

ALLIANCE INSURANCE (PSC)
Dubai, United Arab Emirates

**Board of Directors' report,
Independent auditor's report
and financial statements
for the year ended 31 December 2018**

Alliance Insurance (PSC)

Contents

| | Pages |
|--|----------------|
| Board of Directors' report | 1 - 3 |
| Independent auditor's report | 4 - 8 |
| Statement of financial position of the Company | 9 |
| Income statement of the Company | 10 |
| Statement of comprehensive income of the Company | 11 |
| Statement of changes in equity of the Company | 12 - 13 |
| Statement of cash flows of the Company | 14 - 15 |
| Supplementary statement of financial position for insurance of persons and fund accumulation operations | 16 |
| Supplementary income statement for insurance of persons and fund accumulations operations | 17 |
| Supplementary statement of financial position for property and liability insurance | 18 |
| Supplementary income statement for property and liability insurance | 19 |
| Notes to the financial statements | 20 - 71 |

**Board of Directors' Report
For the Year Ended December 31, 2018**

Dear Shareholders,

On behalf of the Board of Directors and myself, it gives me great pleasure to welcome you to the Annual General Meeting to present the financial report for the year 2018 along with the financial statements, as well as the Auditor's report for the year ended 31st of December 2018.

No doubt that the global economies continued to witness challenges that affect many areas of the world. However, The UAE leadership has implemented strong strategic plans to mitigate the effect of these challenges on local economies by enforcing robust regulatory reforms and innovative ideas, leading to improvements in all sectors.

Nowadays, we look forward to the fast approaching Expo 2020 which will certainly further enhance the economic outlook in the coming years.

With regards to the insurance industry, the UAE leadership continues in its efforts to further solidify strong regulations to ensure performance improvements of insurance companies. Despite the challenges of an overcrowded industry, fierce competition, and the challenges of low interest rates on investments, Alliance was able to show strong consistent probability for the last ten years. Alliance has also maintained its (A- Excellent) rating by A.M. Best, for twelve consecutive years. These results are attributed to strong robust strategies implemented with careful analysis of market conditions. This approach by Alliance's Board Members, senior management and employees has maintained a profitable position. This strategy has also ensured the protection of our clients as well as our shareholders.



The following is the overall performance summary of the company for the year 2018 compared with the year 2017:

Please note all figures are in AED

| | AED 2018 | AED 2017 |
|---|---------------------|---------------------|
| | ----- | ----- |
| Cash and cash equivalents / Deposits | 700,737,451 | 665,701,549 |
| Investment in Bonds | 178,652,465 | 212,322,237 |
| Total Assets | 1,331,312,017 | 1,325,569,897 |
| Shareholder Equity | 497,355,279 | 481,630,728 |
| Gross Insurance Premiums | 291,387,544 | 289,989,405 |
| Paid Claims | 60,607,724 | 40,186,430 |
| Profit for the year | 51,269,633 | 48,166,849 |

The net profit for the year 2018 after technical reserves and doubtful debts stands at AED 51,269,633/- compared to 48,166,849/- in 2017.

In light of the results for the financial year ended December 31, 2018, the Board of Directors presents for your consideration the following recommendations:

1. The approval of the Directors' report and the Auditors' report for the year 2018.
2. The approval of the financial statements for the year ended December 31, 2018.



3. To approve the recommendation of the Board for the distribution of profits for the year 2018 and the retained earnings of the year 2017 amounting AED 54,085,116 as follows:
 - a. AED 5,126,963 to be transferred to the Legal Reserve as 10% of the net profit for the year 2018.
 - b. AED 5,126,963 to be transferred to the Regular Reserve as 10% of the net profit for the year 2018.
 - c. AED 30,000,000 (30% of paid-up capital) as cash dividend to shareholders.
 - d. AED 7,000,000 to be transferred to the General Reserve.
 - e. AED 1,440,630 Director's Remuneration.
 - f. AED 5,390,560 Retained Earnings carried forward to next year.
4. To discharge the Chairman, Board of Directors and Auditors from their responsibility for the year ended December 31, 2018.
5. To appoint Auditors for the year 2019 and determine their fees.

In conclusion, the Board of Directors would like to take this opportunity to extend their sincere appreciation and gratitude to His Highness Sheikh Khalifa Bin Zayed Bin Sultan Al Nahyan, the President of the United Arab Emirates, His Highness Sheikh Mohamed Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, and their Highnesses, the brothers' Sheikhs, members of the Supreme Council of the Union for their continuous support to economic institutions and national companies.

We also take this opportunity to express our appreciation to our reinsurance partners who continue to support us. We also express our sincere appreciation to our clients for their trust in our company, and to the management and staff of Alliance for their dedication, hard work and loyalty.

Chairman of the Board
5/3/2019

Independent Auditor's Report To the Shareholders of Alliance Insurance (PSC)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Alliance Insurance (PSC) (the "Company"), which comprise the statement of financial position of the Company as at 31 December 2018, and the income statement of the Company, statement of comprehensive income of the Company, statement of changes in equity of the Company and statement of cash flows of the Company for the year then ended, supplementary statement of financial position for insurance of persons and fund accumulation operations as at 31 December 2018, supplementary income statement for insurance of persons and fund accumulation operations for the year then ended, supplementary statement of financial position for property and liability insurance as at 31 December 2018 and supplementary income statement for property and liability insurance for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

**Independent Auditor's Report
To the Shareholders of Alliance Insurance (PSC) (continued)**

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

i) Valuation of technical provisions

The estimation of liabilities arising from insurance contracts such as unearned premium reserve, deferred reinsurance commission reserve, claims under settlement reserve, incurred but not reported reserve, unallocated loss adjustment expense reserve, unexpired risk reserve and mathematical reserve as disclosed in note 10 to the financial statements, involves a significant degree of judgement. These liabilities are based on the pattern of risk distributions over coverage period, the best-estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs, mortality and persistency (including consideration of policyholder behaviour). Actuarial computations have been used to determine these provisions. Underlying these computations are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Since the determination of such a provision requires the expertise of an external valuation expert who incorporates significant assumptions, judgements and estimations, the valuation of these liabilities was significant to our audit.

We assessed management's calculations of the technical reserves by performing the following procedures:

- Understood and tested the governance process in place to determine the insurance contract liabilities, including testing the associated financial reporting control framework;
- We tested the underlying company data to source documentation;
- Using our actuarial specialist team members, we applied our industry knowledge and experience, and compared the methodology, models and assumptions used against recognised actuarial practices;
- Using our actuarial specialist team members, we checked the mathematical accuracy of the methodology applied on selected classes of business, particularly focusing on the largest and most uncertain reserves.

ii) Valuation of investment property

Management has estimated the fair value of the Company's investment property to be AED 201.25 million as at 31 December 2018 (2017: AED 198.01 million) with a fair valuation gain of AED 3.24 million (2017: AED 4.38 million) recorded in the income statement for the year ended 31 December 2018 as disclosed in note 6 to the financial statements. Independent external valuations were obtained in order to support management's estimates. The valuations were carried out using income capitalisation method which involves certain key assumptions that require significant management judgement including capitalisation rates and fair market rents.

Our procedures in relation to management's valuation of investment property included:

- Evaluation of the independent external valuers' competence, capabilities and objectivity;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the property industry and using our in-house valuation experts; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

**Independent Auditor's Report
To the Shareholders of Alliance Insurance (PSC) (continued)****Report on the Audit of the Financial Statements (continued)****Other Information**

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISA, 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.

**Independent Auditor's Report
To the Shareholders of Alliance Insurance (PSC) (continued)**

Report on the Audit of the Financial Statements (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organization of the Insurance Operations and UAE Federal Law No. (2) of 2015;
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Board of Directors' Report, in so far as it relates to these financial statements, is consistent with the books of account of the Company;
- v) the Company has not purchased any shares during the year ended 31 December 2018 (2017: Nil);

**Independent Auditor's Report
To the Shareholders of Alliance Insurance (PSC) (continued)**

Report on Other Legal and Regulatory Requirements (continued)

- vi) note 26 to the financial statements discloses related party transactions, and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organization of the Insurance Operations and UAE Federal Law No. (2) of 2015 or of its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2018; and
- viii) note 35 to the financial statements discloses the social contributions made during the year ended 31 December 2018.


GRANT THORNTON

Farouk Mohamed
Registered Auditor Number: 86
Dubai – 05 March 2019



Alliance Insurance (PSC)

Statement of financial position of the Company At 31 December 2018

| | Notes | 2018 AED | 2017 AED |
|---|--|--|----------------------|
| Assets | | | |
| Property and equipment | 5 | 5,710,855 | 6,171,779 |
| Investments at amortised cost | 7.3 | 178,652,465 | 212,322,237 |
| Investments carried at fair value through other comprehensive income | 7.2 | 4,497,053 | 8,601,505 |
| Investment property | 6 | 201,250,000 | 198,008,250 |
| Statutory deposits | 9 | 10,000,000 | 10,000,000 |
| Loans guaranteed by life insurance policies | 8 | 45,947,427 | 41,390,375 |
| Premium and insurance balances receivable | 11 | 49,910,745 | 53,231,086 |
| Reinsurers' share of technical reserves | 10 | 127,896,134 | 127,115,136 |
| Other receivables and prepayments | 12 | 16,709,887 | 13,027,980 |
| Deposits | 7.4 | 664,474,859 | 638,769,461 |
| Cash and cash equivalents | 13 | 26,262,592 | 16,932,088 |
| Total assets | | 1,331,312,017 | 1,325,569,897 |
| Shareholders' equity and liabilities | | | |
| Equity attributable to shareholders | | | |
| Issued and paid up share capital | 14 | 100,000,000 | 100,000,000 |
| Retained earnings | | 42,390,560 | 42,815,483 |
| Statutory reserve | 15 | 80,410,216 | 75,283,253 |
| Regular reserve | 15 | 70,821,016 | 65,694,053 |
| General reserve | 15 | 210,000,000 | 200,000,000 |
| Cumulative loss in fair value of investments carried at fair value through other comprehensive income | | (6,266,513) | (2,162,061) |
| Total shareholders' equity | | 497,355,279 | 481,630,728 |
| Liabilities | | | |
| Retirement benefits obligation | 16 | 4,954,181 | 5,081,574 |
| Accounts payable | 17 | 48,502,825 | 46,169,539 |
| | | 53,457,006 | 51,251,113 |
| Insurance liabilities | | | |
| Insurance contract liabilities | 18 | 51,121,277 | 55,998,959 |
| Premium collected in advance | 19 | 9,074,725 | 8,722,384 |
| | | 60,196,002 | 64,721,343 |
| Technical provisions | | | |
| Unearned premium reserve | 10 | 75,697,127 | 70,877,245 |
| Deferred reinsurance commission reserve - net | 10 | (79,754) | 447,432 |
| Claims under settlement reserve | 10 | 76,061,643 | 79,574,602 |
| Incurred but not reported reserve | 10 | 6,367,102 | 5,286,862 |
| Unallocated loss adjustment expense reserve | 10 | 502,307 | 370,837 |
| Unexpired risk reserve | 10 | 664,484 | 707,139 |
| Mathematical reserve | 10 | 561,090,821 | 570,702,596 |
| Total technical provisions | | 720,303,730 | 727,966,713 |
| Total liabilities | | 833,956,738 | 843,939,169 |
| Total shareholders' equity and liabilities | | 1,331,312,017 | 1,325,569,897 |
| Sheikh Ahmed Bin Saeed Al Maktoum Chairman | Saeed Mohammed Al Kamda Vice Chairman | Aimen Saba Azara Board Member and General Manager | |

The accompanying supplementary statements and notes 1 to 38 form an integral part of these financial statements.

Alliance Insurance (PSC)

Income statement of the Company For the year ended 31 December 2018

| | Notes | 2018 AED | 2017 AED |
|--|-------|---------------------|---------------------|
| Gross premiums | 27.1 | 291,387,544 | 289,989,405 |
| Reinsurance share of gross premiums | 27.1 | (141,967,589) | (141,665,390) |
| Net premiums | | 149,419,955 | 148,324,015 |
| Net transfer to unearned premium reserve | 27.1 | (1,157,599) | (5,351,799) |
| Net premiums earned | | 148,262,356 | 142,972,216 |
| Commissions received | 27.3 | 12,844,824 | 12,915,064 |
| Commissions paid | 27.3 | (13,717,521) | (15,054,984) |
| Movement in deferred reinsurance commission reserves – net | 27.3 | 527,186 | 456,115 |
| Gross underwriting income | | 147,916,845 | 141,288,411 |
| Gross claims paid | 27.2 | (60,607,724) | (40,186,430) |
| Reinsurance share of insurance claims and loss adjustment expenses recovered from reinsurers | 27.2 | 37,922,100 | 23,131,540 |
| Net claims paid | | (22,685,624) | (17,054,890) |
| Movement of claims under settlement reserve, incurred but not reported reserve, unallocated loss adjustment expense reserve and unexpired risk reserve | | (537,381) | (2,412,656) |
| Earnings and cancellations of life insurance policies | | (84,443,527) | (93,494,682) |
| Decrease in mathematical reserves | 10.2 | 9,611,775 | 26,333,152 |
| Net claims incurred | 27.2 | (98,054,757) | (86,629,076) |
| Net underwriting income | | 49,862,088 | 54,659,335 |
| Income from financial investments | 22 | 41,640,380 | 39,364,525 |
| Income from investments property – net | 21 | 17,456,034 | 18,007,529 |
| Foreign currency exchange gain | | 297,408 | 567,647 |
| Other income | 23 | 2,706,017 | 2,828,999 |
| Total income | | 111,961,927 | 115,428,035 |
| General and administrative expenses | 20 | (26,381,811) | (26,110,601) |
| Bonuses and rebates (net of reinsurance) | | (31,397,078) | (38,202,210) |
| Other operating expenses | | (2,913,405) | (2,948,375) |
| Net profit for the year | | 51,269,633 | 48,166,849 |
| Earnings per share: | | | |
| Basic and diluted | 25 | 51.27 | 48.17 |

The accompanying supplementary statements and notes 1 to 38 form an integral part of these financial statements.

Alliance Insurance (PSC)

Statement of comprehensive income of the Company For the year ended 31 December 2018

| | 2018 AED | 2017 AED |
|--|-------------------|-------------------|
| Net profit for the year | 51,269,633 | 48,166,849 |
| Other comprehensive income | | |
| <i>Items that will not be subsequently reclassified to profit or loss:</i> | | |
| Net unrealised (loss)/gain from investments carried at fair value through other comprehensive income | (4,104,452) | 511,568 |
| Net realised gain from sale of investments carried at fair value through other comprehensive income | - | 46,482 |
| Total comprehensive income for the year | 47,165,181 | 48,724,899 |

The accompanying supplementary statements and notes 1 to 38 form an integral part of these financial statements.

Alliance Insurance (PSC)

Statement of changes in equity of the Company For the year ended 31 December 2018

| | Share capital AED | Retained earnings AED | Statutory reserve AED | Regular reserve AED | General reserve AED | Cumulative loss in fair value of investments carried at fair value through other comprehensive income AED | Total AED |
|---|----------------------|--------------------------|--------------------------|------------------------|------------------------|---|--------------|
| At 1 January 2018 | 100,000,000 | 42,815,483 | 75,283,253 | 65,694,053 | 200,000,000 | (2,162,061) | 481,630,728 |
| Net profit for the year | - | 51,269,633 | - | - | - | - | 51,269,633 |
| Net unrealised (loss) from investments carried at fair value through other comprehensive income | - | - | - | - | - | (4,104,452) | (4,104,452) |
| Total comprehensive income for the year | - | 51,269,633 | - | - | - | (4,104,452) | 47,165,181 |
| Directors' remuneration (Note 26.3) | - | (1,440,630) | - | - | - | - | (1,440,630) |
| Dividend paid (Note 36) | - | (30,000,000) | - | - | - | - | (30,000,000) |
| Transfer to statutory reserve (note 15.1) | - | (5,126,963) | 5,126,963 | - | - | - | - |
| Transfer to general reserve (note 15.3) | - | (10,000,000) | - | - | 10,000,000 | - | - |
| Transfer to regular reserve (note 15.2) | - | (5,126,963) | - | 5,126,963 | - | - | - |
| Transactions with owners | - | (51,694,556) | 5,126,963 | 5,126,963 | 10,000,000 | - | (31,440,630) |
| At 31 December 2018 | 100,000,000 | 42,390,560 | 80,410,216 | 70,821,016 | 210,000,000 | (6,266,513) | 497,355,279 |

The accompanying supplementary statements and notes 1 to 38 form an integral part of these financial statements

Alliance Insurance (PSC)

Statement of changes in equity of the Company For the year ended 31 December 2018 (continued)

| | Share capital AED | Retained earnings AED | Statutory reserve AED | Regular reserve AED | General reserve AED | Cumulative loss in fair value of investments carried at fair value through other comprehensive income AED | Total AED |
|---|----------------------|--------------------------|--------------------------|------------------------|------------------------|--|--------------|
| At 1 January 2017 | 100,000,000 | 40,576,864 | 70,466,568 | 60,877,368 | 190,000,000 | (2,673,629) | 459,247,171 |
| Net profit for the year | - | 48,166,849 | - | - | - | - | 48,166,849 |
| Net realised gain from sale of investments carried at fair value through other comprehensive income | - | 46,482 | - | - | - | - | 46,482 |
| Net unrealised gain from investments carried at fair value through other comprehensive income | - | - | - | - | - | 511,568 | 511,568 |
| Total comprehensive income for the year | - | 48,213,331 | - | - | - | 511,568 | 48,724,899 |
| Directors' remuneration (Note 26.3) | - | (1,341,342) | - | - | - | - | (1,341,342) |
| Dividend paid (Note 36) | - | (25,000,000) | - | - | - | - | (25,000,000) |
| Transfer to statutory reserve (note 15.1) | - | (4,816,685) | 4,816,685 | - | - | - | - |
| Transfer to general reserve (note 15.3) | - | (10,000,000) | - | - | 10,000,000 | - | - |
| Transfer to regular reserve (note 15.2) | - | (4,816,685) | - | 4,816,685 | - | - | - |
| Transactions with owners | - | (45,974,712) | 4,816,685 | 4,816,685 | 10,000,000 | - | (26,341,342) |
| At 31 December 2017 | 100,000,000 | 42,815,483 | 75,283,253 | 65,694,053 | 200,000,000 | (2,162,061) | 481,630,728 |

The accompanying supplementary statements and notes 1 to 38 form an integral part of these financial statements.

Alliance Insurance (PSC)

Statement of cash flows of the Company For the year ended 31 December 2018

| | Notes | 2018 AED | 2017 AED |
|---|-------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Net profit for the year | | 51,269,633 | 48,166,849 |
| <i>Adjustments:</i> | | | |
| Depreciation | 5 | 1,081,659 | 648,015 |
| Gain on disposal of property and equipment | 23 | - | (20,000) |
| Decrease in mathematical reserve | 10.2 | (9,611,775) | (26,333,152) |
| Interest income from deposits | 22 | (25,179,759) | (26,803,150) |
| Interest income from investments at amortised cost | 22 | (12,650,765) | (9,813,608) |
| Dividend income from investments carried at fair value through other comprehensive income | 22 | (428,291) | (407,896) |
| Interest income from loans guaranteed by life insurance policies | 22 | (3,381,565) | (2,339,871) |
| Income from investment property – net | 21 | (17,456,034) | (18,007,529) |
| Amortisation of fees, premiums and discounts on investments at amortised cost | 7.5 | 125,338 | 18,450 |
| Allowance for expected credit losses | 12.1 | 853,599 | 776,513 |
| Provision for retirement benefit obligation | 16 | 409,078 | 638,648 |
| | | (14,968,882) | (33,476,731) |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Decrease in premiums and insurance balances receivables, other receivables and prepayments | | 2,395,616 | 7,617,378 |
| (Increase)/decrease in reinsurance share of technical reserves | | (780,998) | 9,407,407 |
| Increase/(decrease) in technical reserves | | 1,948,792 | (2,099,067) |
| Decrease in accounts payable, insurance contract liabilities and premium collected in advance | | (6,397,666) | (6,646,276) |
| Cash used in operations | | (17,803,138) | (25,197,289) |
| Retirement benefit obligation paid | 16 | (536,471) | (199,170) |
| Net cash used in operating activities (carried forward to next page) | | (18,339,609) | (25,396,459) |

Alliance Insurance (PSC)

Statement of cash flows of the Company For the year ended 31 December 2018 (continued)

| | Notes | 2018 AED | 2017 AED |
|--|-------|--------------------------|--------------------------|
| Net cash used in operating activities (brought forward from previous page) | | <u>(18,339,609)</u> | <u>(25,396,459)</u> |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | 5 | (620,735) | (1,346,769) |
| Proceeds from sale of property and equipment | | - | 20,000 |
| Proceeds from sale of investment carried at fair value through other comprehensive income | | - | 88,832 |
| Net (increase)/decrease in loans guaranteed by life insurance policies | | (1,175,487) | 1,420,855 |
| Investments at amortised cost encashed/(purchased)-net | | 33,544,434 | (84,794,413) |
| Income received on deposits | | 16,864,500 | 26,629,066 |
| Income received from investments at amortised cost | | 12,776,562 | 8,829,813 |
| Dividend income received from investments carried at fair value through other comprehensive income | 22 | 428,291 | 407,896 |
| Deposits (made)/encashed during the year | | (17,390,139) | 85,650,000 |
| Income received from investment property | | 13,242,687 | 13,106,484 |
| Net cash generated from investing activities | | <u>57,670,113</u> | <u>50,011,764</u> |
| Cash flows from financing activity | | | |
| Dividends paid | 36 | (30,000,000) | (25,000,000) |
| Cash used in financing activity | | <u>(30,000,000)</u> | <u>(25,000,000)</u> |
| Net increase/(decrease) in cash and cash equivalents | | 9,330,504 | (384,695) |
| Cash and cash equivalents at 1 January | | 16,932,088 | 17,316,783 |
| Cash and cash equivalents at 31 December | 13 | <u>26,262,592</u> | <u>16,932,088</u> |

The accompanying supplementary statements and notes 1 to 38 form an integral part of these financial statements.

Alliance Insurance (PSC)

Supplementary statement of financial position for insurance of persons and fund accumulation operations At 31 December 2018

| | 2018 AED | 2017 AED |
|---|--------------------|--------------------|
| Assets | | |
| Property and equipment | 3,414,016 | 3,585,256 |
| Investments at amortised cost | 123,358,105 | 145,969,139 |
| Investment property | 119,269,000 | 116,034,300 |
| Statutory deposits | 2,000,000 | 2,000,000 |
| Loans guaranteed by life insurance policies | 45,947,427 | 41,390,375 |
| Premium and insurance balances receivable | 114,662 | 235,189 |
| Reinsurers' share of technical reserves | 1,422,583 | 1,809,237 |
| Other receivables and prepayments | 4,060,344 | 3,697,453 |
| Deposits | 398,478,360 | 383,971,206 |
| Cash and cash equivalents | 5,864,857 | 4,462,392 |
| Inter-division balance | 142,595,947 | 150,722,891 |
| Total assets | 846,525,301 | 853,877,438 |
| Shareholders' equity and liabilities * | | |
| Issued and paid up share capital | 50,000,000 | 50,000,000 |
| Retained earnings | 15,609,234 | 20,951,355 |
| Statutory reserve | 38,166,241 | 36,322,546 |
| Regular reserve | 33,371,641 | 31,527,946 |
| General reserve | 102,113,261 | 97,219,855 |
| Total shareholders' equity | 239,260,377 | 236,021,702 |
| Liabilities | | |
| Retirement benefits obligation | 2,622,067 | 2,858,240 |
| Accounts payable | 9,567,748 | 9,259,935 |
| | 12,189,815 | 12,118,175 |
| Insurance liabilities | | |
| Insurance contract liabilities | 20,811,069 | 21,723,432 |
| Premiums collected in advance | 9,074,725 | 8,722,384 |
| | 29,885,794 | 30,445,816 |
| Technical provisions | | |
| Unearned premium reserve | 787,124 | 1,000,934 |
| Deferred reinsurance commission reserve – net | (70,941) | (100,032) |
| Claims under settlement reserve | 3,267,811 | 3,581,794 |
| Incurred but not reported reserve | 102,559 | 94,339 |
| Unallocated loss adjustment expense reserve | 11,941 | 12,114 |
| Mathematical reserve | 561,090,821 | 570,702,596 |
| Total technical provisions | 565,189,315 | 575,291,745 |
| Total liabilities | 607,264,924 | 617,855,736 |
| Total shareholders' equity and liabilities | 846,525,301 | 853,877,438 |

* In the prior year, in order to comply with the requirements of the Insurance Authority UAE, management elected to split shareholders' equity in the ratio of 1:1 between persons and fund accumulation operations, and property and liability insurance, retrospectively effective 31 December 2015.

Alliance Insurance (PSC)

Supplementary income statement for insurance of persons and fund accumulation operations For the year ended 31 December 2018

| | 2018 AED | 2017 AED |
|--|---------------------|---------------------|
| Gross premiums | 108,320,418 | 108,849,932 |
| Reinsurance share of gross premiums | <u>(3,650,665)</u> | <u>(4,157,455)</u> |
| Net premiums | 104,669,753 | 104,692,477 |
| Net transfer to unearned premium reserve | <u>11,182</u> | 433,955 |
| Net premiums earned | 104,680,935 | 105,126,432 |
| Commissions received | 1,075,979 | 1,147,267 |
| Commissions paid | <u>(8,985,868)</u> | <u>(9,848,540)</u> |
| Movement in deferred reinsurance commission reserve – net | <u>(29,091)</u> | <u>(34,602)</u> |
| Gross underwriting income | 96,741,955 | 96,390,557 |
| Gross claims paid | <u>(2,369,274)</u> | <u>(3,539,751)</u> |
| Reinsurance share of insurance claims and loss adjustment expenses recovered from reinsurers | <u>888,519</u> | <u>1,791,831</u> |
| Net claims paid | (1,480,755) | (1,747,920) |
| Movement of claims under settlement reserve, incurred but not reported reserve and unallocated loss adjustment expense reserve | <u>121,910</u> | <u>(588,136)</u> |
| Earnings and cancellations of life insurance policies | <u>(84,443,527)</u> | <u>(93,494,682)</u> |
| Decrease in mathematical reserves | <u>9,611,775</u> | <u>26,333,152</u> |
| Net claims incurred | (76,190,597) | (69,497,586) |
| Net underwriting income | 20,551,358 | 26,892,971 |
| Income from financial investments | 27,311,731 | 26,048,592 |
| Income from investment property – net | 12,351,387 | 12,309,608 |
| Foreign currency exchange gain | 373,174 | 377,562 |
| Other gain | <u>198,415</u> | <u>268,075</u> |
| Total income | 60,786,065 | 65,896,808 |
| General and administrative expenses | <u>(10,561,619)</u> | <u>(10,798,269)</u> |
| Bonuses and rebates (net of reinsurance) | <u>(31,397,078)</u> | <u>(38,202,210)</u> |
| Other operating expenses | <u>(390,411)</u> | <u>(387,701)</u> |
| Net profit for the year | 18,436,957 | 16,508,628 |

Alliance Insurance (PSC)

Supplementary statement of financial position for property and liability insurance At 31 December 2018

| | 2018 AED | 2017 AED |
|---|--------------------|--------------------|
| Assets | | |
| Property and equipment | 2,296,839 | 2,586,523 |
| Investments at amortised cost | 55,294,360 | 66,353,098 |
| Investments carried at fair value through other comprehensive income | 4,497,053 | 8,601,505 |
| Investment property | 81,981,000 | 81,973,950 |
| Statutory deposits | 8,000,000 | 8,000,000 |
| Premium and insurance balances receivable | 49,796,083 | 52,995,897 |
| Reinsurers' share of technical reserves | 126,473,551 | 125,305,899 |
| Other receivables and prepayments | 12,649,543 | 9,330,527 |
| Deposits | 265,996,499 | 254,798,255 |
| Cash and cash equivalents | 20,397,735 | 12,469,696 |
| Total assets | 627,382,663 | 622,415,350 |
| Shareholders' equity and liabilities | | |
| Equity attributable to shareholders* | | |
| Issued and paid up share capital | 50,000,000 | 50,000,000 |
| Retained earnings | 26,781,326 | 21,864,128 |
| Statutory reserve | 42,243,975 | 38,960,707 |
| Regular reserve | 37,449,375 | 34,166,107 |
| General reserve | 107,886,739 | 102,780,145 |
| Cumulative loss in fair value of investments carried at fair value through other comprehensive income | (6,266,513) | (2,162,061) |
| Total shareholders' equity | 258,094,902 | 245,609,026 |
| Liabilities | | |
| Retirement benefit obligation | 2,332,114 | 2,223,334 |
| Accounts payable | 38,935,077 | 36,909,604 |
| Inter-division balance | 142,595,947 | 150,722,891 |
| | 183,863,138 | 189,855,829 |
| Insurance liabilities | | |
| Insurance contract liabilities | 30,310,208 | 34,275,527 |
| Technical provisions | | |
| Unearned premium reserve | 74,910,003 | 69,876,311 |
| Deferred reinsurance commission reserve - net | (8,813) | 547,464 |
| Claims under settlement reserve | 72,793,832 | 75,992,808 |
| Incurred but not reported reserve | 6,264,543 | 5,192,523 |
| Unallocated loss adjustment expense reserve | 490,366 | 358,723 |
| Unexpired risk reserve | 664,484 | 707,139 |
| Total technical provisions | 155,114,415 | 152,674,968 |
| Total liabilities | 369,287,761 | 376,806,324 |
| Total shareholders' equity and liabilities | 627,382,663 | 622,415,350 |

* In the prior year, in order to comply with the requirements of the Insurance Authority UAE, management elected to split shareholders' equity in the ratio of 1:1 between persons and fund accumulation operations, and property and liability insurance, retrospectively effective 31 December 2015.

Alliance Insurance (PSC)

Supplementary income statement for property and liability insurance For the year ended 31 December 2018

| | 2018 AED | 2017 AED |
|--|----------------------|---------------|
| Gross premiums | 183,067,126 | 181,139,473 |
| Reinsurance share of gross premiums | (138,316,924) | (137,507,935) |
| Net premiums | 44,750,202 | 43,631,538 |
| Net transfer to unearned premium reserve | (1,168,781) | (5,785,754) |
| Net premiums earned | 43,581,421 | 37,845,784 |
| Commissions received | 11,768,845 | 11,767,797 |
| Commissions paid | (4,731,653) | (5,206,444) |
| Movement in deferred reinsurance commission reserve – net | 556,277 | 490,717 |
| Gross underwriting income | 51,174,890 | 44,897,854 |
| Gross claims paid | (58,238,450) | (36,646,679) |
| Reinsurance share of insurance claims and loss adjustment expenses recovered from reinsurers | 37,033,581 | 21,339,709 |
| Net claims paid | (21,204,869) | (15,306,970) |
| Movement of claims under settlement reserve, incurred but not reported reserve, unallocated loss adjustment expense reserve and unexpired risk reserve | (659,291) | (1,824,520) |
| Net claims incurred | (21,864,160) | (17,131,490) |
| Net underwriting income | 29,310,730 | 27,766,364 |
| Income from financial investments | 14,328,649 | 13,315,933 |
| Income from investment property -net | 5,104,647 | 5,697,921 |
| Foreign currency exchange loss | (75,766) | 190,085 |
| Other gain | 2,507,602 | 2,560,924 |
| Total income | 51,175,862 | 49,531,227 |
| General and administrative expenses | (15,820,192) | (15,312,332) |
| Other operating expenses | (2,522,994) | (2,560,674) |
| Net profit for the year | 32,832,676 | 31,658,221 |

Alliance Insurance (PSC)

Notes to the financial statements For year ended 31 December 2018

1. General information

Alliance Insurance (PSC) (the "Company") is a Public Shareholding Company which was originally established in Dubai on 1 July 1975 as a limited liability company under the name of Credit and Commerce Insurance Company. The Company was subsequently incorporated in Dubai on 6 January 1982 as a limited liability company under an Emiri Decree. The Company was converted to a Public Shareholding Company (P.S.C.) in January 1995, in accordance with the United Arab Emirates (UAE) Federal Commercial Companies Law. The Company's shares are listed on the Dubai Financial Market.

The licensed activities of the Company are issuing short term and long term insurance contracts. The insurance contracts are issued in connection with property, motor, aviation and marine risks (collectively known as general insurance) and individual life (participating and non-participating), group life, personal accident, medical and investment linked products.

The registered address of the Company is Warba Centre, P.O. Box 5501, Dubai, United Arab Emirates.

2 Statement of compliance with IFRS

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

2.1 Standards, interpretations and amendments to existing standards

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

The following relevant amendments to existing standards were issued by the IASB, which are effective for the accounting period beginning on or after 1 January 2018 and have been adopted by the Company:

| Standard number | Title | Effective date |
|-----------------|---|----------------|
| IFRS 9 | "Financial Instruments" | 1 January 2018 |
| IFRS 4 | Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance contracts" | 1 January 2018 |
| IFRS 15 | "Revenue from Contracts with Customers" | 1 January 2018 |

The adoption of the new and amended standards and interpretations have been reflected in these financial statements as appropriate in terms of disclosures but do not have an impact on the financial position or performance of the Company during the year.

IFRS 9 "Financial Instruments"

The finalised version of IFRS 9 "Financial instruments" was issued in July 2014 mainly to include a) impairment requirements of financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive (FVTOCI)" measurement category for certain debt instruments.

The Company has earlier adopted the first phase of the IFRS 9 with regards to classification and measurement of financial instruments and adopted the final phase of IFRS 9 (impairment and hedge accounting) on the effective date from 1 January 2018, which resulted in changes in accounting policies for impairment of financial assets.

Alliance Insurance (PSC)

Notes to the financial statements For year ended 31 December 2018 (continued)

2 Statement of compliance with IFRS (continued)

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

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

The Company made an assessment of the financial impact particularly with regards to the impairment of financial assets for the comparative periods and it was deemed to be immaterial. Consequently, no adjustment was required to the opening retained earnings.

IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 “Financial Instruments: Disclosures”.

Amendments to IFRS 4: Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance contracts”

These amendments did not have any impact in the financial statements as the Company is not eligible for the temporary exemption and did not have any eligible financial assets for which the overlay approach is applicable.

IFRS 15 “Revenue from Contracts with Customers”

During the year the Company has applied IFRS 15 “Revenue from Contracts with Customers” with a date of initial application of 1 January 2018. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer.

The Company has not identified any material impact on the financial statements for the year ending 31 December 2018 as a result of adopting IFRS 15 and therefore no transition adjustment is presented.

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

At the date of authorisation of these financial statements, the following relevant new standards and amendments to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

| Standard number | Title | Effective date |
|------------------------|---------------------|-----------------------|
| IFRS 16 | Leases | 1 January 2019 |
| IFRS 17 | Insurance contracts | 1 January 2022 |

Management anticipates that all of the above mentioned amendments will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on these relevant amendments that are not yet effective have been provided below. The Company's management has yet to assess the impact of these amendments on the Company's financial statements, unless specifically stated.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

2 Statement of compliance with IFRS (continued)

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

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

IFRS 16 Leases (effective for accounting period beginning on or after 1 January 2019)

IFRS 16 'Leases' brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

IFRS 17 Insurance contracts (effective for accounting period beginning on or after 1 January 2021 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied)

IFRS 17 Insurance contracts combine features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period. To provide useful information about these features, IFRS 17:

- combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract;
- presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
- requires an entity to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income.

The key principles in IFRS 17 are that an entity;

- identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- divides the contracts into groups that it will recognise and measure;
- recognises and measures groups of insurance contracts at:
 - i. a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)
 - ii. an amount representing the unearned profit in the group of contracts (the contractual service margin);
- recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately;
- presents separately insurance revenue (that excludes the receipt of any investment component), insurance service expenses (that excludes the repayment of any investment components) and insurance finance income or expenses; and
- discloses information to enable users of financial statements to assess the effect that that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

IFRS 17 includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are summarised below. These policies have been consistently applied to each of the years presented.

3.1 Basis of preparation

The financial statements have been prepared on the historical cost basis except for investment property and financial instruments that have been measured at revalued amounts, amortised cost or fair value as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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 categorised 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 measurements 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 assets or liability.

The Company presents its statement of financial position broadly in order of liquidity.

The principal accounting policies are set out on the next page.

3.2 Insurance contracts

3.2.1 Product classification

Insurance contracts are those contracts for which the Company (the insurer) has accepted the significant insurance risk from another party (policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. An insurance contract can also transfer financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable provided in case of a non-financial variable, that the variable is not specific to a party to the contract.

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

3.2.2 Recognition and measurement

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

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.2 Insurance contracts (continued)

3.2.2 Recognition and measurement (continued)

These contracts are general insurance contracts and life assurance contracts.

3.2.3 General insurance contracts

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown in the income statement before deduction of commission.

Claims and loss adjustment expenses are charged to the income statement as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

3.2.4 Life assurance contracts

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

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

A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums are recognised. The liability is based on the assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions.

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

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

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

3.2.5 Reinsurance contracts

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are recognised as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer, are included in insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts are recognised as reinsurance contract assets.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.2 Insurance contracts (continued)

3.2.5 Reinsurance contracts (continued)

The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract assets are impaired, the Company reduces the carrying amount of the reinsurance contract assets to their recoverable amounts and recognises that impairment loss in the income statement. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

The Company also assumes reinsurance risk in the normal course of business for life insurance and general insurance contracts where applicable. Premium and claims on assumed reinsurance contracts are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

3.2.6 Insurance contract liabilities

3.2.6.1 Unearned premium reserve

At the end of the reporting period, proportions of net retained premium of the general insurance, group life and medical insurance are provided, based on actuarial estimates obtained from an independent actuary, to cover portions of risks which have not expired on time proportion basis except for marine which is calculated at 25%.

3.2.6.2 Outstanding claims

Insurance contract liabilities towards outstanding claims are recognised for all claims intimated and unpaid at the end of the reporting period. These liabilities are known as the claims under settlement reserve, which is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when it is expired, discharged or cancelled.

3.2.6.3 Unit linked liabilities

For unit linked policies, liability is equal to the policy account values. The account value is the number of units times the unit price.

3.2.6.4 Incurred but not reported reserve

A provision is made for any claims incurred but not reported (IBNR) at the reporting date based on an actuarial estimate obtained from an independent actuary. The method used to calculate claims incurred but not reported takes into account certain ratios based on historical data, past estimates and details of reinsurance programs to assess the quantum of reinsurance recoveries.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.2 Insurance contracts (continued)

3.2.6 Insurance contract liabilities (continued)

3.2.6.5 Unallocated loss adjustment expense reserve

A provision for Unallocated Loss Adjustment Expenses (ULAE), which cannot be allocated to specific claims, is made at the reporting date based on actuarial estimates obtained from an independent actuary.

3.2.6.6 Unexpired risk reserve

A provision set aside in order to provide for claims and expenses which will emerge from unexpired risks and which is over and above the unearned premium reserve pertaining to the same risks as the same valuation date.

3.2.6.7 Mathematical reserve

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

3.2.7 Deferred policy acquisition costs

Commissions and other acquisition costs are related to securing new insurance contracts and renewing existing insurance contracts. These costs include commission or brokerage fee paid to agents or brokers.

Acquisition costs are deferred, where they relate to unearned premium. The deferred acquisition costs are amortised on the same basis as the earning pattern of insurance premiums over the life of the related insurance contract.

3.2.8 Liability adequacy test

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

3.2.9 Receivables and payables related to insurance contracts

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

Refer to note 3.12.5 with respect to impairment of insurance receivables.

3.2.10 Salvage and subrogation reimbursements

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

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business.

3.3.1 Revenue from insurance contracts

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements.

3.3.2 Commission income

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

The Company is deferring these amounts and recognising as income using the same methodology adopted for amortisation of the related policy acquisition cost.

3.3.3 Dividend income

Dividend income is recognised when the Company's right to receive the payment has been established.

3.3.4 Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.3.5 Rental income

Rental income from investment property is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

3.4 Foreign currencies

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

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in income statement in the year in which they arise.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.5 Property and equipment

Land is not depreciated and is stated at cost.

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

Other property and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

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

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

The useful lives considered in the calculation of depreciation for the assets are 4 years except for building which has a useful life of 10 years.

3.6 Investment property

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

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

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

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

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.7 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of their tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.8 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, (where the effect of time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.9 Employee benefits

3.9.1 Defined contribution plan

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

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.9 Employee benefits (continued)

3.9.2 Annual leave and leave passage

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

3.9.3 Provision for employees' end of service indemnity

Provision is made for the full amount of end of service benefits due to non-UAE national employees in accordance with the UAE Labour Law and is based on current remuneration and their period of service at the end of the reporting period.

3.10 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Company has no finance leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

3.11 Financial instruments

3.11.1 Recognition and measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

A financial asset and financial liability is offset and the net amount is reported in the financial statements only when there is legally enforceable right to set off the recognised amount and the Company intends either to settle on a net basis or realise the assets and settle the liabilities simultaneously.

3.12 Financial assets

All financial assets are recognised and derecognised on trade date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs. All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

3.12.1 Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under IAS 32 Financial Instruments: Presentation) except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.2 *Financial assets at amortised cost and the effective interest method*

Debt instruments are measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment (see 3.12.5 below), with interest income recognised on an effective yield basis (note 3.3.4).

Subsequent to initial recognition, the Company is required to reclassify debt instruments from amortised cost to fair value through income statement if the objective of the business model changes so that the amortised cost criteria are no longer met.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts (including all fees on 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 period, to the net carrying amount on initial recognition.

The Company may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

3.12.2.1 *Cash and cash equivalents*

Cash and cash equivalents, which include cash on hand and current accounts with banks, are classified as financial assets at amortised cost.

3.12.2.2 *Insurance and other receivables, deposits and statutory deposits*

Insurance and other receivables (excluding prepayments), deposits and statutory deposits are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

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

- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value of securities reserve. The cumulative gain or loss will not be reclassified to income statement on disposal of the investments, but reclassified to retained earnings.

The Company has designated all investments in equity instruments that are not held for trading as at FVTOCI.

Dividends on these investments in equity instruments at FVTOCI are recognised in income statement when the Company's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

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

Investments in equity instruments are classified as at FVTPL, unless the Company designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see 3.12.3).

Debt instruments that do not meet the amortised cost criteria (see 3.12.2) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the income statement. Fair value is determined in the manner described in note 34.3.

Dividend income on investments in equity instruments at FVTPL is recognised in the income statement when the Company's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

3.12.5 *Impairment of financial assets*

IFRS 9 replaces the 'incurred loss' model in International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement" with an Expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortised cost, and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 "Financial Instruments: Recognition and Measurement".

The financial assets at amortised cost consist of premiums and other receivables (excluding prepayments), cash and cash equivalents, investments at amortised cost and due from related parties.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.5 Impairment of financial assets (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt securities (investments at amortised cost) that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of “investment grade”.

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

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences an increase in SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

The Company has adopted simplified approach in case of insurance and other receivables. In case of financial assets for which simplified approach is adopted lifetime expected credit loss is recognised.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.5 Impairment of financial assets (continued)

Measurement of ECLs (continued)

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Forward-looking information

The measurement of expected credit losses considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

Macroeconomic factors

In its models, the Company relies on a broad range of forward looking information as economic inputs, such as: GDP, GDP annual growth rate, unemployment rates, inflation rates, interest rates, etc. Various macroeconomic variables considered are Brent, CPI, Stock, Inflation and Loans to private sector.

The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.

Definition of default

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of an amount due to the Company on terms that the Company would not otherwise consider, indication that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse change in the payment status of borrowers or issuers, or economic conditions that correlate with defaults in the Company.

In assessing whether a borrower is in default, the Company considers indicators that are:

- Qualitative – e.g. breaches of covenant,
- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.6 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost or measured at FVTPL, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair value of securities reserve is not reclassified to income statement, but is reclassified to retained earnings.

3.13 Financial liabilities and equity instruments issued by the Company

3.13.1 Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3.14 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at proceeds received, net of direct issue costs.

3.15 Financial liabilities

All financial liabilities are initially measured at fair value net of transactions costs except financial liabilities at fair value through profit or loss (FVTPL) which are initially measured at fair value. All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL. The Company does not have any financial liabilities measured at FVTPL.

3.15.1 Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of the reporting period. The Company's financial liabilities measured at amortised costs include insurance and other payables (excluding premiums received in advance and rent received in advance).

The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method with interest expense that is not capitalised as part of the cost of an asset, recognised in income statement except for short term payables where the recognition of interest would be immaterial.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018(continued)

3. Summary of significant accounting policies (continued)

3.15 Financial liabilities (continued)

3.15.1 Financial liabilities subsequently measured at amortised cost (continued)

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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 financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.15.2 Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the income statement.

3.15.3 Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in income statement.

3.16 Dividend distribution

Dividend distribution to the Shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Shareholders.

4. Critical accounting judgements and key sources of estimation of uncertainty

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The significant judgements and estimates made by management that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see 4.2), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

4.1.1 Classification of investments

Management determines at the time of acquisition of securities whether these should be classified as at FVTOCI, FVTPL, or amortised cost.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

4. Critical accounting judgements and key sources of estimation of uncertainty (continued)

4.1 Critical judgements in applying accounting policies (continued)

4.1.1 *Classification of investments (continued)*

In determining whether investments in securities are classified as at FVTOCI, or amortised cost, management has considered the detailed criteria for determination of such classification as set out in IFRS 9 Financial Instruments. Management is satisfied that the Company's investments in securities are appropriately classified.

4.1.2 *Classification of properties*

In the process of classifying properties, management has made various judgments. Judgments are needed to determine whether a property qualifies as an investment property, property and equipment, property under development and/or property held for sale. Management develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment, property under development and property held for sale. In making its judgment, management has considered the detailed criteria and related guidance set out in IAS 2 – Inventories, IAS 16 – Property, Plant and Equipment, and IAS 40 – Investment Property, with regards to the intended use of the property.

4.1.3 *Financial investments at amortised costs*

Management has reviewed the Company's financial investments at amortised cost in the light of its capital maintenance and liquidity requirements and has confirmed the Company's positive intent and ability to hold these assets until their maturity so as to collect the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Details of these assets are set out in note 7.3.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 *The ultimate liability arising from claims made under insurance contracts*

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

4.2.2 *Impairment of financial assets*

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of Expected Credit Losses ("ECL").

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

4. Critical accounting judgements and key sources of estimation of uncertainty (continued)

4.2 Key sources of estimation uncertainty (continued)

4.2.2 *Impairment of financial assets (continued)*

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

4.2.3 *Liability adequacy test*

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

4.2.4 *Actuarial valuation of life assurance fund*

Mortality and withdrawal rate assumptions used in actuarial valuation of life fund are based on experience and the most current industry standard mortality table.

4.2.5 *Provision for claims incurred but not reported (IBNR)*

This reserve represents management's best estimates of potential liabilities at the end of the reporting period in respect of premium deficiency, IBNR and shortfall in the estimated amounts of the unpaid reported claims.

4.2.6 *Amortisation of deferred acquisition costs ("DAC")*

Deferred acquisition costs are amortised using methods that provide the most appropriate bases of recognising acquisition costs as expenses in line with the recognition of revenue from related insurance contracts. The various assumptions, inputs and estimates are used in these calculations by management.

Alliance Insurance (PSC)

**Notes to the financial statements
For the year ended 31 December 2018 (continued)**

5. Property and equipment

| Cost | Land AED | Building AED | Furniture and fixtures AED | Office equipment AED | Motor vehicles AED | Capital work-in- progress AED | Total AED |
|-------------------------------------|---------------------|-------------------------|---|-------------------------------------|-------------------------------|--|----------------------|
| At 31 December 2016 | 2,470,555 | 1,691,577 | 4,508,375 | 2,695,215 | 801,238 | 78,000 | 12,244,960 |
| Additions | - | - | 68,520 | 58,249 | 95,000 | 1,125,000 | 1,346,769 |
| Reclassifications | - | - | - | 1,203,000 | - | (1,203,000) | - |
| Disposals | - | - | (267,441) | (75,464) | (96,000) | - | (438,905) |
| At 31 December 2017 | 2,470,555 | 1,691,577 | 4,309,454 | 3,881,000 | 800,238 | - | 13,152,824 |
| Additions | - | - | 255,367 | 245,368 | - | 120,000 | 620,735 |
| Disposals | - | - | - | - | (166,000) | - | (166,000) |
| At 31 December 2018 | 2,470,555 | 1,691,577 | 4,564,821 | 4,126,368 | 634,238 | 120,000 | 13,607,559 |
| Accumulated depreciation | | | | | | | |
| At 31 December 2016 | - | 170,538 | 4,228,960 | 2,010,656 | 361,781 | - | 6,771,935 |
| Charge for the year | - | 170,538 | 104,088 | 253,277 | 120,112 | - | 648,015 |
| Disposal | - | - | (267,441) | (75,464) | (96,000) | - | (438,905) |
| At 31 December 2017 | - | 341,076 | 4,065,607 | 2,188,469 | 385,893 | - | 6,981,045 |
| Charge for the year | - | 170,538 | 126,408 | 644,988 | 139,725 | - | 1,081,659 |
| Disposals | - | - | - | - | (166,000) | - | (166,000) |
| At 31 December 2018 | - | 511,614 | 4,192,015 | 2,833,457 | 359,618 | - | 7,896,704 |
| Carrying amount | | | | | | | |
| At 31 December 2018 | 2,470,555 | 1,179,963 | 372,806 | 1,292,911 | 274,620 | 120,000 | 5,710,855 |
| At 31 December 2017 | 2,470,555 | 1,350,501 | 243,847 | 1,692,531 | 414,345 | - | 6,171,779 |

Alliance Insurance (PSC)

Notes to the financial statements For the year ended 31 December 2018 (continued)

6. Investment property

| | 2018 AED | 2017 AED |
|--|--------------------|--------------------|
| At 1 January 2018 | 198,008,250 | 193,624,687 |
| Increase in fair value during the year (note 21) | 3,241,750 | 4,383,563 |
| At 31 December 2018 | 201,250,000 | 198,008,250 |

Investment property comprises two commercial buildings in Dubai, United Arab Emirates.

The Company occupies part of a commercial building for use in its own business. The Directors consider it appropriate for fair presentation to include this property under investment property rather than a part as 'owner occupied properties' under property and equipment as the Company occupies an insignificant area of the property for business use.

The fair value of the Company's investment property as at 31 December 2018 and 2017 has been arrived at on the basis of valuations carried on the reporting date by independent valuers who are not related to the Company and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates.

The fair value was determined based on the net income capitalisation method, where the market rentals of all lettable units of the properties are assessed by reference to the rental achieved in the lettable units. The capitalisation rate adopted is determined by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective property. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Company's investment property is classified as Level 3 in the fair value hierarchy as at 31 December 2018 (2017: Level 3).

7. Financial investments

7.1 Composition of financial investments

The Company's financial investments at the end of reporting period are detailed below:

| | 2018 AED | 2017 AED |
|---|--------------------|--------------------|
| Investments carried at fair value through other comprehensive income (note 7.2) | 4,497,053 | 8,601,505 |
| Investments at amortised cost (note 7.3) | 178,652,465 | 212,322,237 |
| Deposits (note 7.4) | 664,474,859 | 638,769,461 |
| | 847,624,377 | 859,693,203 |

Alliance Insurance (PSC)

Notes to the financial statements For the year ended 31 December 2018 (continued)

7. Financial investments (continued)

7.2 Investments carried at fair value through other comprehensive income

| | 2018 AED | 2017 AED |
|-----------------------------------|-------------|-------------|
| - Quoted equity securities in UAE | 4,497,053 | 8,601,505 |

7.3 Investments at amortised cost

| | 2018 AED | 2017 AED |
|----------------|--------------------|--------------------|
| Quoted bonds | 148,630,471 | 145,698,268 |
| Unquoted bonds | 30,021,994 | 66,623,969 |
| | <u>178,652,465</u> | <u>212,322,237</u> |

The bonds carry interest at the rates of 4.75% to 7.50% (2017: 4.75% to 7.50%) per annum and interest is payable semi-annually. The Company holds these investments with the objective of receiving the contractual cash flows over the instruments life. As at 31 December 2018, the allowance for expected credit loss was nil (2017: nil)

7.4 Deposits

| | 2018 AED | 2017 AED |
|---------------------------------------|--------------------|--------------------|
| Short term deposits with banks in UAE | 200,745,139 | 243,250,000 |
| Accrued interest | 2,550,843 | 5,060,742 |
| | <u>203,295,982</u> | <u>248,310,742</u> |
| Long term deposits with banks in UAE | 445,800,000 | 385,905,000 |
| Accrued interest | 15,378,877 | 4,553,719 |
| | <u>461,178,877</u> | <u>390,458,719</u> |
| Total deposits | <u>664,474,859</u> | <u>638,769,461</u> |

Deposits comprise fixed deposits with banks bearing annual interest at rates ranging from 1.5 % to 5.25 % (31 December 2017: 1.00% to 5.25%). As at 31 December 2018, the allowance for expected credit loss was nil (2017: nil).

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

7. Financial investments (continued)

7.5 Movements in financial investments

The movements in investments at fair value through other comprehensive income and investments at amortised cost are as follows:

| | Fair value through other comprehensive income AED | Amortised cost AED | Total AED |
|-----------------------|---|--------------------------|--------------|
| At 31 December 2016 | 8,132,287 | 127,546,274 | 135,678,561 |
| Purchases | - | 84,794,413 | 84,794,413 |
| Matured | (42,350) | - | (42,350) |
| Amortisation | - | (18,450) | (18,450) |
| Changes in fair value | 511,568 | - | 511,568 |
| At 31 December 2017 | 8,601,505 | 212,322,237 | 220,923,742 |
| Purchases | - | 3,155,566 | 3,155,566 |
| Matured | - | (36,700,000) | (36,700,000) |
| Amortisation | - | (125,338) | (125,338) |
| Changes in fair value | (4,104,452) | - | (4,104,452) |
| At 31 December 2018 | 4,497,053 | 178,652,465 | 183,149,518 |

8. Loans guaranteed by life insurance policies

| | 2018 AED | 2017 AED |
|----------------------------------|--------------|--------------|
| At 1 January | 41,390,375 | 40,471,359 |
| Loans sanctioned during the year | 35,871,596 | 30,679,878 |
| Repayment during the year | (28,718,430) | (27,737,666) |
| Accrued interest on loans | (2,596,114) | (2,023,196) |
| At 31 December | 45,947,427 | 41,390,375 |

The interest on loans guaranteed by life insurance policies for the current year is 8% (2017: 8%). As at 31 December 2018, the allowance for expected credit loss was nil (2017: nil)

9. Statutory deposits

A deposit of AED 10,000,000 (2017: AED 10,000,000) has been placed with one of the Company's bankers, in accordance with Article 42 of UAE Federal Law No. 6 of 2007 regarding Establishment of the Insurance Authority and Organization of its Operations. This deposit has been pledged to the bank as security against a guarantee issued by the Bank in favor of the Insurance Authority for the same amount. This deposit cannot be withdrawn without prior approval of the Insurance Authority and bears an interest at the rate of 3% per annum. (2017 : 3% to 3.5% per annum).

Alliance Insurance (PSC)

Notes to the financial statements
For the year ended 31 December 2018 (continued)

| 10. Technical provisions | 2018 | | | 2017 | | |
|--|---------------------------------|--|--------------------|---------------------------------|--|--------------------|
| | Gross technical reserves AED | Reinsurers' share of technical reserves AED | Net AED | Gross technical reserves AED | Reinsurers' share of technical reserves AED | Net AED |
| Insurance of persons and fund accumulation | | | | | | |
| Unearned premium reserve | 787,124 | (317,741) | 469,383 | 1,000,934 | (520,369) | 480,565 |
| Deferred acquisition cost – net | (70,941) | - | (70,941) | (100,032) | - | (100,032) |
| Claims under settlement reserve | 3,267,811 | (1,104,842) | 2,162,969 | 3,581,794 | (1,288,868) | 2,292,926 |
| Incurred but not reported reserve | 102,559 | - | 102,559 | 94,339 | - | 94,339 |
| Unallocated loss adjustment expense reserve | 11,941 | - | 11,941 | 12,114 | - | 12,114 |
| Mathematical reserve (note 10.2) | 561,090,821 | - | 561,090,821 | 570,702,596 | - | 570,702,596 |
| | (i) | (1,422,583) | 563,766,732 | 575,291,745 | (1,809,237) | 573,482,508 |
| Property and liability insurance | | | | | | |
| Unearned premium reserve | 74,910,003 | (54,066,474) | 20,843,529 | 69,876,311 | (50,201,563) | 19,674,748 |
| Deferred (acquisition cost)/reinsurance commission reserve - net | (8,813) | - | (8,813) | 547,464 | - | 547,464 |
| Claims under settlement reserve | 72,793,832 | (68,094,199) | 4,699,633 | 75,992,808 | (70,702,151) | 5,290,657 |
| Incurred but not reported reserve | 6,264,543 | (3,656,889) | 2,607,654 | 5,192,523 | (3,700,517) | 1,492,006 |
| Unallocated loss adjustment expense reserve | 490,366 | - | 490,366 | 358,723 | - | 358,723 |
| Unexpired risk reserve | 664,484 | (655,989) | 8,495 | 707,139 | (701,668) | 5,471 |
| | (ii) | (126,473,551) | 28,640,864 | 152,674,968 | (125,305,899) | 27,369,069 |
| Total | 155,114,415 | (54,384,215) | 21,312,912 | 70,877,245 | (50,721,932) | 20,155,313 |
| Unearned premium reserve | 75,697,127 | (79,754) | (79,754) | 447,432 | - | 447,432 |
| Deferred (acquisition cost)/reinsurance commission reserve - net | (79,754) | - | (79,754) | 79,574,602 | (71,991,019) | 7,583,583 |
| Claims under settlement reserve | 76,061,643 | (69,199,041) | 6,862,602 | 5,286,862 | (3,700,517) | 1,586,345 |
| Incurred but not reported reserve | 6,367,102 | (3,656,889) | 2,710,213 | 370,837 | - | 370,837 |
| Unallocated loss adjustment expense reserve | 502,307 | - | 502,307 | 707,139 | (701,668) | 5,471 |
| Unexpired risk reserve | 664,484 | (655,989) | 8,495 | 570,702,596 | - | 570,702,596 |
| Mathematical reserve (note 10.2) | 561,090,821 | - | 561,090,821 | 727,966,713 | (127,115,136) | 600,851,577 |
| | (i)+(ii) | (127,896,134) | 592,407,596 | | | |

Alliance Insurance (PSC)

Notes to the financial statements For the year ended 31 December 2018 (continued)

| | 2018 | | | 2017 | | |
|---|-----------------------|---------------------------------------|-----------------------------------|-----------------------|---------------------------------------|-----------------------------------|
| | As per actuary AED | As per financial statements AED | Sufficiency of reserves AED | As per actuary AED | As per financial statements AED | Sufficiency of reserves AED |
| 10. Technical provisions (continued) | | | | | | |
| 10.1 Summary of actuary's report on technical provisions | | | | | | |
| Gross reserves | | | | | | |
| Unearned premium reserve | 75,697,127 | 75,697,127 | 100% | 70,877,245 | 70,877,245 | 100% |
| Claims under settlement reserve | 76,061,643 | 76,061,643 | 100% | 79,574,602 | 79,574,602 | 100% |
| Incurred but not reported reserve | 6,367,102 | 6,367,102 | 100% | 5,286,862 | 5,286,862 | 100% |
| Unallocated loss adjustment expense reserve | 502,307 | 502,307 | 100% | 370,837 | 370,837 | 100% |
| Unexpired risk reserve | 664,484 | 664,484 | 100% | 707,139 | 707,139 | 100% |
| Deferred acquisition cost | (2,956,880) | (2,956,880) | 100% | (2,899,626) | (2,899,626) | 100% |
| Deferred reinsurance commission reserve | 2,877,126 | 2,877,126 | 100% | 3,347,058 | 3,347,058 | 100% |
| Mathematical reserve | 561,090,821 | 561,090,821 | 100% | 570,702,596 | 570,702,596 | 100% |
| | 720,303,730 | 720,303,730 | 100% | 727,966,713 | 727,966,713 | 100% |
| Net reserves | | | 100% | | | 100% |
| Unearned premium reserve | 21,312,912 | 21,312,912 | 100% | 20,155,313 | 20,155,313 | 100% |
| Claims under settlement reserve | 6,862,602 | 6,862,602 | 100% | 7,583,583 | 7,583,583 | 100% |
| Incurred but not reported reserve | 2,710,213 | 2,710,213 | 100% | 1,586,345 | 1,586,345 | 100% |
| Unallocated loss adjustment expense reserve | 502,307 | 502,307 | 100% | 370,837 | 370,837 | 100% |
| Unexpired risk reserve | 8,495 | 8,495 | 100% | 5,471 | 5,471 | 100% |
| Deferred acquisition cost | (2,956,880) | (2,956,880) | 100% | (2,899,626) | (2,899,626) | 100% |
| Deferred reinsurance commission reserve | 2,877,126 | 2,877,126 | 100% | 3,347,058 | 3,347,058 | 100% |
| Mathematical reserve | 561,090,821 | 561,090,821 | 100% | 570,702,596 | 570,702,596 | 100% |
| | 592,407,596 | 592,407,596 | 100% | 600,851,577 | 600,851,577 | 100% |

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

10. Technical provisions (continued)

10.2 Mathematical reserve

| | 2018 AED | 2017 AED |
|--|---------------------|--------------|
| At 1 January | 570,702,596 | 597,035,748 |
| Excess/(deficit) of income over expenditure for the year in the long term business | 8,734,335 | (10,326,103) |
| Surplus available | (18,346,110) | (16,007,049) |
| At 31 December | 561,090,821 | 570,702,596 |
| Movement in life assurance fund | (9,611,775) | (26,333,152) |

Mathematical reserve represents amounts set aside to meet the aggregate amount of the liabilities of the Company in relation to its long-term life business as at 31 December 2018.

The Company has appointed an independent actuary to perform the actuarial valuation for the year. Actuary determined the liability arising out of the actuarial valuation of individual life (life assurance fund) to be as follows:

| | 2018 AED | 2017 AED |
|---|--------------------|-------------|
| Net liabilities under insurance policies | 420,605,002 | 422,219,057 |
| Provision for terminal bonus to policyholders | 140,485,819 | 148,483,539 |
| | 561,090,821 | 570,702,596 |

The actuary assessed a surplus of AED 18,346,110 in the individual life business as at 31 December 2018 (2017: AED 16,007,049).

11. Premium and insurance balances receivable

| | 2018 AED | 2017 AED |
|---|--------------------|-------------|
| Due from policyholders | 40,687,403 | 42,916,956 |
| Less: Allowance for expected credit losses | (2,230,213) | (1,376,614) |
| | 38,457,190 | 41,540,342 |
| Due from insurance or reinsurance companies | 3,664,005 | 3,218,576 |
| Due from brokers or agents | 7,789,550 | 8,472,168 |
| | 49,910,745 | 53,231,086 |
| | 2018 AED | 2017 AED |
| Inside UAE: | | |
| Due from policy holders | 40,687,403 | 42,916,956 |
| Less: Allowances for expected credit losses (note 12.1) | (2,230,213) | (1,376,614) |
| | 38,457,190 | 41,540,342 |
| Due from insurance or reinsurance companies | 1,773,580 | 3,101,375 |
| Due from brokers or agents | 7,789,550 | 8,472,168 |
| | 48,020,320 | 53,113,885 |
| Outside UAE: | | |
| Due from insurance or reinsurance companies | 1,890,425 | 117,201 |

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

11. Premiums and insurance balances receivable (continued)

Ageing of receivables is as follows:

| | Due from policyholders AED | Due from insurance or reinsurance companies AED | Due from brokers or agents AED |
|----------------------------|----------------------------------|--|--------------------------------------|
| Inside UAE: | | | |
| Less than 30 days | 3,853,844 | 322,738 | 4,801,998 |
| 30 – 90 days | 12,457,457 | 382,451 | 1,308,568 |
| 91 – 180 days | 13,159,318 | 442,489 | 483,792 |
| 181 – 270 days | 3,247,897 | 210,228 | 419,148 |
| 271 – 360 days | 942,657 | 78,559 | 206,841 |
| More than 360 days | 7,026,230 | 337,115 | 569,203 |
| At 31 December 2018 | 40,687,403 | 1,773,580 | 7,789,550 |
| Outside UAE: | | | |
| Less than 30 days | - | 932,026 | - |
| 30 – 90 days | - | 675,408 | - |
| 91 – 180 days | - | 101,533 | - |
| 181 – 270 days | - | 16,045 | - |
| 271 – 360 days | - | 5,556 | - |
| More than 360 days | - | 159,857 | - |
| At 31 December 2018 | - | 1,890,425 | - |
| | Due from policyholders AED | Due from insurance or reinsurance companies AED | Due from brokers or agents AED |
| Inside UAE: | | | |
| Less than 30 days | 10,716,237 | 1,056,194 | 7,519,749 |
| 30 – 90 days | 8,786,256 | 352,587 | 260,030 |
| 91 – 180 days | 8,553,587 | 121,684 | 49,469 |
| 181 – 270 days | 3,858,973 | 189,219 | 81,139 |
| 271 – 360 days | 3,327,285 | 714,172 | 38 |
| More than 360 days | 7,674,618 | 667,519 | 561,743 |
| At 31 December 2017 | 42,916,956 | 3,101,375 | 8,472,168 |
| Outside UAE: | | | |
| Less than 30 days | - | 52,570 | - |
| 30 – 90 days | - | 2,925 | - |
| 91 – 180 days | - | 7,871 | - |
| 181 – 270 days | - | 42,816 | - |
| 271 – 360 days | - | - | - |
| More than 360 days | - | 11,019 | - |
| At 31 December 2017 | - | 117,201 | - |

The average credit period of insurance receivables is 90 to 180 days. No interest is charged on overdue balances and no collateral is taken on insurance receivables.

The Company has adopted a policy of dealing with creditworthy counterparties. Adequate credit assessment is made before accepting an insurance contract from any counterparty. The Company does not have any single counterparty whose outstanding balance at the end of the reporting period exceeds 5% of the total receivable balance.

Alliance Insurance (PSC)

Notes to the financial statements For the year ended 31 December 2018 (continued)

12. Other receivables and prepayments

| | 2018 AED | 2017 AED |
|--|-------------------|-------------------|
| Receivable from employees | 458,355 | 660,077 |
| Refundable deposits | 175,072 | 161,135 |
| Prepayments | 1,277,293 | 1,324,737 |
| Others | 15,835,708 | 11,918,572 |
| Less: Allowance for expected credit losses (note 12.1) | (1,036,541) | (1,036,541) |
| | <u>16,709,887</u> | <u>13,027,980</u> |

12.1 Movement in the allowance for expected credit losses

Total allowance for expected credit losses at year end amounts to AED 3,266,754 (2017: AED 2,413,155) and comprises that against premiums and insurance balances receivable amounting to AED 2,230,213 (2017: AED 1,376,614) and other receivables amounting to AED 1,036,541 (2017: AED 1,036,541).

All insurance receivables and other receivables are expected to be received in three months or less. An amount is considered to be in default if it has not been received 90 days after its due.

The Company has adopted the simplified approach for its insurance and other receivables. The loss allowance is therefore based on lifetime ECLs.

In calculating the loss allowance, a provision matrix has been used on historical observed loss rates over the expected life of insurance and other receivables adjusted for forward-looking estimates.

| | 2018 AED | 2017 AED |
|--|-------------------------|-------------------------|
| Loss allowance at 1 January calculated under IAS 39 | 2,413,155 | 1,646,423 |
| Amounts restated through opening retained earnings | - | - |
| Opening loss allowance as at 1 January 2018 | <u>2,413,155</u> | <u>1,646,423</u> |
| Loss allowance made during the year | 853,599 | 776,513 |
| Amounts written off as uncollectible during the year | - | (9,781) |
| At 31 December | <u>3,266,754</u> | <u>2,413,155</u> |

13. Cash and cash equivalents

| | 2018 AED | 2017 AED |
|-----------------------------|-------------------|-------------------|
| Cash on hand | 1,683,173 | 870,720 |
| Current accounts with banks | 24,579,419 | 16,061,368 |
| | <u>26,262,592</u> | <u>16,932,088</u> |

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

14. Issued and paid share capital

| | 2018 AED | 2017 AED |
|---|--------------------|--------------------|
| Authorised, issued and fully paid 1,000,000 shares of AED 100 each (31 December 2017: 1,000,000 shares of AED 100 each) | <u>100,000,000</u> | <u>100,000,000</u> |

15. Reserves

15.1 Statutory reserve

In accordance with the Company's Articles of Association and Commercial Companies Law, a minimum of 10% of the Company's profit for the year should be transferred to a non-distributable statutory reserve. As per the Company's Articles of Association, such transfers are required until the balance on the statutory reserve equals 100% of the Company's paid-up share capital. Accordingly, AED 5,126,963 (2017: AED 4,816,685) was transferred to the statutory reserve on 31 December 2018.

15.2 Regular reserve

In accordance with the Company's Articles of Association, at least 10% of the Company's annual net income must be transferred to a regular reserve. Such transfers are required until the balance on this reserve equals 100% of the Company's paid-up share capital, or until the transfer is discontinued by resolution of the shareholders. Accordingly, AED 5,126,963 (2017: 4,816,685 AED) was transferred to the regular reserve on 31 December 2018.

15.3 General reserve

The Board of Directors approved the transfer of AED 10,000,000 in 2018 (2017: AED 10,000,000) to a general reserve which can be utilized for any purpose approved by the shareholders as per the Articles of Association of the Company.

16. Retirement benefits obligation

| | 2018 AED | 2017 AED |
|----------------------|------------------|------------------|
| At 1 January | 5,081,574 | 4,642,096 |
| Charge for the year | 409,078 | 638,648 |
| Paid during the year | (536,471) | (199,170) |
| At 31 December | <u>4,954,181</u> | <u>5,081,574</u> |

17. Accounts payable

| | 2018 AED | 2017 AED |
|----------------------------|-------------------|-------------------|
| Payables inside UAE | 7,078,506 | 7,610,880 |
| Payables outside UAE | 21,725,342 | 21,226,853 |
| Other payables (note 17.1) | 19,698,977 | 17,331,806 |
| Total | <u>48,502,825</u> | <u>46,169,539</u> |

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

17. Accounts payable (continued)

| | 2018 AED | 2017 AED |
|----------------------------|-------------------|-------------------|
| Inside UAE: | | |
| Accounts payable to: | | |
| Insurance companies | 2,288,552 | 2,226,419 |
| Insurance brokers | 4,789,954 | 5,384,461 |
| Other payables (note 17.1) | 19,698,977 | 17,331,806 |
| | <u>26,777,483</u> | <u>24,942,686</u> |
| | 2018 AED | 2017 AED |
| Outside UAE: | | |
| Accounts payable to: | | |
| Insurance companies | 119,024 | - |
| Reinsurance companies | 21,606,318 | 21,226,853 |
| | <u>21,725,342</u> | <u>21,226,853</u> |

The average credit period is 60 to 90 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

17.1 Other payables

| | 2018 AED | 2017 AED |
|------------------------------|-------------------|-------------------|
| Provision for staff benefits | 4,275,442 | 2,825,726 |
| Rent received in advance | 887,642 | 1,106,872 |
| Accruals and provisions | 731,100 | 3,326,573 |
| Other payables | 13,804,793 | 10,072,635 |
| | <u>19,698,977</u> | <u>17,331,806</u> |

18. Insurance contract liabilities

| | 2018 AED | 2017 AED |
|------------------------------|-------------------|-------------------|
| Maturity payable | 12,767,798 | 13,624,778 |
| Bonus and surrenders payable | 6,658,549 | 7,522,041 |
| Claims payable | 2,282,998 | 3,667,479 |
| Other insurance payables | 29,411,932 | 31,184,661 |
| | <u>51,121,277</u> | <u>55,998,959</u> |

19. Premium collected in advance

| | 2018 AED | 2017 AED |
|------------------------------|------------------|------------------|
| Premium collected in advance | <u>9,074,725</u> | <u>8,722,384</u> |

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

20. General and administrative expenses

| | 2018 AED | 2017 AED |
|---|-------------------|-------------------|
| Staff costs | 15,327,065 | 16,179,849 |
| Short term benefits | 2,200,000 | 2,250,000 |
| Rent | 1,001,179 | 1,313,764 |
| Bank charges | 1,159,358 | 1,266,910 |
| Communication expenses | 379,273 | 502,960 |
| Depreciation on property and equipment (note 5) | 1,081,659 | 648,015 |
| Travel and conveyance | 20,562 | 26,669 |
| Other expenses | 5,212,715 | 3,922,434 |
| | <u>26,381,811</u> | <u>26,110,601</u> |

21. Income from investment property - net

| | 2018 AED | 2017 AED |
|--|-------------------|-------------------|
| Rental income | 18,386,297 | 18,561,781 |
| Increase in fair value of investment property (note 6) | 3,241,750 | 4,383,563 |
| Maintenance expenses | (4,172,013) | (4,937,815) |
| | <u>17,456,034</u> | <u>18,007,529</u> |

22. Income from financial investments

| | 2018 AED | 2017 AED |
|--|-------------------|-------------------|
| Interest income from deposits | 25,179,759 | 26,803,150 |
| Interest income from investments at amortised cost | 12,650,765 | 9,813,608 |
| Interest income from loans guaranteed by life insurance policies | 3,381,565 | 2,339,871 |
| Dividend income from investments carried at fair value through other comprehensive income | 428,291 | 407,896 |
| | <u>41,640,380</u> | <u>39,364,525</u> |

23. Other income

| | 2018 AED | 2017 AED |
|--|------------------|------------------|
| Gain on disposal of property and equipment | - | 20,000 |
| Other income | 2,706,017 | 2,808,999 |
| | <u>2,706,017</u> | <u>2,828,999</u> |

24. Profit for the year

Profit for the year is stated after charging:

| | 2018 AED | 2017 AED |
|---|-------------|-------------|
| Staff costs (note 20) | 15,327,065 | 16,179,849 |
| Depreciation of property and equipment (note 5) | 1,081,659 | 648,015 |

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

25. Basic earnings per share

| | 2018 AED | 2017 AED |
|--------------------------------|-------------|-------------|
| Profit for the year (AED) | 51,269,633 | 48,166,849 |
| Number of shares | 1,000,000 | 1,000,000 |
| Basic earnings per share (AED) | 51.27 | 48.17 |

Basic earnings per share are calculated by dividing the profit for the year by the number of shares outstanding at the end of the reporting period.

26. Related party transactions

Related parties include the Company's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

26.1 At the end of the reporting period, amounts due from related parties are as follows:

| | 2018 AED | 2017 AED |
|--------------------------|-------------|-------------|
| Due from related parties | 1,600,780 | 1,788,369 |

The above balances are included as part of premiums and insurance balances receivables.

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

| | 2018 AED | 2017 AED |
|----------|-------------|-------------|
| Premiums | 5,398,261 | 5,051,035 |
| Claims | 160,502 | 493,124 |

Transactions are entered with related parties at rates agreed with management.

26.3 Compensation of key management personnel

| | 2018 AED | 2017 AED |
|---|-------------|-------------|
| Directors' remuneration | 1,440,630 | 1,341,342 |
| Short term benefits | 2,200,000 | 2,250,000 |
| Total compensation paid to the key management personnel | 3,640,630 | 3,591,342 |

Directors' remuneration is calculated in accordance with the Article 38 of the Article of Association of the Company.

27. Segment information

For management purposes, the Company is organised into two business segments, property and liability insurance, and insurance of persons and fund accumulation operations. The property and liability insurance segment comprises motor, marine, fire, engineering, medical, group life, and general accident. The insurance of persons and fund accumulation operations segment includes only long term life. These segments are the basis on which the Company reports its primary segment information. No transactions were conducted between the segments.

Alliance Insurance (PSC)

**Notes to the financial statements
For the year ended 31 December 2018 (continued)**

| 27. Segment information (continued) | 27.1 Segment revenue | Property and liability insurance | | | | | | Insurance of persons and fund accumulation operations | | | | | | Total | | | | | |
|--|----------------------|----------------------------------|-------------------|------------------|------------------|----------------|-------------------|---|-------------------|-----------------|--|---------|--|-----------|--|-----------------|--|---------|--|
| | | Gross AED | | Reinsurance AED | | Net AED | | Gross AED | | Reinsurance AED | | Net AED | | Gross AED | | Reinsurance AED | | Net AED | |
| | | | | | | | | | | | | | | | | | | | |
| 2018 | | | | | | | | | | | | | | | | | | | |
| Insurance premium | 183,067,126 | (138,316,924) | 44,750,202 | 108,320,418 | (3,650,665) | 104,669,753 | 291,387,544 | (141,967,589) | 149,419,955 | | | | | | | | | | |
| Net transfer to unearned premium reserve | - | - | (1,168,781) | - | - | 11,182 | - | - | (1,157,599) | | | | | | | | | | |
| Insurance premium earned | - | - | 43,581,421 | - | - | 104,680,935 | - | - | 148,262,356 | | | | | | | | | | |
| Unearned premium as at 31 December 2018 | 74,910,003 | (54,066,474) | 20,843,529 | 787,124 | (317,741) | 469,383 | 75,697,127 | (54,384,215) | 21,312,912 | | | | | | | | | | |
| 2017 | | | | | | | | | | | | | | | | | | | |
| Insurance premium | 181,139,473 | (137,507,935) | 43,631,538 | 108,849,932 | (4,157,455) | 104,692,477 | 289,989,405 | (141,665,390) | 148,324,015 | | | | | | | | | | |
| Net transfer to unearned premium reserve | - | - | (5,785,754) | - | - | 433,955 | - | - | (5,351,799) | | | | | | | | | | |
| Insurance premium earned | - | - | 37,845,784 | - | - | 105,126,432 | - | - | 142,972,216 | | | | | | | | | | |
| Unearned premium as at 31 December 2017 | 69,876,311 | (50,201,563) | 19,674,748 | 1,000,934 | (520,369) | 480,565 | 70,877,245 | (50,721,932) | 20,155,313 | | | | | | | | | | |

Alliance Insurance (PSC)

Notes to the financial statements For the year ended 31 December 2018 (continued)

| 27 Segment information (continued) | Property and liability insurance | | | | Insurance of persons and funds accumulation operations | | | | Total | | |
|---|----------------------------------|-------------------|---------------------|--------------------|--|---------------------|---------------------|-------------------|---------------------|-----------------|---------|
| | Gross AED | Reinsurance AED | Net AED | Net AED | Gross AED | Reinsurance AED | Net AED | Net AED | Gross AED | Reinsurance AED | Net AED |
| 2018 | | | | | | | | | | | |
| Claims settled | (58,238,450) | 37,033,581 | (21,204,869) | (2,369,274) | 888,519 | (1,480,755) | (60,607,724) | 37,922,100 | (22,685,624) | | |
| Changes in provision for outstanding claims | - | - | 591,024 | - | - | 129,957 | - | - | 720,981 | | |
| Changes in ULAE | - | - | (131,643) | - | - | 173 | - | - | (131,470) | | |
| Movement in IBNR | - | - | (1,115,648) | - | - | (8,220) | - | - | (1,123,868) | | |
| Movement in URR | - | - | (3,024) | - | - | - | - | - | (3,024) | | |
| Earnings and cancellations of life insurance policies | - | - | - | - | - | (84,443,527) | - | - | (84,443,527) | | |
| Increase in mathematical Reserve | - | - | - | - | - | 9,611,775 | - | - | 9,611,775 | | |
| Claims incurred | (58,238,450) | 37,033,581 | (21,864,160) | (2,369,274) | 888,519 | (76,190,597) | (60,607,724) | 37,922,100 | (98,054,757) | | |
| 2017 | | | | | | | | | | | |
| Claims settled | (36,646,679) | 21,339,709 | (15,306,970) | (3,539,751) | 1,791,831 | (1,747,920) | (40,186,430) | 23,131,540 | (17,054,890) | | |
| Changes in provision for outstanding claims | - | - | (1,699,060) | - | - | (502,387) | - | - | (2,201,447) | | |
| Changes in ULAE | - | - | (154,712) | - | - | (6,803) | - | - | (161,515) | | |
| Movement in IBNR | - | - | 34,723 | - | - | (78,946) | - | - | (44,223) | | |
| Movement un URR | - | - | (5,471) | - | - | - | - | - | (5,471) | | |
| Earnings and cancellations of life insurance policies | - | - | - | - | - | (93,494,682) | - | - | (93,494,682) | | |
| Increase in mathematical Reserve | - | - | - | - | - | 26,333,152 | - | - | 26,333,152 | | |
| Claims incurred | (36,646,679) | 21,339,709 | (17,131,490) | (3,539,751) | 1,791,831 | (69,497,586) | (40,186,430) | 23,131,540 | (86,629,076) | | |

Alliance Insurance (PSC)

Notes to the financial statements For the year ended 31 December 2018 (continued)

| 27. Segment information (continued) | Year ended 31 December 2018 | | Year ended 31 December 2017 | | |
|---|--------------------------------------|---|--------------------------------------|---|--------------------|
| | Property and liability insurance AED | Insurance of persons and fund accumulation operations AED | Property and liability insurance AED | Insurance of persons and fund accumulation operations AED | Total AED |
| 27.3 Segment results | | | | | |
| Net premium earned | 43,581,421 | 104,680,935 | 37,845,784 | 105,126,432 | 142,972,216 |
| Commissions received | 11,768,845 | 1,075,979 | 11,767,797 | 1,147,267 | 12,915,064 |
| Commissions paid | (4,731,653) | (8,985,868) | (5,206,444) | (9,848,540) | (15,054,984) |
| Movement in deferred reinsurance commission reserve – net | 556,277 | (29,091) | 490,717 | (34,602) | 456,115 |
| Gross underwriting income | 51,174,890 | 96,741,955 | 44,897,854 | 96,390,557 | 141,288,411 |
| Net claims incurred | (21,864,160) | (76,190,597) | (17,131,490) | (69,497,586) | (86,629,076) |
| Net underwriting income | 29,310,730 | 20,551,358 | 27,766,364 | 26,892,971 | 54,659,335 |
| Income from investment property-net | 5,104,647 | 12,351,387 | 5,697,921 | 12,309,608 | 18,007,529 |
| Income from financial investments | 14,328,649 | 27,311,731 | 13,315,933 | 26,048,592 | 39,364,525 |
| Foreign currency exchange gains and other income | 2,431,836 | 571,589 | 2,751,009 | 645,637 | 3,396,646 |
| Total income | 51,175,862 | 60,786,065 | 49,531,227 | 65,896,808 | 115,428,035 |
| General and administrative expenses | (15,820,192) | (10,561,619) | (15,312,332) | (10,798,269) | (26,110,601) |
| Bonus paid to policyholders | - | (31,397,078) | - | (38,202,210) | (38,202,210) |
| Other operating expenses | (2,522,994) | (390,411) | (2,560,674) | (387,701) | (2,948,375) |
| Net profit for the year | 32,832,676 | 18,436,957 | 31,658,221 | 16,508,628 | 48,166,849 |

Alliance Insurance (PSC)

**Notes to the financial statements
For the year ended 31 December 2018 (continued)**

27. Segment information (continued)

27.4 Segment assets and liabilities

| | As at 31 December 2018 | | | As at 31 December 2017 | | | |
|--|--------------------------------------|--|----------------------------|--------------------------------------|--|----------------------------|------------------|
| | Property and liability insurance AED | Insurance of persons and fund operations AED | Inter-division balance AED | Property and liability insurance AED | Insurance of persons and fund operations AED | Inter-division balance AED | Total AED |
| Segment assets | 627,382,663 | 846,525,301 | (142,595,947) | 622,415,350 | 853,877,438 | (150,722,891) | 1,325,569,897 |
| Segment liabilities | 369,287,759 | 607,264,920 | (142,595,947) | 376,806,324 | 617,855,736 | (150,722,891) | 843,939,169 |
| Depreciation on property and equipment | 325,438 | 756,122 | - | 466,446 | 181,569 | - | 648,015 |
| Additions to property and equipment | 41,151 | 579,584 | - | 166,452 | 1,180,317 | - | 1,346,769 |
| | | | | 620,735 | 1,180,317 | - | 1,346,769 |

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

28. Net premiums

| | 2018 AED | 2017 AED |
|--|----------------------|----------------------|
| Gross premiums | | |
| <i>Insurance of persons and fund accumulation operations:</i> | | |
| Individual life | 106,352,803 | 106,552,900 |
| Group life | 1,967,615 | 2,297,032 |
| | <u>108,320,418</u> | <u>108,849,932</u> |
| <i>Property and liability insurance:</i> | | |
| Medical | 46,463,536 | 41,199,252 |
| Fire | 13,919,150 | 15,221,076 |
| Motor | 24,453,253 | 25,206,468 |
| Marine | 8,720,339 | 6,339,575 |
| Miscellaneous | 89,510,848 | 93,173,102 |
| | <u>183,067,126</u> | <u>181,139,473</u> |
| Total gross premiums (a) | <u>291,387,544</u> | 289,989,405 |
| Premiums ceded to reinsurers | | |
| <i>Insurance of persons and funds accumulation operations:</i> | | |
| Individual life | (2,808,020) | (2,981,800) |
| Group life | (842,645) | (1,175,655) |
| | <u>(3,650,665)</u> | <u>(4,157,455)</u> |
| <i>Property and liability insurance:</i> | | |
| Medical | (27,712,819) | (24,337,122) |
| Fire | (13,445,512) | (14,743,543) |
| Motor | (1,416,892) | (1,483,287) |
| Marine | (8,712,267) | (6,145,402) |
| Miscellaneous | (87,029,434) | (90,798,581) |
| | <u>(138,316,924)</u> | <u>(137,507,935)</u> |
| Total premiums ceded to reinsurers (b) | <u>(141,967,589)</u> | (141,665,390) |
| Change in unearned premiums reserves (c) | (1,157,599) | (5,351,799) |
| Total net premiums (a+b+c) | <u>148,262,356</u> | <u>142,972,216</u> |

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

29. Net claims paid

| | 2018 AED | 2017 AED |
|---|---------------------|---------------------|
| Gross claims paid | | |
| <i>Insurance of persons and fund accumulation operations:</i> | | |
| Individual life | (1,722,016) | (2,766,343) |
| Group life | (647,258) | (773,408) |
| | <u>(2,369,274)</u> | <u>(3,539,751)</u> |
| <i>Property and liability insurance:</i> | | |
| Medical | (31,936,609) | (25,449,760) |
| Fire | (6,138,441) | (1,931,329) |
| Motor | (10,889,462) | (7,381,105) |
| Marine | (727,510) | (795,434) |
| Miscellaneous | (8,546,428) | (1,089,051) |
| | <u>(58,238,450)</u> | <u>(36,646,679)</u> |
| Total gross claims paid (a) | <u>(60,607,724)</u> | <u>(40,186,430)</u> |
| Reinsurance share of claims | | |
| <i>Insurance of persons and fund accumulation operations:</i> | | |
| Individual life | 437,394 | 1,240,346 |
| Group life | 451,125 | 551,485 |
| | <u>888,519</u> | <u>1,791,831</u> |
| <i>Property and liability insurance:</i> | | |
| Medical | 22,835,213 | 18,199,491 |
| Fire | 5,722,311 | 1,884,552 |
| Motor | 272,767 | (23,730) |
| Marine | 497,109 | 767,026 |
| Miscellaneous | 7,706,181 | 512,370 |
| | <u>37,033,581</u> | <u>21,339,709</u> |
| Total claims ceded to reinsurers (b) | <u>37,922,100</u> | <u>23,131,540</u> |
| Total net claims paid (a+b) | <u>(22,685,624)</u> | <u>(17,054,890)</u> |

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

30. Contingent liabilities and capital commitments

| | 2018 AED | 2017 AED |
|-----------------------|-------------------|-------------|
| Letters of guarantees | <u>11,468,395</u> | 11,362,740 |

The Company in common with the significant majority of insures, is subject to litigation in normal course of its business. The Company, based on independent legal advice, does not expect that the outcome of these court cases will have a material impact on the Company's financial performance or financial position.

31. Operating lease commitments

Leases as lessee

At the end of the reporting period, minimum lease commitments under non-cancellable operating lease agreements are as follows:

| | 2018 AED | 2017 AED |
|--------------------|----------------|-------------|
| Less than one year | <u>347,856</u> | 336,275 |

32. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

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

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

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

32. Insurance risk (continued)

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

32.1 Frequency and severity of claims

The Company has the right not to renew individual policies, to re-price the risk, to impose deductibles and to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Company's strategy limits the total exposure to any one territory and the exposure to any one industry.

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set maximum limit of AED 750 million in any one event. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

32.2 Sources of uncertainty in the estimation of future claim payments

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

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

32. Insurance risk (continued)

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

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

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

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

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

The initial estimate of the loss ratios used for the current year before and after reinsurance are analysed below by type of risk where the insured operates for current and prior year premium earned.

| Type of risk | Year ended 31 December 2018 | | Year ended 31 December 2017 | |
|--------------------|-----------------------------|----------------|-----------------------------|----------------|
| | Gross loss ratio | Net loss ratio | Gross loss ratio | Net loss ratio |
| Life insurance | 2.19% | 1.41% | 3.25% | 1.67% |
| Non-life insurance | 31.81% | 47.38% | 20.23% | 35.08% |

32.3 Process used to decide on assumptions

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

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

Alliance Insurance (PSC)

Notes to the financial statements For the year ended 31 December 2018 (continued)

32. Insurance risk (continued)

32.4 Claims development process

Claims development tables are disclosed in order to put the unpaid claims estimates included in the financial statements into a context, allowing comparison of the development claims provisions with those seen in previous years.

In effect, the table highlights the Company's ability to provide an estimate of the total value of claims. This table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year ends. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. Data in the table related to acquired businesses is included from the acquisition date onwards.

The Company believes that the estimates of total claims outstanding as of the end of 2018 are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Analysis of claims development (gross – Property and liability insurance)

| | 2011 AED | 2012 AED | 2013 AED | 2014 AED | 2015 AED | 2016 AED | 2017 AED | 2018 AED |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Estimate of cumulative claims- Property and liability insurance (excluding medical) | | | | | | | | |
| At the end of the accident year | 3,275,759 | 3,282,661 | 3,604,325 | 3,114,597 | 2,775,378 | 3,307,863 | 9,313,838 | 3,366,696 |
| One year earlier | 2,365,311 | 3,328,787 | 2,155,229 | 2,786,276 | 2,645,251 | 909,669 | 2,516,721 | 2,315,233 |
| Two years earlier | 4,593,166 | 795,684 | 534,773 | 273,216 | 2,946,381 | 186,817 | 132,610 | 311,402 |
| Three years earlier | 2,872,768 | 2,735,709 | 866,472 | 127,148 | 165,927 | 1,253,916 | 236,155 | 234,315 |
| Four years earlier | 923,719 | 228,767 | 194,942 | 180,777 | 19,609 | 222,387 | 984,518 | 23,730 |
| Five years earlier | 1,551,648 | 19,224 | 185,741 | 24,950 | 78,307 | 53,571 | 114,200 | 6,700 |
| Six years earlier | - | 133,917 | 958,523 | 1,067,962 | 952,366 | 164,989 | 353,578 | 209,811 |
| Gross outstanding liabilities | 15,582,371 | 10,524,749 | 8,500,005 | 7,574,926 | 9,583,219 | 6,099,212 | 13,651,620 | 6,467,887 |

The above table does not include cumulative claims for insurance of persons and fund accumulation operations.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

32. Insurance risk (continued)

32.5 Concentration of insurance risk

Substantially all the Company's underwriting business are carried out in the United Arab Emirates (UAE).

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

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

32.6 Sensitivity of underwriting profit

The Company does not foresee any adverse change in the contribution of insurance profit due to the following reasons:

- The Company has an overall risk retention level of 51% for the year ended 31 December 2018 (2017: 51%). This is mainly due to low retention levels in general accident, fire and engineering. However, for other lines of business, the Company is adequately covered by excess of loss reinsurance programs to guard against major financial impact.
- The Company has commission income of AED 12,844,824 in 2018 (2017: AED 12,915,064) predominantly from the reinsurance placement which remains a comfortable source of income.

Because of low risk retention of 51% during the year (2017: 51%) of the volume of the business and limited exposure in high retention areas such as motor, the Company is comfortable to maintain an overall net loss ratio of 15.18% (2017: 11.50%) and does not foresee any serious financial impact in the net underwriting profit.

33. Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements as per UAE Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of Its Operations and UAE Federal Law No. (2) of 2015.
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the Shareholders and benefits for other stakeholders; and
- to provide an adequate return to the Shareholders by pricing insurance contracts commensurately with the level of risk.

The Company is financed by its Shareholders. The Company's capital structure is regularly reviewed to ensure that it remains relevant to the business and its plans for growth. Management has a reasonable expectation that the Company has adequate resources to continue operating in the foreseeable future.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

33. Capital risk management (continued)

The solvency regulations identify the required Solvency Margin to be held in addition to insurance liabilities. The Solvency Margin (presented in the table below) must be maintained at all times throughout the year. The Company is subject to solvency regulations which it has complied with during the year. The Company has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

The table below summarises the Minimum Capital Requirement, Minimum Guarantee Fund and Solvency Capital Requirement of the Company and the total capital held to meet these required Solvency Margins.

| | 2018 AED | 2017 AED |
|------------------------------------|--------------------|-------------|
| Minimum Capital Requirement (MCR) | 100,000,000 | 100,000,000 |
| Solvency Capital Requirement (SCR) | 110,770,702 | 160,776,672 |
| Minimum Guarantee Fund (MGF) | 36,923,567 | 53,592,224 |
| Basic Own Funds | 427,027,468 | 274,051,181 |
| MCR Solvency Margin – Surplus | 327,027,468 | 174,051,181 |
| SCR Solvency Margin – Surplus | 286,256,766 | 113,274,509 |
| MGF Solvency Margin – Surplus | 360,103,901 | 220,458,957 |

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

On 28 December 2014, the United Arab Emirates (UAE) Insurance Authority issued Financial Regulations for Insurance Companies; and were then subsequently published in the UAE Official Gazette No. 575 on 28 January 2015 and came into force on 29 January 2015. The minimum capital requirements remain at AED 100 million for insurers and AED 250 million for reinsurers.

34. Financial instruments

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term, its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The risks that the Company primarily faces due to the nature of its investments and underwriting business are interest rate risk, foreign currency risk, and market price risk, credit risk and liquidity risk.

34.1 Significant accounting policies

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

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

34. Financial instruments (continued)

34.2 Categories of financial instruments

| | 2018 AED | 2017 AED |
|---|--------------------|--------------------|
| Financial assets | | |
| Investments carried at fair value through other comprehensive income (note 7.2) | 4,497,053 | 8,601,505 |
| Investments at amortised cost (note 7.3) | 178,652,465 | 212,322,237 |
| Statutory deposits (note 9) | 10,000,000 | 10,000,000 |
| Other receivables and prepayments (excluding prepayments) (note 12) | 15,432,594 | 11,703,243 |
| Loans guaranteed by life insurance policies (note 8) | 45,947,427 | 41,390,375 |
| Deposits (note 7.4) | 664,474,859 | 638,769,461 |
| Cash and cash equivalents (note 13) | 26,262,592 | 16,932,088 |
| Total | <u>945,266,990</u> | <u>939,718,909</u> |
| Financial liabilities | | |
| Accounts payable (excluding rent received in advance) (notes 17 and 17.1) | 47,615,183 | 45,062,667 |

Management considers that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values, except for the investments at amortised cost and disclosed in note 7 of these financial statements.

34.3 Fair value measurement

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

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

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

34. Financial instruments (continued)

34.3 Fair value measurement (continued)

34.3.1 Fair value of the Company's financial assets that are measured at fair value on recurring basis

Some of the Company's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined;

| Investments carried at fair value through other comprehensive income | Fair value as at 31 December | | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable input | Relationship of unobservable inputs to fair value |
|--|------------------------------|-------------|----------------------|---------------------------------------|--------------------------------|---|
| | 2018 AED | 2017 AED | | | | |
| Quoted equity securities | 4,497,053 | 8,601,505 | Level 1 | Quoted bid prices in an active market | None. | Not applicable |

34.3.2 Fair value hierarchy

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

At 31 December 2018

| Financial assets | Level 1 AED | Level 2 AED | Level 3 AED | Total AED |
|--|----------------|----------------|----------------|--------------|
| Investments carried at fair value through other comprehensive income | | | | |
| Equity securities – quoted | 4,497,053 | - | - | 4,497,053 |

At 31 December 2017

| Financial assets | Level 1 AED | Level 2 AED | Level 3 AED | Total AED |
|--|----------------|----------------|----------------|--------------|
| Investments carried at fair value through other comprehensive income | | | | |
| Equity securities – quoted | 8,601,505 | - | - | 8,601,505 |

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

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

34. Financial instruments (continued)

34.4 Market risk management

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

34.4.1 Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income of the Company. The Company is exposed to interest rate risk on its financial investments in bonds and deposits that carry fixed interest rates.

The Company generally manages to minimise the interest rate risk by closely monitoring the market interest rates and investing in those financial assets in which such risk is expected to be minimal.

34.4.2 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for interest-bearing financial assets assuming the amount of assets at the end of the reporting period were outstanding for the whole year.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2018 would increase/decrease by AED 8.5 million (2017: AED 8.6 million).

34.4.3 Foreign currency risk management

There are no significant foreign currency (AED) risks as substantially all financial assets and financial liabilities are denominated in United Arab Emirates Dirhams or United State Dollars (USD) to which AED is fixed.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

34. Financial instruments (continued)

34.4 Market risk management (continued)

34.4.4 Market price risk management

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

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Company's other comprehensive income would have increased/decreased by AED 449,705 (2017: AED 860,151) in the case of the financial investments at fair value through other comprehensive income.

Method and assumptions for sensitivity analysis;

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

34.5 Credit risk management

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

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

- reinsurers' share of technical reserves;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from banks for bank balances and fixed deposits.
- amounts due from issuers of bonds.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

34. Financial instruments (continued)

34.5 Credit risk management (continued)

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

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

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of allowance for expected credit losses on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition.

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

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

34.6 Liquidity risk management

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities at maturity date. The Company manages the liquidity risk through a risk management framework for the Company's short, medium and long-term funding and liquidity management requirements by maintaining adequate reserves, sufficient cash and cash equivalent and bank facilities, to ensure that funds are available to meet their commitments for liabilities as they fall due.

The maturity profile is monitored by management to ensure adequate liquidity is maintained. The table on the next page summarizes the maturity profile of the Company's financial assets and liabilities based on remaining contractual obligations including interest receivable and payable.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

34. Financial instruments (continued)

34.6 Liquidity risk management (continued)

| 31 December 2018 | Less than 1 year AED | 1 to 5 years AED | Over 5 years AED | No maturity date AED | Total AED |
|---|----------------------------|---------------------|------------------------|-------------------------------|--------------------|
| Financial assets | | | | | |
| Investments carried at fair value through other comprehensive income (note 7.2) | - | - | - | 4,497,053 | 4,497,053 |
| Investments at amortised cost (note 7.3) | 60,904,390 | 40,079,618 | 77,668,457 | - | 178,652,465 |
| Other receivables and prepayments (excluding prepayments) (note 12) | 15,432,594 | - | - | - | 15,432,594 |
| Loans guaranteed by life insurance policies (note 8) | - | 45,947,427 | - | - | 45,947,427 |
| Deposits (note 7.4) | 203,295,982 | 461,178,877 | - | - | 664,474,859 |
| Statutory deposits (note 9) | - | - | - | 10,000,000 | 10,000,000 |
| Cash and cash equivalents (note 13) | 26,262,592 | - | - | - | 26,262,592 |
| Total financial assets | 305,895,558 | 547,205,922 | 77,668,457 | 14,497,053 | 945,266,990 |
| Financial liabilities | | | | | |
| Accounts payable (excluding rent received in advance) (notes 17 and 17.1) | 47,615,183 | - | - | - | 47,615,183 |

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

34. Financial instruments (continued)

34.6 Liquidity risk management (continued)

| 31 December 2017 | Less than 1 year AED | 1 to 5 years AED | Over 5 years AED | No maturity date AED | Total AED |
|---|----------------------------|------------------------|------------------------|----------------------------|--------------|
| Financial assets | | | | | |
| Investments carried at fair value through other comprehensive income (note 7.2) | - | - | - | 8,601,505 | 8,601,505 |
| Investments amortised cost (note 7.3) | - | 91,961,805 | 120,360,432 | - | 212,322,237 |
| Other receivables and prepayments (excluding prepayments) (note 12) | 11,703,243 | - | - | - | 11,703,243 |
| Loans guaranteed by life insurance | | | | | |
| Policies (note 8) | - | 41,390,375 | - | - | 41,390,375 |
| Deposits (note 7.4) | 248,310,742 | 390,458,719 | - | - | 638,769,461 |
| Statutory deposits (note 9) | - | - | - | 10,000,000 | 10,000,000 |
| Cash and cash equivalents (note 13) | 16,932,088 | - | - | - | 16,932,088 |
| Total financial assets | 276,946,073 | 523,810,899 | 120,360,432 | 18,601,505 | 939,718,909 |
| Financial liabilities | | | | | |
| Accounts payables (excluding rent received in advance) (note 17 and 17.1) | 45,062,667 | - | - | - | 45,062,667 |

35. Social contributions

The social contributions (including donations and charity) made during the year amount to AED 150,000 (2017: AED 100,000).

36. Dividends

The Board of Directors has proposed cash dividends of 30% which is AED 30 per share amounting to AED 30 million for 2018 to be paid to the shareholders in 2019 (2017: AED 30 per share amounting to AED 30 million for 2017 paid in 2018). The proposed dividends are subject to the approval of the Shareholders at the Annual General Meeting and therefore, have not been included as a liability in these financial statements.

37. Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation of the financial statements except for the proposed dividends as disclosed in note 36.

Alliance Insurance (PSC)

Notes to the financial statements

For the year ended 31 December 2018 (continued)

38. Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 05 March 2019.