable to:		
Shareholders	18,980	4,706
Policyholders	97,497	116,377
	<u>116,477</u>	<u>121,083</u>

The profit rates on the Wakala deposits with banks range from 2.40% to 3.85%. (2017: 1.50% to 2.85%).

Wakala deposits amounting to AED 80 million (2017: AED 100 million) have maturity more than three months.

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

6. Takaful and retakaful receivables

	2018 AED'000	2017 AED'000
Takaful receivable	24,072	24,050
Receivables from takaful companies	4,309	2,051
Receivables from retakaful companies	5,463	231
	<u>33,844</u>	<u>26,332</u>
Less: Provisions for doubtful debts	(5,732)	(2,000)
	<u>28,112</u>	<u>24,332</u>
Inside UAE:		
Takaful receivables	4,309	24,050
Receivables from takaful companies	24,072	2,051
Receivables from retakaful companies	1,344	40
	<u>29,725</u>	<u>26,141</u>
Less: Provisions for doubtful receivables	(5,732)	(2,000)
	<u>23,993</u>	<u>24,141</u>
Outside UAE:		
Receivables from retakaful companies	4,119	191

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

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

6. Takaful and retakaful receivables (continued)

Movement in the allowance for doubtful debts:	2018 AED'000	2017 AED'000
Balance at the beginning of the year	2,000	1,436
Provision for the year	3,732	564
Balance at the end of the year	5,732	2,000

7. Takaful contract liabilities and retakaful contract assets

	2018 AED'000	2017 AED'000
Gross		
Takaful contract liabilities:		
Unearned contribution	76,732	97,391
Claims reported unsettled	24,319	30,830
Claims incurred but not reported	29,623	40,056
Unallocated loss adjustments expense reserve	1,671	1,555
Additional unexpired risk reserve	1,821	2,917
Total takaful contract liabilities, gross	134,166	172,749
Recoverable from retakaful		
Retakaful contract assets:		
Unearned contribution	12,196	9,927
Claims reported unsettled	14,291	19,366
Claims incurred but not reported	5,684	7,908
Additional unexpired risk reserve	498	475
Total retakaful share of takaful contract liabilities	32,669	37,676
Net		
Unearned contribution	64,536	87,464
Claims reported unsettled	10,028	11,464
Claims incurred but not reported	23,939	32,148
Unallocated loss adjustments expense reserve	1,671	1,555
Additional unexpired risk reserve	1,323	2,442
	101,497	135,073

8. Prepayments and other receivables

	2018 AED'000	2017 AED'000
Receivable from policy holders	4,917	2,515
Advances and deposits	3,409	185
Accrued profit	1,165	1,436
Rent receivable	510	275
Prepaid expenses	409	513
Other receivables	1,250	70
	11,660	4,994
Attributable to:		
Shareholders	3,668	1,137
Policyholders	7,992	3,857
	11,660	4,994

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

9. Related parties

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

	2018 AED'000	2017 AED'000
Due from related parties:		
<i>Related parties due to common directorship</i>		
Al Redha Insurance Brokers (LLC), Dubai	10,704	10,478
Others	17	5
	<u>10,721</u>	<u>10,483</u>

Due to related parties:

Related parties due to common ownership

Others	1	65
	<u>1</u>	<u>65</u>

All due from related parties are attributable to policy holders.

	2018 AED'000	2017 AED'000
Due to related parties:		
Shareholders	-	64
Policyholders	1	1
	<u>1</u>	<u>65</u>

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

No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

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

	2018 AED'000	2017 AED'000
Contribution written for related parties	947	1,148
Management expenses (net)	1,155	881
Contribution written through a related party broker	17,242	20,085
Policy acquisition cost paid	2,225	2,650
Claims paid	276	47
Claims paid through related party broker	145	1

Key management personnel remuneration:

	2018 AED'000	2017 AED'000
Short-term benefits	1,639	1,338
Long-term benefits	385	1,039
Board of Directors' remuneration	400	2,400

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

10. Other financial assets

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

	2018 AED'000	2017 AED'000
Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Unquoted U.A.E. equity securities (a)	<u>1,939</u>	<u>1,939</u>
Other financial assets measured at fair value through profit and loss (FVTPL)		
Quoted U.A.E. equity securities (b)	27,423	42,538
Unquoted U.A.E. equity securities (a)	<u>515</u>	<u>515</u>
	<u>27,938</u>	<u>43,053</u>

(a) The Company holds investments in unquoted equity securities of three entities as at 31 December 2018 (2017: three entities). These investments have been fair valued by an independent valuer based on an Earnings Multiple (2017: Earnings multiples and Net asset value technique) using observable market data of comparable public entities, certain discount factors and unobservable financial data of these non-public investees. Unobservable financial data used in determining the fair values of these unquoted securities has been extracted from their latest available audited financial statements for the ended 31 December 2017 (2017: financial statements for the year ended 31 December 2016).

(b) Fair values have been determined by reference to quoted prices at the reporting date. During the year, the Company purchased quoted equity securities amounting to AED 27.27 million (2017: 62.31 million) while sold quoted securities amounting to AED 41.73 million (2017: 47.17 million).

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

Other financial assets measured at fair value through profit and loss (FVTPL) are attributable as follows:

	2018 AED'000	2017 AED'000
Shareholders	27,938	34,303
Policyholders	<u>-</u>	<u>8,750</u>
	<u>27,938</u>	<u>43,053</u>

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

10. Other financial assets (continued)

The movement in other financial assets are as follows:

	Fair value through other comprehensive income		Fair value through profit or loss	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Fair value, at the beginning of the year	1,939	2,306	43,053	30,109
Purchased during the year	-	-	27,265	62,307
Sold during the year	-	-	(41,725)	(47,172)
Change in fair value	-	(367)	(655)	(2,191)
Fair value, at the end of the year	1,939	1,939	27,938	43,053

11. Statutory deposits

	2018 AED'000	2017 AED'000
Held with a local bank in Dubai, UAE	10,000	10,000

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

12. Due from policyholders/due to shareholders

The balance consists of the net of Wakala fees balances that is due to the shareholders from the policyholders amounting to AED 58.5 million (2017: 56.7 million).

13. Investment properties

	Land AED'000	Other real estate AED'000	Total AED'000
Balance at 1 January 2018	11,897	263,899	275,796
Change in fair value during the year (Note 25)	(718)	(5,722)	(6,440)
Balance at 31 December 2018	11,179	258,177	269,356
Balance at 1 January 2017	11,939	270,008	281,947
Change in fair value during the year (Note 25)	(42)	(6,109)	(6,151)
Balance at 31 December 2017	11,897	263,899	275,796

On 31 December 2018, Pioneer Surveyors & Loss Adjusters and The Technical and Loss Adjusting Services Company LLC, independent and experienced professional valuers estimated the fair value of investment property at AED 268.8 million and AED 269.91 million respectively (2017: Gulf Trust Management Services and Land Sterling, independent and experienced professional valuers estimated the fair value of investment property at AED 277.5 million and AED 274.1 million respectively). Company recognises the average of fair value from both valuers. The valuers hold relevant professional qualifications and experience. Investment property is held for capital appreciation and rental purposes.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

13. Investment properties (continued)

Investment property amounting to AED 6.7 million (2017: AED 7.1 million) is registered in the name of related parties in trust and for the benefit of the Company.

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

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

	2018 AED'000	2017 AED'000
Rental income	20,743	21,669
Direct operating expenses	(1,269)	(1,631)
Income from investment properties (Note 25)	<u>19,474</u>	<u>20,038</u>

14. Property and equipment

	Furniture and fixtures AED'000	Motor vehicles AED'000	Total AED'000
Cost			
At 1 January 2018	3,946	22	3,968
Additions during the year	185	330	515
At 31 December 2018	4,131	352	4,483
Accumulated depreciation			
At 1 January 2018	3,368	19	3,387
Charge for the year	221	66	287
At 31 December 2018	3,589	85	3,674
Carrying value			
At 31 December 2018	542	267	809
Cost			
At 1 January 2017	3,761	379	4,140
Additions during the year	185	-	185
Disposal during the year	-	(357)	(357)
At 31 December 2017	3,946	22	3,968
Accumulated depreciation			
At 1 January 2017	3,186	299	3,485
Charge for the year	182	16	198
Disposal during the year	-	(296)	(296)
At 31 December 2017	3,368	19	3,387
Carrying value			
Balance at 31 December 2017	578	3	581

31 December 2018, the cost of fully depreciated property and equipment that was still in use amounted to AED 3.174 million (2017: AED 3 million).

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

15. Takaful and retakaful payables

	2018 AED'000	2017 AED'000
Payable arising from takaful activities	14,310	18,496
Due to takaful companies	17,899	18,048
Due to retakaful companies	22,907	19,945
	<u>55,116</u>	<u>56,489</u>

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

16. Other liabilities

	2018 AED'000	2017 AED'000
Premium reserve withheld	4,968	4,933
Deferred rental income	2,567	2,834
Accrued expenses	1,140	1,528
Zakat payable	1,114	516
Other	2,955	2,597
	<u>12,744</u>	<u>12,408</u>
Attributable to:		
Shareholders	6,839	7,112
Policyholders	5,905	5,296
	<u>12,744</u>	<u>12,408</u>

17. Qard Hasan

	2018 AED'000	2017 AED'000
(i) Deficit in policyholders' fund:		
As at 1 January	(81,101)	(48,410)
Deficit during the year	<u>9,981</u>	<u>(32,691)</u>
As at 31 December	<u>(71,120)</u>	<u>(81,101)</u>
(ii) Qard Hasan from shareholders		
As at 1 January	81,101	48,410
Provision during the year	<u>(9,981)</u>	<u>32,691</u>
As at 31 December	<u>71,120</u>	<u>81,101</u>

The shareholders have funded the deficit in the policyholders' fund in accordance with the Company's policy through a Qard Hasan (profit free loan with no repayment terms). During the current year the policyholders fund reported a surplus amounting to AED 9.9 million (2017: Deficit of AED 32.7 million).

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

18. Provision for employees' end of service indemnity

	2018 AED'000	2017 AED'000
Balance at the beginning of the year	2,197	2,000
Charged during the year	242	218
Paid during the year	(86)	(21)
Balance at the end of the year	2,353	2,197

19. Share capital

	2018 AED'000	2017 AED'000
Authorised and issued and fully paid: 154,000,000 ordinary shares of AED 1 each (2017: 154,000,000)	154,000	154,000

20. Statutory reserve

In accordance with U.A.E. Law No. (2) of 2015, the Company has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law. For the year ended 31 December 2018, AED 2.2 million (2017: AED 0.5 million) was transferred to statutory reserve.

21. Voluntary reserve

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

During 2016, the Company had amended its Articles of Association and the clause related to voluntary reserve states that a voluntary purpose reserve can be created upon a recommendation of the Board of Directors and this reserve cannot be utilised for any other purpose unless approved by the General meeting.

As per the above amendment, no transfer to voluntary reserve is made during 2018.

The Board of Directors has proposed to transfer from the voluntary reserve to statutory reserve AED 13.43 million and the remaining balance of AED 36.64 million to retained earnings. The proposals are subject to approval by the shareholders at the Annual General Meeting.

22. Investments revaluation reserve - FVTOCI

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

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

23. Net takaful contributions

Year 2018	Gross AED'000	Retakaful share AED'000	Net AED'000
Takaful contracts: Gross contributions written	168,498	(40,696)	127,802
Movement in unearned contributions and additional unexpired risk reserves	21,756	2,292	24,048
Takaful contributions revenue	190,254	(38,404)	151,850
Year 2017	Gross AED'000	Retakaful share AED'000	Net AED'000
Takaful contracts: Gross contributions written	233,736	(54,473)	179,263
Movement in unearned contributions and additional unexpired risk reserves	(18,794)	(7,214)	(26,008)
Takaful contributions revenue	214,942	(61,687)	153,255

24. Claims incurred

Year 2018	Gross AED'000	Retakaful share AED'000	Net AED'000
Takaful claims paid	170,071	(60,878)	109,193
Movement in provision for claims reported unsettled	(6,511)	5,075	(1,436)
Movement in provision for claims incurred but not reported	(10,433)	2,224	(8,209)
Movement in provision for unallocated loss adjustment expense	116	-	116
Claims recorded in the statement of income	153,243	(53,579)	99,664
Year 2017	Gross AED'000	Retakaful share AED'000	Net AED'000
Takaful claims paid	160,478	(47,888)	112,590
Movement in provision for claims reported unsettled	(673)	1,325	652
Movement in provision for claims incurred but not reported	7,272	4,651	11,923
Movement in provision for unallocated loss adjustment expense	308	-	308
Claims recorded in the statement of income	167,385	(41,912)	125,473

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

25. Investment income

	2018 AED'000	2017 AED'000
(Loss)/profit on disposal of other financial assets at FVTPL	(2,155)	2,384
Unrealised loss on other financial assets at FVTPL	(655)	(2,191)
Profit on wakala deposit	2,762	2,246
Dividends from other financial assets:		
measured at FVTOCI	-	67
measured at FVTPL	1,638	2,619
Fair value loss on investment properties (Note 13)	(6,440)	(6,151)
Income from investment properties (Note 13)	19,474	20,038
Expenses allocated to investment	(1,167)	(1,833)
	13,457	17,179

Attributable to:

Policyholders	1,722	2,157
Shareholders	11,735	15,022
	13,457	17,179

26. Wakala and Mudarib's fees

Wakala fees

Wakala fee for the year ended 31 December 2018 amounted to AED 50.5 million (2017: AED 70.1 million) the fee is calculated at maximum of 30 % of gross contribution of AED 168.4 million (2017: AED 233.7 million) without any deduction of policy acquisition cost. Wakala fee is charged to the statement of income when incurred.

Mudarib's fee

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

27. General and administrative expenses

	2018 AED'000	2017 AED'000
Staff cost	13,475	12,361
Administrative expenses	3,771	4,364
Allowance for doubtful debts (Note 6)	3,732	564
Policy registration fees	1,544	1,852
Legal and professional fees	1,376	1,372
Other expenses	1,193	1,205
Rent	860	754
Insurance	590	451
Bank charges	407	325
Board of directors' remuneration (Note 9)	400	2,400
Marketing expenses	387	441
End of service benefits	374	422
Depreciation	287	198
	28,396	26,709

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

28. Zakat

Zakat on behalf of shareholders is accounted as per the Articles and Memorandum of Associations of the Company and is approved by the Company Fatwa and Sharia'a Supervisory Boards amounted to AED 1.1 million (2017: AED 0.5 million).

29. Earnings per share

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

	2018	2017
Profit for the year (in AED'000)	20,835	5,475
Number of ordinary shares outstanding	154,000,000	154,000,000
Basic and diluted earnings per share (in AED)	0.14	0.04

Diluted earnings per share as of 31 December 2018 and 31 December 2017 are equivalent to basic earnings per share as the Company did not issue any new instrument that would impact earnings per share when executed.

30. Cash and cash equivalents

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

	2018 AED'000	2017 AED'000
Cash and bank balances (Note 5)	116,477	121,083
Wakala deposits with maturity over 3 months	(80,000)	(100,000)
	36,477	21,083

31. Segmental information

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

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

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

Arabian Scandinavian Takaful Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

31. Segmental information (continued)

The following table presents segment information for the years ended 31 December 2018 and 31 December 2017.

	2018		2017		
	Attributable to policyholders AED'000	Attributable to Shareholders AED'000	Total AED'000	Attributable to shareholders AED'000	Total AED'000
<i>Takaful</i>					
Total takaful income	158,446	-	158,446	160,840	160,840
Total takaful expenses	(99,664)	-	(99,664)	(125,473)	(125,473)
Net takaful income	58,782	-	58,782	35,367	35,367
Wakala fees	(50,549)	50,549	-	(70,121)	70,121
Mudarib's fee	(517)	517	-	(647)	647
Investment Income	1,722	-	1,722	2,157	2,157
Other income	543	-	543	553	553
<i>Investment</i>	9,981	51,066	61,047	(32,691)	38,077
Investment income	-	11,735	11,735	-	15,022
Other income	-	61	61	-	93
Policy acquisition cost	-	(22,498)	(22,498)	-	(20,492)
Unallocated other income and expenses	-	(28,396)	(28,396)	-	(26,709)
Profit for the year before Zakat	9,981	11,968	21,949	(32,691)	5,991

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2018

31. Segmental information (continued)

Other information

	Takaful		Investment		Total	
	2018	2017	2018	2017	2018	2017
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Segment assets	184,834	212,233	391,189	385,136	576,023	597,369
Segment liabilities	255,954	293,334	9,192	9373	265,146	302,707
Capital expenditure	-	-	515	185	515	185
Depreciation	-	-	287	198	287	198

32. Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its operations. The Company manages its capital on a basis of its minimum regulatory capital position presented in the table below:
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

In U.A.E., the local insurance regulator specifies the minimum amount and type of capital that must be held by the Company in addition to its insurance liabilities. The minimum required capital (presented in the table below) must be maintained at all times throughout the year.

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

	2018	2017
	AED	AED
Minimum regulatory capital	<u>100,000,000</u>	<u>100,000,000</u>
Share capital held	<u>154,000,000</u>	<u>154,000,000</u>

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

33. Financial instruments

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

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

(a) Significant accounting policies

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

Arabian Scandinavian Insurance Company (PLC) - Takaful – ASCANA Insurance
Notes to the financial statements
for the year ended 31 December 2018

33. Financial instruments (continued)

(b) Categories of financial instruments

	2018 AED'000	2017 AED'000
Financial assets		
Other financial assets measured at FVTOCI	1,939	1,939
Other financial assets measured at FVTPL	27,938	43,053
Statutory deposits	10,000	10,000
Takaful and retakaful receivables	39,363	28,813
Due from related parties	10,721	10,483
Cash and bank balances	116,477	121,083
Total financial assets	206,438	215,371
Financial liabilities		
Takaful and retakaful payables	60,325	60,614
Due to related parties	1	65
Total financial liabilities	60,326	60,679

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

34. Risk management

Takaful risk

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

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

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

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

34. Risk management (continued)

Takaful risk (continued)

Frequency and severity of claims

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

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

The retakaful arrangements include excess and catastrophe coverage. The effect of such retakaful arrangements is that the Company should not suffer net takaful losses of a set limit of AED 200,000, AED 20,000 and AED 400,000 in any one policy for motor, medical and other non-motor respectively. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually every year and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments

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

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

34. Risk management (continued)

Takaful risk (continued)

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

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

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

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

Type of risk

	2018	2017
Motor	62%	85%
Non motor	79%	72%

Process used to decide on assumptions

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

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business.

34. Risk management (continued)

Takaful risk (continued)

Concentration of risks

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

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

31 December 2018

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

31 December 2017

	Gross Liabilities AED'000	Reinsurance share of liabilities AED'000	Net liabilities AED'000
Motor	10,979	(2,191)	8,788
Non- Motor	19,851	(17,175)	2,676
Total	30,830	(19,366)	11,464

Retakaful risk

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

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

Financial risk

Market risk

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

34. Risk management (continued)

Financial risk (continued)

Foreign currency risk

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

Credit risk

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

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

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

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

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

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

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

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristic, other than takaful receivables at the end of reporting period amounting to AED 2,501,356 (2017: AED 2,752,279). The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks registered in the United Arab Emirates.

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

34. Risk management (continued)

Financial risk (continued)

Credit risk (continued)

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

	Neither past due nor impaired AED'000	<120 days AED'000	Past due 120 -180 days AED'000	>180 days AED'000	Total AED'000	Past due and impaired AED'000	Total AED'000
31 December 2018	13,297	6,899	3,396	10,252	33,844	(5,732)	28,112
31 December 2017	14,020	7,009	2,025	3,278	26,332	(2,000)	24,332

Liquidity risk

Ultimate responsibility for liquidity risk management rests with management, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

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

Arabian Scandinavian Insurance Company (PLC) - Takaful – ASCANA Insurance
Notes to the financial statements
for the year ended 31 December 2018

34. Risk management (continued)

Financial risk (continued)

Liquidity risk (continued)

31 December 2018

	Less than 90 days AED'000	91-180 days AED'000	181-365 days AED'000	Above 365 days AED'000	Total AED'000
Financial assets					
At FVTOCI	-	-	-	1,939	1,939
At fair value through profit or loss	10,469	10,469	-	-	27,938
Statutory deposits	-	-	-	10,000	10,000
Takaful and re takaful receivables	16,144	13,824	7,786	1,609	39,363
Due from related parties	4,698	4,500	1,523	-	10,721
Cash and bank balances - profit bearing	-	35,000	45,000	-	80,000
Cash and bank balances - non-profit bearing	36,477	-	-	-	36,477
	67,788	63,793	54,309	13,548	206,438
Financial liabilities					
Takaful and retakaful payables	22,317	14,755	13,846	9,407	60,325
Due to related parties	1	-	-	-	1
	22,318	14,755	13,846	9,407	60,326

Arabian Scandinavian Insurance Company (PLC) - Takaful – ASCANA Insurance
Notes to the financial statements
for the year ended 31 December 2018

34. Risk management (continued)

Financial risk (continued)

Liquidity risk (continued)

31 December 2017

	Less than 90 days AED'000	91-180 days AED'000	181-365 days AED'000	Above 365 days AED'000	Total AED'000
Financial assets					
At FVTOCI	-	-	-	1,939	1,939
At fair value through profit or loss	43,053	-	-	-	43,053
Statutory deposits	-	-	-	10,000	10,000
Takaful and retakaful receivables	12,173	7,862	8,778	-	28,813
Due from related parties	3,817	2,968	3,698	-	10,483
Cash and bank balances - profit bearing	-	55,000	45,000	-	100,000
Cash and bank balances - non-profit bearing	21,083	-	-	-	21,083
	<u>80,126</u>	<u>65,830</u>	<u>57,476</u>	<u>11,939</u>	<u>215,371</u>
Financial liabilities					
Takaful and retakaful payables	8,028	9,595	42,991	-	60,614
Due to related parties	65	-	-	-	65
	<u>8,093</u>	<u>9,595</u>	<u>42,991</u>	<u>-</u>	<u>60,679</u>

Equity price risk

Sensitivity analysis

At the reporting date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Company's statement of income/comprehensive income would have increased/decreased by AED 3 million (2017: AED 4.5 million).

Method and assumptions for sensitivity analysis

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

35. Fair value measurements

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

Fair value of financial instruments carried at amortised cost

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

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

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

Fair value measurements recognised in the statement of financial position

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

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

Arabian Scandinavian Insurance Company (PLC) - Takaful – ASCANA Insurance
Notes to the financial statements
for the year ended 31 December 2018

35. Fair value measurements (continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31 December 2018 AED'000	31 December 2017 AED'000				
Financial assets at FVTOCI						
Unquoted equity securities	1,939	1,939	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of the investees, higher the fair value.
Financial assets at FVTPL						
Quoted equity securities	27,423	42,538	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	515	515	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of the investees, higher the fair value.

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

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

36. Contingent liabilities

	2018 AED'000	2017 AED'000
Letters of guarantees	10,470	10,361

37. Fatwa and Shari'a Supervisory Board

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

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

38. Directors' remuneration

For the year ended 31 December 2018, the shareholders approved the Board of Directors' remuneration of AED 0.4 million (2017: AED 2.4 million). The directors' remuneration for the year 2019 shall be decided at the Annual General Meeting.

39. Paid and proposed dividends

- (a) At the Annual General Meeting held on 10 April 2018, the shareholders approved a cash dividend of 3% of share capital, AED 0.03 fils per share, amounting to AED 4.62 million for the year 2017 (2017: cash dividend of 17% of share capital, AED 17 fils per share, amounting to AED 26.2 million for the year 2016).
- (b) The Board of Directors has proposed 10% cash dividend at their meeting held on 26 February 2019. The proposals are subject to approval by the Shareholders at the Annual General Meeting.

40. Post-reporting date events

Except for the proposed cash dividend mentioned in the above note, there are no adjusting or significant non-adjusting events which have occurred between the reporting date and the date of authorisation of these financial statements.