

AL FUJAIRAH NATIONAL INSURANCE COMPANY P.S.C.

FUJAIRAH - UNITED ARAB EMIRATES

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

BOARD OF DIRECTOR'S REPORT

For the Year 2018

The Company achieved Net Profit of AED 31.4 million for the year ended 31.12.2018 compared with AED 28.1 million for the year 2017.

The Company achieved Net Technical profit of AED 39.9 million during the year ended 31.12.2018 as compared with AED 32.1 million for the same period last year.

The Company's premium revenue is AED 262.0 million during the year 2018 comparing with AED 226.8 million for last year

The Company's Investment profit is AED 2.1 million for the year ended 31.12.2018, as compared with AED 4.1 million for the same period of last year.

Earnings per share for the year 2018 is, AED 31.46 compared with AED 28.12 of 2017.

The shareholder's equity increased from 233.72 million as at 31.12.2017 to AED 245.68 million as at 31.12.2018.



ABDUL GHAFUOR BEHROOZIAN
Chairman

Fujairah
13.03.2019

**Independent Auditor's Report
To the Shareholders of Al Fujairah National Insurance Company P.S.C.**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Al Fujairah National Insurance Company P.S.C. (the "Company"), which comprise the statement of financial position as at 31 December 2018, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements 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 a qualified opinion on those statements on 27 March 2018.

Included in the statement of financial position as at 31 December 2018 are investment properties carried at fair value amounting to AED 84,550,000 (31 December 2017: AED 90,675,000) which were valued by an independent external valuer as on 31 December 2017 using certain assumptions and judgements. The audit opinion for the year ended 31 December 2017 was qualified by the external auditors due to a lack of sufficient and appropriate audit evidence about the assumptions and judgements used by the independent external valuer for the valuation of the investment properties.

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.

Independent Auditor's Report
To the Shareholders of Al Fujairah National Insurance Company P.S.C. (continued)
Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

i) Valuation of insurance contract liabilities (continued)

The estimation of liabilities arising from insurance contracts such as outstanding claims, incurred but not reported claims, unallocated loss adjustment expenses and unearned premium reserve, as disclosed in note 9 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 insurance contract liabilities 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 insurance contract liabilities, 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 84.6 million (2017: 90.7 million), as detailed in note 6. 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;
- 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.



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Independent Auditor's Report To the Shareholders of Al Fujairah National Insurance Company P.S.C. (continued) Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

iii) Valuation of investment in unquoted securities

The Company holds investments in unquoted equity securities of eleven entities as at 31 December 2018 (2017: eight entities) which amount to AED 30.2 million (2017: AED 24.1 million) representing 16.7% (2017: 13.4%) of the total amount of its investment in securities as disclosed in note 7 to the financial statements. The valuation of these unquoted equity securities was carried out by an independent valuer and involved judgement in selecting the valuation basis for each investment and further judgement in performing the valuation when the latest market and financial data was not observable. Therefore, the valuation of these unquoted equity securities was significant to our audit.

Our audit procedures, among others, included:

- Discussion with the independent valuer to understand the basis of valuation for each investment and other judgements used in performing the valuation;
- Assessing the appropriateness of the underlying data, pricing methodologies and assumptions used;
- We involved our own valuation specialist to assist us in performing our procedures in this area; and
- We assessed whether the Company's disclosures in relation to the valuation of these unquoted equity securities are compliant with the relevant accounting requirements.

Based on the work performed, we considered the assumptions used by management and related disclosures in the financial statements to be appropriate.

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

Independent Auditor's Report

To the Shareholders of Al Fujairah National Insurance Company P.S.C. (continued)

Report on the Audit of the Financial Statements (continued)

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

concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit

Independent Auditor's Report
To the Shareholders of Al Fujairah National Insurance Company P.S.C. (continued)
Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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.

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 7 to the financial statements discloses purchase of shares by the Company during the year ended 31 December 2018;
- vi) note 11 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.


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Farouk Mohamed
Registered Auditor Number: 86
Dubai – 13 March 2019



Al Fujairah National Insurance Company P.S.C.
Statement of financial position
As at 31 December 2018

ASSETS	Notes	2018 AED	2017 AED
Property and equipment	5	22,159,183	19,564,002
Investment property	6	84,550,000	90,675,000
Financial assets	7	180,414,286	180,336,636
Statutory deposits	8	10,000,000	10,000,000
Re-insurance contract assets	9	46,738,385	56,399,115
Insurance and other receivables	10	62,462,607	46,071,465
Due from related parties	11	1,901,846	1,482,054
Bank balances and cash	12	130,349,968	102,755,574
TOTAL ASSETS		<u>538,576,275</u>	<u>507,283,846</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	100,000,000	100,000,000
Statutory reserve	14	32,280,179	29,134,458
General reserve	14	28,435,019	25,289,298
Cumulative changes in fair value of financial assets at FVTOCI	7	22,192,049	33,388,396
Property revaluation reserve		11,205,588	11,205,588
Retained earnings		51,574,027	34,712,009
TOTAL EQUITY		<u>245,686,862</u>	<u>233,729,749</u>
LIABILITIES			
Provision for employees' end of service indemnity	15	15,068,307	13,025,669
Insurance contract liabilities	9	226,589,265	213,713,115
Insurance and other payables	16	51,231,841	46,815,313
TOTAL LIABILITIES		<u>292,889,413</u>	<u>273,554,097</u>
TOTAL EQUITY AND LIABILITIES		<u>538,576,275</u>	<u>507,283,846</u>

These financial statements were approved by the Board of Directors on 13 March 2019 and signed on their behalf by:


Abdul Ghafoor Behroozian
Chairman


Antoine Maalouli
General Manager

The notes from 1 to 28 form an integral part of these financial statements.

Al Fujairah National Insurance Company P.S.C.
Income statement
For the year ended 31 December 2018

	Notes	2018 AED	2017 AED
Insurance premium revenue	17	262,057,137	226,862,708
Insurance premium ceded to re-insurers	17	(54,573,608)	(50,203,917)
Net insurance premium revenue		207,483,529	176,658,791
Gross claims incurred	9	(129,719,353)	(99,997,255)
Insurance claims recovered from re-insurers	9	15,410,085	(5,874,523)
Net claims incurred		(114,309,268)	(105,871,778)
Gross commission earned		6,821,217	7,362,866
Less: commission incurred		(17,425,621)	(13,234,980)
Net commission incurred		(10,604,404)	(5,872,114)
Underwriting profit		82,569,857	64,914,899
General and administrative expenses relating to underwriting activities	18	(42,595,804)	(32,755,097)
Net underwriting profit		39,974,053	32,159,802
Investments and other income	19	2,132,103	4,172,787
Finance costs		-	(28,383)
Unallocated general and administrative expenses	18	(10,648,951)	(8,188,776)
Profit for the year		31,457,205	28,115,430
		AED	AED
Basic earnings per share:	20	31.46	28.12

The notes from 1 to 28 form an integral part of these financial statements.

Al Fujairah National Insurance Company P.S.C.
Statement of comprehensive income
For the year ended 31 December 2018

	2018 AED	2017 AED
Profit for the year	31,457,205	28,115,430
Other comprehensive (loss) / income:		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Net (decrease) / increase in fair value of investments designated at FVTOCI	(11,416,259)	1,097,971
Gain / (loss) on sale of investments designated at FVTOCI	1,916,167	(42,970)
Other comprehensive (loss) / income for the year	(9,500,092)	1,055,001
Total comprehensive income for the year	21,957,113	29,170,431

The notes from 1 to 28 form an integral part of these financial statements.

Al Fujairah National Insurance Company P.S.C.
Statement of changes in equity
For the year ended 31 December 2018

	Share capital AED	Statutory reserve AED	General reserve AED	Cumulative changes in fair value of financial assets at FVTOCI AED	Property revaluation reserve AED	Retained earnings AED	Total equity AED
Balance as at 1 January 2017	100,000,000	26,322,915	22,477,755	32,126,810	11,205,588	22,426,250	214,559,318
Profit for the year	-	-	-	-	-	28,115,430	28,115,430
Other comprehensive income	-	-	-	1,097,971	-	(42,970)	1,055,001
Total comprehensive income for the year	-	-	-	1,097,971	-	28,072,460	29,170,431
Transfer to retained earnings on disposal of investment at FVTOCI	-	-	-	163,615	-	(163,615)	-
Dividends paid (Note 27)	-	-	-	-	-	(10,000,000)	(10,000,000)
Transfer to statutory reserve (Note 14)	-	2,811,543	-	-	-	(2,811,543)	-
Transfer to general reserve (Note 14)	-	-	2,811,543	-	-	(2,811,543)	-
	-	2,811,543	2,811,543	163,615	-	(15,786,701)	(10,000,000)
Balance as at 31 December 2017	100,000,000	29,134,458	25,289,298	33,388,396	11,205,588	34,712,009	233,729,749
Profit for the year	-	-	-	-	-	31,457,205	31,457,205
Other comprehensive income	-	-	-	(11,416,259)	-	1,916,167	(9,500,092)
Total comprehensive income for the year	-	-	-	(11,416,259)	-	33,373,372	21,957,113
Transfer to retained earnings on disposal of investment at FVTOCI	-	-	-	219,912	-	(219,912)	-
Dividends paid (Note 27)	-	-	-	-	-	(10,000,000)	(10,000,000)
Transfer to statutory reserve (Note 14)	-	3,145,721	-	-	-	(3,145,721)	-
Transfer to general reserve (Note 14)	-	-	3,145,721	-	-	(3,145,721)	-
	-	3,145,721	3,145,721	219,912	-	(16,511,354)	(10,000,000)
Balance as at 31 December 2018	100,000,000	32,280,179	28,435,019	22,192,049	11,205,588	51,574,027	245,686,862

The notes from 1 to 28 form an integral part of these financial statements.

Al Fujairah National Insurance Company P.S.C.
Statement of cash flows
For the year ended 31 December 2018

	Notes	2018 AED	2017 AED
Cash flows from operating activities			
Profit for the year		31,457,205	28,115,430
<i>Adjustments for:</i>			
Depreciation of property and equipment	5	2,542,280	2,194,701
Gain on disposal of property and equipment	19	(228,709)	(40,800)
(Gain) / loss on disposal of investments at FVTPL		(122,134)	176,877
Provision for employees' end of service indemnity	15	2,140,428	1,871,967
Loss from change in fair value of investments at FVTPL	7	3,977,944	4,392,189
Loss from change in fair value of investment property	6	6,125,000	410,000
Interest on deposits	19	(3,021,582)	(2,114,479)
Dividends income	19	(7,043,902)	(4,235,895)
Income from investment properties	19	(1,818,720)	(2,760,679)
Finance costs		-	28,383
Operating cash flows before changes in operating assets and liabilities		34,007,810	28,037,694
<i>Changes in working capital:</i>			
Reinsurance contract assets	9	9,660,730	34,155,612
Insurance contracts liabilities	9	12,876,150	(14,211,290)
Insurance and other receivables	10	(16,391,142)	(183,422)
Due from related parties	11	(419,792)	(125,359)
Insurance and other payables	16	4,416,528	(256,957)
Cash generated from operations		44,150,284	47,416,278
Employees' end of service benefits paid	15	(97,790)	(226,150)
Net cash generated from operating activities		44,052,494	47,190,128
Cash flows from investing activities			
Proceeds from disposal of investments at FVTPL	7	1,171,664	40,537,327
Proceeds from disposal of investments at FVTOCI	7	6,795,882	7,340,200
Dividends received		7,043,902	4,235,895
(Increase) / decrease in fixed deposits with maturity over 3 months		(4,234,007)	3,372,392
Income from investment properties	19	1,818,720	2,760,679
Interest received	19	3,021,582	2,114,479
Proceeds from disposal of property and equipment		245,429	40,800
Purchase of financial investments	7	(21,401,098)	(76,119,887)
Purchase of property and equipment	5	(5,154,181)	(7,875,952)
Net cash used in investing activities		(10,692,107)	(23,594,067)

Al Fujairah National Insurance Company P.S.C.
Statement of cash flows
For the year ended 31 December 2018

	Notes	2018 AED	2017 AED
Cash flows from financing activities			
Repayments of bank borrowings		-	(3,071,180)
Dividend paid		(10,000,000)	(10,000,000)
Finance costs paid		-	(28,383)
Net cash used in financing activities		<u>(10,000,000)</u>	<u>(13,099,563)</u>
Net increase in cash and cash equivalents		23,360,387	10,496,498
Cash and cash equivalents at beginning of the year	12	<u>49,156,871</u>	<u>38,660,373</u>
Cash and cash equivalents at end of the year	12	<u>72,517,258</u>	<u>49,156,871</u>

The notes from 1 to 28 form an integral part of these financial statements.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements
For the year ended 31 December 2018

1 Legal status and activities

Al Fujairah National Insurance Company P.S.C, Fujairah (the “Company”) is incorporated as a public shareholding company by Emiri Decree No. 3 issued by His Highness, The Ruler of Fujairah in October 1976. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, concerning formation of the Insurance Authority of U.A.E. and regulation of its operations and is registered in the Insurance Companies Register of the Insurance Authority of U.A.E. under registration number 11. The address of the Company’s registered office is P.O. Box 277, Fujairah, United Arab Emirates.

The principal activity of the Company is the writing of all classes of general insurance and short-term life insurance. The Company operates through its head office in Fujairah and branch offices in Dubai, Abu Dhabi, Sharjah and Dibba.

The Company’s ordinary shares are listed on Abu Dhabi Securities Exchange, United Arab Emirates.

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 insurance companies and agents. These financial statements are prepared in UAE Dirhams (“AED”).

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	Financial Instruments – Amendments	January 1, 2018

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

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

- a) 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, 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.
- b) IFRS 17 'Insurance Contracts' requires insurance 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 Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the property and equipment.

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate property and equipment and is depreciated in accordance with Company's policy.

The rates of depreciation used are based on the following estimated useful lives of the assets:

	Years
Freehold property	30
Motor vehicles	5
Furniture and office equipment	4-5
Scrap yard improvements	10

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the net carrying amount of the assets and are recognised in profit or loss within 'other income'.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.3 Investment property

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the period of retirement or disposal.

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.

The Company determines fair value on the basis of valuation performed by two independent external valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The Company takes lower of the value from two different valuers as a fair value in its financial statements.

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

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.4 Revenue recognition (continued)

Insurance contract premiums

Gross premiums and policy fees are recognised as income when insurance policies are issued to the insured, consequent to the acceptance of the risk.

Commission on reinsurance

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

Interest income

Interest 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.

3.5 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 reinsurance contract assets and shown as current assets in the statement of financial position.

3.6 Provision for IBNR

Provision is also made for any claims incurred but not reported ("IBNR") at the reporting date by the independent actuary approved by the Insurance Authority, using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include margin for adverse deviation as required by the new regulation.

3.7 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.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.8 Liability adequacy test

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

3.9 Unearned premium reserve

Unearned Premium Reserve (UPR) represents that portion of premiums earned, gross of reinsurance, which relates to the period of insurance subsequent to the statement of financial position date. UPR are calculated using the 1/365 method except for marine cargo and engineering. The UPR for marine cargo is recognised as higher of 1/365 method and fixed proportion of the written premiums as required in the financial regulation and UPR for engineering assumes increase in risk with the duration of the project such that the risk faced is 100% at the expiry of the contract. The rate at which the premium is earned is deemed to increase at the same rate at which the risk faced increases over the lifetime of the policy.

3.10 Reinsurance premium

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

3.11 Reinsurance assets

Amounts recoverable under reinsurance 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.

3.12 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.

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

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

i) Financial assets at amortised cost (continued)

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

After initial recognition these are measured at amortised cost using the effective interest 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.

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 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
- loan commitments issued.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

d) Impairment and uncollectability of financial assets (continued)

The Company has not recognised any impairment loss against equity instruments.

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.

Measurement of ECL

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

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

3.13 Receivables and payables related to insurance contracts

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

If there is objective evidence that the insurance receivables are impaired, the Company reduces the carrying amount of the insurance receivables accordingly and realises the impairment loss in the income statement.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.14 Employee benefits

Defined Contribution plan

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

Annual leave and leave passage

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

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.

3.15 Foreign currency transactions

The financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in Arab Emirates Dirham (“AED”), which is the functional currency of the Company and the presentation currency for the financial statements.

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

Exchange differences are recognised in profit or loss in the period in which they arise.

3.16 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.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.17 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.

3.18 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

3.19 Provisions, contingent liabilities and contingent assets

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

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

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

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

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

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

3.20 Equity reserves and dividend payments

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

Other details for reserves are mentioned in note 14 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.

3.21 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.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

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 insurance 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 7.

Provision for doubtful debts

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

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

5 Property and equipment

	Freehold property AED	Motor vehicles AED	Furniture and office equipment AED	Scrap yard improvements AED	Capital work in progress AED	Total AED
Cost						
At 1 January 2018	7,043,095	2,244,494	24,446,856	1,751,509	4,162,883	39,648,837
Additions	-	760,500	1,637,278	10,404	2,745,999	5,154,181
Transfer	-	-	2,726,565	-	(2,726,565)	-
Disposals	-	(682,799)	-	-	-	(682,799)
At 31 December 2018	7,043,095	2,322,195	28,810,699	1,761,913	4,182,317	44,120,219
Accumulated depreciation						
At 1 January 2018	606,488	1,783,956	17,206,776	487,615	-	20,084,835
Charge for the year	176,078	215,513	1,987,582	163,107	-	2,542,280
Disposals	-	(666,079)	-	-	-	(666,079)
At 31 December 2018	782,566	1,333,390	19,194,358	650,722	-	21,961,036
Net book value						
At 31 December 2018	6,260,529	988,805	9,616,341	1,111,191	4,182,317	22,159,183
Cost						
At 1 January 2017	7,043,095	2,130,669	19,597,511	1,747,610	1,443,000	31,961,885
Additions	-	302,825	3,371,602	3,899	4,197,626	7,875,952
Transfers	-	-	1,477,743	-	(1,477,743)	-
Disposals	-	(189,000)	-	-	-	(189,000)
At 31 December 2017	7,043,095	2,244,494	24,446,856	1,751,509	4,162,883	39,648,837
Accumulated depreciation						
At 1 January 2017	313,026	1,637,949	15,829,233	298,926	-	18,079,134
Charge for the year	293,462	335,007	1,377,543	188,689	-	2,194,701
Disposals	-	(189,000)	-	-	-	(189,000)
At 31 December 2017	606,488	1,783,956	17,206,776	487,615	-	20,084,835
Net book value						
At 31 December 2017	6,436,607	460,538	7,240,080	1,263,894	4,162,883	19,564,002

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

5 Property and equipment (continued)

- Freehold property comprise flats purchased in Dubai to be used for Dubai branch operations.
- At 31 December 2018, the cost of fully depreciated property and equipment that was still in use amounted to AED 14.7 million (2017: AED 13.5 million).

6 Investment property

	2018 AED	2017 AED
Fair value		
At 1 January	90,675,000	91,085,000
Decrease in fair value during the year	(6,125,000)	(410,000)
Net book value at 31 December	<u>84,550,000</u>	<u>90,675,000</u>

On 31 December 2018, Land Sterling and Arab Loss Adjusters Co. LLC, independent and experienced professional valuers estimated the fair value of investment property at AED 84.55 million and AED 90.88 million respectively (2017: Pioneer surveyors and 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 90.68 million and AED 100.1 million respectively). The valuers hold relevant professional qualifications and experience. Investment property is held for capital appreciation and rental purposes. The Company occupies an insignificant area of 7% (2017: 7%) in the investment property for use in its own business.

Details of the investment properties and information about the fair value hierarchy as at 31 December 2018 and 31 December 2017 are as follows:

	2018			Fair value as at 31 December
	Level 1 AED	Level 2 AED	Level 3 AED	2017 Level 3 AED
Plot of land	-	-	8,530,000	9,575,000
Buildings and plots of land on which such buildings are constructed	-	-	76,020,000	81,100,000
	-	-	<u>84,550,000</u>	<u>90,675,000</u>

For investment properties categorised into level 3 of the fair value hierarchy, the following information is relevant:

Valuation techniques	Significant input(s)	Sensitivity
Income capitalisation approach	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of property, and prevailing market condition. Yearly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the investment properties.	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa. A slight increase in the market rent used would result in a significant increase in fair value, and vice versa.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

7 Financial assets

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

	2018 AED	2017 AED
Financial assets measured at fair value through other comprehensive income (FVTOCI)		
Quoted equity securities (a)	112,877,681	123,940,604
Unquoted equity securities (b)	30,162,553	24,107,710
Mutual funds (c)	4,446,160	4,570,939
	<u>147,486,394</u>	<u>152,619,253</u>
Financial assets measured at fair value through profit and loss (FVTPL)		
Quoted equity securities (b)	9,292,536	11,116,773
Financial investments at amortised cost		
Quoted debt instruments	17,293,176	10,282,816
Unquoted debt instruments	6,342,180	6,317,794
	<u>23,635,356</u>	<u>16,600,610</u>
	<u>180,414,286</u>	<u>180,336,636</u>

The movements in the financial investments are as follows:

	2018 AED	2017 AED
At fair value through other comprehensive income		
Fair value at the beginning of the year	152,619,253	143,428,746
Purchases during the year	11,163,115	15,475,708
Disposals during the year	(4,879,715)	(7,383,172)
Net (decrease)/increase in fair value	(11,416,259)	1,097,971
Fair value at the end of the year	<u>147,486,394</u>	<u>152,619,253</u>

Investments at FVTOCI comprise the following:

	2018 AED	2017 AED
Within U.A.E.	131,501,835	142,812,734
Outside U.A.E.	15,984,559	9,806,519
	<u>147,486,394</u>	<u>152,619,253</u>

Mutual funds comprise investment in local and international funds which are administered by financial institutions domiciled in U.A.E.

The cumulative changes in fair value of financial investments carried at FVTOCI amounting to 22,192,049 (2017: AED 33,388,396) is shown under equity. AED

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

7 Financial assets (continued)

	2018 AED	2017 AED
At fair value through profit or loss		
Fair value at the beginning of the year	11,116,773	12,179,595
Purchases during the year	3,203,237	44,043,569
Disposals during the year	(1,049,530)	(40,714,202)
Net decrease in fair value	(3,977,944)	(4,392,189)
Fair value at the end of the year	9,292,536	11,116,773

All financial investments at FVTPL are held in U.A.E.

	2018 AED	2017 AED
At amortised cost		
Amortised cost at the beginning of the year	16,600,610	-
Purchases during the year	7,034,746	16,600,610
Amortised cost at the end of the year	23,635,356	16,600,610

Fair value of financial investments recorded at amortised cost approximates the carrying amount of such investments.

Investments at amortised cost comprise the following:

	2018 AED	2017 AED
Within U.A.E.	6,342,180	1,779,141
Outside U.A.E.	17,293,176	14,821,469
	23,635,356	16,600,610

8 Statutory deposits

	2018 AED	2017 AED
Statutory deposit maintained in accordance with Article 42 of U.A.E., Federal Law No. 6 of 2007	10,000,000	10,000,000

Statutory deposits held with local banks in UAE represent deposit held under a lien in favour of the Ministry of Economy and Planning in accordance with Article 42 of Federal Law No. (6) of 2007 on Establishment of the Insurance Authority and Organisation of its Operations relating to insurance companies and brokers. The deposit cannot be withdrawn without prior approval from the Ministry of Economy and Planning.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

9 Insurance contract liabilities and re-insurance contract assets	2018	2017
	AED	AED
Gross		
Insurance contract liabilities:		
Claims reported unsettled	69,263,824	64,330,115
Claims incurred but not reported	32,515,177	29,158,000
Unearned premiums	124,810,264	120,225,000
Total insurance contract liabilities, gross	226,589,265	213,713,115
Recoverable from reinsurers		
Insurance contract assets:		
Claims reported unsettled	(27,947,853)	(30,957,115)
Claims incurred but not reported	(5,125,281)	(7,714,000)
Unearned premiums	(13,665,251)	(17,728,000)
Total reinsurers' share of insurance contract liabilities	(46,738,385)	(56,399,115)
Net		
Claims reported unsettled	41,315,971	33,373,000
Claims incurred but not reported	27,389,896	21,444,000
Unearned premiums	111,145,013	102,497,000
	179,850,880	157,314,000

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

9 Insurance contract liabilities and re-insurance contract assets (continued)

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

	2018				2017				
	Gross AED	Re-insurance AED	Net AED	Gross AED	Re-insurance AED	Net AED	Gross AED	Re-insurance AED	Net AED
Claims									
Notified claims	64,330,115	(30,957,115)	33,373,000	102,608,405	(64,180,727)	38,427,678			
Incurred but not reported	29,158,000	(7,714,000)	21,444,000	21,401,000	(8,209,000)	13,192,000			
Total at the beginning of the year	93,488,115	(38,671,115)	54,817,000	124,009,405	(72,389,727)	51,619,678			
Claims settled during the year	(121,428,467)	21,008,066	(100,420,401)	(130,518,545)	27,844,089	(102,674,456)			
Increase in liabilities	129,719,353	(15,410,085)	114,309,268	99,997,255	5,874,523	105,871,778			
Total at the end of the year	101,779,001	(33,073,134)	68,705,867	93,488,115	(38,671,115)	54,817,000			
Notified claims	69,263,824	(27,947,853)	41,315,971	64,330,115	(30,957,115)	33,373,000			
Incurred but not reported	32,515,177	(5,125,281)	27,389,896	29,158,000	(7,714,000)	21,444,000			
Total at the end of the year	101,779,001	(33,073,134)	68,705,867	93,488,115	(38,671,115)	54,817,000			
Unearned premium									
Total at the beginning of the year	120,225,000	(17,728,000)	102,497,000	103,915,000	(18,165,000)	85,750,000			
Increase during the year	10,570,691	1,458,658	12,029,349	21,361,500	(1,581,000)	19,780,500			
Release during the year	(5,985,427)	2,604,091	(3,381,336)	(5,051,500)	2,018,000	(3,033,500)			
Net increase during the year (Note 17)	4,585,264	4,062,749	8,648,013	16,310,000	437,000	16,747,000			
Total at the end of the year	124,810,264	(13,665,251)	111,145,013	120,225,000	(17,728,000)	102,497,000			

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

10 Insurance and other receivables

	2018 AED	2017 AED
Due from policy holders		
Due from policy holders – Accounts receivable	30,380,034	22,630,071
Due from policy holders – post dated cheques	2,346,370	4,189,545
	<u>32,726,404</u>	<u>26,819,616</u>
Allowance for doubtful debts	<u>(2,704,248)</u>	<u>(2,704,248)</u>
	<u>30,022,156</u>	<u>24,115,368</u>
Due from insurance and reinsurance companies and brokers		
Due from insurance companies - Net	9,381,662	6,304,047
Due from re-insurance companies	5,924,925	3,305,791
Due from brokers	23,603,993	23,087,353
	<u>38,910,580</u>	<u>32,697,191</u>
Allowance for doubtful debts	<u>(21,175,022)</u>	<u>(21,175,022)</u>
	<u>17,735,558</u>	<u>11,522,169</u>
Other Receivables		
Prepayments and others	<u>14,704,893</u>	<u>10,433,928</u>
Total insurance and other receivables	<u>62,462,607</u>	<u>46,071,465</u>

The average credit period on insurance receivable is 60 days (2016: 60 days). No interest is charged on overdue balances and no collateral is taken on insurance receivables. Due from insurance receivables outstanding above 180 days are provided for (other than for government related entities) based on estimated irrecoverable amounts determined by reference to past default experience.

11 Related parties

Details of related parties' balances are as follows:

Amounts due from related parties

	2018 AED	2017 AED
<i>Related parties due to common directorship</i>		
Fujairah National Group of Companies	1,575,313	1,427,916
Others	326,533	54,138
	<u>1,901,846</u>	<u>1,482,054</u>

Related parties include the Company's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel. All related party transactions are carried on terms approved by the management.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

11 Related parties (continued)

Details of significant transactions with related parties are shown below:

	2018 AED	2017 AED
Gross premiums	7,399,025	10,723,855
Claims paid	<u>1,762,310</u>	<u>1,698,743</u>

Key management personnel remuneration:

	2018 AED	2017 AED
Short term benefits	8,596,126	8,419,533
Post-employment benefits	<u>859,690</u>	<u>789,681</u>
Board of directors' meeting allowance	<u>1,725,000</u>	<u>975,000</u>

12 Bank balances and cash

	2018 AED	2017 AED
Bank balances:		
Current and call accounts	40,812,613	47,492,792
Fixed deposit	89,330,075	54,609,930
Cash in hand	207,280	652,852
	<u>130,349,968</u>	<u>102,755,574</u>

Bank balances are maintained with banks within United Arab Emirates.

Cash and bank includes short term deposits (3-12 months) with local banks carrying interest ranging from 2.20%-3.50% (2017: 1.95%-3.50%) per annum.

Fixed deposits amounting to AED 2 million (2017: 2 million) is under lien in respect of bank credit facilities granted to the Company.

For the purposes of statement of cash flows, cash and cash equivalents include cash on hand and in bank net of fixed deposits with maturity over three months from date of placement. 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	2017 AED
Bank balances and cash	130,349,968	102,755,574
Deposit under lien	(2,000,000)	(2,000,000)
Fixed deposits with maturity over 3 months	<u>(55,832,710)</u>	<u>(51,598,703)</u>
	<u>72,517,258</u>	<u>49,156,871</u>

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

13 Share capital

The authorised and issued share capital comprises 1,000,000 fully paid-up shares of AED 100 each:

	2018 No of shares	2018 AED	2017 No of shares	2017 AED
Balance at 31 December	1,000,000	100,000,000	1,000,000	100,000,000

14 Reserve

Statutory reserve

In accordance with U.A.E. Federal Law Number 2 of 2015, the Company has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law.

General reserve

The Company has established a General reserve by appropriation of 10% of profit for each year. Appropriation to the General reserve may be stopped by the Shareholders' General Assembly based on recommendation from the Board of Directors. This reserve is distributable based on a recommendation by the Board of Directors and Shareholders' approval.

15 Provision for employees' end of service indemnity

	2018 AED	2017 AED
Balance at 1 January	13,025,669	11,379,852
Charge for the year	2,140,428	1,871,967
Payments during the year	(97,790)	(226,150)
Balance at 31 December	15,068,307	13,025,669

16 Insurance and other payables

	2018 AED	2017 AED
Trade payables	13,474,174	11,351,495
Notes payables	366,798	109,029
Due to insurance companies	21,668,168	18,118,813
Due to re-insurance companies	2,666,572	3,843,922
Premium reserve withheld	4,049,451	4,749,567
Other payables		
Accrued expenses and provisions	5,586,849	5,436,515
Unclaimed dividends	10,500	10,500
Other payables	3,409,329	3,195,472
Total insurance and other payables	51,231,841	46,815,313

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.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

17 Net insurance premium revenue

	2018 AED	2017 AED
Gross premium written		
Gross premium written	266,642,401	243,172,708
Change in unearned premium (Note 9)	(4,585,264)	(16,310,000)
	<u>262,057,137</u>	<u>226,862,708</u>
Reinsurance premium ceded		
Reinsurance premium ceded	(50,510,859)	(49,766,917)
Change in unearned premium (Note 9)	(4,062,749)	(437,000)
	<u>(54,573,608)</u>	<u>(50,203,917)</u>
Net insurance premium revenue	<u>207,483,529</u>	<u>176,658,791</u>

18 General and administrative expenses

	2018 AED	2017 AED
Staff cost	31,280,117	28,907,430
Rent	8,990,778	2,640,549
Insurance	73,169	93,257
Business promotion and donations	903,178	331,853
Depreciation	2,512,170	2,162,892
Bank charges	1,071,571	620,488
Legal and professional charges	1,224,211	684,872
Directors' remuneration	1,725,000	975,000
Office utilities and maintenance	2,891,526	2,454,386
Policy registration and printing	1,511,852	1,206,419
Other expenses	1,061,183	866,627
	<u>53,244,755</u>	<u>40,943,873</u>
Unallocated general and administrative expenses	10,648,951	8,188,776
Allocated general and administrative expenses relating to underwriting	42,595,804	32,755,097
	<u>53,244,755</u>	<u>40,943,873</u>

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

19 Investments and other income

	2018 AED	2017 AED
Dividends from financial investments	7,043,902	4,235,895
Net income from investment properties (Note 6)	1,818,720	2,760,679
Interest on deposits	3,021,582	2,114,479
Gain on disposal of property and equipment	228,709	40,800
Loss from change in fair value of financial investments at FVTPL (Note 7)	(3,977,944)	(4,392,189)
Loss from change in fair value of investment properties (Note 6)	(6,125,000)	(410,000)
Gain/(loss) on disposal of financial investments at FVTPL	122,134	(176,877)
	<u>2,132,103</u>	<u>4,172,787</u>

20 Basic earnings per share

	2018	2017
Profit for the year (AED)	<u>31,457,205</u>	28,115,430
Weighted average number of shares (Note 13)	<u>1,000,000</u>	1,000,000
Earnings per share (AED) - Basic and diluted	<u>31.46</u>	28.12

21 Segment reporting

The Company is organised into two main business segments:

Underwriting of general insurance business incorporating all classes of general insurance including fire, marine, motor, medical, general accident and miscellaneous. All underwriting activities are carried out in the UAE except for re-insurance which is done principally with companies outside U.A.E.

Investments incorporating investments in U.A.E. marketable equity securities, fixed deposits with banks and investment properties.

Segmental information is presented below:

The following is an analysis of the Company's gross premium written classified by major underwriting departments:

	2018 AED	2017 AED
Motor	185,347,827	154,623,605
Marine and aviation	5,357,392	5,051,586
Group life and medical insurance	34,256,299	36,495,153
Engineering, fire, general accidents and others	41,680,883	47,002,364
	<u>266,642,401</u>	<u>243,172,708</u>

The following is the analysis between the Company's underwriting and investment business segments:

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

21 Segment reporting (continued)

	2018		2017	
	AED		AED	
	Underwriting	Investments	Underwriting	Investments
	Total		Total	
Net Insurance Premium revenue	207,483,529	-	176,658,791	-
Net claims incurred	(114,309,268)	-	(105,871,778)	-
Net commissions incurred	(10,604,404)	-	(5,872,114)	-
Income from Investment and others	-	2,132,103	-	4,172,787
Segment result	39,974,053	2,132,103	32,159,802	4,172,787
Unallocated costs (net):	-	-	(10,648,951)	-
Net profit for the year	-	-	31,457,205	-
	As at 31 December 2018		As at 31 December 2017	
	AED		AED	
	Underwriting	Investments	Underwriting	Investments
	Total		Total	
Segment assets	143,262,021	354,294,361	497,556,382	133,516,636
Unallocated assets	-	-	41,019,893	-
Total assets	-	-	538,576,275	-
Segment liabilities	277,821,106	-	277,821,106	260,528,428
Unallocated liabilities	-	-	15,068,307	-
Total liabilities	-	-	292,889,413	-

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

22 Commitments and contingencies

	2018	2017
	AED	AED
Letter of guarantee	<u>16,453,121</u>	15,854,462
Capital commitments	<u>1,902,545</u>	<u>2,994,236</u>

23 Risk management

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

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

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

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

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. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation).

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses above a set limit of AED 500,000 in any one policy. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law,

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

23 Risk management (continued)

Frequency and severity of claims (continued)

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 insurance 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 than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some insurance contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities. In estimating the liability for the cost of reported claims not yet paid, the Company considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

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

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

Where possible, the 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 formula 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.

Type of risk	2018	2017
Motor	54%	61%
Non-Motor	40%	18%

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

23 Risk management (continued)

Process used to decide on assumptions

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

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

Concentration of insurance risk

All of the Company's underwriting activities are carried out in the United Arab Emirates.

The insurance risk before and after reinsurance in relation to the motor and non-motor insurance risk accepted is summarised below:

	Year ended 31 December 2018			Year ended 31 December 2017		
	Motor	Non-motor	Total	Motor	Non-motor	Total
	AED	AED	AED	AED	AED	AED
Gross sum insured	2,691,637	54,080,304	56,771,941	2,800,892	52,317,852	55,118,744
Net sum insured	2,610,887	18,589,563	21,200,450	2,723,653	21,291,569	24,015,222

Reinsurance risk

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

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. Reinsurance ceded contracts do not relieve the 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 reinsurance agreements.

Sensitivity of underwriting profit and losses

The contribution by the insurance operations in the profit of the Company amounts to AED 40 million for the year ended 31 December 2018 (2017: AED 32 million). The Company does not foresee any major impact from insurance operations due to the following reasons:

The Company has an overall risk retention level of 50% (2017: 44%) and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 97% (2017: 96%). However, in this class

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

23 Risk management (continued)

Sensitivity of underwriting profit and losses (continued)

the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Company has net commission incurred of AED 10.6 million (2017: AED 5.9 million). Commissions earned arise primarily from the reinsurance placements and are a consistent and recurring source of income.

Because of low risk retention in non-motor lines of business, being 30% (2017: 36%) of the total volume of business and limited exposure in the high risk retention area of motor business, the Company is comfortable to maintain a net loss ratio of 52% (2017: 55%) and does not see any serious financial impact in the insurance net profit.

Financial risk

Market risk

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

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk

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

Interest risk

The Company's exposure to interest rate risk relates to its bank deposits. At 31 December 2018, bank deposits carried interest rates ranging from 2.20% to 3.50% per annum (2017: 1.95% to 3.50% per annum).

The Company has no exposure to interest rate risk towards its interest bearing financial assets as they carry fixed interest rate.

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

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:

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

The 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

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

23 Risk management (continued)

Financial risk (continued)

Credit risk (continued)

counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

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

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

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

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks registered in the United Arab Emirates.

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

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

	Neither past due nor impaired AED '000	Past due			Total AED '000	Past due and impaired AED '000	Total AED '000
		<270 days AED '000	271 -365 days AED '000	>365 days AED '000			
31 December 2018	29,501	11,464	4,016	26,656	71,637	23,879	47,758
31 December 2017	24,717	10,089	3,240	21,471	59,517	23,879	35,638

Before accepting any new customer, the Company assesses the prospective customers credit quality and defines credit limits. Of the due from policyholders balance at the end of year, AED 3.94 million (2017: AED 3.96 million) is due from the Company's largest customer. There is 1 (2017: 2) customer who individually represents more than 5% (2017: 5%) of the total balance of due from policyholders.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

23 Risk management (continued)

Market risk management

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

Sensitivity analysis

At the reporting date if the investments prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Company's:

- Profit would have increased/decreased by AED 929,253 (2017: AED 1,111,677) in the case of financial investments at FVTPL.
- Other comprehensive income would have increased/decreased by AED 14.74 million (2017: AED 15.26 million) in the case of financial investments designated at FVTOCI.

Method and assumptions for sensitivity analysis

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the 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 following table 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.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

23 Risk management (continued)

Liquidity risk (continued)

31 December 2018	Less than 90 days AED	91-270 days AED	271-365 days AED	Above 365 days AED	Total AED'000
Financial assets					
At fair value through OCI	-	-	-	147,486,394	147,486,394
Statutory deposit	-	-	-	10,000,000	10,000,000
Insurance and other receivables	31,003,114	12,154,057	4,414,395	5,888,432	53,459,998
At fair value through profit or loss	-	-	-	9,929,536	9,929,536
At amortised cost	-	-	-	23,635,356	23,635,356
Bank balances and cash - non interest bearing	40,812,613	-	-	-	40,812,613
Bank balances and cash - interest bearing	31,497,365	25,332,710	11,000,000	21,500,000	89,330,075
	103,313,092	37,486,767	15,414,395	218,439,718	374,653,972
Financial liabilities					
Insurance and other payables	26,344,747	9,265,604	2,291,212	10,716,943	48,618,506
31 December 2017	Less than 90 days AED	91-270 days AED	271-365 days AED	Above 365 days AED	Total AED'000
Financial assets					
At fair value through OCI	-	-	-	152,619,253	152,619,253
Statutory deposit	-	-	-	10,000,000	10,000,000
Insurance and other receivables	35,551,057	492,920	2,059,426	2,213,847	40,317,250
At fair value through profit or loss	-	-	-	11,116,773	11,116,773
At amortised cost	-	-	-	16,600,610	16,600,610
Bank balances and cash - non interest bearing	47,492,792	-	-	-	47,492,792
Bank balances and cash - interest bearing	1,011,227	6,281,813	36,829,390	10,487,500	54,609,930
	84,055,076	6,774,733	38,888,816	203,037,983	332,756,608
Financial liabilities					
Insurance and other payables	23,268,702	4,929,763	5,168,238	10,706,899	44,073,602

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

24 Capital management

The Company's objective when managing capital risks are:

- To comply with the Insurance Capital Requirements required by the UAE Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations concerning Insurance Companies and Agents. The minimum regulatory capital for Insurance Companies which must be maintained at all times throughout the year as per the Law is AED 100,000,000 (2017: AED 100,000,000).
- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to the shareholders.
- To provide an adequate rate of return to shareholders by pricing products and services commensurate 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 regulatory capital of the Company and the actual equity held by the Company at the end of the year:

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

25 Fair value measurement

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.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the reporting date.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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:

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

25 Fair value measurement (continued)

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31 December 2018 AED	31 December 2017 AED				
Quoted equity investments – FVTOCI	112,877,681	123,940,604	Level 1	Quoted bid prices in an active market.	None.	NA
Mutual funds	4,446,160	4,570,939	Level 3	Net assets value	Net assets value.	Higher the net assets value of the investees, higher the fair value.
Unquoted equity investments – FVTOCI	30,162,553	24,107,710	Level 3	Adjusted net assets value	Net assets value.	Higher the net assets value of the investees, higher the fair value.
Quoted equity investments – FVTPL	9,292,536	11,116,773	Level 1	Quoted bid prices in an active market.	None.	NA

26 Comparatives

Comparative figures have been reclassified in order to conform to current period's presentation and improve the quality of information presented. However, there is no effect on previously reported total assets, total equity, total liabilities and profit for the year.

Al Fujairah National Insurance Company P.S.C.
Notes to the financial statements (continued)
For the year ended 31 December 2018

27 Proposed dividends

At the Annual General Meeting held on 26 April 2018, the shareholders approved a cash dividend of 10% of share capital, amounting to AED 10 million for the year 2017 (2017: cash dividend of 10% of share capital, amounting to AED 10 million for the year 2016).

The Board of Directors has proposed 10% cash dividend and 10% bonus shares at their meeting held on 13 March 2019. The proposals are subject to approval by the Shareholders at the Annual General Meeting.

28 Post-reporting date events

Except for the proposed cash dividend of 10% of paid up capital and 10% bonus shares of the paid up capital for the year ended 31 December 2018, 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.