

METHIAQ TAKAFUL INSURANCE COMPANY P.S.C.
UNITED ARAB EMIRATES

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2020

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.
UNITED ARAB EMIRATES

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METHAQ TAKAFUL INSURANCE COMPANY P.S.C.

Report of the Board of Directors
for the year ended 31 December 2020

The Shareholders

Peace be upon you

On behalf of the Board of Directors, we are pleased to present the financial results of Methaq Takaful Insurance Company PSC for the year ended 31 December 2020.

Methaq succeeded in implementing its plans for the year 2020 based on achievable strategic goals. This is a reflection of the continued confidence and support of its shareholders and customers along with Methaq's team that is comprised of professionals and technical experts. Our strategic direction focuses on the following key objectives to deliver enhanced sustainable returns for the Policyholders and the Shareholders:

- Targeted profitable growth;
- Performance Management of Takaful portfolios;
- Operational excellence; and
- Optimal Retakaful agreements for all takaful portfolios.

The Company has recognized a net profit of AED 8,229,177 for the year ended 31 December 2020 compared to a net profit of AED 3,885,074 for the year ended 31 December 2019. The reason behind increasing the profit due to enhancing Takaful income & reduction in general and administration expenses.

Management has implemented successful strategies in the year 2020 in respect of underwriting and claims management process according to the below results :

Brief of the statement of financial position:

	<u>2020</u>	<u>2019</u>
Total assets	711,114,745	685,344,840
Total liabilities	618,808,770	601,268,042
Total Shareholders' equity	92,305,975	84,076,798

Brief of the income statement:

Total revenues (gross contributions written)	282,081,395	282,596,590
Profit for the year	8,229,117	3,885,074
Earning per share	0.055	0.026

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.

Report of the Board of Directors for the year ended 31 December 2019 (continued)

As for the Company's future plans for the year 2021, the Company has developed plan supported by a set of ambitious goals especially takaful portfolios and retakaful agreements. The company expects a significant improvement in performance and results for 2020.

Methaq has a very sound corporate governance in place and all the regulatory and legislative compliance is made timely, thereby reflecting a positive image of the Company.

On behalf of the Board of Directors, we reiterate our commitment to the growth and development of the UAE and particularly to Abu Dhabi's 2030 vision under the leadership of His Highness Sheikh Khalifa bin Zayed Al Nahyan, the President of the UAE and the Ruler of Abu Dhabi and His Highness Sheikh Mohammed bin Rashid Al Maktoum, the Vice President, the Ruler of Dubai, and His Highness Sheikh Mohammed bin Zayed Al Nahyan, the Crown Prince and all the Rulers of the UAE.

We also take this opportunity to thank and appreciate the staff and the management of Methaq Takaful Insurance Company PSC for their continued efforts, hard work, and sincerity. We also express our sincere thanks to the Company's Shareholders and clients.

Yousif Hussain Al Sahlawi
Chairman of the Board of Directors



18 March 2021

Independent Auditor's Report

The Shareholders'

Methaq Takaful Insurance Company P.S.C.

United Arab Emirates

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of **Methaq Takaful Insurance Company P.S.C. - Abu Dhabi**, which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matters discussed in the basis for qualified opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

- Investment properties are carried in the statement of financial position at AED 142,360,000. we were unable to determine if the judgements applied and estimates made in the valuation of investment properties were appropriate. Consequently, we were unable to determine whether any adjustments to this amount were necessary.
- The investment fair value reserve showing deficit of AED 17,720,000 which was carried forward from year 2019. This balance is related to Emirates Aqua Technologies Caviar Factory L.L.C., which is under liquidation and the operations have been halted, hence investment is highly unlikely to be recovered, As per IFRS 9 financial instrument losses on financial asset through other comprehensive income should be recognised in other comprehensive income to the extent that it is reversing a prior upward revaluation, and any remaining balance should be recorded in profit & loss account. The impairment loss on other comprehensive income recognised in investment fair value reserve should have been recognised in profit & loss rather than investment fair value reserve, this leads to overstatement of statement of profit & loss from years 2015 to 2019 and understatement of accumulated losses of AED 17,720,000.

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 the ethical requirements that are relevant to our audit of the financial statements in United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Independent Auditor's Report to the shareholders of Methaq Takaful Insurance
Company P.S.C. for the year ended 31 December 2020 (continued)**

Key Audit Matters

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

***Estimation uncertainty with respect to the measurement of outstanding claims liabilities
The financial statement risk***

As described in Note 7 to the financial statements of the company, outstanding claims liabilities amounted to AED 257,970,934 which includes reported claims of AED 108,757,290 and claims incurred but not reported (IBNR) of AED 138,219,012. The retakaful share of outstanding claims amounted to AED 40,816,950 at the reporting date.

The outstanding claims liabilities at the reporting date represent the company's expectations regarding future payments for known and unknown claims including associated expenses. The company uses various methods to estimate these obligations.

Measurement of these outstanding claims is highly judgmental, and requires a number of assumptions to be made that exhibit substantial estimation uncertainty. This is particularly the case for those obligations that are recognised in respect of claims that have been incurred but not reported to the company ("IBNR"). Certain lines of business also contain greater inherent uncertainty, for example, those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts. The key assumptions that drive the outstanding claims calculations include loss ratios, estimates of the frequency and severity of claims and, where appropriate, discount rates for longer tail classes of business.

The valuation of outstanding claims liabilities depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating outstanding claims liabilities, or for forming judgements over key assumptions, is not complete and accurate, then material impacts on the valuation of such liabilities may arise.

In addition, the valuation of the retakaful share of outstanding claims is dependent on, but not directly correlated to, the valuation of the underlying claims outstanding. There is judgement involved in ascertaining the level of reinsurance share of IBNR held, which depends on the specific terms of the reinsurance contracts in place.

We considered the measurement of the outstanding claims liabilities as a key audit matter due to the quantitative materiality of these obligations for the assets, liabilities and financial performance of the company as well as the significant judgements and the associated uncertainties in the estimates made by management in determining the amount of liabilities.

For further information on the accounting policies relating to this key audit matter refer to Note 3(d) as well as Note 3(p) for disclosures about its key sources of estimation uncertainty.

**Independent Auditor's Report to the shareholders of Methaq Takaful Insurance
Company P.S.C. for the year ended 31 December 2020 (continued)**

How the matter was addressed in the audit

We established an audit approach which included both testing the design and operating effectiveness of internal controls over the measurement of outstanding claims liabilities and retakaful share of outstanding claims as well as risk-based substantive audit procedures.

As part of our procedures over internal controls, we evaluated the appropriateness of selected controls established by the company for the purpose of selecting actuarial methods, determining assumptions, making estimates for the measurement of certain outstanding claims and consistency of application of accounting policies.

The primary substantive procedures which we performed to address this key audit matter included, but were not limited to, the following :

- We verified, for a sample of outstanding claims, whether the estimated amounts of specific cases were adequately documented and substantiated by, for example, reports from loss adjusters.
- We verified reconciliations between claims data recorded in the company's systems and data used in the actuarial reserving calculations.
- We assessed the competence, capabilities, qualifications and objectivity of the external actuary engaged by the company for the valuation of technical provisions.
- With the support of our insurance valuation specialists, we compared the respective actuarial methods applied and the material assumptions with generally recognised actuarial practices and industry standards and examined to what extent these are appropriate for the valuation and consistent between reporting periods.
- We considered the results of the third-party actuarial valuation of the outstanding claims liabilities to identify and understand any significant differences in the liabilities as compared to management's estimates and prior period amounts.
- We recalculated the amount of the provisions for selected products, in particular products with substantial reserves or increased estimation uncertainties. For these products, we compared the recalculated provisions with the provisions calculated by the company and evaluated any differences
- We compared claims transactions on a sample basis with supporting documentation to evaluate whether the claims reported during the reporting period were recorded in accordance with the company's internal policy.
- We inspected significant arrangements with reinsurers to obtain an understanding of contracts terms and assessed that recoveries from reinsurance on account of claims reported has been accounted for based on prevailing terms and conditions; and
- We assessed the disclosures included in Note 3(d) and Note 7 in relation to outstanding claims against the relevant IFRS disclosure requirements.

**Independent Auditor's Report to the shareholders of Methaq Takaful Insurance
Company P.S.C. for the year ended 31 December 2020 (continued)**

Estimation uncertainty with respect to provisions for unearned contribution reserves

The financial statement risk

The company underwrites various classes of business which exhibit different risk patterns and tails of business. Gross contributions written comprise the total amount of premium receivables for the entire period covered under an insurance contract and are recognised on the date on which the insurance policy commences. The company records a portion of net retained contributions as unearned contribution reserves to cover the financial risks that have not expired at the reporting date. The application of an appropriate earnings patterns is therefore necessary in order to earn revenue in accordance with the financial risk of claims occurring for insurance policies.

The unearned contribution reserve is required to be calculated in accordance with the UAE Insurance Law relating to insurance and takaful companies.

The provisions recognised for unearned contribution reserves amounted to AED 157,649,724 at the end of the reporting period. For further information on the accounting policies relating to this key audit matter refer to Note 3(d) as well as Note 3(p) for disclosures about its key sources of estimation uncertainty.

How the matter was addressed in the audit

We established an audit approach which included both testing the design and operating effectiveness of internal controls over revenue recognition and substantive audit procedures. Our audit procedures in respect of this matter included, but were not limited to, the following:

- We obtained an understanding, evaluated the design and tested the operating effectiveness of internal controls over the process of capturing, processing and recording of information relating to recognition of revenue in the correct reporting period.
- We assessed whether the company's revenue recognition policy complied with IFRSs and tested the implementation of those policies. Specifically, we considered whether the contribution on takaful policies are accounted for on the date of inception of policies, with the exception of contribution income on marine cargo policies which is accounted for on the expected date of voyage, by testing a sample of revenue items to takaful contracts.
- We compared the unearned contributions reserve balance recorded in the financial statements to the reserve balance determined by the company's external actuary.
- We recalculated, on a sample basis, the unearned contributions reserve based on the earning period of takaful contracts existing at the end of the reporting period.
- We tested written policies on a sample basis where revenue was recorded close to year end and subsequent to year end, and evaluated whether these were recorded in the appropriate accounting period
- We assessed the disclosures included in Note 3(d) in relation to this area against the relevant IFRS disclosure requirements

**Independent Auditor's Report to the shareholders of Methaq Takaful Insurance
Company P.S.C. for the year ended 31 December 2020 (continued)**

Other Matter

- China and has subsequently spread to many other countries around the world. This event has caused widespread disruptions to business, with a consequential negative impact on economic activity. The Company considers this event to be a non-adjusting event after the reporting date and therefore has not made any to the financial statements as a result of this matter. The outcome of this event is unknown and therefore adjustments the impact on the Company cannot be reasonably quantified at the date of issuance of these financial statements. The effect of Covid-19 on the Company will be incorporated into the determination of the Company's technical reserves, impairment of contributions and retakaful balances receivables, valuation of equity portfolio and valuation of investment properties during 2020.
- The financial statements of the company for the year ended 31 December 2019 were audited by another auditor who expressed a modified opinion on those statements on 26 March 2020.
- During the year the company changed it's key management.
- Investment properties amounting to AED 142,360,000 is held in the name of a related party.

Other information

The Board of Directors are responsible for the other information. The other information comprises the Directors Report of the company but does not include the financial statements and our auditor's report thereon. Our qualified opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and in compliance with applicable provisions of group's Articles of Association and UAE Federal Law No. (2) of 2015, 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 group'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 group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial

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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



**Independent Auditor's Report to the shareholders of Methaq Takaful Insurance
Company P.S.C. for the year ended 31 December 2020 (continued)**

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.



**Independent Auditor's Report to the shareholders of Methaq Takaful Insurance
Company P.S.C. for the year ended 31 December 2020 (continued)**

Report on other legal and regulatory requirements

As required by UAE Federal Law No. 2 of 2015 we report that:

1. We have obtained all the information and explanation we considered necessary for our audit.
2. The financial statements comply, in all material respect with the applicable provisions of UAE Federal Law No. 2 of 2015 and the Articles of Association of the Company.
3. The company has maintained proper books of accounts.
4. Transactions and term with related parties disclosed in Note 20.
5. Based on the information and explanation that has been made available to us nothing came to our attention which causes us to believe that the company has contravened during the financial year ended 31 December 2020 any of the applicable provisions of UAE Federal Law No. 2 of 2015 or the Articles of Association of the Company which would have a material effect on the company activities or on its financial position for the year.

Talal Abu Ghazaleh & Co. International



Firas Kilani

Licensed Auditor No. 632

18 March 2021



METHAQ TAKAFUL INSURANCE COMPANY P.S.C.
UNITED ARAB EMIRATES

EXHIBIT A

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

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

	NOTE	2020	2019
ASSETS			
<u>Takaful operating assets</u>			
Retakaful share of unearned contributions		89,322,311	75,810,294
Prepaid expenses and other assets	9	2,015,392	8,566,384
Retakaful share of outstanding claims	7 (a)	133,407,954	105,593,634
Contributions and retakaful balances receivables	8 (a)	264,127,762	270,333,777
Bank term deposits		27,401	20,000,000
Cash and cash equivalents	4	9,070,635	12,454,876
Total takaful operating assets		497,971,455	492,758,965
<u>Share holders' assets</u>			
Property and equipment	10	1,087,417	1,256,478
Statutory deposit	5	6,000,000	6,000,000
Investments designated at fair value through profit and loss (FVTPL)	6 (a)	713,552	921,919
Investments designated at fair value through other comprehensive income (FVTOCI)	6 (a)	17,000,000	15,000,000
Deferred policy acquisition costs		34,611,614	16,767,865
Investments properties	11	142,360,000	142,360,000
Prepaid expenses and other assets	9	6,111,402	5,472,553
Bank term deposits		2,989,426	2,989,426
Cash and cash equivalents	4	2,269,879	1,817,634
Total shareholder's assets		213,143,290	192,585,875
TOTAL ASSETS		711,114,745	685,344,840



Board Member



Managing Director

Head of Finance

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.
UNITED ARAB EMIRATES

CONT. EXHIBIT A

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

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

	<u>NOTE</u>	<u>2020</u>	<u>2019</u>
<u>LIABILITIES, PARTICIPANTS' AND SHAREHOLDERS' EQUITY</u>			
<u>Takaful operating liabilities</u>			
Takaful payables		75,075,069	48,799,679
Outstanding claims	7 (a)	257,970,934	276,196,776
Retakaful payables		85,129,414	111,070,107
Unearned retakaful commission income		30,509,001	23,410,916
Unearned contributions		157,649,724	127,536,143
Total takaful operations liabilities		606,334,142	587,013,621
<u>Share holders' liabilities</u>			
Trade payables		1,197,131	557,283
Accrued expenses and other liabilities		7,637,738	8,597,578
End of service benefits obligation	12	3,090,479	4,122,164
Other payables		549,280	977,396
Total shareholders' liabilities		12,474,628	14,254,421
<u>Participants' fund</u>			
Deficit of general participants takaful fund	13	(184,613,960)	(186,457,058)
Loan from shareholders	13	184,613,960	186,457,058
Total shareholders' liabilities		---	---
<u>Equity</u>			
Share capital	14	150,000,000	150,000,000
Legal reserve		4,580,554	4,580,554
General reserve		1,700,807	1,700,807
Investment fair value reserve		(17,720,000)	(17,720,000)
Accumulated (losses)		(46,255,386)	(54,484,563)
Net equity - Exhibit C		92,305,975	84,076,798
Total liabilities, participants fund and equity		711,114,745	685,244,840

Board Member

Managing Director

Chief Financial Officer

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THESE FINANCIAL STATEMENTS

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.
UNITED ARAB EMIRATES

EXHIBIT B

STATEMENT OF PROFIT OR LOSS FOR THE
YEAR ENDED 31 DECEMBER 2020

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

	NOTE	2 0 2 0	2 0 1 9
Gross contribution written	17 (d)	282,081,395	282,596,590
Retakaful contributions	17 (e)	(135,772,627)	(157,269,894)
Net takaful contributions		146,308,768	125,326,696
Change in net unearned contribution provision		(16,601,564)	22,872,433
Net takaful contributions earned		129,707,204	148,199,129
Commissions earned	17 (e)	35,977,566	46,613,564
Gross takaful contributions		165,684,770	194,812,693
Gross claims paid		(211,535,888)	(177,305,487)
Retakaful share of claims paid		88,360,935	83,703,063
Net claims paid		(123,174,953)	(93,602,424)
Change in outstanding claims		9,816,510	(52,870,781)
Change in retakaful share of outstanding claims		2,088,194	30,064,100
Change in incurred but not reported claims reserve		3,395,760	8,448,449
Change in retakaful share of incurred but not reported claims reserve		26,947,244	13,554,728
Change in unexpired risk reserves		890,159	(2,024,822)
Change in retakaful share of unexpired risk reserve		(3,453,841)	1,221,118
Change in allocated loss adjustment expense		(1,221,118)	(2,974,242)
Net claims incurred		(84,712,045)	(98,183,874)
Takaful income		80,972,725	96,628,819
Impairment of takaful and retakaful contract receivable	8 (b)	---	(3,354,267)
Other investment (loss) / income		(375,582)	1,132,219
Takaful operating profit		80,597,143	94,406,771
Wakala fees		(78,754,045)	(74,331,542)
Surplus of takaful results for the year		1,843,098	20,075,229
Shareholders' investment and other income (net)		383,627	521,993
Wakalah fees from policyholders		78,754,045	74,331,542
Income from real estate (net)		533,590	718,351
Takaful expenses		(34,526,775)	(30,249,997)
Change in fair value of investments at fair value through profit and loss	6 (c)	(208,367)	(321,229)
Change in provision of loan to policyholders' fund		1,843,098	20,075,229
Profit expense on islamic financing		----	(87,428)
General and administrative expenses		(38,550,041)	(41,103,387)
Change in fair value of investment properties		----	(20,000,000)
Net profit for the year - Exhibit D		8,229,177	3,885,074
Basic and diluted earnings per share	16	0.055	0.026

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THESE FINANCIAL STATEMENTS

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.
UNITED ARAB EMIRATES

EXHIBIT B

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

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

	<u>NOTE</u>	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Profit for the year		8,229,177	3,885,074
Other comprehensive income / (loss):			
Fair value income on financial assets at FVTOCI	6 (a)	----	(3,554,000)
Other comprehensive (loss) for the year		----	(3,554,000)
Total comprehensive income for the year - Exhibit C		<u>8,229,177</u>	<u>331,074</u>

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

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.
UNITED ARAB EMIRATES

EXHIBIT C

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY FOR THE YEAR
ENDED 31 DECEMBER 2020
(AMOUNTS ARE EXPRESSED IN U.A.E. DIRHAMS)

	<u>Share capital</u>	<u>Legal reserve</u>	<u>General reserve</u>	<u>Investment fair value reserve</u>	<u>Accumulated (losses)</u>	<u>Total</u>
Balance at 31 December 2018	150,000,000	4,580,554	1,700,807	(14,176,000)	(58,369,637)	83,735,724
Profit for the year - Exhibit B	----	----	----	----	3,885,074	3,885,074
Other comprehensive (loss) for the year - Exhibit B	----	----	----	(3,544,000)	----	(3,544,000)
Balance at 31 December 2019 - Exhibit A	150,000,000	4,580,554	1,700,807	(17,720,000)	(54,484,563)	84,076,798
Profit for the year - Exhibit B	----	----	----	----	8,229,177	8,229,177
Equity at 31 December 2020 - Exhibit A	<u>150,000,000</u>	<u>4,580,554</u>	<u>1,700,807</u>	<u>(17,720,000)</u>	<u>(46,255,386)</u>	<u>92,305,975</u>

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

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.**UNITED ARAB EMIRATES****EXHIBIT D****STATEMENT OF CASH FLOWS FOR THE****YEAR ENDED 31 DECEMBER 2020**

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

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Profit for the year - Exhibit B	8,229,177	3,885,074
Excess of takaful results for the year	1,843,098	20,075,229
<u>Adjustment to reconcile net income to net cash provided by operating activities</u>		
Depreciation of property and equipment	580,365	658,441
Movement of unearned contributions (net)	16,601,564	(22,872,433)
Net fair value loss on investment designated at FVTPL	208,367	321,229
Investment and other income	(8,045)	(1,654,212)
End of service benefits obligation	1,092,170	1,163,190
Impairment of takaful and retakaful contract receivable	----	3,354,267
Recovery for loan policyholders fund	(1,843,098)	(20,075,229)
Profit expense on islamic financing	----	87,428
Change in fair value of investment property	----	20,000,000
Operating profit before working capital changes	<u>26,703,598</u>	<u>4,942,984</u>
<u>Changes in the components of working capital:</u>		
Decrease in prepaid and other assets	5,912,143	1,393,856
Decrease / (increase) in contribution and re-takaful balances receivables	6,206,015	(60,938,794)
(Increase) in differed policy acquisition costs	(17,843,749)	(2,021,820)
(Increase) in outstanding claims (net)	(46,040,162)	(3,078,217)
Increase in takaful payables	26,275,390	5,953,794
(Decrease) / increase in retakaful payables	(25,940,693)	31,309,214
Increase / (decrease) in trade payables	639,848	(254,533)
(Decrease) in accrued expenses and other liabilities	(1,387,956)	(136,190)
Increase in unearned re-takaful commission income	7,098,085	173,893
<i>Net cash flows (used in) operating activities</i>	<u>(18,377,481)</u>	<u>(22,655,813)</u>
Settlement of end of service benefit obligation	(2,123,855)	(129,204)
<i>Net cash flows (used in) operating activities</i>	<u>(20,501,336)</u>	<u>(22,785,017)</u>

THE ACCOMPANYING NOTES ARE AN
 INTEGRAL PART OF THESE FINANCIAL STATEMENTS

METHIAQ TAKAFUL INSURANCE COMPANY P.S.C.**UNITED ARAB EMIRATES****CONT. EXHIBIT D****STATEMENT OF CASH FLOWS FOR THE**
YEAR ENDED 31 DECEMBER 2020**(AMOUNTS ARE EXPRESSED IN U.A.E. DIRHAMS)**

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of property and equipment	(411,304)	(702,945)
Investment and other income	8,045	1,654,212
Purchase of investment designated at fair value through other comprehensive income FVTOCI	(2,000,000)	(15,000,000)
<i>Net cash flows (used in) investing activities</i>	<u>(2,403,259)</u>	<u>(14,048,733)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES :</u>		
Increase in term deposits	19,972,599	20,000,000
Profit expense on islamic financing	----	(87,428)
Islamic financing repaid	----	(1,714,286)
<i>Net cash flows from financing activities</i>	<u>19,972,599</u>	<u>18,198,286</u>
NET CASH FLOWS (USED) DURING THE YEAR	<u>(2,931,996)</u>	<u>(18,635,464)</u>
Cash and cash equivalents at beginning of the year	<u>14,272,510</u>	<u>32,907,974</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR - Note 4	<u><u>11,340,514</u></u>	<u><u>14,272,510</u></u>

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

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NOTES TO FINANCIAL STATEMENTS
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1. STATUS AND ACTIVITIES

- a) **Methaq Takaful Insurance Company P.S.C.** (the "company") is a public shareholding company registered with the Department of Economic Development - Abu Dhabi - United Arab Emirates. The Company are incorporated in the Emirate of Abu Dhabi on 24 March 2008 with a trade license number 1142419.
- b) The company's principal activity are accidents and civil responsibility insurance, fire insurance, land, marine and air transportation dangers insurance, reinsurance, health insurance and onshore and offshore oil and gas fields and facilities services.
- c) The company operates through its head office in Abu Dhabi and branch offices in Dubai. The company is domiciled in the United Arab Emirates and its registered office address is P.O. Box 32774, Abu Dhabi, United Arab Emirates.
- d) The Company's ordinary shares are listed on Abu Dhabi Securities Exchange.

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

- a) The company has applied the following International Financial Reporting Standards (IFRSs), amendments and interpretations for the first time for their reporting date commencing 1 January 2020:

<u>Standard or Interpretation</u>	<u>Description</u>	<u>Effective date</u>
Definition of materiality - Amendments to IAS (1) and IAS (8)	The amendments provide clarifications for the definition of materiality, where the information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific financial The amendments clarify that materiality depends on the nature of the information, its magnitude, or both. Information error is a significant matter if it is reasonably expected to influence the decisions made by the primary users.	1 January 2020

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Definition of a Business (Amendments to IFRS 3)	The amendments clarify that a business is considered a business if it includes at a minimum, an input and a substantive process that together significantly contribute to the ability of creating outputs, and it also clarifies that a business can exist without including all of the inputs and processes needed to create outputs.	1 January 2020
Conceptual framework Financial Report (Revised)	The conceptual framework includes definitions on which all the requirements of IFRSs are based (definition of asset, liability, income, expense, objectives of general purpose financial statements, etc.). The revised framework improves these definitions.	1 January 2020
Interest Rate Benchmark Reform Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)	These amendments provide some exemptions related to the standard reform of the interbank offered interest reference rate. The exemptions relate to hedge accounting. The reformulation of the interbank interest reference rate should not generally cause the discontinuance of hedge accounting.	1 January 2020
Covid-19-Related Concessions (Amendment to IFRS 16)	IFRS 16 has been amended to address rental concessions for lessees resulting from the COVID-19 epidemic, which meet the following characteristics: A. Change in lease payments leads to an amendment in the lease contract that is substantially the same or less than the lease consideration immediately preceding the change. B. The reduction is the rent payments so that it only affects the payments due on or before June 30, 2021. C. There is no material change in the other terms and conditions of the lease.	1 June 2020

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

<u>Standard or Interpretation</u>	<u>Description</u>	<u>Effective for annual periods beginning on or after</u>
Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IFRS 7, IFRS 4, IFRS 16 and IAS 39)	The amendments provide temporary exemptions that address the effects of financial reporting when an Interbank Offered Rate (IBOR) is exchanged for a Risk-Free Alternative Interest Rate (RFR). Amendments include a practical expedient requiring contractual changes or changes in cash flows, which is necessary as a direct consequence of interest rate benchmark reform, to be dealt with as variables in the variable interest rate, equivalent to the movement in the interest rate in the market. Allowing the use of this practical expedient is provided with the condition that the transfer from IBOR to (RFR) takes place on an economically equivalent basis without the occurrence of value transfer.	1 January 2021
Annual improvements to IFRS 2018-2020 (amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)	<i>IFRS 1 amendments, First-time Adoption of International Financial Reporting Standards.</i> An extension of the optional exemption that allows the subsidiary which becomes an adopter of the IFRS for the first time after the parent company to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS Standards. Similar election is available for the associate and joint venture.	1 January 2022

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IFRS 9 amendments, Financial Instruments

The amendments clarify the fees an entity includes when it applies the '10 per cent' test in assessing whether to de-recognize a financial liability.

IFRS 16 amendments, Leases

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements.

IAS 41 amendments, Agriculture

The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

IFRS 3 amendments, Business Combinations - Reference to the Conceptual Framework	The amendments aim to update the reference to the conceptual framework without changing the accounting requirements of IFRS 3 Business Combinations.	1 January 2022
IAS 16 amendments, property, plant and equipment - proceeds before intended use	Amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.	1 January 2022
IAS 37 amendments, Provisions, Contingent Assets and Liabilities - Onerous Contracts - Cost of Fulfilling a Contract	Amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract will produce a loss.	1 January 2022

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IAS 1 amendments, Presentation of Financial Statements	• Clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period. • Specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. • Explain that rights are in existence if covenants are complied with at the end of the reporting period. • Introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. • Are applied retrospectively.	1 January 2022
IFRS 17, Insurance Contracts	IFRS 17 supersedes IFRS 4, the new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts.	1 January 2023
IFRS 10 and IAS 28 amendments — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.	Indefinite

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the company is consistent with those applied in prior years except for the new and amended IFRS's effective as of 1 January 2020 as detailed in Note 2 (a) which did not have material impact on the financial statements of the company. The significant accounting policies adopted by the company in the preparation of the financial statements are as follows:-

a. Financial Statements Preparation Framework

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

b. Basis of presentation

As at 31 December 2020, the company accumulated losses amounted to AED 46,255,386 (31 December 2019 : AED 54,484,563) which represents 30.84% (31 December 2019 : 36.32%) of the share capital of the company.

The financial statements are prepared in accordance with the historical cost principle.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services, while 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are either financial assets or financial liabilities.

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Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter year, to the net carrying amount on initial recognition.

d. *Financial assets*

Any asset that is: cash, an equity instrument of another entity, or a debt instrument of another entity (a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity, or a contract that will or may be settled in the entity's own equity instruments).

The company does not have debt instruments that qualify for measurement at fair value through other comprehensive income nor at fair value through profit or loss. Moreover the company's financial assets does not have any equity instrument financial assets.

Initial measurement

Financial assets are recognized when the company becomes party to the contractual provisions of the instruments. At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

i) *Cash and cash equivalents*

Cash and cash equivalents includes cash on hand, cash at banks - current accounts, demand deposits and other short-term highly liquid investments with original maturities of three months or less.

ii) *Bank fixed deposits*

Bank fixed deposits are measured at amortized cost using the effective interest method.

iii) *Takaful and retakaful receivables*

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

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Definition

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

Recognition and measurement

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

These contracts are casually and property takaful contracts.

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

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

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

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

Retakaful contract assets

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

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

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

Takaful contract liabilities

Takaful contract liabilities include outstanding claims (OSLR), claims incurred but not reported ("IBNR"), unearned contribution reserve (UCR) and provision for allocated, unexpired risk reserve (UPR) and unallocated loss adjustment expenses (ALAE/UAE).

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

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

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

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

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Salvage and subrogation reimbursements

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

Liability adequacy test

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

Receivables and payables related to takaful contracts

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

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

iii) *Financial assets at fair value through profit or loss (FVTPL)*

A financial asset is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Directly attributable transaction costs are recognized in profit and loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss.

iv) *Financial assets at fair value through other comprehensive income (FVTOCI)*

FVTOCI financial assets may include equity instruments that are not held principally for the purpose of selling in the near future or debt instruments with fixed or determinable payments and fixed maturity dates that the company has no positive intent and ability to hold to maturity.

FVTOCI financial assets are stated at fair value for listed securities and at cost for unlisted securities. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in the statement of comprehensive income.

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The cumulative gain or loss previously recognized in the investments revaluation reserve is included in the statement of comprehensive income upon the disposal of investment. Dividends on FVTOCI equity instruments are recognized in profit or loss when the company's right to receive payments is established.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. This requires considerable judgement about how the changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. This model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Derecognition

The company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The company enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

With the exception of FVTOCI equity instruments, 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 investment 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 FVTOCI equity securities, any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

e. Property and equipment

Property and equipment held for use in the supply of goods or services, or for administrative purposes, are initially recognized at their cost being their purchase price plus any other costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management.

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After initial recognition, the property and equipment are carried in the 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 statement of profit or loss. 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 company over the estimated useful lives of the assets. The useful lives of the assets are estimated as follows:

<u>Category</u>	<u>Useful life</u>
Furniture, fixtures and office equipment	5 years
Computer equipment and accessories	3 years

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

The 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 3 (f).

On the subsequent derecognition (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 statement of profit or loss.

f. Impairment of tangible assets

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

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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 statement of profit or loss 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.

g. Investment properties

Investment property (land or building) is property: (a) held by the company 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.

h. Financial liabilities

Initial recognition and measurement

Financial liabilities are recognized when the company becomes a party to the contractual provisions of the financial instrument. The company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, and through the amortization process.

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Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

i. *End of service benefits obligation*

- Provision for employees' end-of-service benefits is calculated in accordance with the Federal Labour Laws of United Arab Emirates. The company measures its obligations under employees' benefits as described in IAS 19 using actuarial valuation method unless the differences between actuarial valuation and actual liability and service cost is immaterial.
- Pension funds for UAE nationals has been computed as per rates approved by the concerned government department.

j. *Provisions*

Provisions are present obligations (legal or constructive) resulted from past events, the settlement of the obligations is probable and the amount of those obligations can be estimated reliably. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date, that is, the amount that the company would rationally pay to settle the obligation at the statement of financial position date or to transfer it to a third party.

Provisions reviewed and adjusted at each statement of financial position date. If outflows, to settle the provisions, are no longer probable, reverse of the provision is recorded as income. Provisions are only used for the purpose for which they were originally recognized.

k. *Legal reserve*

Pursuant to the Company's Articles of Association, 10% of net profit for the year to be withheld annually and retained in the legal 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'.

l. *General reserve*

In accordance with the Article 64 of the company article of association 10% of net profit for the year is to be transfer to a general reserve. No transfer was made during year as the company in accumulated losses position.

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m. Revenue recognition

Revenue is measured based on the consideration to which the company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognized when the company satisfies a performance obligation by rendering the promised service to the customer, which is when the customer enjoys the benefits from the service. The establishment's performance obligations are satisfied at a point in time. The amount of revenue recognized is the amount allocated to the satisfied performance obligations.

Gross and retakaful contribution

Contribution from gross and retakaful contracts is measured under revenue recognition criteria stated under takaful contracts in these financial statements.

Dividend income

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

Rental income

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

Other income

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

Other income / expense retakaful

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

Commission revenue

Commission revenue is recognized when the customer has finalized contracts with its clients and the right to receive the commission is established.

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n. *Foreign currencies*

The financial statements are presented in the UAE Dirhams (AED) which is the company's functional currency. In preparing the financial statements, 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 each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the 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.

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 financial statements shall be recognized in the statement of profit or loss in the year in which they arise.

o. *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.

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

While applying the accounting policies as stated in Note 3, management of the company has made certain judgements, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the year of the revision in which the estimate is revised if the revision affects only that period, or in the year of the revision and future periods if the revision affects both current and future years. The significant judgements and estimates made by management that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year are:

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i) *Unearned contribution reserve*

The provision for unearned contribution represents that portion of contribution received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and contribution are charged, and is brought to account as contribution income over the term of the contract in accordance with the pattern of takaful service provided under the contract.

ii) *Fair value of unquoted equity investments*

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

iii) *Impairment of contributions and retakaful balances receivables*

An estimate of the collectible amount of takaful and other receivables is made when collection of the full amount is no longer probable. This determination of whether the takaful and other receivables are impaired entails the Company in evaluating the credit and liquidity position of the policyholders and the takaful companies, historical recovery rates including detailed investigations carried out and feedback received from the legal department. Impairment of takaful and other receivables as at 31 December 2020 amounted to AED 49,209,208 (31 December 2019: AED 49,209,208).

iv) *The ultimate liability arising from claims made under takaful contracts*

The estimation of ultimate liability arising from the claims made under takaful contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the company will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of the reporting period. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the company and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Gross provision for IBNR as at 31 December 2020 amounted to AED 257,970,934 (31 December 2019: AED 276,196,776) as detailed in note 7.

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4. CASH AND CASH EQUIVALENTS

a) i) This item consists of the following:	<u>2020</u>	<u>2019</u>
Cash and bank balances	11,340,514	14,272,510
Term deposits	3,016,827	22,989,426
Cash and bank balances	14,357,342	37,261,936
Term deposits with original maturity of more than three months	(3,016,827)	(22,989,426)
Total - Exhibit D	11,340,514	14,272,510
 ii) Takaful and operations assets - Exhibit A	 9,070,635	 12,454,876
Shareholders' assets - Exhibit A	2,269,879	1,817,634
Total - Note 4 (a) (i)	11,340,514	14,272,510

- b) Term deposits represent deposits held with islamic financial institutions in the UAE, are denominated in UAE dirhams and carry profit at the prevailing market rates ranging from 2.5% to 2.8% per annum (31 December 2019: 2.5% to 3.4%).

5. 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 6,000,000 as of 31 December 2020 which cannot be utilized without the consent of the UAE Insurance Regulatory Authority.

6. INVESTMENTS IN FINANCIAL ASSETS

a) This item consists of the following:	<u>2020</u>	<u>2019</u>
Investment designated of fair value through other comprehensive income (FVTOCI) - Note 6 (b) - Exhibit A	17,000,000	15,000,000
Investment designated at afair value through profit or loss (FVTPL) - Note 6 (c) - Exhibit A	713,552	921,919
Total	17,713,552	15,921,919

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

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

	<u>2020</u>	<u>2019</u>
Fair value at 1 January 2020	15,000,000	3,544,000
Additions	2,000,000	15,000,000
(Decrease) in fair value taken to other comprehensive income - Exhibit B	---	(3,544,000)
Fair value at 31 December - Note 6 (a)	17,000,000	15,000,000

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

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

	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Fair value at the beginning of the year	921,919	1,243,148
(Decrease) in fair value taken to profit or loss - Exhibit B	(208,367)	(321,229)
Fair value as at 31 December - Note 6 (a)	<u>713,552</u>	<u>921,919</u>

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

	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Within UAE	17,713,552	15,921,919
Total - Note 6 (b & c)	<u>17,713,552</u>	<u>15,921,919</u>

7. **TAKAFUL CONTRACT LIABILITIES AND RE-TAKAFUL CONTRACT ASSETS**

a) This item consists of the following:

Gross outstanding claims

Outstanding claims	108,757,290	126,151,054
Incurred but not reported reserve	138,219,012	141,614,772
Unallocated loss adjustment expense reserve	5,515,969	6,406,128
Unexpired risk reserve	5,478,663	2,024,822
Total - Exhibit A	<u>257,970,934</u>	<u>276,196,776</u>

Retakaful share of outstanding claims

Outstanding claims	40,816,950	38,728,756
Incurred but not reported reserve	92,591,004	65,643,760
Unexpired risk reserve	----	1,221,118
Total - Exhibit A	<u>133,407,954</u>	<u>105,593,634</u>

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	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Net technical provision		
Outstanding claims	67,940,340	87,422,298
Incurred but not reported reserve	45,628,008	75,971,012
Unallocated loss adjustment expense reserve	5,515,969	6,406,128
Unexpired risk reserve	5,478,663	803,704
Total	<u>124,562,980</u>	<u>170,603,142</u>
8. CONTRIBUTIONS AND RETAKAFUL BALANCES RECEIVABLE		
a) This item consists of the following:	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Due from policyholder	117,215,376	99,265,160
Due from insurance and reinsurance companies	190,924,788	214,679,275
Due from related parties - Note 20	5,196,806	5,598,550
	<u>313,336,970</u>	<u>319,542,985</u>
Impairment of takaful & retakaful contract receivable - Note 8(b)	(44,012,402)	(44,012,402)
Impairment of related party receivable - Note 8(c)	(5,196,806)	(5,196,806)
Balance at 31 December - Exhibit A & Note 8 (d)	<u>264,127,762</u>	<u>270,333,777</u>
b) <i>Impairment of takaful & retakaful contract receivable</i>		
This item consists of the following:	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Balance at 1 January	(44,012,402)	(40,658,135)
Charge for the year - Exhibit B	----	(3,354,267)
Balance at 31 December - Note 8 (a)	<u>(44,012,402)</u>	<u>(44,012,402)</u>
c) <i>Impairment of related party receivable</i>		
This item consists of the following:	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Balance at 1 January	(5,196,806)	(5,196,806)
Balance at 31 December - Note 8 (a)	<u>(5,196,806)</u>	<u>(5,196,806)</u>
d) Ageing of takaful and retakaful contract receivables are as follows:	<u>2 0 2 0</u>	<u>2 0 1 9</u>
1 - 90 days	137,096,757	189,848,594
90 - 180 days	23,888,295	12,300,945
180 - 360 days	23,138,801	21,561,140
Above 360 days	80,003,909	46,623,098
Balance at 31 December - Note 8 (a)	<u>264,127,762</u>	<u>270,333,777</u>

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9. PREPAID EXPENSES AND OTHER ASSETS

a) i) This item consists of the following:	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Advances towards formation of companies	823,388	823,388
Prepaid expenses	2,226,650	1,112,049
Accrued profits from investment deposits	200,108	550,067
Refundable deposits	1,687,199	1,633,799
Advances for investments	3,506,950	3,506,950
Other receivable and advances to suppliers	3,532,417	10,262,602
Net	<u>11,976,712</u>	<u>17,888,855</u>
Impairment of advances and other receivables - Note 9 (b)	<u>(3,849,918)</u>	<u>(3,849,918)</u>
Total - Exhibit A	<u><u>8,126,794</u></u>	<u><u>14,038,937</u></u>
ii) This item consists of the following:		
Takaful operations assets - Exhibit A	2,015,392	8,566,384
Shareholders' assets - Exhibit A	6,111,402	5,472,553
Total	<u><u>8,126,794</u></u>	<u><u>14,038,937</u></u>
b) <i>Impairment of advances and other receivables</i>		
i) This item consists of the following:	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Balance at 1 January	<u>(3,849,918)</u>	<u>(3,849,918)</u>
Balance at 31 December - Note 9 (a)	<u><u>(3,849,918)</u></u>	<u><u>(3,849,918)</u></u>

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10. 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>Furniture, fixtures and office equipment</u>	<u>Computer equipment and accessories</u>	<u>Total</u>
At 1 January 2020	5,987,206	4,387,107	10,374,313
Additions	349,334	61,970	411,304
At 31 December 2020	6,336,540	4,449,077	10,785,617
<u>ACCUMULATED DEPRECIATION</u>			
At 1 January 2020	(5,277,152)	(3,840,683)	(9,117,835)
Charge for the year	(330,370)	(249,995)	(580,365)
At 31 December 2020	(5,607,522)	(4,090,678)	(9,698,200)
<u>NET BOOK VALUE</u>			
At 31 December 2019 - Exhibit A	710,054	546,424	1,256,478
At 31 December 2020 - Exhibit A	729,018	358,399	1,087,417

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11. INVESTMENT PROPERTIES

a) This item consists of the following :

	<u>Buildings</u> <u>AED</u>	<u>Total</u> <u>AED</u>
At 1 January 2020	<u>142,360,000</u>	<u>142,360,000</u>
31 December 2020	<u><u>142,360,000</u></u>	<u><u>142,360,000</u></u>

- b) i) A building, located in Abu Dhabi, purchased in 2010 and held for long term rental yields. As at year end, the investment property was registered and held in trust in the name of another party, for and on behalf of the Company and was not yet transferred to the Company. Management is still in the process of formalizing the necessary registration procedures to transfer the title to the Company's name.
- ii) A plot of land in Abu Dhabi that is held in the name of a related party, for and on behalf of the company.
- c) Investment properties are stated at fair value which represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The fair value of the investment properties at 31 December 2020 are determined by independent values using the income and comparable methods. Management believes that fair value has not changed significantly during the year.
- d) The fair value were determined based on capitalization of net income method, where the market rentals of all lettable units of the properties in the neighborhood. The capitalization rate adopted is made by reference to the yield rates observed by the valuer for similar properties in the locality and adjusted based on factor specific to the respective properties. In estimating the fair value of the properties, the highest and best use of the properties in current use.
- e) The investment properties are classified as level 3. There were no transfers between level 1 and 2 or to level 3 during current and previous year.
- f) The rental income for the year amounted to AED 609,866 (31 December 2019: AED 812,990) and building expenses 31 December 2020 amounted to AED 76,276 (31 December 2019: AED 94,639).

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12. END OF SERVICE BENEFITS OBLIGATION

The details of movement in the accounts during the year are as follows:

	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Balance at 1 January	4,122,164	3,088,178
Charge during the year	1,092,170	1,163,190
Settlements	(2,123,855)	(129,204)
Balance at 31 December - Exhibit A	<u><u>3,090,479</u></u>	<u><u>4,122,164</u></u>

13. LOAN FROM SHAREHOLDERS

a) This item consists of the following:

Policyholders' fund

At 1 January	(186,457,058)	(206,532,287)
Surplus for the year	1,843,098	20,075,229
As at 31 December	<u><u>(184,613,960)</u></u>	<u><u>(186,457,058)</u></u>

Loan from shareholders to policyholders

At 1 January	186,457,058	206,532,287
Net movement during the year	(1,843,098)	(20,075,229)
Total	184,613,960	186,457,058
Allowance for loan to policyholders	(184,613,960)	(186,457,058)
As at 31 December	<u><u>----</u></u>	<u><u>----</u></u>

b) The deficit in the policyholders' fund is financed by the shareholders through a Qard Hassan Loan. The shareholders have funded the deficit in the policyholders' fund in accordance with the company's policy through a Qard Hassan (free of finance charge) of AED 184,613,960 as of 31 December 2020 (31 December 2019: AED 186,457,058) with no repayment terms. During the year, Qard Hassan with a nominal value of AED 1,843,098 (31 December 2019: 20,075,229) was recovered and the recovery of the same amount was recognised to the statement of profit or loss attributable to shareholders.

- Although recoverability of the remaining loan balance is uncertain, management expects to recover it from future profits from takaful operations.

14. SHARE CAPITAL

This item consists of the following:

	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Authorized, issued and fully paid		
150,000,000 shares of AED 1 each	<u><u>150,000,000</u></u>	<u><u>150,000,000</u></u>

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15. MUDAREB SHARE AND WAKALAH FEES

- a) The shareholders manage the takaful operations for the policyholders and charge the following range of percentages of gross takaful contributions as Wakalah fees:

	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Motor	30%	30%
Medical	15%	15%
All other takaful classes	30%	30%

- b) The shareholders manage the policyholders' investment fund and charge 10% (31 December 2019: 10%) of investment income earned by policyholders' investment fund as Mudareb share. Investment income earned by policyholders' investment fund as well as Mudareb share amounted to AED nil (31 December 2019: nil).

16. BASIC AND DILUTED EARNINGS PER SHARE

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

	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Profit for the year - Exhibit B	<u>8,229,177</u>	<u>3,885,074</u>
Ordinary shares in issue throughout the year	<u>150,000,000</u>	<u>150,000,000</u>
Basic and diluted earnings per share	<u>0.055</u>	<u>0.026</u>

- b) The company has not issued any instruments which would have a dilutive impact on impact on earnings per share when converted or exercised.

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17. SEGMENT INFORMATION

a) Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. All operating segments used by management meet the definition of a reportable segment under IFRS 8.

For operating purposes, the company is organized into two business segments:

Underwriting of general takaful business - incorporating all classes of general takaful, 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 company's revenue and results by operating segment:

	2 0 2 0			2 0 1 9		
	Policy holders	Shareholders	Total	Policy holders	Shareholders	Total
Net underwriting income	80,972,725	---	80,972,725	96,628,819	---	96,628,819
Impairment of takaful and retakaful receivable	---	---	---	(3,354,267)	---	(3,354,267)
Other investment (loss) / income	(375,582)	---	(375,582)	1,132,219	---	1,132,219
Wakaf fees	(78,754,045)	78,754,045	---	(74,331,542)	74,331,542	---
Total	1,843,098	78,754,045	80,597,143	20,075,229	74,331,542	94,406,771
Shareholders' investment and other income (net)	---	383,627	383,627	---	521,993	521,993
Rental income from investment property (net)	---	533,590	533,590	---	718,351	718,351
Change in fair value of investment properties	---	(208,367)	(208,367)	---	(321,229)	(321,229)
Decrease in provision for loan to policyholders' fund	---	---	---	---	(20,000,000)	(20,000,000)
Profit expense on Islamic financing	---	---	---	---	(87,428)	(87,428)
Takaful expenses	---	(34,526,775)	(34,526,775)	---	(30,249,997)	(30,249,997)
General and administrative expenses	---	(38,550,041)	(38,550,041)	---	(41,103,387)	(41,103,387)
Profit for the year	1,843,098	6,386,079	8,229,177	20,075,229	(16,190,155)	3,885,074

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- b) Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues in the year (2019: AFD Nil). The accounting policies of the reportable segments are the same as the company's accounting policies used in the previous years, except for adoption of new and amended standards as mentioned in Note 3.

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

	2 0 2 0		2 0 1 9	
	Policy holders	Shareholders	Policy holders	Shareholders
Total assets	497,971,455	213,143,290	492,758,965	192,585,875
Total liabilities	606,334,142	12,474,628	587,013,621	14,254,421
Capital expenditure	---	411,304	---	702,945
Total		711,114,745		685,344,840
Total		618,808,770		601,268,042
Total		411,304		702,945

There are no transactions between the business segments.

- c) Secondary segment information - revenue from underwriting departments

The following is an analysis of the company's revenue classified by major underwriting departments

	2 0 2 0		
	Motor	Medical	Others
Gross takaful contributions revenue	232,943,466	44,681,752	4,456,177
Retakaful contributions ceded	(122,865,699)	(9,891,226)	(3,015,702)
Net earned contributions	110,077,767	34,790,526	1,440,475
Retakaful commission income	34,568,986	839,603	568,977
Change in net unearned contribution provision	(10,224,229)	(5,107,840)	(1,269,494)
Total takaful income	134,422,524	30,522,289	739,958
Gross claims incurred	175,993,946	35,067,383	474,559
Retakaful share if claims incurred	(74,576,911)	(13,488,969)	(295,055)
Changes in net claims incurred	(36,473,220)	(152,269)	(1,837,419)
Net claims incurred	64,943,815	21,426,145	(1,657,915)
Other investment (loss)	375,582	---	---
Total takaful expenses	65,319,397	21,426,145	(1,657,915)
Net takaful operating profit - Exhibit B	69,103,127	9,096,144	2,397,873

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	2019		
	Motor	Medical	Others
Gross takaful contributions revenue	248,022,289	47,909,357	3,450,968
Retakaful contributions ceded	(135,896,449)	(12,796,511)	(2,490,524)
Net earned contributions	112,125,840	35,112,846	960,444
Retakaful commission income	45,921,412	208,914	483,237
Total takaful income	158,047,252	35,321,760	1,443,681
Gross claims incurred	(172,852,172)	(52,746,299)	(1,128,412)
Retakaful share if claims incurred	104,824,681	22,738,063	980,265
Net claims incurred	(68,027,491)	(30,008,236)	(148,147)
Other investment (loss) / income	1,132,219	---	---
Impairment of receivable	(3,354,267)	---	---
Total takaful expenses	(70,249,539)	(30,008,236)	(148,147)
Net takaful income for the year - Exhibit B	87,797,713	5,313,524	1,295,534

d) Secondary segment information - revenue from underwriting departments

The following is an analysis of the company's revenue classified by major underwriting departments

	2020	2019
Motor	232,943,466	248,022,289
Medical	44,681,752	47,909,357
Miscellaneous accidents	2,554,100	1,280,017
Fire	1,006,059	625,178
Engineering	480,499	920,097
Marine and aviation	415,519	625,676
Total - Exhibit B	282,081,395	299,382,614

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18. CONTINGENT LIABILITIES

This item consists of the following:	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Letters of guarantee	9,288,717	6,359,426

19. RISK MANAGEMENT

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

The company 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) *Takaful risk*

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

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

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

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

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b) *Capital risk*

The company'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 takaful 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 company and the total capital held.

	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Total shareholders' equity	<u>150,000,000</u>	150,000,000
Minimum regulatory capital	<u>100,000,000</u>	100,000,000

c) *Credit risk*

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

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

- Re-takafulers' share of takaful liabilities.
- Amounts due from re-takafulers' in respect of claims already paid.
- Amounts due from takaful contract holders.
- Amounts due from takaful intermediaries (Note 8).
- Amounts due from banks for its balances and fixed deposits (Note 4).

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

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Re-takaful is used to manage takaful 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 company 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 company includes details of provisions for impairment on takaful receivables and subsequent write offs. Exposures to individual policy holders and company's of policy holders are collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policy holders, or homogenous company's of policy holders, a financial analysis equivalent to that conducted for re-insurers is carried out by the company.

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

d) Interest rate risk

The company is exposed to interest rate risk resultant from its banking facilities and bank fixed deposit. Management try (to the extent possible) to manage interest rate risk through maintaining an appropriate mix between fixed and floating interest rates balances at the start of the financial year.

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 company 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 company 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 company maintains policies and procedures to manage the exchange rate risk exposure.

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g) Liquidity risk

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

The following table shows the maturity dates of company's financial assets and liabilities as at 31 December 2020.

<u>Financial assets</u>	<u>Less than 1 year</u>	<u>More than 1 year</u>	<u>Total</u>
Cash and cash equivalents	11,340,514	----	11,340,514
Term deposits	3,016,827	----	3,016,827
Statutory deposits	----	6,000,000	6,000,000
Retakaful share of unearned contributions	89,322,311	----	89,322,311
Investments designated at fair value through other comprehensive income (FVTOCI)	17,000,000	----	17,000,000
Investments designated at fair value through profit and loss (FVTPL)	713,552	----	713,552
Contributions and retakaful balances received	264,127,762	----	264,127,762
Deferred acquisition costs	34,611,614	----	34,611,614
Retakaful share of outstanding claims	133,407,954	----	133,407,954
Total	553,540,534	6,000,000	559,540,534
<u>Financial liabilities</u>			
Takaful payables	75,075,069	----	75,075,069
Outstanding claims	257,970,934	----	257,970,934
Retakaful payables	85,129,414	----	85,129,414
Accrued expenses and other liabilities	7,637,738	----	7,637,738
Trade payables	1,197,131	----	1,197,131
Unearned retakaful commission income	30,509,001	----	30,509,001
Unearned contributions	157,649,724	----	157,649,724
Other payable	549,280	----	549,280
End of service benefits obligation	----	3,090,479	3,090,479
Total	615,718,291	3,090,479	618,808,770

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The following table shows the maturity dates of company's financial assets and liabilities as at 31 December 2019.

<i>Financial assets</i>	<u>Less</u> <u>than 1 year</u>	<u>More</u> <u>than 1 year</u>	<u>Total</u>
Cash and cash equivalents	14,272,510	----	14,272,510
Term deposits	22,989,426	----	22,989,426
Statutory deposits	----	6,000,000	6,000,000
Retakaful share of unearned contributions	75,810,294	----	75,810,294
Investments designated at fair value through other comprehensive income (FVTOCI)	15,000,000	----	15,000,000
Investments designated at fair value through profit and loss (FVTPL)	921,919	----	921,919
Contributions and retakaful balances received	270,333,777	----	270,333,777
Deferred acquisition costs	16,767,865	----	16,767,865
Retakaful share of outstanding claims	105,593,634	----	105,593,634
Total	<u>521,689,425</u>	<u>6,000,000</u>	<u>527,689,425</u>
<i>Financial liabilities</i>			
Takaful payables	48,799,679	----	48,799,679
Outstanding claims	276,196,776	----	276,196,776
Retakaful payables	111,070,107	----	111,070,107
Accrued expenses and other liabilities	8,597,578	----	8,597,578
Trade payables	557,283	----	557,283
Unearned retakaful commission income	23,410,916	----	23,410,916
Unearned contributions	127,536,143	----	127,536,143
Other payable	977,396	----	977,396
End of service benefits obligation	----	4,122,164	4,122,164
Total	<u>597,145,878</u>	<u>4,122,164</u>	<u>601,268,042</u>

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20. RELATED PARTIES

This item consists of the following:

	<u>2020</u>	<u>2019</u>
Emirates Aqua Technologies Caviar Factory	2,340,533	2,742,277
Bin Salem Group	2,856,273	2,856,273
Total - Note 8 (a)	<u>5,196,806</u>	<u>5,598,550</u>
Impairment of related party receivable - Note 8(c)	<u>(5,196,806)</u>	<u>(5,196,806)</u>
Total - Note 8 (a)	<u>----</u>	<u>401,744</u>

21. GENERAL

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

22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue. On their board meeting dated 18 March 2021.