

**AL FUJAIRAH NATIONAL INSURANCE COMPANY PJSC**  
**FUJAIRAH - UNITED ARAB EMIRATES**

**INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2019**



AL FUJAIRAH NATIONAL INSURANCE COMPANY P.J.S.C

Paid-up Capital Dhs 100 million,

Registered under Insurance Authority

Registration No (11) Dated 25/12/1984

## **BOARD OF DIRECTORS' REPORT**

### **For the Year 2019**

The Company achieved Net Profit of AED 31.2 million for the year ended 31.12.2019 compared with AED 31.4 million for the year 2018.

The Company achieved Net Technical profit of AED 35.5 million during the year ended 31.12.2019 as compared with AED 39.9 million for the same period last year.

The Company's premium revenue is AED 273.0 million during the year 2019 comparing with AED 262.0 million for last year.

The Company's Investment profit is AED 11.3 million for the year ended 31.12.2019, as compared with AED 2.1 million for the same period of last year.

Earnings per share for the year 2019 is AED 28.38 compared with AED 28.60 of 2018.

The shareholder's equity increased from AED 245.68 million as at 31.12.2018 to 283.97 million as at 31.12.2019.

  
**ABDUL GHAFOOR BEHROOZIAN**  
Chairman

Fujairah  
12.03.2020





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**Grant Thornton  
United Arab Emirates**  
Rolex Tower  
Level 23  
Sheikh Zayed Road  
P.O. Box 1620  
Dubai

**T** +971 4 388 9925  
**F** +971 4 388 9915

## **Independent Auditor's Report**

### **To the Shareholders of Al Fujairah National Insurance Company PJSC**

#### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of Al Fujairah National Insurance Company PJSC (the "Company"), which comprise the statement of financial position as at 31 December 2019, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### **Basis for Opinion**

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

#### **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 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Independent Auditor's Report**  
**To the Shareholders of Al Fujairah National Insurance Company PJSC**  
**Report on the Audit of the Financial Statements (continued)**

**Key Audit Matters (continued)**

**i) Valuation of insurance contract liabilities**

The estimation of liabilities arising from insurance contracts such as outstanding claims, incurred but not reported claims, unallocated loss adjustment expenses and unearned premium reserve, as disclosed in note 9 to the financial statements, involves a significant degree of judgement. These liabilities are based on the best-estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and the pattern of risk distribution over the coverage period. Actuarial computations have been used to determine these provisions. Underlying these computations are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Since the determination of such a provision requires the expertise of an external valuation expert who incorporates significant assumptions, judgements and estimations, the valuation of these liabilities was significant to our audit.

We assessed management's calculations of the insurance contract liabilities by performing the following procedures:

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

**ii) Valuation of investment properties**

Company holds investment properties under the fair value model as at 31 December 2019 amounting to AED 84.9 million (2018: 84.6 million), as detailed in note 6. The fair value estimate requires significant judgement and estimates by management and independent external valuers. The Company has involved independent external valuers in order to value the investment properties for the purpose of determining the fair value for inclusion in the financial statements. The existence of significant estimation and judgement coupled with change in valuation assumptions used could result in material change. Therefore, the valuation of these investment properties was significant to our audit.

Our audit procedures, among others, included:

- Discussion with the independent valuer to understand the basis of valuation for each property and other judgements used in performing the valuation;
- Assessing the competence, capabilities, and objectivity of external valuers;
- Assessing the appropriateness of the key assumptions and methodologies used; and
- We involved our own valuation specialist to assist us in performing our procedures in this area.

**Independent Auditor's Report**  
**To the Shareholders of Al Fujairah National Insurance Company PJSC**  
**Report on the Audit of the Financial Statements (continued)**

**Key Audit Matters (continued)**

**iii) Valuation of investment in unquoted securities**

The Company holds investments in unquoted equity securities of seventeen entities as at 31 December 2019 (2018: eleven entities) which amount to AED 34.8 million (2018: AED 30.2 million) representing 14.8% (2018: 16.7%) of the total amount of its investment in securities as disclosed in note 7 to the financial statements. The valuation of these unquoted equity securities was carried out by an independent valuer and involved judgement in selecting the valuation basis for each investment and further judgement in performing the valuation when the latest market and financial data was not observable. Therefore, the valuation of these unquoted equity securities was significant to our audit.

Our audit procedures, among others, included:

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

**iv) Impairment losses on insurance receivables including third party recoveries**

The Company has insurance receivables that are overdue and not impaired (as disclosed in note 10 to these financial statements). The key associated risk is the recoverability of receivables. Management's related allowance for expected credit losses (ECL) is subjective and is influenced by assumptions concerning the probability of default and probable losses in the event of default.

The work that we performed to address this key audit matter included the following procedures:

- Obtained an understanding of the Company's process for estimating ECL and assessed the appropriateness of ECL methodology against the requirements of IFRS 9.
- Identified and tested key controls over the ECL model used.
- Assessed the reasonableness of managements' key assumptions and judgements made in determining the allowance for ECL, segmenting of receivables and macroeconomic factors.
- We tested the key inputs of model such as those used to calculate the likelihood of default and the subsequent loss on default, by comparing to historical data. We also assessed reasonableness of forward-looking factors used by the Company by corroborating with publicly available information.

**Other Information**

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



**Independent Auditor's Report**  
**To the Shareholders of Al Fujairah National Insurance Company PJSC**  
**Report on the Audit of the Financial Statements (continued)**

**Other Information (continued)**

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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.
- 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

## **Independent Auditor's Report**

### **To the Shareholders of Al Fujairah National Insurance Company PJSC**

#### **Report on the Audit of the Financial Statements (continued)**

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

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 Organisation of the Insurance Operations and UAE Federal Law No. (2) of 2015;
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Directors' Report, in so far as it relates to these financial statements, is consistent with the books of account of the Company;
- v) note 7 to the financial statements discloses purchase of shares by the Company during the year ended 31 December 2019;
- vi) note 11 to the financial statements discloses material related party transactions, and the terms under which they were conducted; and



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**Independent Auditor's Report**

**To the Shareholders of Al Fujairah National Insurance Company PJSC**

**Report on the Audit of the Financial Statements (continued)**

**Report on Other Legal and Regulatory Requirements (continued)**

- 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 2019 any of the applicable provisions of the Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations and UAE Federal Law No.(2) of 2015 or of its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2019.

*Grant Thornton*  
GRANT THORNTON



**Farouk Mohamed**  
**Registered Auditor Number: 86**  
**Dubai – 12 March 2020**



**Al Fujairah National Insurance Company PJSC**  
**Statement of financial position**  
**As at 31 December 2019**

<b>ASSETS</b>	<b>Notes</b>	<b>2019</b>	<b>2018</b>
		<b>AED</b>	<b>AED</b>
Property and equipment	5	41,551,994	22,159,183
Investment properties	6	84,875,000	84,550,000
Financial assets	7	235,131,106	180,414,286
Statutory deposits	8	10,000,000	10,000,000
Re-insurance contract assets	9	43,222,632	46,738,385
Insurance and other receivables	10	62,460,352	62,462,607
Amounts due from related parties	11	1,470,500	1,901,846
Bank balances and cash	12	135,601,945	130,349,968
<b>TOTAL ASSETS</b>		<b>614,313,529</b>	<b>538,576,275</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	13	110,000,000	100,000,000
Statutory reserve	14	35,401,605	32,280,179
General reserve	14	31,556,445	28,435,019
Cumulative changes in fair value of financial assets at FVTOCI	7	36,637,580	22,192,049
Property revaluation reserve		11,205,588	11,205,588
Retained earnings		59,171,917	51,574,027
<b>TOTAL EQUITY</b>		<b>283,973,135</b>	<b>245,686,862</b>
<b>LIABILITIES</b>			
Provision for employees' end of service indemnity	15	16,291,530	15,068,307
Insurance contract liabilities	9	230,238,929	226,589,265
Insurance and other payables	16	63,700,627	51,231,841
Lease liabilities	3	20,109,308	-
<b>TOTAL LIABILITIES</b>		<b>330,340,394</b>	<b>292,889,413</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>614,313,529</b>	<b>538,576,275</b>

These financial statements were approved by the Board of Directors on 12 March 2020 and signed on their behalf by:

  
 Abdul Ghafoor Behroozian  
 Chairman

  
 Antoine Maalouli  
 Chief Executive Officer

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

**Al Fujairah National Insurance Company PJSC**  
**Income statement**  
**For the year ended 31 December 2019**

	Notes	2019 AED	2018 AED
Insurance premium revenue	17	273,010,118	262,057,137
Insurance premium ceded to re-insurers	17	(52,205,868)	(54,573,608)
<b>Net insurance premium revenue</b>		<b>220,804,250</b>	<b>207,483,529</b>
Gross claims incurred	9	(135,979,443)	(129,719,353)
Insurance claims recovered from re-insurers	9	11,394,888	15,410,085
<b>Net claims incurred</b>		<b>(124,584,555)</b>	<b>(114,309,268)</b>
Gross commission earned		7,557,439	6,821,217
Less: commission incurred		(16,794,179)	(17,425,621)
<b>Net commission incurred</b>		<b>(9,236,740)</b>	<b>(10,604,404)</b>
<b>Underwriting profit</b>		<b>86,982,955</b>	<b>82,569,857</b>
General and administrative expenses relating to underwriting activities	18	(51,455,893)	(42,595,804)
<b>Net underwriting profit</b>		<b>35,527,062</b>	<b>39,974,053</b>
Investments and other income	19	11,338,450	2,132,103
Finance cost	3	(787,278)	-
Unallocated general and administrative expenses	18	(12,863,973)	(10,648,951)
Provision for expected credit losses		(2,000,000)	-
<b>Profit for the year</b>		<b>31,214,261</b>	<b>31,457,205</b>
			Restated
<b>Basic earnings per share:</b>	20	<b>28.38</b>	<b>28.60</b>

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

**Al Fujairah National Insurance Company PJSC**  
**Statement of comprehensive income**  
**For the year ended 31 December 2019**

	<b>2019</b>	2018
	<b>AED</b>	AED
<b>Profit for the year</b>	<b>31,214,261</b>	31,457,205
<b>Other comprehensive income:</b>		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Net increase / (decrease) in fair value of investments designated at FVTOCI	<b>14,812,376</b>	(11,416,259)
Gain on sale of investments designated at FVTOCI	<b>2,617,484</b>	1,916,167
<b>Other comprehensive income / (loss) for the year</b>	<b>17,429,860</b>	(9,500,092)
<b>Total comprehensive income for the year</b>	<b>48,644,121</b>	21,957,113

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

**Al Fujairah National Insurance Company PJSC**  
**Statement of changes in equity**  
**For the year ended 31 December 2019**

	Share capital AED	Statutory reserve AED	General reserve AED	Cumulative changes in fair value of financial assets at FVTOCI AED	Property revaluation reserve AED	Retained earnings AED	Total equity AED
Balance as at 1 January 2018	100,000,000	29,134,458	25,289,298	33,388,396	11,205,588	34,712,009	233,729,749
Profit for the year	-	-	-	-	-	31,457,205	31,457,205
Other comprehensive loss	-	-	-	(11,416,259)	-	1,916,167	(9,500,092)
Total comprehensive income for the year	-	-	-	(11,416,259)	-	33,373,372	21,957,113
Transfer to retained earnings on disposal of investment at FVTOCI	-	-	-	219,912	-	(219,912)	-
Dividends paid (Note 28)	-	-	-	-	-	(10,000,000)	(10,000,000)
Transfer to statutory reserve (Note 14)	-	3,145,721	-	-	-	(3,145,721)	-
Transfer to general reserve (Note 14)	-	-	3,145,721	-	-	(3,145,721)	-
Balance as at 31 December 2018	100,000,000	32,280,179	28,435,019	22,192,049	11,205,588	51,574,027	245,686,862
Balance at 1 January 2019	100,000,000	32,280,179	28,435,019	22,192,049	11,205,588	51,574,027	245,686,862
Impact of adopting IFRS 16 (note 3)	-	-	-	-	-	(357,848)	(357,848)
As at 1 January 2019	100,000,000	32,280,179	28,435,019	22,192,049	11,205,588	51,216,179	245,329,014
Profit for the year	-	-	-	-	-	31,214,261	31,214,261
Other comprehensive income	-	-	-	14,812,376	-	2,617,484	17,429,860
Total comprehensive income for the year	-	-	-	14,812,376	-	33,831,745	48,644,121
Transfer to retained earnings on disposal of investment at FVTOCI	-	-	-	(366,845)	-	366,845	-
Increase in capital through bonus issue	10,000,000	-	-	-	-	(10,000,000)	-
Dividends paid (Note 28)	-	-	-	-	-	(10,000,000)	(10,000,000)
Transfer to statutory reserve (Note 14)	-	3,121,426	-	-	-	(3,121,426)	-
Transfer to general reserve (Note 14)	-	-	3,121,426	-	-	(3,121,426)	-
Balance as at 31 December 2019	110,000,000	35,401,605	31,556,445	36,637,580	11,205,588	59,171,917	283,973,135

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

**Al Fujairah National Insurance Company PJSC**  
**Statement of cash flows**  
**For the year ended 31 December 2019**

	Notes	2019 AED	2018 AED
<b>Cash flows from operating activities</b>			
Profit for the year		31,214,261	31,457,205
<i>Adjustments for:</i>			
Depreciation of property and equipment	5	14,276,463	2,542,280
Gain on disposal of property and equipment	19	(28,585)	(228,709)
Gain on disposal of investments at FVTPL	19	(193,386)	(122,134)
Provision for employees' end of service indemnity	15	1,704,196	2,140,428
Loss from change in fair value of investments at FVTPL	7	1,738,982	3,977,944
(Gain) / loss from change in fair value of investment properties	6	(325,000)	6,125,000
Interest on deposits	19	(4,618,867)	(3,021,582)
Dividend income	19	(6,331,888)	(7,043,902)
Income from investment properties	19	(1,579,706)	(1,818,720)
Finance costs		787,278	-
<b>Operating cash flows before changes in operating assets and liabilities</b>		<b>36,643,748</b>	<b>34,007,810</b>
<i>Changes in working capital:</i>			
Reinsurance contract assets	9	3,515,753	9,660,730
Insurance contracts liabilities	9	3,649,664	12,876,150
Insurance and other receivables	10	2,255	(16,391,142)
Amounts due from related parties	11	431,346	(419,792)
Insurance and other payables	16	12,468,786	4,416,528
<b>Cash generated from operations</b>		<b>56,711,552</b>	<b>44,150,284</b>
Employees' end of service benefits paid	15	(480,973)	(97,790)
<b>Net cash generated from operating activities</b>		<b>56,230,579</b>	<b>44,052,494</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of investments		55,071,630	7,967,546
Dividends received		6,331,888	7,043,902
Increase in fixed deposits with maturity over 3 months		(26,847,082)	(4,234,007)
Income from investment properties	19	1,579,706	1,818,720
Interest received	19	4,618,867	3,021,582
Proceeds from disposal of property and equipment		32,997	245,429
Purchase of financial investments	7	(93,904,173)	(21,401,098)
Purchase of property and equipment	5	(3,701,191)	(5,154,181)
<b>Net cash used in investing activities</b>		<b>(56,817,358)</b>	<b>(10,692,107)</b>

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



**Al Fujairah National Insurance Company PJSC**  
**Statement of cash flows (continued)**  
**For the year ended 31 December 2019**

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	Notes	2019 AED	2018 AED
<b>Cash flows from financing activities</b>			
Payment of lease liabilities		(11,008,326)	-
Dividends paid		<u>(10,000,000)</u>	<u>(10,000,000)</u>
Net cash used in financing activities		<u>(21,008,326)</u>	<u>(10,000,000)</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(21,595,105)</b>	<b>23,360,387</b>
Cash and cash equivalents at beginning of the year	12	<u>72,517,258</u>	<u>49,156,871</u>
<b>Cash and cash equivalents at end of the year</b>	12	<u><b>50,922,153</b></u>	<u><b>72,517,258</b></u>

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

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**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**

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**1 Legal status and activities**

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

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

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

**2 Statement of compliance with IFRS**

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

**Standards, interpretations and amendments to existing standards**

**Standards, interpretations and amendments to existing standards that are effective in 2019**

Certain standards, interpretations and amendments to existing standards, issued by the IASB, that are effective for the accounting period beginning on or after 1 January 2019 are relevant to the Company and have been applied for the first time. The nature and impact of these standards, interpretations and amendments is described in the accounting policies.

<b>Standard number</b>	<b>Title</b>	<b>Effective date</b>
IFRS 16	“Leases”	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.

Al Fujairah National Insurance Company PJSC  
Notes to the financial statements (continued)  
For the year ended 31 December 2019

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**2 Statement of compliance with IFRS (continued)**

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

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

*IFRS 17 'Insurance Contracts'*

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

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

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

**3 Summary of significant accounting policies**

**Accounting convention**

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

**Property and equipment**

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

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

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

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

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in income statement within 'other income'.

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

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**3 Summary of significant accounting policies (continued)**

**Investment properties**

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

Investment properties are derecognised when either they have been disposed of or when the investment properties 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 properties are recognised in the income statement in the period of retirement or disposal.

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

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

**Leases**

The Company has adopted IFRS 16 – Leases on its effective date of 1 January 2019 using the retrospective approach. IFRS 16 replaces IAS 17 ‘Leases’. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability.

Subsequent to implementation of IFRS 16, the Company recognises a right-to-use asset and a lease liability at the lease commencement date. The right-to-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus as initial direct costs incurred. The right-of-use is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-to-use or the end of the lease term. The estimated useful life of the right-to-use asset is determined on the same basis as those of property and equipment. In addition, the right-to-use is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rates as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-to-use asset, or is recorded in the profit or loss if the carrying amount of the right-to-use asset has been reduced to zero.

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**3 Summary of significant accounting policies (continued)**

**Leases (continued)**

The Company presents right-to-use assets that do not meet the definition of investment properties in 'Property and equipment' and the lease liabilities as a separate item in the statement of financial position.

The Company has adopted IFRS 16 using the modified retrospective transition approach as of 1 January 2019 and therefore the comparative information has not been restated. All right-of-use assets were measured at their carrying amounts as if the standard had been applied since the commencement date but discounted using the lessee's incremental borrowing rate at the date of initial application. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The impact arising from the implementation of this standard in these financial statements is shown below.

	<b>31 December 2019</b>
	<b>AED</b>
<b>Property and equipment</b>	
Property and equipment	22,245,744
Right of use – land and buildings	19,306,250
	<u>41,551,994</u>
<b>Right-of-use assets</b>	
Balance as at 1 January 2019	29,972,498
Depreciation charge for the year	(10,666,248)
<b>Balance as at 31 December 2019</b>	<u>19,306,250</u>
<b>Lease liabilities</b>	
Balance as at 1 January 2019	30,330,346
Lease payments made during the year	(11,008,316)
Interest on lease liabilities	787,278
<b>Balance as at 31 December 2019</b>	<u>20,109,308</u>
<b>Amounts recognised in the income statement</b>	<b>31 December 2019</b>
	<b>AED</b>
<b>General and administrative expenses</b>	
Interest expense on lease liabilities	787,278
Depreciation of right-to-use assets	10,666,248
	<u>11,453,526</u>
<b>Impact on opening retained earnings</b>	<b>1 January 2019</b>
	<b>AED</b>
Right-of-use assets	29,972,498
Lease liabilities	(30,330,346)
	<u>(357,848)</u>



**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

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**3 Summary of significant accounting policies (continued)**

**Revenue recognition**

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

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

The five steps in the model are as follows:

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

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

***Insurance contract premiums***

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences. Gross premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written. Premiums on insurance policies are accounted for on the date of writing of policies.

***Commission on reinsurance***

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

***Interest income***

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

***Rental income***

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

***Dividend income***

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

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

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**3 Summary of significant accounting policies (continued)**

**Claims and expenses recognition**

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

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

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

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. The reinsurers' portion towards the above outstanding claims is classified as reinsurance contract assets and shown as current assets in the statement of financial position.

**Provision for IBNR**

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

**Provision for ULAE**

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

**Liability adequacy test**

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

**Unearned premium reserve**

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

**Reinsurance premium**

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into during the period and are recognised on the date on which the policy incepts. Reinsurance premiums are accounted for in the same accounting periods in which the premiums for the related direct insurance are recorded and the unearned portion is calculated on linear basis in accordance with reinsurance arrangements in place.

Al Fujairah National Insurance Company PJSC  
Notes to the financial statements (continued)  
For the year ended 31 December 2019

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**3 Summary of significant accounting policies (continued)**

**Reinsurance assets**

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

**Financial instruments**

**Recognition, initial measurement and derecognition**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs. Regular way purchases and sales of financial assets are recognised on the date on which the Company commits to purchase or sell the asset i.e. the trade date.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished.

**Classification and subsequent measurement of financial assets**

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

***Financial assets at amortised cost***

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

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

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

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

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

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

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

The Company has designated certain financial assets at fair value through profit or loss because designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

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

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

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

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**3 Summary of significant accounting policies (continued)**

**Financial instruments (continued)**

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

***Fair value measurement***

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

***Gains or losses on subsequent measurement***

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

**Classification and subsequent measurement of financial liabilities**

The Company's financial liabilities includes other payables and lease liabilities. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

**Impairment and uncollectability of financial assets**

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

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

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

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

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

***Measurement of ECL***

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

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

Al Fujairah National Insurance Company PJSC  
Notes to the financial statements (continued)  
For the year ended 31 December 2019

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**3 Summary of significant accounting policies (continued)**

**Financial instruments (continued)**

**Impairment and uncollectability of financial assets (continued)**

*Measurement of ECL (continued)*

- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover.

**Offsetting financial instruments**

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

**Receivables and payables related to insurance contracts**

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

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

**Employee benefits**

***Defined Contribution plan***

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

***Annual leave and leave passage***

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

***Provision for employees' end of service benefits***

A provision for employees' end of service benefits is made for the full amount due to employees for their periods of service up to the reporting date in accordance with the UAE Labour Law and is reported as separate line item under non-current liabilities.



**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

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**3 Summary of significant accounting policies (continued)**

**Employee benefits (continued)**

***Provision for employees' end of service benefits (continued)***

The entitlement to end of service benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period as specified in the UAE Labour Law. The expected costs of these benefits are accrued over the period of employment.

**Foreign currency transactions**

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

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

Exchange differences are recognised in income statements in the period in which they arise.

**Impairment of non-financial assets**

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

**Operating leases**

The Company has entered into commercial property leases on its investment properties. The Company, as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases. Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and short-term deposits with an original maturity of three months or less in the statement of financial position.

**Provisions, contingent liabilities and contingent assets**

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

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

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**3 Summary of significant accounting policies (continued)**

**Provisions, contingent liabilities and contingent assets (continued)**

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

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

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

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

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

**Equity reserves and dividend payments**

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

Other details for reserves are mentioned in note 14 to the financial statements.

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

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

**Segment reporting**

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

For management purposes, the Company is organised into business units based on their products and services and has two reportable operating segments as follows:

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

Investment incorporating investments in UAE marketable equity securities, fixed deposits with banks and investment properties.

No inter-segment transactions occurred in 2019 and 2018. If any transaction were to occur, transfer prices between operating segments would be set on an arm's length basis in a manner similar to transactions with third parties.

**Related parties**

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Company if that person:
- (i) Has control or joint control over the Company;
  - (ii) Has significant influence over the Company; or
  - (iii) Is a member of the key management personnel of the Company or of a parent of the Company.

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

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**3 Summary of significant accounting policies (continued)**

**Related parties (continued)**

***Transactions with related parties***

All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rate.

**4 Critical accounting estimates and judgements in applying accounting policies**

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

***Outstanding claims, IBNR, ULAE and UPR***

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

***Classification of investment properties and related fair value judgement***

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

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

***Fair value of unquoted securities***

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

***Provision for expected credit losses***

Management reviews its insurance receivables on a regular basis to assess whether a provision for expected credit losses should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

In addition to specific provisions against individually significant insurance receivables, management also makes a collective credit loss provision against insurance receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for insurance receivables within each grade and is adjusted to reflect current economic changes.

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

<b>5 Property and equipment</b>	<b>Right of use assets</b>							<b>Total</b>
	<b>Freehold property</b>	<b>Motor vehicles</b>	<b>Furniture and office equipment</b>	<b>Scrap yard improvements</b>	<b>Capital work in progress</b>	<b>AED</b>		
<b>Cost</b>								
At 1 January 2019	-	2,322,195	28,810,699	1,761,913	4,182,317	44,120,219		
Additions	29,972,498	57,055	724,783	103,857	2,815,493	33,673,686		
Transfer	-	-	3,063,407	-	(3,063,407)	-		
Disposals	-	(75,725)	-	-	-	(75,725)		
<b>At 31 December 2019</b>	<b>29,972,498</b>	<b>2,303,525</b>	<b>32,598,889</b>	<b>1,865,770</b>	<b>3,934,403</b>	<b>77,718,180</b>		
<b>Accumulated depreciation</b>								
At 1 January 2019	-	1,333,390	19,194,358	650,722	-	21,961,036		
Charge for the year	10,666,248	319,569	2,878,659	177,217	-	14,276,463		
Disposals	-	(71,313)	-	-	-	(71,313)		
<b>At 31 December 2019</b>	<b>10,666,248</b>	<b>1,581,646</b>	<b>22,073,017</b>	<b>827,939</b>	<b>-</b>	<b>36,166,186</b>		
<b>Net book value</b>								
<b>At 31 December 2019</b>	<b>19,306,250</b>	<b>721,879</b>	<b>10,525,872</b>	<b>1,037,831</b>	<b>3,934,403</b>	<b>41,551,994</b>		
<b>Cost</b>								
At 1 January 2018	-	2,244,494	24,446,856	1,751,509	4,162,883	39,648,837		
Additions	-	760,500	1,637,278	10,404	2,745,999	5,154,181		
Transfers	-	-	2,726,565	-	(2,726,565)	-		
Disposals	-	(682,799)	-	-	-	(682,799)		
<b>At 31 December 2018</b>	<b>-</b>	<b>2,322,195</b>	<b>28,810,699</b>	<b>1,761,913</b>	<b>4,182,317</b>	<b>44,120,219</b>		
<b>Accumulated depreciation</b>								
At 1 January 2018	-	1,783,956	17,206,776	487,615	-	20,084,835		
Charge for the year	-	215,513	1,987,582	163,107	-	2,542,280		
Disposals	-	(666,079)	-	-	-	(666,079)		
<b>At 31 December 2018</b>	<b>-</b>	<b>1,333,390</b>	<b>19,194,358</b>	<b>650,722</b>	<b>-</b>	<b>21,961,036</b>		
<b>Net book value</b>								
<b>At 31 December 2018</b>	<b>-</b>	<b>988,805</b>	<b>9,616,341</b>	<b>1,111,191</b>	<b>4,182,317</b>	<b>22,159,183</b>		

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**5 Property and equipment (continued)**

- Freehold property comprise flats purchased in Dubai to be used for Dubai branch operations.
- At 31 December 2019, the cost of fully depreciated property and equipment that was still in use amounted to AED 19.6 million (2018: AED 14.7 million).

**6 Investment properties**

	2019 AED	2018 AED
<b>Fair value</b>		
At 1 January	84,550,000	90,675,000
Increase / (decrease) in fair value during the year	325,000	(6,125,000)
Net book value at 31 December	<u>84,875,000</u>	<u>84,550,000</u>

Investment properties represents fair value of two buildings and two plots of lands which are located in Fujairah U.A.E.

The investment properties of the Company were valued by two independent and experienced professional valuers Pioneer Surveyors & Loss Adjusters and Technical And Loss Adjusting Co. L.L.C which estimated the fair value of investment properties as at 31 December 2019 at a value of AED 84.8 million and AED 88.9 million respectively (2018: Land Sterling and Arab Loss Adjusters Co. LLC, independent and experienced professional valuers estimated the fair value of investment properties at AED 84.6 million and AED 90.88 million respectively). The Company has opted for the lower of the two investment properties valuations. The valuers hold relevant professional qualifications and experience. Investment properties is held for capital appreciation and rental purposes. The Company occupies an insignificant area of 10.6% (2018: 7%) in the investment properties for use in its own business.

Details of the investment properties and information about the fair value hierarchy as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019			Fair value as at 31 December 2018
	Level 1	Level 2	Level 3	Level 3
	AED	AED	AED	AED
Plot of land	-	-	9,275,000	8,530,000
Buildings and plots of land on which such buildings are constructed	-	-	75,600,000	76,020,000
	-	-	<u>84,875,000</u>	<u>84,550,000</u>

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

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



**Al Fujairah National Insurance Company PJSC**  
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**For the year ended 31 December 2019**

**7 Financial assets**

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

	2019 AED	2018 AED
<b>Financial assets measured at fair value through other comprehensive income (FVTOCI)</b>		
Quoted equity securities	120,283,450	112,877,681
Unquoted equity securities	34,762,318	30,162,553
Mutual funds	4,789,530	4,446,160
	<u>159,835,298</u>	<u>147,486,394</u>
<b>Financial assets measured at fair value through profit and loss (FVTPL)</b>		
Quoted equity securities	<u>14,792,777</u>	<u>9,292,536</u>
<b>Financial investments at amortised cost</b>		
Quoted debt instruments	3,724,375	17,293,176
Unquoted debt instruments	56,778,656	6,342,180
	<u>60,503,031</u>	<u>23,635,356</u>
	<u>235,131,106</u>	<u>180,414,286</u>

The movements in the financial investments are as follows:

	2019 AED	2018 AED
<b>At fair value through other comprehensive income</b>		
Fair value at the beginning of the year	147,486,394	152,619,253
Purchases during the year	18,317,788	11,163,115
Disposals during the year	(20,781,260)	(4,879,715)
Net increase / (decrease) in fair value	<u>14,812,376</u>	<u>(11,416,259)</u>
<b>Fair value at the end of the year</b>	<u>159,835,298</u>	<u>147,486,394</u>

Investments at FVTOCI comprise the following:

	2019 AED	2018 AED
Within U.A.E.	132,703,673	131,501,835
Outside U.A.E.	27,131,625	15,984,559
	<u>159,835,298</u>	<u>147,486,394</u>

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

The cumulative changes in fair value of financial investments carried at FVTOCI amounting to AED 36.7 million (2018: AED 22.2 million) is shown under equity.



**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**7 Financial assets (continued)**

	2019 AED	2018 AED
<b>At Fair Value Through Profit or Loss</b>		
Fair value at the beginning of the year	9,292,536	11,116,773
Purchases during the year	17,150,147	3,203,237
Disposals during the year	(9,910,924)	(1,049,530)
Net decrease in fair value	(1,738,982)	(3,977,944)
<b>Fair value at the end of the year</b>	<b>14,792,777</b>	<b>9,292,536</b>

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

	2019 AED	2018 AED
<b>At amortised cost</b>		
Amortised cost at the beginning of the year	23,635,356	16,600,610
Purchases during the year	58,436,238	7,034,746
Disposals during the year	(21,568,563)	-
<b>Amortised cost at the end of the year</b>	<b>60,503,031</b>	<b>23,635,356</b>

Investments at amortised cost comprise the following:

	2019 AED	2018 AED
Within U.A.E.	20,046,400	6,342,180
Outside U.A.E.	40,456,631	17,293,176
	<b>60,503,031</b>	<b>23,635,356</b>

**8 Statutory deposits**

	2019 AED	2018 AED
Statutory deposit maintained in accordance with Article 42 of U.A.E., Federal Law No. 6 of 2007	<b>10,000,000</b>	<b>10,000,000</b>

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

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

<b>9 Insurance contract liabilities and re-insurance contract assets</b>	<b>2019</b>	<b>2018</b>
	<b>AED</b>	<b>AED</b>
<b>Gross</b>		
Insurance contract liabilities:		
Claims reported unsettled	75,533,460	69,263,824
Claims incurred but not reported	27,424,594	32,515,177
Unearned premiums	127,280,875	124,810,264
<b>Total insurance contract liabilities, gross</b>	<b>230,238,929</b>	<b>226,589,265</b>
<b>Recoverable from reinsurers</b>		
Insurance contract assets:		
Claims reported unsettled	(27,531,678)	(27,947,853)
Claims incurred but not reported	(4,211,917)	(5,125,281)
Unearned premiums	(11,479,037)	(13,665,251)
<b>Total reinsurers' share of insurance contract liabilities</b>	<b>(43,222,632)</b>	<b>(46,738,385)</b>
<b>Net</b>		
Claims reported unsettled	48,001,782	41,315,971
Claims incurred but not reported	23,212,677	27,389,896
Unearned premiums	115,801,838	111,145,013
	<b>187,016,297</b>	<b>179,850,880</b>

Al Fujairah National Insurance Company PJSC  
Notes to the financial statements (continued)  
For the year ended 31 December 2019

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

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

	2019			2018		
	Gross AED	Re-insurance AED	Net AED	Gross AED	Re-insurance AED	Net AED
<b>Claims</b>						
Notified claims	69,263,824	(27,947,853)	41,315,971	64,330,115	(30,957,115)	33,373,000
Incurred but not reported	32,515,177	(5,125,281)	27,389,896	29,158,000	(7,714,000)	21,444,000
<b>Total at the beginning of the year</b>	101,779,001	(33,073,134)	68,705,867	93,488,115	(38,671,115)	54,817,000
Claims settled during the year	(134,800,390)	12,724,427	(122,075,963)	(121,428,467)	21,008,066	(100,420,401)
Increase in liabilities	135,979,443	(11,394,888)	124,584,555	129,719,353	(15,410,085)	114,309,268
<b>Total at the end of the year</b>	102,958,054	(31,743,595)	71,214,459	101,779,001	(33,073,134)	68,705,867
<b>Notified claims</b>						
Incurred but not reported	75,533,460	(27,531,678)	48,001,782	69,263,824	(27,947,853)	41,315,971
	27,424,594	(4,211,917)	23,212,677	32,515,177	(5,125,281)	27,389,896
<b>Total at the end of the year</b>	102,958,054	(31,743,595)	71,214,459	101,779,001	(33,073,134)	68,705,867
<b>Unearned premium</b>						
<b>Total at the beginning of the year</b>	124,810,264	(13,665,251)	111,145,013	120,225,000	(17,728,000)	102,497,000
Increase during the year	3,706,453	(236,454)	3,470,001	10,570,691	1,458,658	12,029,349
Release during the year	(1,235,842)	2,422,666	1,186,824	(5,985,427)	2,604,091	(3,381,336)
Net increase during the year (Note 17)	2,470,611	2,186,212	4,656,825	4,585,264	4,062,749	8,648,013
<b>Total at the end of the year</b>	127,280,875	(11,479,037)	115,801,838	124,810,264	(13,665,251)	111,145,013

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**10 Insurance and other receivables**

	2019 AED	2018 AED
<b>Due from policy holders</b>		
Due from policy holders – Accounts receivable	34,253,637	30,380,034
Due from policy holders – post dated cheques	4,373,117	2,346,370
	<u>38,626,754</u>	<u>32,726,404</u>
Allowance for expected credit losses	(6,204,248)	(2,704,248)
	<u>32,422,506</u>	<u>30,022,156</u>
<b>Due from insurance and reinsurance companies and brokers</b>		
Due from insurance companies - net	10,171,992	9,381,662
Due from re-insurance companies	1,970,377	5,924,925
Due from brokers	8,831,948	23,603,993
	<u>20,974,317</u>	<u>38,910,580</u>
Allowance for expected credit losses	(6,675,150)	(21,175,022)
	<u>14,299,167</u>	<u>17,735,558</u>
<b>Other receivables</b>		
Prepayments and others	15,738,679	14,704,893
	<u>15,738,679</u>	<u>14,704,893</u>
<b>Total insurance and other receivables</b>	<u>62,460,352</u>	<u>62,462,607</u>

The average credit period on insurance receivable is 60 days (2018: 60 days). No interest is charged on overdue balances and no collateral is taken on insurance receivables. Due from insurance receivables outstanding above 180 days are provided for (other than for government related entities) based on estimated irrecoverable amounts determined by reference to past default experience.

***Movement of expected credit losses for insurance and other receivables:***

	2019 AED	2018 AED
Balance at 1 January,	27,553,156	27,553,156
Charge for the year	2,000,000	-
Amount written off during the year	(14,499,872)	-
Balance at 31 December,	<u>15,053,284</u>	<u>27,553,156</u>

**11 Related parties**

Details of related parties' balances are as follows:

**Amounts due from related parties**

	2019 AED	2018 AED
<i>Related parties due to common directorship</i>		
Fujairah National Group of Companies	1,344,675	1,575,313
Others	125,825	326,533
	<u>1,470,500</u>	<u>1,901,846</u>

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

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**11 Related parties (continued)**

Details of significant transactions with related parties are shown below:

	2019 AED	2018 AED
Gross premiums	14,144,747	7,399,025
Claims (recovered) / paid	(864,389)	1,762,310
Key management personnel remuneration:		
	2019 AED	2018 AED
Short term benefits	10,713,499	9,441,777
Post-employment benefits	615,365	859,690
Board of directors' meeting allowance	1,350,000	1,725,000

**12 Bank balances and cash**

	2019 AED	2018 AED
Bank balances:		
Current and call accounts	23,046,852	40,812,613
Fixed deposit	112,214,261	89,330,075
Cash in hand	340,832	207,280
	<u>135,601,945</u>	<u>130,349,968</u>

Bank balances are maintained with banks within United Arab Emirates.

Cash and bank includes short term deposits (3-12 months) with local banks carrying interest ranging from 2.2% - 4% (2018: 2.20%-3.50%) per annum.

Fixed deposits amounting to AED 2 million (2018: 2 million) is under lien in respect of bank credit facilities granted to the Company.

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

	2019 AED	2018 AED
Bank balances and cash	135,601,945	130,349,968
Deposit under lien	(2,000,000)	(2,000,000)
Fixed deposits with maturity over 3 months	(82,679,792)	(55,832,710)
	<u>50,922,153</u>	<u>72,517,258</u>

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**13 Share capital**

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

	2019 No of shares	2019 AED	2018 No of shares	2018 AED
Balance at 31 December	<u>1,100,000</u>	<u>110,000,000</u>	1,000,000	100,000,000

The Shareholders' General Assembly held on 28 April 2019 approved the issuance of bonus shares at 10% of share capital amounting to AED 10 million for the year 2018. During the year, the share capital of the Company is increased by AED 10 million by the issue of 100,000 bonus shares.

**14 Reserve**

**Statutory reserve**

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

**General reserve**

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

**15 Provision for employees' end of service indemnity**

	2019 AED	2018 AED
Balance at 1 January	15,068,307	13,025,669
Charge for the year	1,704,196	2,140,428
Payments during the year	(480,973)	(97,790)
Balance at 31 December	<u>16,291,530</u>	<u>15,068,307</u>

**16 Insurance and other payables**

	2019 AED	2018 AED
Trade payables	15,489,003	13,474,174
Notes payables	2,243,111	366,798
Due to insurance companies	26,933,898	21,668,168
Due to re-insurance companies	5,796,152	2,666,572
Premium reserve withheld	4,130,664	4,049,451
<b>Other payables</b>		
Accrued expenses and provisions	5,221,324	5,586,849
Unclaimed dividends	10,500	10,500
Other payables	3,875,975	3,409,329
<b>Total insurance and other payables</b>	<u>63,700,627</u>	<u>51,231,841</u>

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



**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

<b>17 Net insurance premium revenue</b>	<b>2019</b>	<b>2018</b>
	<b>AED</b>	<b>AED</b>
<b>Gross premium written</b>		
Gross premium written	275,480,729	266,642,401
Change in unearned premium (Note 9)	(2,470,611)	(4,585,264)
	<u>273,010,118</u>	<u>262,057,137</u>
<b>Reinsurance premium ceded</b>		
Reinsurance premium ceded	(50,019,656)	(50,510,859)
Change in unearned premium (Note 9)	(2,186,212)	(4,062,749)
	<u>(52,205,868)</u>	<u>(54,573,608)</u>
<b>Net insurance premium revenue</b>	<u>220,804,250</u>	<u>207,483,529</u>
<b>18 General and administrative expenses</b>		
	<b>2019</b>	<b>2018</b>
	<b>AED</b>	<b>AED</b>
Staff cost	35,508,060	31,280,117
Rent	4,478,397	8,990,778
Insurance	76,405	73,169
Business promotion and donations	937,367	903,178
Depreciation	14,244,621	2,512,170
Bank charges	1,293,582	1,071,571
Legal and professional charges	1,130,991	1,224,211
Directors' remuneration	1,350,000	1,725,000
Office utilities and maintenance	2,992,200	2,891,526
Policy registration and printing	1,366,468	1,511,852
Other expenses	941,775	1,061,183
	<u>64,319,866</u>	<u>53,244,755</u>
Unallocated general and administrative expenses	12,863,973	10,648,951
Allocated general and administrative expenses relating to underwriting activities	51,455,893	42,595,804
	<u>64,319,866</u>	<u>53,244,755</u>

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**19 Investments and other income**

	2019 AED	2018 AED
Dividends from financial investments	6,331,888	7,043,902
Net income from investment properties	1,579,706	1,818,720
Interest on deposits	4,618,867	3,021,582
Gain on disposal of property and equipment	28,585	228,709
Loss from change in fair value of financial investments at FVTPL (Note 7)	(1,738,982)	(3,977,944)
Gain/(loss) from change in fair value of investment properties (Note 6)	325,000	(6,125,000)
Gain on disposal of financial investments at FVTPL	193,386	122,134
	<u>11,338,450</u>	<u>2,132,103</u>

**20 Basic earnings per share**

	2019	Restated 2018
Profit for the year (AED)	<u>31,214,261</u>	<u>31,457,205</u>
Weighted average number of shares (Note 13)	<u>1,100,000</u>	<u>1,100,000</u>
Earnings per share (AED) - Basic and diluted	<u>28.38</u>	<u>28.60</u>

**21 Segment reporting**

The Company is organised into two main business segments:

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

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

Segmental information is presented below:

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

	2019 AED	2018 AED
Motor	187,506,329	185,347,827
Marine and aviation	5,278,068	5,357,392
Group life and medical insurance	40,547,426	34,256,299
Engineering, fire, general accidents and others	42,148,906	41,680,883
	<u>275,480,729</u>	<u>266,642,401</u>

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

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
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**21 Segment reporting (continued)**

	2019 AED		2018 AED			
	Underwriting	Investments	Total	Underwriting	Investments	Total
Net Insurance Premium revenue	220,804,250	-	220,804,250	207,483,529	-	207,483,529
Net claims incurred	(124,584,555)	-	(124,584,555)	(114,309,268)	-	(114,309,268)
Net commissions incurred	(9,236,740)	-	(9,236,740)	(10,604,404)	-	(10,604,404)
Income from Investment and others	-	11,338,450	11,338,450	-	2,132,103	2,132,103
Segment result	35,527,062	11,338,450	46,865,512	39,974,053	2,132,103	42,106,156
Unallocated costs (net):	-	-	(15,651,251)	-	-	(10,648,951)
Net profit for the year	-	-	31,214,261	-	-	31,457,205

	As at 31 December 2019 AED		As at 31 December 2018 AED			
	Underwriting	Investments	Total	Underwriting	Investments	Total
Segment assets	158,705,478	432,220,367	590,925,845	143,262,019	354,294,363	497,556,382
Unallocated assets	-	-	23,387,684	-	-	41,019,893
Total assets	-	-	614,313,529	-	-	538,576,275
Segment liabilities	314,048,864	-	314,048,864	277,821,106	-	277,821,106
Unallocated liabilities	-	-	16,291,530	-	-	15,068,307
Total liabilities	-	-	330,340,394	-	-	292,889,413

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**22 Commitments and contingencies**

	2019	2018
	AED	AED
Letter of guarantee	17,761,653	16,453,121
Capital commitments	1,047,914	1,902,545

**23 Risk management**

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

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

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

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

**Frequency and severity of claims**

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

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses above a set limit of AED 0.5 million in any one policy. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, 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.

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
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**23 Risk management (continued)**

**Sources of uncertainty in the estimation of future claim payments**

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

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

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

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

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

Type of risk	2019	2018
Motor	56%	54%
Non-Motor	36%	40%

**Process used to decide on assumptions**

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



**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**23 Risk management (continued)**

**Process used to decide on assumptions (continued)**

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

**Concentration of insurance risk**

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

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

	Year ended 31 December 2019			Year ended 31 December 2018		
	Motor	Non-motor	Total	Motor	Non-motor	Total
	AED	AED	AED	AED	AED	AED
<b>Gross sum insured</b>	<b>3,864,018</b>	<b>68,166,138</b>	<b>72,030,156</b>	2,691,637	54,080,304	56,771,941
<b>Net sum insured</b>	<b>3,786,738</b>	<b>22,731,611</b>	<b>26,518,349</b>	2,610,887	18,589,563	21,200,450

**Reinsurance risk**

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

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

**Sensitivity of underwriting profit and losses**

The contribution by the insurance operations in the profit of the Company amounts to AED 35 million for the year ended 31 December 2019 (2018: AED 40 million). The Company does not foresee any major impact from insurance operations due to the following reasons:

The Company has an overall risk retention level of 50% (2018: 50%) and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 98% (2018: 97%). However, in this class the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Company has net commission incurred of AED 9.2 million (2018: AED 10.6 million). Commissions earned arise primarily from the reinsurance placements and are a consistent and recurring source of income.

Because of low risk retention in non-motor lines of business, being 32% (2018: 30%) of the total volume of business and limited exposure in the high risk retention area of motor business, the Company is comfortable to maintain a net loss ratio of 58% (2018: 52%) and does not see any serious financial impact in the insurance net profit.



**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

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**23 Risk management (continued)**

**Financial risk**

*Market risk*

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

Market risk exposures are measured using sensitivity analysis.

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

*Foreign currency risk*

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

*Interest rate risk*

The Company's exposure to interest rate risk relates to its bank deposits. At 31 December 2019, bank deposits carried interest rates ranging from 2.2% to 4% per annum (2018: 2.20% to 3.50% per annum).

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

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

*Credit risk*

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

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

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

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

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

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

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**23 Risk management (continued)**

**Financial risk (continued)**

***Credit risk (continued)***

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

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

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

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

	Neither past due nor impaired AED '000	Past due			Total AED '000	Past due and impaired AED '000	Total AED '000
		<270 days AED '000	271 -365 days AED '000	>365 days AED '000			
<b>31 December 2019</b>	<b>25,485</b>	<b>9,885</b>	<b>3,467</b>	<b>2,678</b>	<b>41,515</b>	<b>12,879</b>	<b>28,636</b>
31 December 2018	29,501	11,464	4,016	26,656	71,637	23,879	47,758

Before accepting any new customer, the Company assesses the prospective customers credit quality and defines credit limits. Of the due from policyholders balance at the end of year, AED 5.7 million (2018: AED 3.94 million) is due from the Company's largest customer. There is 2 (2018:1) customer who individually represents more than 5% (2018: 5%) of the total balance of due from policyholders.

***Market risk management***

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

***Sensitivity analysis***

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

- Profit would have increased/decreased by AED 1.5 million (2018: AED 0.9 million) in the case of financial investments at FVTPL.
- Other comprehensive income would have increased/decreased by AED 15.9 million (2018: AED 14.7 million) in the case of financial investments designated at FVTOCI.

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**23 Risk management (continued)**

*Market risk management (continued)*

*Method and assumptions for sensitivity analysis*

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

*Liquidity risk*

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

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

31 December 2019	Less than 90 days AED	91-270 days AED	271-365 days AED	Above 365 days AED	Total AED'000
<b>Financial assets</b>					
At fair value through OCI	-	-	-	159,835,298	159,835,298
Statutory deposit	-	-	-	10,000,000	10,000,000
Insurance and other receivables	27,308,321	12,373,514	2,765,397	4,052,278	46,499,510
At fair value through profit or loss	-	-	14,792,777	-	14,792,777
At amortised cost	-	-	-	60,503,031	60,503,031
Bank balances and cash - non interest bearing	23,046,852	-	-	-	23,046,852
Bank balances and cash - interest bearing	37,534,485	69,679,776	5,000,000	-	112,214,261
	<b>87,889,658</b>	<b>82,053,290</b>	<b>7,765,397</b>	<b>249,183,384</b>	<b>426,891,729</b>
<b>Financial liabilities</b>					
Insurance and other payables	28,209,949	14,992,210	3,331,572	3,331,572	49,865,303

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**23 Risk management (continued)**

*Liquidity risk (continued)*

31 December 2018	Less than 90 days AED	91-270 days AED	271-365 days AED	Above 365 days AED	Total AED'000
<b>Financial assets</b>					
At fair value through OCI	-	-	-	147,486,394	147,486,394
Statutory deposit	-	-	-	10,000,000	10,000,000
Insurance and other receivables	31,003,114	12,154,057	4,414,395	5,888,432	53,459,998
At fair value through profit or loss	-	-	9,292,536	-	9,292,536
At amortised cost	-	-	-	23,635,356	23,635,356
Bank balances and cash - non interest bearing	40,812,613	-	-	-	40,812,613
Bank balances and cash - interest bearing	31,497,365	25,332,710	11,000,000	21,500,000	89,330,075
	<u>103,313,092</u>	<u>37,486,767</u>	<u>15,414,395</u>	<u>217,802,718</u>	<u>374,016,972</u>
<b>Financial liabilities</b>					
Insurance and other payables	26,344,747	9,265,604	2,291,212	10,716,943	48,618,506

**24 Capital risk management**

The Company's objective when managing capital risks are:

- To comply with the Insurance Capital Requirements required by the UAE Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations concerning Insurance Companies and Agents. The minimum regulatory capital for Insurance Companies which must be maintained at all times throughout the year as per the Law is AED 100 million (2018: AED 100 million).
- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to the shareholders.
- To provide an adequate rate of return to shareholders by pricing products and services commensurate with the level of risk.

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

The table below summarises the minimum regulatory capital of the Company and the actual equity held by the Company at the end of the year:

	2019 AED	2018 AED
Total capital held	<u>110,000,000</u>	100,000,000
Minimum regulatory capital	<u>100,000,000</u>	100,000,000

**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

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**24 Capital risk management (continued)**

The U.A.E insurance authority has issued a resolution number 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing insurance firms and AED 250 million for reinsurance firms. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the U.A.E. should be owned by U.A.E. or GCC national individuals or corporate bodies.

The solvency regulations identify the required solvency margin to be held in addition to insurance liabilities. The solvency margin 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.

**25 Fair value measurement**

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

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

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

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

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



**Al Fujairah National Insurance Company PJSC**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2019**

**25 Fair value measurement (continued)**

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31 December 2019 AED	31 December 2018 AED				
Quoted equity investments – FVTOCI	120,283,450	112,877,681	Level 1	Quoted bid prices in an active market.	None.	NA
Mutual funds	4,789,530	4,446,160	Level 3	Net assets value	Net assets value.	Higher the net assets value of the investees, higher the fair value.
Unquoted equity investments – FVTOCI	34,726,318	30,162,553	Level 3	Adjusted net assets value	Net assets value.	Higher the net assets value of the investees, higher the fair value.
Quoted equity investments – FVTPL	14,792,777	9,292,536	Level 1	Quoted bid prices in an active market.	None.	NA

**26 Comparatives**

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

**27 Proposed dividends and bonus share**

At the Annual General Meeting held on 28 April 2019, the shareholders approved a cash dividend of 10% of share capital, amounting to AED 10 million for the year 2018 (2018: cash dividend of 10% of share capital, amounting to AED 10 million for the year 2017).

The Board of Directors has proposed cash dividend of 8% of share capital and 10% bonus shares of the share capital for the year ended 31 December 2019 at their Board of Directors meeting held on 12 March 2020. The proposals are subject to approval by the Shareholders at the Annual General Meeting.

**28 Post-reporting date events**

Except for the proposed cash dividend of 8% of share capital and 10% bonus shares of the share capital for the year ended 31 December 2019, there are no other significant events which have occurred between the reporting date and the date of authorisation of these financial statements.