

AL KHAZNA INSURANCE COMPANY P.S.C
UNITED ARAB EMIRATES

INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

AL KHAZNA INSURANCE COMPANY P.S.C
UNITED ARAB EMIRATES

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AL KHAZNA INSURANCE COMPANY P.S.C.

Report of the Board of Directors for the year ended 31 December 2018

On behalf of the Board of Directors of **Al Khazna Insurance Company PSC** and myself have the pleasure to present the Board of Directors Report and Audited Consolidated Financial Statements for the year ended 31 December 2018.

Presented below are the technical and financial results of the Group:

1. Profit/Loss for the year:

- The year 2018 has ended with positive note as the results reflected the outcome of corrective measures adopted by the Company.
The Group's has managed to substantially reduce its losses by approximately 90% From AED 140.52 million in the period ended on 31/12/2017 to 13.9 million in the period ended on 31 December 2018.

2. Insurance activities:

- The Group reduced its underwriting business in the Year 2018 by 49.44% as compared to the year 2017. The gross written premium decreased from AED 104.31 million in 2017 to AED 52.74 million in 2018.
- The gross claims paid have decreased from AED 184.98 million in 2017 to AED 72.50 million in 2018.
- The group registered a net underwriting loss of AED 11.80 million in 2018 compared to AED 69.20 million in 2017.
- The total capital and reserves attributable to the Company's equity holders is AED 102.9 million as at 30 September 2018 against AED 115.5 million as at 31 December 2017.

3. Investment activities:

From investment activities, The Company was able to register a positive income of AED 8.6 million for 2018 compared to a loss of AED 61.13 million in 2017.

4. Expenses from operations:

Operating expenses allocated to underwriting decreased from AED 44.20 million in 2017 to AED 39.86 million in 2018. This is mainly due to drop in provision for doubtful debts compared to the year 2017.

AL KHAZNA INSURANCE COMPANY P.S.C.

**Report of the Board of Directors
for the year ended 31 December 2018 (continued..)**

5. Going forward:

The Group will continue throughout 2019 the corrective measures adopted in the year 2018 in order to maintain a steady growth way forward.

Furthermore, the Company is going to adopt major reforms through Capital restructuring to address the accumulated losses conditional to the approval of the concerned authorities and the shareholders of AKIC, In addition to strict measures that will be adopted to streamline the investment and operational areas.

Finally, the Board of Directors would like to extend its sincere thanks and gratitude to H.H. Sheikh Khalifa Bin Zayed Al Nahyan, the President of the United Arab Emirates and Ruler of the Emirate of Abu Dhabi H.H Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai, H.H. Sheikh Mohammed Bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi and the Rulers of all the other Emirates for their wise leadership and support. We would like to also thank the Securities and Commodities Authority, the Abu Dhabi Stock Market and the Insurance Authority for their continuous support.

The Board would like also to express its high appreciation to the Company's shareholders, corporate and individual customers, reinsurers and brokers for their constant trust and continuous support in addition to the Company's management team and staff for their sincere efforts and dedication.



Khalifa Mohammed Rubaya Al Muhairi
Chairman
27 March 2019

REPORT ON REVIEW AND FINANCIAL INFORMATION

The Shareholders'

Al Khazna Insurance Company P.S.C
Public Shareholding Company
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statement of **Al Khazna Insurance Company P.S.C.** its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to to the consolidated financial statements, including a summary of significant accounting policies.

we do not express an opinion on the accompanying consolidated financial statement of the group, because of the significant of matters described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer opinion

- As discussed in Note 3 to the consolidated financial statements, as of the end of the reporting year, the Group's losses for the year amounting to AED 13,917,929 cash flows used in operating activities amounting to AED 40,933,398, and accumulated losses exceeded 50% of the share capital.
- A revised Management's plan and cash flow forecasts with revised dates for submission of the Corrective Plan and disposal of assets has been approved by the Board of Directors as of the date of this report. The cash flow forecasts include assumptions related to non-enforcement of the terms of the loan agreement in respect of recovering the whole outstanding loan balance including the forgiven amount and interest, and the group disposed property worth of 17.6 Millions in second quarter of 2018 and planning to dispose more in the year 2019.

REPORT ON REVIEW AND FINANCIAL INFORMATION (continued)

- The group registration certificates with Insurance Authority expired and have not yet been renewed.
- The Insurance authorities suspension is prevailing till the reporting date and the group had appointed a third party consultant for the corrective proposal.
- We were not provided with documentation related to these assumptions to support the appropriateness of the consolidated financial statements being prepared using the going concern basis of accounting. Consequently, we were unable to confirm or dispel whether it is appropriate to prepare the consolidated financial statements using the going concern basis of accounting.
- During the year the Group has incurred penalties from the Federal Tax Authority amounting to AED 7,411,977 due to not submitting payments of due taxes, while total penalties as of the date of the report were AED 18 Millions.

Further, as disclosed in Note 1 to the consolidated financial statements:

- The consolidated financial statements includes the assets, liabilities and operating result for the subsidiaries company in which it has not audited by independent auditor and we can not satisfy our self by other audit procedure if the operating result of these subsidiaries will materially effect the consolidated financial statements.

Further, as disclosed in Note 6 to the consolidated financial statements:

- The Group's investment properties include two plots of land with a carrying value of AED 90.4 million as of 31 December 2018 (31 December 2017 : AED 87.3 million) for which the master developer did not transfer the titles to the name of the group, pending the settlement of the last instalments, which are linked to the completion of the development works. We were unable to determine whether any adjustments to this amount were necessary.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significant in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statement as whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- The liability rise from insurance contract which includes unearned premiums reserves, claims under settlement reserve, claims Incurred but not reported reserve, un allocated loss adjustment expenses reserve, unexpired risk reserve and unearned reinsurance commission as explained in note (10 & 15) involves complex estimation process. These liabilities based on distributing the risk over coverage period, and were determined by the acturial accounts . these accounts are subject to explicit and implicit assumptions relating to the expected settlement amount and settlement patterns of claims. We focus on these provisions as it require the assistance of independent evauator and because of the complexity involved in the estimation process, and the significant judgments included in determinding the valuation of these liabilities.

REPORT ON REVIEW AND FINANCIAL INFORMATION (continued)

Other Matters

- The consolidated financial statements of the group for the year ended 31 December 2017 were audited by another auditor who expressed a disclaimer opinion on those statements on 27 March 2018.
- Management is responsible for the other information. Other information consists of the information included in the Group's 2018 annual report, other than consolidated financial statements and our auditor's report thereon.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the group's consolidated financial statements in accordance with International Standard on Auditing and to issue an auditor's report. However, because of the matters described in the basis for Disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the group in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

REPORT ON REVIEW AND FINANCIAL INFORMATION (continued)

Report on other legal and regulatory requirements

We are required to report on the application of the provisions of the UAE Federal Law No. (2) of 2015 and the Articles of Association of the Company as per Article 246 of the UAE Federal Law No. (2) of 2015. Further, as required by the U.A.E. Federal Law No. 6 of 2007, as amended, we are required to report whether we have obtained all the information and explanations we considered necessary for the purpose of our audit. However, due to the matters described in the Basis for Disclaimer of Opinion above, we are unable to report further on the application of these requirements.

Talal Abu Ghazaleh & Co. International

Firas Kilani

Licensed Auditor No. 632

27 March 2019



AL KHAZNA INSURANCE COMPANY P.S.C
UNITED ARAB EMIRATES

EXHIBIT A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

(AMOUNTS ARE EXPRESSED IN U.A.E. DIRHAMS)

	<u>NOTE</u>	<u>2 0 1 8</u>	<u>2 0 1 7</u>
<u>ASSETS</u>			
Property and equipment	5	1,075,850	1,311,520
Investments properties	6	296,942,860	302,795,000
Investments designated at fair value through other comprehensive income (FVTOCI)	7.(a)	39,110,469	60,086,539
Investments designated at fair value through profit and loss (FVTPL)	7.(b)	66,424,481	82,921,862
Statutory deposit	8	10,000,000	10,000,000
Premium and insurance balances receivables	9	56,608,917	66,452,797
Reinsurance contract assets	10	55,386,108	85,164,957
Other receivable and prepayments	11	13,285,441	9,545,524
Differed acquisition cost		294,655	2,823,158
Deposits		---	1,858,633
Cash and cash equivalents	12	9,139,235	13,451,566
TOTAL ASSETS		<u>548,268,016</u>	<u>636,411,556</u>
<u>EQUITY AND LIABILITIES</u>			
<u>EQUITY ATTRIBUTABLE TO SHAREHOLDERS' OF THE PARENT</u>			
Share premium		1,788,422	1,788,422
Accumulated (losses)		(397,411,023)	(383,493,094)
Issued and paid up share capital	13	420,000,000	420,000,000
Fair value reserve		18,712,135	15,040,748
Statutory reserve		62,145,349	62,145,349
Net equity - Exhibit C		<u>105,234,883</u>	<u>115,481,425</u>
<u>LIABILITIES</u>			
Borrowings from banks	14	187,167,259	195,279,325
End of service benefits obligation		6,849,506	6,361,625
Technical provisions	15	90,223,997	176,125,116
Insurance and other payables	16	153,227,956	137,126,256
Reinsurance deposit retained		573,002	1,418,818
Unearned reinsurance commission		499,861	593,997
Deferred income		4,491,552	4,024,994
Total liabilities		<u>443,033,133</u>	<u>520,930,131</u>
Total equity and liabilities		<u>548,268,016</u>	<u>636,411,556</u>

Chairman

Head of Finance

Managing Director

***THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS***

AL KHAZNA INSURANCE COMPANY P.S.C
UNITED ARAB EMIRATES

EXHIBIT B

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

(AMOUNTS ARE EXPRESSED IN U.A.E. DIRHAMS)

	<u>NOTE</u>	<u>2018</u>	<u>2017</u>
Gross premium	21 (c)	52,736,188	104,307,505
Reinsurance share of ceded business premiums		<u>(25,333,972)</u>	<u>(33,420,475)</u>
Net premium		27,402,216	70,887,030
Change in Unearned premium provision		<u>28,103,276</u>	<u>43,362,305</u>
Net premium earned		55,505,492	114,249,335
Commissions earned	21 (c)	1,632,340	3,462,210
Commissions paid		<u>(5,599,854)</u>	<u>(12,842,311)</u>
Gross underwriting income		<u>51,537,978</u>	<u>104,869,234</u>
Gross claims paid		<u>(72,499,834)</u>	<u>(184,978,411)</u>
Reinsurance share of insurance claims		<u>21,003,672</u>	<u>39,209,959</u>
Net claims paid		<u>(51,496,162)</u>	<u>(145,768,452)</u>
Change in claims under settlement reserve		22,062,829	44,432,630
Change in reinsurance share for claims under settlement reserve		<u>(10,318,738)</u>	<u>(27,090,252)</u>
Change in claims incurred but not reported reserve		20,065,145	1,727,568
Change in insurance share for claims incurred but not reported reserve		<u>(10,771,600)</u>	<u>(2,300,930)</u>
Change in unallocated loss adjustments expenses reserve		<u>(720,231)</u>	<u>707,287</u>
Change in unexpired risk reserve		8,169,084	1,818,703
Change in reinsurance share of unexpired reserve		<u>(467,494)</u>	<u>(3,375,480)</u>
Net claims incurred		<u>(23,477,167)</u>	<u>(129,848,926)</u>
Operating expenses	17	<u>(39,864,495)</u>	<u>(44,204,090)</u>
Net underwriting (loss)		<u>(11,803,684)</u>	<u>(69,183,782)</u>
Income / (loss) from investments	18	<u>8,655,037</u>	<u>(61,133,075)</u>
Total (loss)		<u>(3,148,647)</u>	<u>(130,316,857)</u>
Finance cost		<u>(10,769,282)</u>	<u>(10,204,181)</u>
Net (loss) for the year - Exhibit D		<u>(13,917,929)</u>	<u>(140,521,038)</u>
(Loss) per ordinary share	19	<u>(0.0331)</u>	<u>(0.3346)</u>

*THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS*

AL KHAZNA INSURANCE COMPANY P.S.C
UNITED ARAB EMIRATES

EXHIBIT B

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(AMOUNTS ARE EXPRESSED IN U.A.E. DIRHAMS)

	<u>NOTE</u>	<u>2018</u>	<u>2017</u>
(Loss) for the year		(13,917,929)	(140,521,038)
Other comprehensive (loss):			
Fair value (loss) on investments at FVTOCI	7 (a)	(3,189,670)	(4,849,494)
Release of revaluation reserve due to disposals and write off investments at FVTOCI		<u>6,861,057</u>	<u>---</u>
Other comprehensive income for the year		<u>3,671,387</u>	<u>(4,849,494)</u>
Total comprehensive (loss) for the year - Exhibit C		<u>(10,246,542)</u>	<u>(145,370,532)</u>

*THE ACCOMPANYING NOTES ARE AN INTEGRAL
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AL KHAZNA INSURANCE COMPANY P.S.C

UNITED ARAB EMIRATES

EXHIBIT C

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY FOR THE

YEAR ENDED 31 DECEMBER 2018

(AMOUNTS ARE EXPRESSED IN U.A.E. DIRHAMS)

	<u>Share Premium</u>	<u>Accumulated (losses) (restated)</u>	<u>Issued and paid up share capital</u>	<u>Fair value and revaluation reserve (restated)</u>	<u>Statutory reserve</u>	<u>Total</u>
Equity at 31 December 2016 - Exhibit A - (restated)	1,788,422	(242,972,056)	420,000,000	19,890,242	62,145,349	260,851,957
(Loss) for the year - Exhibit B	---	(140,521,038)	----	----	----	(140,521,038)
Other comprehensive (loss) for the year - Exhibit B	----	----	----	(4,849,494)	----	(4,849,494)
Equity at 31 December 2017 - Exhibit A - (restated)	1,788,422	(383,493,094)	420,000,000	15,040,748	62,145,349	115,481,425
(Loss) for the year - Exhibit B	----	(13,917,929)	----	----	----	(13,917,929)
Other comprehensive (loss) for the year - Exhibit B	----	----	----	3,671,387	----	3,671,387
Equity at 31 December 2018 - Exhibit A	1,788,422	(397,411,023)	420,000,000	18,712,135	62,145,349	105,234,883

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

AL KHAZNA INSURANCE COMPANY P.S.C**UNITED ARAB EMIRATES****EXHIBIT D****CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE
YEAR ENDED 31 DECEMBER 2018**

(AMOUNTS ARE EXPRESSED IN U.A.E. DIRHAMS)

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
(Loss) for the year - Exhibit B	(13,917,929)	(140,521,038)
<u>Adjustment to reconcile net income to net cash provided by operating activities</u>		
Depreciation of property and equipment	566,100	673,696
Net fair value (gain) / loss on investment properties	(11,752,860)	20,004,000
Write off investment designated at FVTOCI	3,112,789	---
Write off investment designated at FVTPL	4,100,500	---
Net fair value loss on investment designated at FVTPL	9,046,604	51,616,278
Realized (profit)/ loss on investment designated at FVTPL	(4,018,840)	4,978,680
Realized loss from sale of investments designated at FVTOCI	6,861,057	
Net income from investment properties	(6,693,286)	(9,329,480)
Dividends from investments in securities	(7,621,722)	(6,965,868)
Interest income	(19,177)	(32,421)
Finance cost	10,769,282	10,204,181
Loss / (gain) on disposal of property and equipment	7,701	(82,397)
Provision for doubtful receivables, net	(4,315,025)	11,135,066
End of service benefits obligation	749,919	943,152
Operating (loss) before working capital changes	<u>(13,124,887)</u>	<u>(57,376,151)</u>
<u>Changes in the components of working capital:</u>		
Decrease in deferred acquisition costs	2,528,503	6,084,721
Decrease in other reinsurance contract assets	29,778,849	36,278,516
(Decrease) in insurance contract liabilities	(85,901,119)	(95,560,347)
(Decrease) in unearned reinsurance commission	(94,136)	(929,266)
Decrease in premium and insurance receivables	14,158,905	28,104,051
(Increase) in other receivables and prepayments	(3,739,917)	---
Increase in insurance and other payables	16,101,700	20,859,404
(Decrease) in reinsurance deposit retained	(845,816)	(632,553)
Increase / (decrease) in differed income	466,558	(3,662,699)
<i>Net cash flows (used in) operating activities</i>	<u>(40,671,360)</u>	<u>(66,834,324)</u>
Settlement of end of service benefit obligation	<u>(262,038)</u>	<u>(427,205)</u>
<i>Net cash flows (used in) operating activities</i>	<u>(40,933,398)</u>	<u>(67,261,529)</u>

**THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS**

AL KHAZNA INSURANCE COMPANY P.S.C
UNITED ARAB EMIRATES

CONT. EXHIBIT D

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE
YEAR ENDED 31 DECEMBER 2018

(AMOUNTS ARE EXPRESSED IN U.A.E. DIRHAMS)

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Disposal of investments properties	17,605,000	---
Disposal off investment designated at FVTOCI	8,802,756	---
Decrease / (increase) in deposits	1,858,633	(28,826)
Purchase of property and equipment	(338,131)	(252,210)
Dividends received	7,621,722	6,965,868
Net income from investment in properties	6,693,286	9,329,480
Interest income received	19,177	32,421
Proceed from sale of investments designated at FVTPL	13,239,972	28,949,899
Proceed from sale of property and equipment	---	87,698
<i>Net cash flows from investing activities</i>	<u>55,502,415</u>	<u>45,084,330</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES :</u>		
(Decrease) in borrowings from banks	(8,112,066)	(10,081,089)
Finance cost	(10,769,282)	(9,939,172)
<i>Net cash flows (used in) financing activities</i>	<u>(18,881,348)</u>	<u>(20,020,261)</u>
NET CASH FLOWS (USED) DURING THE YEAR	<u>(4,312,331)</u>	<u>(42,197,460)</u>
Cash and cash equivalents at beginning of the year	<u>13,451,566</u>	<u>55,649,026</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR - Note 12	<u>9,139,235</u>	<u>13,451,566</u>

**THE ACCOMPANYING NOTES ARE AN
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AL KHAZNA INSURANCE COMPANY P.S.C
UNITED ARAB EMIRATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(AMOUNTS ARE EXPRESSED IN U.A.E. DIRHAMS)

1. STATUS AND ACTIVITIES

- a) **Al Khazna Insurance Company P.S.C.** (the "Group") is a public shareholding company. The Company are incorporated in the Emirate of Abu Dhabi by virtue of the Emiri Decree No. (4) dated 11 September 1996.

The Company's principal activity is the writing of general insurance and re-insurance business of all classes.

- b) The group operates through its head office in Abu Dhabi and branch offices in Dubai and Al Ain. The group is domiciled in the United Arab Emirates and its registered office address is P.O. Box 73343, Abu Dhabi, United Arab Emirates.
- c) The Company's ordinary shares are listed on Abu Dhabi Securities Exchange.
- d) The consolidated financial statements of Al Khazna Insurance Company P.S.C. (the "Group") for the year from 1 January 2018 to 31 December 2018 includes assets, liabilities and the result of operations of the following subsidiaries:

<u>Name of subsidiary</u>	<u>Proportion of ownership</u>	<u>Country of incorporation</u>	<u>Principal activities</u>
The Best Tenants LLC ***	99%	UAE	To market, promote and deliver property management and advisory services.
Real Estate Academy Est. (Al Akarya Academy) **	100%	UAE	To market, promote and delivery management and advisory services in respect of real estate.
Al Khazna Real Estate Est. *	100%	UAE	To market, promote and deliver management and advisory services in respect of real estate.
Modern Academy Administrative Training LLC *	100%	UAE	To provide business management training.
IT Academy LLC *	100%	UAE	To provide business management training.
Real Estate Academy for Training LLC *	100%	UAE	To provide business management training.

AL KHAZNA INSURANCE COMPANY P.S.C
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS ARE EXPRESSED IN U.A.E. DIRHAMS)

<u>Name of subsidiary</u>	<u>Proportion of ownership</u>	<u>Country of incorporation</u>	<u>Principal activities</u>
Academy of Tourism and Holidays LLC *	100%	UAE	To provide training in the field of travel, tourism and hotel management.
First Deal Real Estate LLC ***	100%	UAE	To manage investments in real estate.
Academy for Investment Est. *	100%	UAE	To manage investments in real estate.
Under Writing Electronics Solutions Est. *	100%	UAE	Data formatting, computer system and instruments filling services.
Tadawel Electronics Solutions Est. *	100%	UAE	Software consultancy, storing and retrieving data.
Tel Fast Recruitment Agencies LLC *	99%	UAE	Employment services – recruitment.
Tel Fast Manpower Supply LLC *	99%	UAE	Labourers supply services.

*These subsidiaries have not yet commenced operations and their trade licenses have expired and not been renewed.

**These subsidiaries have not yet commenced operations and do not have trade licenses.

***These subsidiaries have commenced operations but their trade licenses have expired and not been renewed.

AL KHAZNA INSURANCE COMPANY P.S.C
UNITED ARAB EMIRATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS ARE EXPRESSED IN U.A.E. DIRHAMS)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

- a) In the current year, the group has adopted the new and revised International Financial Reporting Standards (IFRSs) including the International Accounting Standards (IASs) and their interpretations that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018.

i. *IFRS 9 - Financial Instruments*

A final version of IFRS 9 has been issued which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The completed standard comprises guidance on Classification and Measurement, Impairment, Hedge Accounting and Derecognition.

IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and its cash flow characteristics.

A new business model approach was introduced which allows certain financial assets to be categorized as “fair value through other comprehensive income” in certain circumstances.

The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

The new standard introduces a single “expected credit loss” impairment model for the measurement of financial assets.

IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39.

ii. *IFRS 15 - Revenue from Contracts with Customers*

IFRS 15 - *Revenue from contracts with customers* replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognized: 1) Identify contracts with customers; 2) Identify the separate performance obligation; 3) Determine the transaction price of the contract 4) Allocate the transaction price to each of the separate performance obligations, and 5) Recognize the revenue as each performance obligation is satisfied.

AL KHAZNA INSURANCE COMPANY P.S.C
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Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognized earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognized if they are not at significant risk of reversal.
- The point at which revenue is able to be recognized may shift: some revenue which is currently recognized at a point in time at the end of a contract may have to be recognized over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.
- Increased disclosure requirements.

iii. IFRIC 22 - Foreign Currency Transactions and Advance Consideration

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

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

Improvements to IFRSs 2014- 2016 Cycle, the short-term exemptions were deleted because they have now served their intended purpose. These amendments do not have any impact on the group's financial statements.

- b) The following amendments to standards are effective for the current year but are irrelevant to the group's operations:
- Amendments to IAS 40 - Transfers of Investment Property.
 - Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.
 - Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions.
 - IAS 28 - Investments in Associates and joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice improvements to IFRSs 2014- 2016 Cycle.

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- c) At the date of authorization of these financial statements, the following Standards and Interpretations have been issued but not yet effective :

	<u>Effective for annual periods beginning on or after</u>
IFRS 16 - Leases.	1 January 2019
IFRS 9 - Financial Instruments - amendments relating to pre-payable financial assets with negative compensation.	1 January 2019
IAS 19 - Employee Benefits - amendments relating to plan amendment, curtailment or settlement.	1 January 2019
IAS 28 - Investments in Associates and Joint Ventures - amendments relating to long term interests in associates and joint ventures.	1 January 2019
Amendments IFRIC 23 - Uncertainty over Income Tax Treatments.	1 January 2019
IFRS 3 - Business Combinations - amendments to definition of a business.	1 January 2020
IFRS 17 - Insurance contracts	1 January 2021
Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture.	Indefinite

3. GOING CONCERN

- a) During the reporting year, the group submitted its corrective plan to insurance authority and they are waiting the approval on it. The management decided in this corrective plan to reduced its underwriting activities in different lines of business until it concludes on corrective measures, which will be based on technical recommendations suggested by management. This has resulted in a reduction in cash inflows from the underwriting business and consequently a reduction in available cash as at the end of the reporting year.

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The Group might not be able to meet its financial obligations for the coming 12 months if it does not generate sufficient cash flows through the operating activities and the disposal of additional assets.

- b) The Financial Regulations for Insurance Companies (the "Regulations") issued by the IA sets specified limits for assets distribution and allocation. Holding inadmissible investments or non-compliance with the set limits affects the Group's ability to meet the Regulations' solvency requirements. The deadlines for compliance with the Regulations requirements vary between end of January 2017 and end of January 2018. Compliance with these requirements requires significant restructuring of the Group's investments portfolio based on different milestones within the current year, with full implementation.

Due to non-compliance with regulations requirements, the group is undergoing the suspensions of its operations from the insurance authorities.

- c) The Group incurred losses amounting to AED 13,917,929 and cash flows used in operating activities amounted to AED 40,933,398 for the year ended 31 December 2018 and its accumulated losses exceeded 50% of its share capital as of 31 December 2018.

Management considers that the above factors present significant challenges to the group in terms of meeting its operating and financing cash flow requirements in the foreseeable future. Whilst management has planned the below measures to overcome those circumstances, there are material uncertainties over future results and cash flows.

- Management will reassess, based on the corrective plan, its pricing and reinsurance strategy to improve the performance of the medical line of business and its pricing and expense loadings of the motor and other lines of business. Management is also developing and implementing a plan to review the overall expenses across all lines of business. Management has a reasonable expectation that this Corrective Plan will enable the Group to generate profits or to at least reduce its losses from operating activities significantly.

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- The Board has set an investment action plan for restructuring the Group's investments portfolio and for full or partial disposal of certain investments including plots of land, and/or other quoted and non-quoted investments to generate cash flows to support the operating and financing cash flow requirements in the short and medium term as well as to comply with Insurance Authority regulations requirements related to concentration and asset allocation limits.
- On 30 April 2018, the AGM passed a resolution to continue in the activity of the Company and authorized the Board to sell investment assets, if needed, to settle the bank loan and generate liquidity.

These conditions indicate the existence of multiple material uncertainties that may cast significant doubt on the group's ability to continue as a going concern and therefore that it may be unable to realize its assets and discharge its liabilities in the normal course of business. As a result of the mitigating measures described above, management has a reasonable expectation that the Group has adequate plan and resources to overcome these challenges and continue in operational existence for the foreseeable future.

This conclusion relies particularly on the Group being able to successfully implement its Corrective Plan for the insurance business, non-enforcement of the terms of the loan agreement in respect of recovering the whole outstanding loan balance including the forgiven amount and interest by the bank, release of ongoing suspension on operation, as well as for full or partial disposal of certain assets, so the Group can contain its losses, and generate positive cash flows from operating and investing activities. For these reasons, management continues to adopt the going concern basis of accounting in preparing the consolidated financial statements.

In the absence of the Group's ability to achieve management's planned measures, the going concern basis would be invalid and adjustments would have to be made to reduce the values of the assets as presented in the consolidated statement of financial position to their recoverable amounts, to provide for further liabilities that might arise and to reclassify non-current assets and liabilities as current assets and liabilities.

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4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. *Consolidated Financial Statements Preparation Framework*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

b. *Consolidated Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting standards (IFRS) and applicable requirements of UAE Federal Law No. 6 of 2007 concerning Insurance Companies and Agents.

c. *Basis of preparation*

The consolidated financial statements have been prepared on the historical cost basis, except for the measurement / revaluation of certain assets and financial instruments at a basis other than the historical cost. The significant accounting policies are set out below.

d. *Property and equipment*

The property and equipment are carried in the consolidated statement of financial position at their cost less any accumulated depreciation and any accumulated impairment.

The depreciation charge for each year is recognized in the consolidated statement of income. Depreciation is calculated on a straight line basis, which reflects the pattern in which the asset's future economic benefits are expected to be consumed by the group over the estimated useful life of the assets as follows:

<u>Category</u>	<u>Useful life</u>
Office equipment and decoration	4 years
Computer equipment and accessories	4 years
Motor vehicles	5 years

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

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The carrying values of property and equipment are reviewed for impairment when events or changes in the circumstances indicate the carrying value may not be recoverable. If any such indication of impairment exists, impairment losses are calculated in accordance with Note 4 (e).

On the subsequent derecognizing (sale or retirement) of the property and equipment, the resultant gain or loss, being the difference between the net disposal proceeds, if any, and the carrying amount, is included in the consolidated statement of income.

e. *Impairment of tangible assets*

At each consolidated statement of financial position date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any, being the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of asset's fair value less costs to sell and the value in use. The asset's fair value is the amount for which that asset could be exchanged between knowledgeable, willing parties in arm's length transaction. The value in use is the present value of the future cash flows expected to be derived from the asset. An impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is decreased to the revised estimate of its recoverable amount, but the increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognized in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation decrease.

f. *Investment properties*

Investment property (land or building) is property: (a) held by the group to earn rentals, (b) for capital appreciation rather than for use in production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business, and/or for undetermined use. Investment property is measured initially at its cost, including transaction costs and revalued annually by independent evaluators.

On the subsequent derecognition (sale or retirement) of the investment properties, the resultant gain or loss, being the difference between the net disposal proceeds, if any, and the carrying amount, is included in the statement of profit or loss.

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- g. *Financial assets designated at fair value through other comprehensive income (FVTOCI) and through profit and loss (FVTPL)*

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

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value with gains and losses arising from changes in fair value recognized in other consolidated comprehensive income and accumulated in the investments revaluation reserve.

Financial assets are classified as FVTPL when they are held for trading which means they have been acquired principally for the purpose of selling in the near future. Financial assets of FVTPL are stated at their fair value, subsequent gains and losses arising from changes in fair value are recognized in consolidated statement of income.

- h. *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each year. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

With the exception of financial assets designated at fair value through other comprehensive income (FVTOCI), if, in a subsequent year, the amount of the impairment loss decreases due to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investments at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of financial assets designated at fair value through consolidated other comprehensive income (FVTOCI), any increase / decrease will be recognized in profit and loss. Any increase in fair value subsequent to an impairment loss is recognized in other consolidated comprehensive income.

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i. *Financial assets*

Financial assets are classified into the following specified categories: financial assets designated at fair value through other comprehensive income (FVTOCI), financial assets designated at fair value through profit or loss (FVTPL), financial assets designated at amortized cost, loans and receivables and cash and cash equivalents. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition or subsequent reclassification as the case may be.

i) *Cash and cash equivalents*

Cash comprises unrestricted cash on hand and cash at banks - current accounts. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

ii) *Insurance receivables*

Insurance receivables are stated at net realizable value. When an insurance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of income.

iii) *Loans and receivables*

Loans and receivables includes insurance and other receivables. Insurance receivables that either have or do not have a fixed or determinable payments and are not quoted in an active market, and other receivables are stated at net realizable value. The carrying values are not materially different from their fair values.

j. *Statutory reserve*

Pursuant to the Company's Articles of Association, 10% of net profit for the year to be withheld annually and retained in the statutory reserve account. The deduction shall be suspended when the balance in this reserve account amounts to at least 50% of the company's capital and is not available for distribution for shareholders'.

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k. *Financial liabilities*

Financial liabilities includes borrowings from banks, insurance contract liabilities and Insurance and other payables. Insurance payables that have fixed or determinable payments that are not quoted in an active market and other payables are stated at cost. The carrying values are not materially different from their fair value.

l. *Borrowing costs*

Borrowing costs include interest on bank borrowings, amortization of discounts or premiums on borrowings, amortization of ancillary costs incurred in the arrangement of borrowings, and finance charges on finance leases.

Borrowing costs are expensed in the year in which they are incurred.

m. *End of service benefits obligation*

End of service benefits obligation for employees is accounted for in accordance with U.A.E. Labour Law.

n. *Revenue recognition*

Recognition and measurement

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

These contracts are casualty and property insurance contracts.

Casualty insurance contracts protects the company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

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

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For all these insurance contracts, premium are recognized as revenue (earned premiums) proportionally over the year of coverage. The portion of premium received on in force contracts that relates to unexpired risks at the consolidated financial position date is reported as the unearned premium liability.

Claims and loss adjustments expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contracts holders or third parties damaged by the contracts holders.

Re-insurance contracts held

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements of reinsurance contracts are classified as re-insurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the company is entitled under its re - insurance contract held is recognized as re-insurance contract assets. The company assesses its re-insurance contract assets for impairment on a regular basis. If there is objective evidence that the re-insurance contract asset is impaired, the group reduces the carrying amount of the re -insurance contract assets to its recoverable amount and recognizes that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the company and still unpaid at the end of the reporting year, in addition to claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the years of insurance subsequent to the financial position date and is estimated using the time proportionate method. The unearned premium calculated using the 365 days method to spread the premium written proportionally over the year of coverage for all lines of business, except for marine cargo, which is calculated as 25% of gross written premium and for engineering which is calculated on daily increasing basis over the term of the policy.

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The re-insurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as re-insurance contract assets in the consolidated financial statements.

Provision for the premium which represent the portion of the premium subsequent to the consolidated financial statement date and where the premium is expected to be insufficient to cover anticipated claims, have been considered under the unexpired risk reserves ("URR") and booked under allocated and unallocated loss adjustments in the consolidated income statement.

Salvage and subrogation reimbursements

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

Receivables and payables related to insurance contracts

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

If there is objective evidence that the insurance receivable is impaired, the company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in profit or loss.

Interest income

Interest income from fixed deposits are accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

o. Foreign currencies

The consolidated financial statements are presented in the UAE Dirhams (AED) which is the group's functional currency. In preparing the financial statements, transactions in currencies other than the group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each consolidated statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the consolidated statement of financial position date (closing rate). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

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Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the year or in previous consolidated financial statements shall be recognized in the statement of income in the year in which they arise.

p. *Contingent liabilities*

Contingent liabilities are possible obligations depending on whether some uncertain future events occur, or they are present obligations but payments are not probable or the amounts cannot be measured reliably.

q. *Critical accounting judgments and key sources of estimation uncertainty*

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

i) *The ultimate liability arising from claims made under insurance contracts*

The estimation of ultimate liability arising from the claims made under insurance contracts is the company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the company will eventually pay for such claims. Estimates have to be made at the end of the reporting year both of the expected ultimate cost of claims reported as well as the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the company and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting year, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

Provision for the premium which represent the portion of the premium subsequent to the financial statement date and where the premium is expected to be insufficient to cover anticipated claims, have been considered under the unexpired risk reserves ("URR") and booked under allocated and unallocated loss adjustments in the consolidated income statement.

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ii) *Liability adequacy test*

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

iii) *Provision for doubtful debts*

Management has estimated the recoverability of trade receivables and has considered the provision required for doubtful receivables, on the basis of prior experience and current economic situations.

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5. **PROPERTY AND EQUIPMENT**

The details of cost, accumulated depreciation and respective carrying amounts of various categories of property and equipment are as follows:

<u>COST</u>	<u>Office equipment and decoration</u>	<u>Computer equipment and accessories</u>	<u>Motors vehicles</u>	<u>Total</u>
At 1 January 2018	6,965,487	6,735,259	866,026	14,566,772
Additions	23,091	220,040	95,000	338,131
Disposals	(2,964)	-----	(17,000)	(19,964)
At 31 December 2018	<u>6,985,614</u>	<u>6,955,299</u>	<u>944,026</u>	<u>14,884,939</u>
<u>ACCUMULATED DEPRECIATION</u>				
At 1 January 2018	(6,638,428)	(5,958,336)	(658,488)	(13,255,252)
Charge for the year - Note 17 Related to disposals	(100,236) 2,954	(318,954) -----	(146,910) 9,309	(566,100) 12,263
At 31 December 2018	<u>(6,735,710)</u>	<u>(6,277,290)</u>	<u>(796,089)</u>	<u>(13,809,089)</u>
<u>NET BOOK VALUE</u>				
At 31 December 2017 - Exhibit A	<u>327,059</u>	<u>776,923</u>	<u>207,538</u>	<u>1,311,520</u>
At 30 September 2018 - Exhibit A	<u>249,904</u>	<u>678,009</u>	<u>147,937</u>	<u>1,075,850</u>

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6. **INVESTMENT PROPERTIES**

a) This item consists of the following :

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
At 1 January 2018	152,690,000	150,105,000	302,795,000
Revaluation	142,360	11,610,500	11,752,860
Disposals	---	(17,605,000)	(17,605,000)
31 December 2018 - Exhibit	152,832,360	144,110,500	296,942,860

- b) i) Investment properties represent the fair value of plots of lands with a total value of AED 152.8 million and buildings with a value of AED 144.1 million owned by the group in Abu Dhabi, Al Ain and Mussaffah.
- ii) Included within investment properties are two plots of land with a carrying value of AED 90.4 million as of 31 December 2018 (31 December 2017 : AED 87.3 million) whose title were not transferred to the name of the group, pending the settlement of the last installments which are linked to the completion of the group's development works on these plots.
- c) The fair value of the investment properties as of 31 December 2018 has been arrived at on the basis of independent valuations carried out by two valuers that are not related to the Group. The valuers are members of the Royal Institute of Surveyors, and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations.
- d) A building with a carrying value of AED 144.1 million as of 31 December 2018 is mortgaged in favour of First Abu Dhabi Bank against the bank loan.

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7. INVESTMENTS IN FINANCIAL ASSETS

a) **INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVTOCI)**

i) This item consists of the following:	<u>2 0 1 8</u>	<u>2 0 1 7</u>
Unquoted UAE equity securities	39,110,469	48,875,429
Quoted UAE equity securities	---	11,211,110
Total - Exhibit A	<u><u>39,110,469</u></u>	<u><u>60,086,539</u></u>

ii) Changes in investments designated at fair value through other comprehensive income (FVTOCI) for the year are as follows:

	<u>2 0 1 8</u>	<u>2 0 1 7</u>
Fair value at 1 January	60,086,539	64,936,033
Disposals	(8,802,757)	---
Written off	(3,112,789)	---
Transferred to FVTPL	(5,870,854)	---
(Decrease) in fair value taken to other comprehensive income - Exhibit B	<u>(3,189,670)</u>	<u>(4,849,494)</u>
Fair value as at 31 December - Exhibit A	<u><u>39,110,469</u></u>	<u><u>60,086,539</u></u>

b) **INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)**

i) Changes in investments designated at fair value through profit or loss (FVTPL) for the year are as follows:

	<u>2 0 1 8</u>	<u>2 0 1 7</u>
Fair value at the beginning of the year	82,921,862	168,466,719
Proceeds on disposals	(13,239,972)	(28,949,899)
Realized gain / (loss) on disposals	4,018,841	(4,978,680)
written off	(4,100,500)	---
Transferred from AVFS	5,870,854	---
(Decrease) in fair value taken to profit or loss - Note 18	<u>(9,046,604)</u>	<u>(51,616,278)</u>
Fair value as at 31 December - Exhibit A	<u><u>66,424,481</u></u>	<u><u>82,921,862</u></u>

ii) the geographical distribution for the investments in financial assets is as follows:

	<u>2 0 1 8</u>	<u>2 0 1 7</u>
Within UAE	104,798,888	138,347,979
Outside UAE	736,062	4,660,422
Total - Note 7 (a & b)	<u><u>105,534,950</u></u>	<u><u>143,008,401</u></u>

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iv) Certain investments classified as FVTOCI which are measured in these consolidated financial statements at AED 39 million by reference to a fair valuation that is based on prior year financial information due to the lack of recent financial information.

8. STATUTORY DEPOSIT

In accordance with the requirement of Federal Law No. 6 of 2007, concerning Insurance Companies and Agents, the company maintains a bank deposit amounting to AED 10,000,000 as of 31 December 2018 which cannot be utilized without the consent of the UAE Insurance Regulatory Authority.

9. PREMIUM AND INSURANCE BALANCES RECEIVABLES

a) This item consists of the following:	<u>2018</u>	<u>2017</u>
Due from policy holders	44,327,733	52,300,553
Due from insurance and re insurance companies	18,944,527	26,205,297
Due from brokers and agencies	15,940,028	14,865,343
Total - Note 9 (b)	79,212,288	93,371,193
Provision for impairment of receivables - Note 9 (c)	(22,603,371)	(26,918,396)
Net - Exhibit A	<u>56,608,917</u>	<u>66,452,797</u>
b) The ageing for the trade receivables is as the following:	<u>2018</u>	<u>2017</u>
1 - 30 days	4,002,247	13,624,123
31 - 90 days	12,948,631	18,398,462
91 - 120 days	796,272	17,063,753
120 - 365 days	13,642,234	17,726,459
More than 366 days	47,822,904	26,918,396
Total - Note 9 (a)	<u>79,212,288</u>	<u>93,731,193</u>

The group in the normal course of business deals with various customers in UAE. Five customers' balances amounting to AED 28,435,891 constitute 35.89% of the outstanding receivables as of 31 December 2018 (31 December 2017 : AED 36,414,765, 38.85 %, five customers).

c) Provision for impairment of receivables:-

This item consists of the following:	<u>2018</u>	<u>2017</u>
At 1 January	(26,918,396)	(17,834,871)
Charge for the year - Note 17	(971,305)	(9,811,138)
Release of provision - Note 18	5,286,330	727,613
Balance at 31 December - Note 9 (a)	<u>(22,603,371)</u>	<u>(26,918,396)</u>

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10. REINSURANCE CONTRACT ASSETS

This item consists of the following:	<u>2 0 1 8</u>	<u>2 0 1 7</u>
Unearned premium reserve	8,041,585	16,262,635
Claims under settlement reserve	48,034,089	58,352,827
Claims incurred but not reported reserve	(689,566)	10,082,000
Unexpired risk reserve	---	467,495
Total - Exhibit A	<u><u>55,386,108</u></u>	<u><u>85,164,957</u></u>

11. OTHER RECEIVABLES AND PREPAYMENTS

a) This item consists of the following:	<u>2 0 1 8</u>	<u>2 0 1 7</u>
Deposits and other receivables	14,180,284	14,233,113
Provision for impairment of other receivables - Note 11 (b)	(10,189,993)	(10,189,993)
Rent receivables	6,800,852	4,014,290
Prepaid expenses	1,414,857	1,488,114
Value added tax - receivables	1,079,441	---
Net - Exhibit A	<u><u>13,285,441</u></u>	<u><u>9,545,524</u></u>

b) <u>Provision for impairment of other receivables</u>	<u>2 0 1 8</u>	<u>2 0 1 7</u>
This item consists of the following:		
Balance at 1 January	(10,189,993)	(8,138,452)
Charge for the year	---	(2,051,541)
Balance at 31 December - Note 11 (a)	<u><u>(10,189,993)</u></u>	<u><u>(10,189,993)</u></u>

12. CASH AND CASH EQUIVALENTS

This item consists of the following:	<u>2 0 1 8</u>	<u>2 0 1 7</u>
Cash on hand	84,200	84,200
Cash at banks - current accounts	9,055,035	13,367,366
Total - Exhibit A & D	<u><u>9,139,235</u></u>	<u><u>13,451,566</u></u>

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13. **ISSUED AND PAID UP SHARE CAPITAL**

	<u>2018</u>	<u>2017</u>
a) This item consists of the following:		
Authorized:		
420,000,000 shares of AED 1 each	<u>420,000,000</u>	<u>420,000,000</u>
Allotted, issued and fully paid		
420,000,000 shares of AED 1 each	<u>420,000,000</u>	<u>420,000,000</u>
b) In Extraordinary General Meeting on 22 December 2013, the shareholders approved to increase the share capital of the company by AED 200,000,000. The group did not start the process to obtain the necessary approvals from concerned authorities for capital increase. Moreover, the shareholders have requested the issue of bonus shares up to the maximum amount.		

14. **BANK BORROWINGS**

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
a) This item consists of the following:			
Term loan 1	37,099,680	117,840,322	154,940,002
Bank overdraft	<u>32,227,257</u>	<u>---</u>	<u>32,227,257</u>
As at 31 December 2018	<u>69,326,937</u>	<u>117,840,322</u>	<u>187,167,259</u>
Term loan 1	30,000,000	154,940,000	184,940,000
Term loan 2	74,316	---	74,316
Bank overdraft	<u>10,265,009</u>	<u>---</u>	<u>10,265,009</u>
As at 31 December 2017	<u>40,339,325</u>	<u>154,940,000</u>	<u>195,279,325</u>

- b) Term loan 1:
Term loan 1 from First Abu Dhabi Bank represents the restructured agreement with the bank to restructure the Group's previous loan to total amount of AED 227.1 million (net of a forgiven amount of AED 39.4 million, which is subject to the terms and conditions) as full and final settlement of the previous loan. The terms of the new loan are as follows:
- Interest rate: 3 months EIBOR + 1.5% per annum (subject to minimum rate of 4.75% per annum);
 - Down payment of AED 22.76 million;
 - 1st year payment: AED 20 million (semi-annual payments of AED 10 million);
 - 2nd year till 5th year: AED 120 million (semi-annual payments of AED 15 million); and
 - 6th year: AED 64.94 million (semi-annual payments of AED 32.47 million).

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The above stated forgiven amount of AED 39.4 million is subject to the compliance with the payment schedule for both the principal and interest amounts.

The group has provided First Abu Dhabi Bank with a primary mortgage over AKIC Tower, classified under investment properties, fair valued at AED 144.1 million (31 December 2017 : AED 132.5 million).

During the fourth quarter, the group has defaulted in the repayment of one of its loan installment. As per one of the covenant of the loan agreement the whole amount of the outstanding loan becomes immediately payable along with the previously forgiven amount of AED 39.4 million (plus interest) in the event of default of any repayment.

The bank has opened a bank overdraft facility in the name of the group for the repayment of the due installments on which the group defaulted during the year. The outstanding overdraft balance as at 31 December 2018 amounted to AED 32,227,257 (31 December 2017: AED 10,265,009).

15. TECHNICAL PROVISIONS

This item consists of the following:	<u>2 0 1 8</u>	<u>2 0 1 7</u>
Unearned premiums reserve	18,041,859	54,366,185
Claims under settlement reserve	55,581,153	77,643,982
Claims incurred but reported reserve	11,871,994	31,937,105
Un allocated loss adjustment expenses reserve	2,843,005	2,122,774
U.R.R reserve	1,885,986	10,055,070
Total - Exhibit A	<u>90,223,997</u>	<u>176,125,116</u>

16. INSURANCE AND OTHER PAYABLES

This item consists of the following:	<u>2 0 1 8</u>	<u>2 0 1 7</u>
Payable to policy holders	49,461,756	56,114,544
Payable to insurance companies	40,187,816	29,567,339
Payable to brokers / agents	15,103,903	18,599,363
Dividends payable	18,033,546	18,034,036
Accruals and other payables	23,948,493	14,810,974
Value added tax - payable	6,492,442	----
Total - Exhibit A	<u>153,227,956</u>	<u>137,126,256</u>

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17. OPERATING EXPENSES		<u>2018</u>	<u>2017</u>
	This item consists of the following :		
	Salaries and related benefits	22,560,537	24,511,697
	Rent expenses	2,343,290	2,657,503
	Depreciation on property and equipment	566,100	673,696
	Fees and license	703,070	665,312
	Doubtful debts expenses (net) - Note 9 (c)	971,305	11,183,030
	VAT expenses	7,411,977	---
	Other general expenses	5,308,216	4,512,852
	Total - Exhibit B	<u>39,864,495</u>	<u>44,204,090</u>
18. INCOME FROM INVESTMENT		<u>2018</u>	<u>2017</u>
	This item consists of the following :		
	Net fair value (loss) on investments at FVTPL - Note 7 (b)	(9,046,604)	(51,616,278)
	Dividends from investments in securities	7,621,722	6,965,868
	Interest on term deposits	19,177	32,421
	(Loss) from sale of AFS	(7,516,089)	---
	Net income from investment properties	6,693,286	9,329,480
	Write off investment AFS and FVTPL	(7,936,262)	---
	Gain / (loss) from revaluation of investments properties	11,752,860	(20,004,000)
	Realized gain / (loss) from sale of investment FVTPL	4,018,840	(4,978,680)
	Provision for doubtful debts written back - Note 9 (c)	5,286,330	---
	Other (Loss)	(2,238,223)	(861,886)
	Net - Exhibit B	<u>8,655,037</u>	<u>(61,133,075)</u>
19. (LOSS) PER ORDINARY SHARE		<u>2018</u>	<u>2017</u>
	This item consists of the following:		
	(Loss) for the year	<u>(13,917,929)</u>	<u>(140,521,038)</u>
	Weighted number of shares in issue throughout the year	<u>420,000,000</u>	<u>420,000,000</u>
	Basic (loss) per share - Exhibit B	<u>(0.0331)</u>	<u>(0.3346)</u>

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20. RISK MANAGEMENT

The group monitors and manages the financial risks relating to its business and operations. These risks include insurance risk, capital risk, credit risk, interest rate risk, market risk, foreign currency risk and liquidity risk.

The group seeks to minimize the effects of these risks by diversifying the sources of its capital. It maintains timely reports about its risk management function and monitors risks and policies implemented to mitigate risk exposures.

a) *Insurance risk*

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

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

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

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

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b) *Capital risk*

The group's objectives when managing capital are :

- To comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007 concerning the formation of Insurance Authority of UAE.
- To safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

In UAE, the local insurance regulator specifies the minimum amount and type of capital that must be held by the company in relation to its insurance liabilities. The minimum required capital (presented in the table below) must be maintained at all times throughout the year. The company is subject to local insurance solvency regulations with which it has complied with during the year.

The table below summarizes the minimum regulatory capital of the group and the total capital held.

	<u>2 0 1 8</u>	<u>2 0 1 7</u>
Total shareholders' equity	<u>105,234,883</u>	<u>115,481,425</u>
Minimum regulatory capital	<u>100,000,000</u>	<u>100,000,000</u>

c) *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group.

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

- Re-insurers' share of insurance liabilities.
- Amounts due from reinsurers in respect of claims already paid.
- Amounts due from insurance contract holders.
- Amounts due from insurance intermediaries (Note 9).
- Amounts due from banks for its balances and fixed deposits (Note 11).

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

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Re-insurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a re-insurer fails to pay a claim for any reason, the company remains liable for the payment to the policy holder. The creditworthiness of re-insurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

The group maintains record 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 group includes details of provisions for impairment on insurance receivables and subsequent write offs . Exposures to individual policy holders and groups of policy holders are collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policy holders, or homogenous groups of policy holders, a financial analysis equivalent to that conducted for re-insurers is carried out by the group.

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

d) *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rate. The group is exposed to interest rate risk on financial assets and borrowings from banks. The interest rates are subject to yearie revisions.

e) *Market risk*

Market prices 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 instrument or its issue or factors affecting all instruments traded in the market.

The group is exposed to market risk with respect to its investments in financial assets available for sale, investments designated at fair value through profit or loss and investments properties.

f) *Foreign currency risk*

The group undertakes certain transactions denominated in foreign currencies, which imposes sort of risk due to fluctuations in exchange rates during the year. The UAE Dirham is effectively pegged to the US Dollar, thus foreign currency risk occurs only in respect of other currencies. The group maintains policies and procedures to manage the exchange rate risk exposure.

g) *Liquidity risk*

The group's board of directors adopted an appropriate liquidity risk management framework as the responsibility of liquidity risk management rests with them.

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The following table shows the maturity dates of group's financial assets and liabilities as at 31 December 2018.

<i>Financial assets</i>	<u>Less</u> <u>than 1 year</u>	<u>More</u> <u>than 1 year</u>	<u>Total</u>
Investments designated at (FVTOCI)	---	39,110,469	39,110,469
Investments designated at (FVTPL)	66,424,481	---	66,424,481
Statutory deposit	---	10,000,000	10,000,000
Premium and insurance balances receivables	56,608,917	---	56,608,917
Reinsurance shares of claims under settlement reserve	48,034,089	---	48,034,089
Other receivable and prepayments	13,285,441	---	13,285,441
Cash and cash equivalents	9,139,235	---	9,139,235
Total	<u>193,492,163</u>	<u>49,110,469</u>	<u>242,602,632</u>
<i>Financial liabilities</i>			
Claims under settlement reserve	55,581,153	---	55,581,153
Insurance and other payables	153,227,956	---	153,227,956
Borrowings from banks	69,326,937	117,840,322	187,167,259
Total	<u>278,136,046</u>	<u>117,840,322</u>	<u>395,976,368</u>

The following table shows the maturity dates of group's financial assets and liabilities as at 31 December 2017.

<i>Financial assets</i>	<u>Less</u> <u>than 1 year</u>	<u>More</u> <u>than 1 year</u>	<u>Total</u>
Investments designated at (FVTOCI)	---	60,086,539	60,086,539
Investments designated at (FVTPL)	82,921,862	---	82,921,862
Statutory deposit	---	10,000,000	10,000,000
Premium and insurance balances receivables	66,452,797	---	66,452,797
Reinsurance shares of claims under settlement reserve	58,352,827	---	58,352,827
Other receivable and prepayments	9,545,524	---	9,545,524
Deposits	1,858,633	---	---
Cash and cash equivalents	13,451,566	---	13,451,566
Total	<u>232,583,209</u>	<u>70,086,539</u>	<u>300,811,115</u>
<i>Financial liabilities</i>			
Claims under settlement reserve	77,643,982	---	77,643,982
Insurance and other payables	137,126,256	---	137,126,256
Borrowings from banks	40,339,325	154,940,000	195,279,325
Total	<u>255,109,563</u>	<u>154,940,000</u>	<u>410,049,563</u>

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21. SEGMENT INFORMATION

a) For operating purposes, the group is organized into two business segments:

Underwriting of general insurance business - incorporating all classes of general insurance, fire, marine, motor, general accident and medical.

Investments - incorporating investments in UAE marketable equity securities, term deposits with banks, overseas managed portfolios and other securities.

Primary segment information - business segment

The following is an analysis of the group's revenue and results by operating segment:

	Underwriting		Investments and Others		Total	
	2018	2017	2018	2017	2018	2017
Segment revenue	54,368,528	107,769,715	8,655,037	(61,133,075)	63,023,565	46,636,640
Segment result	(11,803,684)	(69,183,782)	8,655,037	(61,133,075)	(3,148,647)	(130,316,857)
Unallocated expenses					(10,769,282)	(10,204,181)
(loss) for the year					(13,917,929)	(140,521,038)

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b) The following is analysis of the group's assets and liabilities by operating segment:-

	Underwriting		Investments		Total
	2018	2017	2018	2017	
Segment assets	126,650,971	165,297,956	412,477,810	457,662,034	539,128,781
Unallocated assets					9,139,235
Total assets					548,268,016
Segment liabilities	233,340,776	303,591,776	191,658,811	199,304,319	424,999,587
Unallocated liabilities					18,033,546
Total liabilities					443,033,133

There are no transactions between the business segments.

c) Secondary segment information - revenue from underwriting departments

	2018	2017
Motor	7,523,354	26,173,981
Engineering	1,393,530	5,002,474
Fire and general accidents	16,791,757	24,043,144
Marine and aviation	1,449,197	1,485,693
Employee benefits, medical and personal assurance	27,210,690	51,064,423
Total - Exhibit B	54,368,528	107,769,715

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22. CONTINGENT LIABILITIES

This item consists of the following:

	<u>2018</u>	<u>2017</u>
Letters of guarantee	9,197,929	2,198,000

23. COMPARATIVE FIGURES

Comparative figures have been restated and reclassified wherever necessary for the purpose of comparison.

During the year the group adjusted Investment revaluation reserve against Accumulated Losses. As a result the prior year consolidated financial statements have been restated.

The effect of the restatement on the consolidated financial statements as on 31 December 2018 are summarized below:

	<u>Before 2017</u>		
	<u>As previously reported</u>	<u>Restatement</u>	<u>As restated</u>
<i>Statement of financial position</i>			
Investment revaluation reserve	2,978,981	133,796	2,978,981
Accumulated (losses)	(293,040)	----	(293,040)
Total	<u>2,685,941</u>	<u>133,796</u>	<u>2,685,941</u>

24. GENERAL

The figures in the consolidated financial statements are rounded to the nearest Dirham of United Arab Emirates.

25. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue. On their board meeting dated 27 March 2019.