2020

ANNUAL REPORT

ADNIC

شركة أبوظبي الوطنية للتأمين

ABU DHABI NATIONAL INSURANCE COMPANY

OUR LOCATIONS

HEAD OFFICE, MAIN BRANCHES, AND SUBSIDIARIES

HEAD OFFICE

P.O. Box: 839 – Abu Dhabi
Tel: 02 4080100
Fax: 02 4080604
Email: adnic@adnic.ae

MUSSAFAH BRANCH

ADNOC Vehicle Inspection Centre
Mussafah M4
P.O. Box: 92572 – Abu Dhabi
Tel: 02 4080696
Fax: 02 4080690

SAMHA TRAFFIC BRANCH

Samha ADNOC Station
Tel: 02 5620162
Fax: 02 4080604

ABU DHABI BRANCH

Abu Dhabi Traffic Police
Vehicle Test Section
Tel: 02 4080578/587/588/589
Fax: 02 4080604

AL SHAMKHA BRANCH

ADNOC Service Station
169 | Motor World
Tel: 02 4080576
Fax: 02 4080604

RUWAIS BRANCH

Ruwais City – Ruwais Mall,
Tamm Center
Tel: 02 8772123
Fax: 02 4080604

GHUWAIFAT BORDER BRANCH

Tel: 02 8723080
Fax: 02 4080604

GHUWAIFAT - SILA'A BRANCH

Tel: 02 8723287
Fax: 02 4080604

MAHAWI BRANCH

Abu Dhabi Traffic Police Department
Vehicle Inspection Centre
Abu Dhabi - Al Ain Highway
Tel: 02 6585158
Fax: 02 4080604

AL AIN BRANCH (1)

Khalaf Bin Ahmad
Al-Otaibah Building
Main Street (Sheikh Zayed Road)
P.O. Box: 1407 – Al Ain
Tel: 03 7641834
Fax: 03 7663147

AL AIN BRANCH (2)

Al Ain Traffic Police Dept. – Zakher
Tel: 03 7828666
Fax: 03 7663147

AL AIN BRANCH (3)

Mizyad
Abu Dhabi Traffic Police Dept.
Tel: 03 7824250
Fax: 03 7663147

DUBAI BRANCH (1)

Al Muraikhi Tower
Al Maktoum Street
P.O. Box: 11236 – Deira
Tel: 04 5154850
Fax: 04 5154910

DUBAI BRANCH (2)

International Division
Maze Tower
Dubai - Opposite DIFC
Tel: 04 5154888
Fax: 04 5154919

SHARJAH BRANCH

Al Hosn Tower,
Showroom No. 2, Building
No. 617/A, Al Ittihad Street
P.O. Box: 3674 – Sharjah
Tel: 06 5683743
Fax: 06 5682713

SUBSIDIARIES

ADNIC INTERNATIONAL LTD. LONDON - UK

The Leadenhall Building
30th floor
EC3V 4AB
Tel: +44(0)2037534686/687

ANNUAL REPORT

2020

THE LATE
SHEIKH ZAYED BIN SULTAN AL NAHYAN
THE FOUNDING FATHER OF THE UNITED ARAB EMIRATES

HIS HIGHNESS
SHEIKH KHALIFA BIN ZAYED AL NAHYAN
PRESIDENT OF THE UAE
AND RULER OF ABU DHABI

HIS HIGHNESS
SHEIKH
MOHAMMED BIN RASHID AL MAKTOUM
VICE PRESIDENT AND PRIME MINISTER
OF THE UAE AND RULER OF DUBAI

HIS HIGHNESS
SHEIKH
MOHAMED BIN ZAYED AL NAHYAN
CROWN PRINCE OF ABU DHABI
AND DEPUTY SUPREME COMMANDER
OF THE UAE ARMED FORCES

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BOARD OF DIRECTORS

Sheikh Mohamed Bin Saif Al-Nahyan
Chairman of the Board

Sheikh Theyab Bin Tahnoon Al-Nahyan
Vice Chairman

H.E. Sultan Rashed Al-Dhaheri
Board Member

Mr. Abdulla Khalaf Al-Otaiba
Board Member

Mr. Omar Liaqat
Board Member

Mr. Abdulrahman Hamad Al-Mubarak
Board Member

Mr. Hazzaa Mohamed Rubayea Al-Mheiri
Board Member

Mr. Hamoodah Ghanem Bin Hamoodah
Board Member

Mr. Mohamed Khalaf Al-Otaiba
Board Member

A MESSAGE FROM THE CHAIRMAN OF THE BOARD

The Board of Directors is pleased to report Abu Dhabi National Insurance Company's financial results for the 12 months ended 31 December 2020. Against the uncertain backdrop of 2020, ADNIC demonstrated strong results with a full-year net profit of AED 371 million, a 30.5% increase compared to the previous year.

ADNIC's technical abilities in prudent risk selection continue to be the bedrock on which this performance is based. These results are also due in part to the long-term investments we have made in technology over recent years and our ability and expertise to put the customer first and provide them with platforms that function 24/7. As a customer centric company, we will continue to pursue our digital transformation journey across all customer channels and consumer lines products.

Looking at some key financial highlights, ADNIC's gross premium income for commercial lines for 2020 recorded 13.1% growth. Consumer lines finished the year flat on the account of the overall business segment economic slowdown brought about by the pandemic and the resulting competitive pressure. The company's overall gross written premium grew by 6.8% to AED 4.012 billion against AED 3.755 billion in the previous year.

General and administrative expenses excluding provision for doubtful debts for the twelve-month period ended 31 December 2020 decreased by 5.3% to AED 231.7 million compared to AED 244.6 million in 2019, reflecting improvement in the overall operational efficiency. Total investment income for the year to date (including other comprehensive income) was down by AED 65.97 million compared to 2019 as a result of the market volatility experienced in the first quarter.

The consolidated financial statements disclose related party transactions and balances in note 26. All transactions are carried out as part of our normal course of business and in compliance with applicable laws and regulations.

This was a year when our readiness to support clients was crucial. The years of experience of insuring risks in over 70 countries came to the fore and has helped us further diversify our book of business. We measure our success both in the number of new client wins and the long-term relationships and partnerships that we maintain year after year. That said, I am proud of what we have achieved in such adverse conditions in 2020. We consider ADNIC to be an integral part of our communities and we will continue to support the government's plans and participate in several CSR and charitable initiatives.

We are grateful for the guidance received from the UAE's leadership, and I would like to extend our sincere gratitude to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of the UAE, His Highness Sheikh Mohammed Bin Rashid Al Maktoum, UAE Vice President and Prime Minister, and Ruler of Dubai, and His Highness Sheikh Mohamed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, for their continued support.

We head into the new year with renewed optimism and a focus on continuity and progress as we expect market sentiment to improve as the COVID-19 vaccine rollout accelerates despite ongoing uncertainties. I am fully confident in our ability to continue building on our expertise to deliver value for our stakeholders and the community over the coming years by supporting the country's long-term growth.

Sheikh Mohamed bin Saif Al-Nahyan
Chairman of the Board of Directors

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I hereby present ADNIC's financial results for the year ended 31st December 2020.

In a time of so much uncertainty, ADNIC delivered a strong performance with a full-year net profit of AED 371 million and sustained growth across key metrics. ADNIC demonstrated strength throughout the year and quickly adapted to a rapidly changing environment, enabling us to support our customers, employees and communities in navigating unprecedented times.

With a customer- first mindset, ADNIC accelerated the execution of its ambitious digital transformation plans to ensure uninterrupted services to our customers. The investments we made into technology has also freed our employees to deliver exceptional expertise and advice to customers.

As the world looks to recover and rebound from the pandemic, we remain firmly committed to maximizing shareholder returns, supporting our employees and customers, and we will continue to be engaged in numerous initiatives that contribute to the betterment of society from tackling environmental challenges to enhancing safety.

The COVID-19 pandemic and resulting economic fallout shifted consumer needs but most of the economic sectors adapted quickly.

Key Financial Highlights

Gross Written Premiums
For the year 2020, ADNIC's Gross Written Premium increased by 6.8% to AED 4.01 billion, compared to AED 3.76 billion for the same period in 2019.

Premium Retention
The overall premium retention ratio reached 33.6% for the year 2020 compared to 32.1% for the same period in 2019.

Net Underwriting Income
For the year 2020, ADNIC Net Underwriting profit increased by 26.5% to AED 497.2 million, against a Net Underwriting Profit of AED 393.2 million for the same period in 2019.

General and Administrative Expenses
General and Administrative Expenses for the year 2020 stood at AED 240.9 million, compared to AED 251.1 million for the same period in 2019.

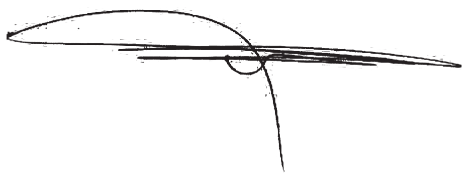
Net Technical Profit
Net Technical Profit for the year 2020 increased by 82.2% to AED 261.8 million, against a Net Technical Profit of AED 143.7 million for the same period in 2019.

Net Investment Income
ADNIC's Net Investment and Other Income is AED 114.8 million for the year 2020 compared to AED 142.2 million for the same period in 2019.

Net Profit
Net profit increased by 30.5% to AED 371.0 million, compared to a net profit of AED 284.3 million for the same period in 2019.

I am proud of what we were able to achieve in such difficult conditions thanks to the dedicated efforts of our employees and their customer-centric approach. We will continually optimize our business and keep coming out with innovative products and services to meet the changing needs of our customers over the next years.

I would like to thank ADNIC's Board of Directors and shareholders for their continued support, our clients and business partners for their trust in our company and our management team and employees for their diligent efforts.



Ahmad Idris
Chief Executive Officer

CORPORATE SOCIAL RESPONSIBILITY

At ADNIC, corporate social responsibility is an integral part of how we do business. As one of the leading regional multi-line insurance providers for corporates and individuals, being responsible is fundamental to our long-term sustainability. We are committed to creating sustainable value for our shareholders, our customers, our employees and the community. We aim to deliver on these promises every day, whether it is through our products and services, the opportunities our employees have, reducing the impact on the environment or our investments in the community. We demonstrate our commitment to corporate social responsibility through our numerous initiatives. Our CSR efforts are not restricted to specific types of projects - initiatives range from health to social programmes. ADNIC's main guiding principle when it comes to CSR projects is securing benefits well into the future and having a substantial positive impact on our communities. Our commitment to communities around the UAE is demonstrated with our continuous support to knowledge foundations and research centres such as Mohammed Bin Rashid Al Maktoum Knowledge Foundation. Additionally, ADNIC has partnered with notable organisations across the emirates to continue to enhance its sustainability and core business model. A notable example is ADNIC's long-term partnership with Al Bayt Mitwahid Association, a non-profit organisation dedicated to celebrating unity and promoting a culture of giving. Al Bayt Mitwahid provides an open platform for UAE communities to take part in creating, fundraising, planning and implementing initiatives that support a variety of social causes. ADNIC's long-standing collaboration with the association clearly demonstrates its commitment to supporting and making a difference within the community and is a central component of its CSR strategy. ADNIC also provides special discounts on insurance premium to members of the UAE Armed forces (Homat Al Watan) and ABSHER (a MOHRE initiative that offers support for UAE nationals working in the private sector through special benefits and exclusive offers) and have contributed AED 3 million to Ma'an Abu Dhabi towards the 'Together We Are Good' programme to support the UAE community in addressing the impact of COVID-19.

CONSOLIDATED FINANCIAL STATEMENTS

PROPOSAL TO SHAREHOLDERS

The Board of Directors, after the review of the Company's operations during the year 2020, proposes the following to the shareholders for their approval:

1. Authorize the Chairman of the General Assembly to appoint the Meeting Secretary and Vote Collector.

2. Listen to and approve the Board of Directors' Report on the Company's activity and its financial position for the Fiscal Year ended on 31/12/2020.

3. Listen to and approve the Auditor's Report for the Fiscal Year ended on 31/12/2020.

4. Discuss and approve the Company's Balance Sheet and Profit & Loss Account for the Fiscal Year ended on 31/12/2020.

5. Discuss and approve the Board of Directors' proposal regarding the distribution of cash dividends of 35% of the Share Nominal Value (AED 0.35 per Share), amounting to AED 199,500,000 for the Fiscal Year ended on 31/12/2020.

6. Discharge the Members of the Board of Directors from the responsibility for the Fiscal Year ended on 31/12/2020.

7. Discharge the Auditors from the responsibility for the Fiscal Year ended on 31/12/2020.

8. Approve the proposal regarding the remuneration of the Members of the Board of Directors for the Fiscal Year ended on 31/12/2020.

9. Appoint KPMG Lower Gulf Limited as the Auditors for the Fiscal Year 2021 and determine their fees.

10. Approve the Nomination and Remuneration Policy for the Chairman and Members of the Board of Directors.

11. Discuss the appointment of representatives on behalf of the Shareholders to attend the General Assembly meetings and determine their fees, in accordance with the requirements of the Securities and Commodities Authority in this regard.

12. Matters that require a Special Resolution:

    First: Approve The Board of Directors' proposal to amend the Articles No. (5/1), (7), (16), (27), (31), (35/2), (36), (37), (39), (41), (44/2), (46/3), (53/2), and (53/3) of the Company's Articles of Association following the approval of the competent authorities (the Securities & Commodities Authority and the Central Bank).

    Second: Approve to offer a voluntary contributions for the purpose of serving the society, provided that the contributions shall not exceed (2%) of the average net profits of the Company during the two financial years preceding the year of contribution, and authorize the Company's Board of Directors to determine the beneficiaries of such contributions and the amount for each beneficiary, in accordance with Article (242) of the Commercial Companies Law in force.

Note:

The above proposals to shareholders were approved during the annual general assembly meeting held on 21st March 2021.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Abu Dhabi National Insurance Company PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Abu Dhabi National Insurance Company PJSC ("the Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated 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 (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independent Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Valuation of insurance contract liabilities

Refer to notes 5, 6(ii) and 13 to the consolidated financial statements.

Valuation of these liabilities involves significant judgement and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims that have been incurred but not reported ("IBNR") to the Group. IBNR is calculated by an independent qualified external actuary for the Group.

Small changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to a material impact on the valuation of these liabilities and a corresponding effect on consolidated statement of profit or loss. The key assumptions that drive the liability calculations include loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business.

The valuation of these liabilities depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form

Key Audit Matters (continued)

1. Valuation of insurance contract liabilities (continued)

expectations about future claims. If the data used in calculating liabilities, or for forming judgements over key assumptions, is not complete and accurate, then material impacts on the valuation of these liabilities may arise.

Our response: Our audit procedures supported by our actuarial specialists included:

- evaluating and testing of key controls around the claims handling and case reserve setting processes of the Group. Examining evidence of the operation of controls over the valuation of individual reserve for outstanding claims and consider if the amounts recorded in the consolidated financial statements are valued adequately;
- obtaining an understanding of and assessing the methodology and key assumptions applied by management. Independently re-projecting the reserve balances for certain classes of business;
- assessing the experience and competence of the Group's actuary and degree of challenge applied through the reserving process;
- checking sample of reserves for outstanding claims through comparing the estimated amount of the reserves for outstanding claims to appropriate documentation, such as reports from loss adjusters; and
- assessing the Group's disclosure in relation to these liabilities including the claims development table is appropriate.

2. Insurance balances receivable

Refer to notes 5 and 12 to the consolidated financial statements.

The Group has significant insurance balances receivable against written premium policies. There is a risk over the recoverability and impairment of these receivables.

The Group has applied the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the date of initial recognition of the insurance balances receivable. Under the simplified approach the provision combines the historical loss rate with forward-looking assumptions, along with other factors, into account.

There are a number of significant judgments which are required in measuring the Expected Credit Losses ('ECL') under IFRS 9.

Our response: Our procedure on the recoverability and impairment of insurance balances receivable supported by our specialist included:

- testing key controls over the processes designed to record and monitor insurance receivables;
- testing the ageing of insurance balances receivable to assess if these have been accurately determined;

Key Audit Matters (continued)

2. Insurance balances receivable (continued)

- obtaining balance confirmations from sample of counterparties such as policyholders, brokers, insurance and reinsurance companies;
- verifying payments received from such counterparties post year-end;
- obtaining an understanding of the Group's process for estimating the ECL;
- reviewing the computation of Probability of Default ('PD') using the flow rate approach for insurance balances receivable;
- performed a recalculation of the loss rate for sample of aging buckets; and
- considering the adequacy of provisions for impairment of insurance balances receivable for significant customers, taking into account specific credit risk assessments for each customer based on default, existence of any disputes over the balance outstanding, history of settlement of receivables liabilities with the same counterparties.

3. Valuation of investment properties

Refer to notes 5 and 10 to the consolidated financial statements.

The valuation of investment properties is determined through the application of valuation techniques which often involve the exercise of judgement and the use of certain assumptions and estimates. Due to the significance of investment properties and the related estimation uncertainty, this is considered as a key audit matter. Investment properties are held at fair value through profit or loss in the Group's consolidated statement of financial position as at 31 December 2020 as determined by the Group's external valuation experts.

Our response: Our audit procedures supported by our valuation specialists included:

- assessing the competence, qualification, independence and integrity of the Group's external valuation experts and reviewing their terms of engagement with the Group' to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;
- obtaining the external valuation reports for all properties and confirming that the valuation approach is in accordance with Royal Institute of Chartered Surveyors' (RICS) standards and is suitable for use in determining the fair values;
- assessing the reasonability of the key inputs used by the Group's external valuation experts in determining the fair values and concluding on the appropriateness of fair values reported by the Group's external valuation expert;
- performing procedures to test whether property specific standing data supplied to the external valuers by management is adequate and reliable; and
- based on the outcome of our evaluation, determining the adequacy of the disclosure in the consolidated financial statements.

Key Audit Matters (continued)

Other Information

Management is responsible for the other information. The other information comprises the Directors' report and Chief Executive Officer's statement, which we obtained prior to the date of this auditors' report, and the remaining sections of the Group's Annual Report is expected to be made available to us after the date.

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

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, 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.

When we read the Group's Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information within the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 UAE Federal Law No. (2) of 2015, we report that for the year ended 31 December 2020:

i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

iii) the Group has maintained proper books of account;

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

iv) the financial information included in the Directors' report and Chief Executive Officer's statement is consistent with the books of account of the Group;

v) as disclosed in note 9 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2020;

vi) note 26 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect to the Company, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2020; and

viii) note 29 to the consolidated financial statements discloses social contributions made during the year.

Further, as required by the UAE Federal Law No. (6) of 2007, as amended, we report that we have obtained all the information and explanations we considered necessary for the purposes of our audit.

KPMG Lower Gulf Limited

Saif Fayez Shawer
Registration No: 1131
Abu Dhabi, United Arab Emirates
Date: 14 FEB 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December

	Note	2020 AED'000	2019 AED'000
Assets			
Property and equipment	8	70,186	71,950
Financial assets at amortised cost	9	850,951	800,872
Financial assets at fair value through other comprehensive income	9	1,282,308	1,203,104
Financial assets at fair value through profit or loss	9	358,439	325,493
Investment properties	10	684,190	703,027
Statutory deposits	11,14	10,000	10,000
Insurance balances receivable	12	1,085,657	962,770
Reinsurers' share of unearned premiums reserve	13	1,007,567	926,667
Reinsurers' share of outstanding claims reserve	13	1,638,954	1,634,783
Reinsurers' share of claims incurred but not reported reserve	13	358,930	259,317
Prepayments and other receivables	12	112,448	112,660
Deposits	11	274,851	128,292
Bank balances and cash	11	595,300	782,073
Total assets		8,329,781	7,921,008
Equity and liabilities			
Equity			
Share capital	15	570,000	570,000
Share premium		110,925	110,925
Legal reserve	16	253,025	215,925
General reserve	17	1,000,000	1,000,000
Reinsurance default risk reserve	18	13,319	-
Fair value reserve		155,252	94,126
Retained earnings	19	404,548	305,361
Total equity		2,507,069	2,296,337
Liabilities			
Employees' end of service benefits	20	26,557	30,916
Other payables	21	288,389	213,388
Accounts payable	21	1,145,714	1,128,766
		1,460,660	1,373,070
Technical reserves			
Unearned premiums reserve	13	1,481,936	1,385,236
Outstanding claims reserve	13	2,319,993	2,393,205
Claims incurred but not reported reserve	13	529,189	437,454
Allocated and unallocated loss adjustment expenses reserve	13	30,934	35,706
Total technical reserves	13	4,362,052	4,251,601
Total liabilities		5,822,712	5,624,671
Total equity and liabilities		8,329,781	7,921,008

To the best of our knowledge, the consolidated financial statements fairly presents, in all material respects, the financial position, results of operation and cash flows of the Group as of, and for, the year ended 31 December 2020.

Chairman of the Board of Directors

Chief Executive Officer

The notes set out on pages 24 to 70 form an integral part of these consolidated financial statements.

The independent auditors' report on the audit of the consolidated financial statements is set out on pages 13 to 18.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December

	Note	2020 AED'000	2019 AED'000
Underwriting income			
Gross written premiums	27	4,012,193	3,755,680
Reinsurance share of gross written premiums	27	(2,663,710)	(2,550,674)
Net written premiums		1,348,483	1,205,006
Net transfer to unearned premiums reserve	13,27	(15,800)	85,983
Net premiums earned	27	1,332,683	1,290,989
Commissions earned	27	183,386	239,460
Commissions incurred	27	(138,343)	(154,201)
Gross underwriting income		1,377,726	1,376,248
Gross claims paid	27	(1,816,593)	(1,909,469)
Reinsurance share of claims paid	27	895,190	882,458
Net claims paid	27	(921,403)	(1,027,011)
Change in outstanding claims reserve		73,212	(302,694)
Change in reinsurance share of outstanding claims reserve		4,171	337,857
Net change in incurred but not reported claims reserve		7,878	40,141
Change in allocated and unallocated loss adjustment expenses reserve		4,772	10,523
Net claims incurred	27	(831,370)	(941,184)
Underwriting income		546,356	435,064
Other income related to underwriting activities	27	17,677	18,468
Other expenses related to underwriting activities	27	(66,862)	(60,385)
Net underwriting income		497,171	393,147
Income from investments, *net*	22	86,776	110,334
Income from investment properties (rental income), *net*	22	28,024	31,882
Total income		611,971	535,363
General and administrative expenses	23	(231,661)	(244,588)
Charge for expected credit losses of insurance balances receivable	12	(9,263)	(6,525)
Profit before tax	27	371,047	284,250
Tax expense	24	(51)	-
Profit for the year		370,996	284,250
Earnings per share:			
Basic and diluted earnings per share (AED)	25	0.65	0.50

The notes set out on pages 24 to 70 form an integral part of these consolidated financial statements.

The independent auditors' report on the audit of the consolidated financial statements is set out on pages 13 to 18.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

	2020 AED'000	2019 AED'000
Profit for the year	370,996	284,250
Other comprehensive income		
Items that will not be reclassified subsequently to statement of profit or loss:		
Net (loss) / gain on sale of equity investments at fair value through other comprehensive income	(76,835)	14,636
Net change in fair value of equity investments at fair value through other comprehensive income	56,118	(8,376)
Items that are or may be reclassified subsequently to statement of profit or loss:		
Net changes in fair value of debt investments at fair value through other comprehensive income	5,342	15,860
Impairment (reversal) / charge on debt investments measured at fair value through other comprehensive income – reclassified to profit or loss	(334)	728
Other comprehensive (loss) / income for the year	(15,709)	22,848
Total comprehensive income for the year	355,287	307,098

The notes set out on pages 24 to 70 form an integral part of these consolidated financial statements.

The independent auditors' report on the audit of the consolidated financial statements is set out on pages 13 to 18.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the year ended 31 December

	Share capital AED'000	*Share premium AED'000*	*Legal reserve AED'000*	*General reserve AED'000*	*Reinsurance default risk reserve AED'000*	*Fair value reserve AED'000*	*Mandatory convertable bond AED'000*	*Retained earnings AED'000*	*Total AED'000*
Balance at 1 January 2019	375,000	–	187,500	850,000	–	85,914	305,925	297,400	2,101,739
Total comprehensive income:									
Profit for the year	–	–	–	–	–	–	–	284, 250	284, 250
Other comprehensive income for the year	–	–	–	–	–	8,212	–	14,636	22,848
Total comprehensive income for the year	–	–	–	–	–	8,212	–	298,886	307,098
Transactions with owners of the Company:									
Dividends paid *(note 19)*	–	–	–	–	–	–	–	(112,500)	(112,500)
Total transactions with owners of the Company	–	–	–	–	–	–	–	(112,500)	(112,500)
Conversion of mandatory convertible bonds	195,000	110,925	–	–	–	–	(305,925)	–	–
Transfer from retained earnings to legal reserve *(note 16)*	–	–	28,425	–	–	–	–	(28,425)	–
Transfer from retained earnings to general reserve *(note 17)*	–	–	–	150,000	–	–	–	(150,000)	–
Balance at 31 December 2019	570,000	110,925	215,925	1,000,000	–	94,126	–	305,361	2,296,337
Balance at 1 January 2020	**570,000**	**110,925**	**215,925**	**1,000,000**	–	**94,126**	–	**305,361**	**2,296,337**
Total comprehensive income:									
Profit for the year	–	–	–	–	–	–	–	370,996	370,996
Other comprehensive income / (loss) for the year	–	–	–	–	–	61,126	–	(76,835)	(15,709)
Total comprehensive income for the year	–	–	–	–	–	61,126	–	294,161	355,287
Transactions with owners of the Company:									
Dividends paid *(note 19)*	–	–	–	–	–	–	–	(144,555)	(144,555)
Total transactions with owners of the Company	–	–	–	–	–	–	–	(144,555)	(144,555)
Transfer from retained earnings to legal reserve *(note 16)*	–	–	37,100	–	–	–	–	(37,100)	–
Transfer from retained earnings to general reserve *(note 17)*	–	–	–	–	–	–	–	–	–
Transfer from retained earnings to reisurance default risk reserve *(note 18)*	–	–	–	–	13,319	–	–	(13,319)	–
Balance at 31 December 2020	**570,000**	**110,925**	**253,025**	**1,000,000**	**13,319**	**155,252**	–	**404,548**	**2,507,069**

The notes set out of pages 24 to 70 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

	Note	2020 AED'000	2019 AED'000
Cash flows from operating activities			
Profit for the year		370,996	284,250
Adjustments for:			
Depreciation	8,23	18,757	19,364
Charge for expected credit losses of insurance balances receivable	12	9,263	6,525
Charge for expected credit losses of other financial assets - net	22,23	251	2,127
Change in fair value of financial assets at fair value through profit or loss	9	7,014	(3,689)
Amortisation expense – *net*	9	2,295	2,267
Change in fair value of investment properties	10	19,052	10,671
Accretion on mandatory convertible bonds		-	1,290
Deletion of property and equipment	8	41	238
Amortisation of transaction cost - mandatory convertible bonds		-	83
Provision for employees' end of service benefits	20	3,540	4,517
Tax expense	24	51	-
Net cash generated from operations		431,260	327,643
Changes in:			
Insurance balances receivable, prepayments and other receivables		(132,177)	(4,362)
Accounts payable	21	16,948	309,023
Other payables		77,568	(107,725)
Unearned premiums reserve - *net*	13	15,800	(85,982)
Gross outstanding claims, IBNR, allocated and unallocated loss adjustment expense reserves	13	13,751	192,410
Reinsurers' share of outstanding claims and IBNR reserves	13	(103,784)	(278,238)
Cash generated from operations		319,366	352,769
Employees' end of service benefits paid	20	(7,899)	(5,201)
Tax paid during the year		(36)	-
Net cash generated from operating activities		311,431	347,568
Cash flows from investing activities			
Proceeds from sale of investments		659,688	665,964
Purchase of investments	9	(846,690)	(791,884)
Bank deposits (placed) / withdrawn - *net*		(146,735)	379,509
Additions to investment properties	10	(2,667)	(3,711)
Additions to property and equipment	8	(17,163)	(9,947)
Net cash (used in) / generated from investing activities		(353,567)	239,931
Cash flows from financing activities			
Dividends paid	19	(144,555)	(112,500)
Interest paid on mandatory convertible bonds		-	(29,250)
Net cash used in financing activities		(144,555)	(141,750)
Net (decrease) / increase in cash and cash equivalents		(186,691)	445,749
Cash and cash equivalents at 1 January		782,518	336,769
Cash and cash equivalents at 31 December	11	595,827	782,518

Material non-cash transactions include transfer from investment properties to property and equipment of AED 2,452 thousand and write off of right use assets relating to leased properties classified under property and equipment of AED 2,581 thousand.

The notes set out on pages 24 to 70 form an integral part of these consolidated financial statements.

The independent auditor's report on the audit of the consolidated financial statements is set out on 13 to 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Legal status and activities

Abu Dhabi National Insurance Company PJSC (the 'Company') is a Public Joint Stock Company registered and incorporated in Abu Dhabi, United Arab Emirates, by Law No. (4) of 1972 as amended, and is governed by the provisions of Federal Law No. (6) of 2007 Concerning the Establishment of the Insurance Authority and Organisation of the Insurance Operations and Its Amendments, Federal Law No. (2) of 2015 Concerning the Commercial Companies and Its Amendments, Insurance Authority Board of Directors' Decision No. (25) of 2014 Pertinent to Financial Regulations for insurance companies and Insurance Authority Board of Directors' Decision No. (23) of 2019 concerning Instructions Organizing Reinsurance Operations. The Company's principal activity is the transaction of insurance and reinsurance business of all classes and is registered with the Insurance Companies Register of Insurance Authority of UAE under registration No. 001. The registered office of the Company is located in ADNIC Building No. (403), Khalifa Street, P. O. Box 839, Abu Dhabi, UAE.

2 Basis of preparation

(a) *Basis of consolidation*

The consolidated financial statements comprise the financial results of the Company and its subsidiary (together the 'Group'):

Subsidiary	Principal activity	Country of incorporation	Ownership
ADNIC International Limited*	Other activities auxiliary to insurance	United Kingdom	100%

* The Company incorporated a wholly owned subsidiary on 3 July 2017 named ADNIC International Limited to operate as a representative office of the Company in London, England.

The subsidiary is fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiary is prepared for the same reporting year as the Group, using consistent accounting policies.

Intra-group balances and transactions, and any unrealised gains / losses arising from intra-group transactions, are eliminated in preparing the Group's consolidated financial statements.

(b) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with applicable requirements of the Federal Law No. (6) of 2007 Concerning the Establishment of the Insurance Authority & Organisation of the Insurance Operations, the Federal Law No. (2) of 2015 Concerning the Commercial Companies, Insurance Authority Board of Directors' Decision No. (25) of 2014 Pertinent to Financial Regulations for Insurance Companies and Insurance Authority's Board of Directors Decision No. (23) of 2019 Concerning Instructions Organizing Reinsurance Operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation *(continued)*

(c) *Basis of measurement*

The consolidated financial statements have been prepared under the historical cost convention except for investment properties, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which are carried at fair values.

(d) *Functional and reporting currency*

These consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(e) *Use of judgments and estimates*

In preparing these consolidated financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumption are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the annual consolidated financial statements for the year ended 31 December 2019.

(i) *Estimation uncertainty*

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

Reserve for incurred but not reported claims (IBNR)

Considerable judgment by management is required in the estimation of amounts due to contract holders arising from claims under insurance contracts and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the statement of financial position date. Such estimates are made using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Claims requiring court or arbitration decisions are estimated individually. Management reviews its reserves for claims incurred on a periodic basis. The carrying value at the reporting date of IBNR reserve (net of related reinsurance receivable) is AED 170.3 million *(31 December 2019: AED 178.1 million).*

Reserve for outstanding claims

Reserve for outstanding claims include reserve for allocated and unallocated loss adjustment expenses (ALAE and ULAE) reserves. Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Group generally estimates its claims based on previous experience and / or loss adjustor reports. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters along with the Group's internal legal counsel normally estimate such claims. The carrying value at the reporting date of reserve for outstanding claims (net of related reinsurance assets including ALAE/ULAE reserves) is AED 712.0 million *(31 December 2019: AED 794.1 million).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation *(continued)*

(e) *Use of estimates and judgment (continued)*

(i) *Estimation uncertainty (continued)*

Measurement of the expected credit losses allowance

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of Expected Credit Losses ("ECL") requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

A number of factors are also considered in applying the accounting requirements for measuring ECL, such as:

- determining the criteria for significant increase in credit risk;
- determining the criteria and definition of default;
- choosing appropriate models and assumptions for the measurement of ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECL.

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

Fair value of investment properties

The fair value of investment properties is determined by independent real estate valuation consultants based on discounted cash flow (DCF) and investment method of valuation. The investment method analyses potential rental income from the property and deducts the expenses incurred in the operation of the asset. The net rental income is then capitalised at market standards to arrive at fair value. The DCF method calculates the present value of net cashflows.

Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual values realised. The change in fair value recognised in the consolidated statement of profit or loss for the year was a decrease of AED 19,052 thousand *(31 December 2019: decrease of AED 10,671 thousand).*

Other estimate

Reserve for unearned premium reserve, premium deficiency reserve and unexpired risk reserve

Unearned premium reserves include premium deficiency reserve (PDR) and unexpired risk reserve (URR) which are estimated using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The carrying value at the reporting date of UPR, PDR and URR reserve (net of related reinsurance asset) is AED 474.4 million *(31 December 2019: AED 458.6 million).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation *(continued)*

(e) Use of estimates and judgment (continued)

(ii) Judgments

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as investments carried at fair value or amortised cost on the basis of both:

(a) its business model for managing the financial assets; and

(b) the contractual cash flow characteristics of the financial asset.

For equity investments carried at fair value, management decides whether it should be classified as financial assets carried at fair value through other comprehensive income or fair value through profit or loss.

Investments in equity instruments are classified and measured at fair value through profit or loss ("FVTPL") except if the equity investment is not held for trading and is designated by the Group at fair value through other comprehensive income ("FVOCI").

Further, even if the asset meets the amortised cost criteria the Group may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

For debt securities acquired to match its business model of development of the line of business, the Group classifies these investments as financial assets at fair value through other comprehensive income.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair values are based on Net Asset Values (NAV) calculated by the respective fund managers. For investments in unquoted equity securities, the fair values are based on internal valuation techniques such as discounted cash flows and comparable companies' multiples.

(iii) Impact of COVID-19

On 11 March 2020, the World Health Organization ("WHO") officially declared COVID-19 a global pandemic. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty and governments and authorities have instigated a host of measures to contain the spread of the virus.

This note outlines the steps taken by the Group to estimate the impact of COVID-19 and the judgements applied by management in assessing the values of assets and liabilities as at 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation *(continued)*

(e) Use of estimates and judgment (continued)

(iii) Impact of COVID-19 (continued)

Assessment of expected credit loss

The Group uses a range of macro-economic factors in the assessment of ECL. The Group periodically reviews and updates selected economic series and applies judgement in determining what constitutes reasonable and forward-looking estimates.

For the year ended 31 December 2020, the Group has used the mechanism to stress the probability scenario weightages to assess additional ECL requirements due to COVID-19 as in comparison to the scenario weightages used as of 31 December 2019.

In the context of COVID-19 crisis, Loss given Default ("LGD"), Probability of Default ("PD") and Exposure at Default ("EAD") estimates have also been critically assessed. This assessment has considered several aspects including the cash situation and credit rating of the counterparties.

Liquidity risk management

In response to COVID-19 outbreak, the Group continues to monitor and respond to all liquidity requirements that are presented. The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in the current extreme stress. As at the reporting date the liquidity position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption.

3 Newly effective standards

The Group has initially adopted Definition of a Business (Amendments to IFRS 3) and Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) from 1 January 2020, however, these amendments do not have any material effect on the Group's consolidated financial statements. A number of other new standards are also effective from 1 January 2020 but they do not have a material effect on the Group's consolidated financial statements. The standards are as listed below:

New standard or amendments

Amendments to IFRS 3 – definition of a business
Amendments to IAS 1 and IAS 8 – definition of Material
Amendment to IFRS-16 - COVID-19-Related Rent Concessions

4 Standards issued but not yet effective

A number of new standards are issued before 31 December 2020 with an effective date beginning on or after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Standards issued but not yet effective *(continued)*

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach).
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group plans to adopt the standard on the required effective date and is currently evaluating the expected impact.

Other standards

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements, when effective:

New standard or amendments	*Effective date*
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 – Onerous contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 3 - Reference to Conceptual Framework	1 January 2022
Amendments to IAS 1 - Classification of Liabilities as Current or Non-current	1 January 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except if mentioned otherwise in these consolidated financial statements.

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(a) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-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 any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset 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 Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Leases *(continued)*

(a) As a lessee (continued)

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

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

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'other payables' in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group does not recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease *(note 5, impairment)*. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Financial assets and liabilities

Recognition

The Group initially recognises deposits and debt securities issued on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Derecognition

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

On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in:

(i) Consolidated statement of profit or loss, for securities held at amortised cost or FVTPL, or

(ii) Consolidated statement of other comprehensive income, for investments at FVOCI. At the time of derecognition of FVOCI investment any revaluation reserve is transferred to retained earnings.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Designation at amortised cost

Debt instruments are classified as investments at amortised cost only if:

(i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the two criteria is not met the financial instrument is classified at fair value through profit or loss. Further, even if the asset meets the amortised cost criteria, the Group may choose at initial recognition to designate the financial asset as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Financial assets and liabilities ***(continued)***

Designation at amortised cost (continued)

Investments in equity instruments are classified and measured at fair value through profit or loss except if the equity investment is not held for trading and is designated by the Group at fair value through other comprehensive income. If the equity investment is designated at fair value through other comprehensive income, all gains and losses, except for dividend income recognised in accordance with IFRS 15 *Revenue from Contracts with Customers,* are recognised in consolidated statement of other comprehensive income and are not subsequently reclassified to the consolidated statement of profit or loss.

Other financial assets

Other non-derivative financial assets, such as cash and cash equivalents, statutory deposits, insurance and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards. Gains and losses arising from a group of similar transactions are reported on a net basis.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

The Group measures financial instruments, such as investments carried at fair value through other comprehensive income and investments carried at fair value through profit or loss and non-financial assets such as investment properties, at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to / by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Fair value measurement ***(continued)***

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured are provided in *note 7*.

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

Management, in conjunction with the Group's external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Impairment

(i) Financial assets

The Group assess on a forward-looking basis the expected credit losses (ECL) associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. If the credit risk on the financial asset has increased significantly since initial recognition, loss allowance equal to the lifetime ECL is recognised and if the credit risk on the financial asset has not increased significantly since initial recognition, loss allowance equal to the 12 months ECL is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Impairment *(continued)*

(i) Financial assets (continued)

For insurance balances and other receivables, the Group applies the simplified approach permitted by IFRS 9 which requires expected credit lifetime losses to be recognised from initial recognition of receivables. The expected loss rates are based on the historical credit losses experienced by assessing the payment profiles of sales. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the liability of the counterparties to settle the receivable. Insurance balances and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired debts are derecognised when they are assessed as uncollectible.

Expected credit losses for other financial assets, i.e. bank balances, term deposits, debt instruments at amortised cost and FVOCI are determined using the low credit risk expedient, and therefore the Group measures loss allowance for these financial assets at 12-month ECL.

The impairment charge of debt investments at FVOCI is recognised in profit or loss and reduces the fair value loss otherwise recognised in OCI.

Loss allowances for other financial assets are deducted from the gross carrying amount of the assets.

(ii) Non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded securities or other available fair value indicators.

Impairment losses of continuing operations are recognised in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Insurance contracts

Classification

The Group issues contracts that transfer either insurance risk or both insurance and financial risks. The Group does not issue contracts that transfer only financial risks.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Group to pay significant additional benefits due to occurrence of the insured event as compared to the non – occurrence. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

Premiums

Gross premiums written reflect amounts recognised during the year to policyholders or other insurers for insurance contracts, and exclude any fees and other amounts calculated based on premiums. These are recognised when the underwriting process is complete.

Premiums include any adjustments in respect of business written in prior accounting periods. The earned portion of premiums is recognised as income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below:

Unearned premiums reserve

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro-rata basis. The proportion attributable to subsequent periods is deferred as a reserve for unearned premiums.

Unexpired risk reserve

Unexpired risk reserve represents the portion of the premium subsequent to the reporting date and where the premium is expected to be insufficient to cover anticipated claims, expenses and a reasonable profit margin.

Reserve for premium deficiency / liability adequacy test

Reserve is made for premium deficiency arising from insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the consolidated statement of financial position date exceeds the unearned premiums reserve and already recorded claim liabilities in relation to such policies. The reserve for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims reserves. This reserve is recorded under the heading of unearned premium reserve in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Insurance contracts *(continued)*

Claims

Claims outstanding comprise reserves for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Reserves for claims outstanding are not discounted. Adjustments to claims reserves established in prior periods are reflected in the consolidated financial statements of the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly.

Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the related insurance policies and in accordance with the relevant reinsurance contracts. Reinsurance premiums are deferred and expensed using the same basis as used to calculate unearned premium reserves for related insurance policies. The deferred portion of ceded reinsurance premiums is included in reinsurance assets.

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

Impairment losses on reinsurance assets are recognised in consolidated statement of profit or loss in the period in which they are incurred.

Deferred commission and other expenses and unearned commission and other income

At the end of each reporting period, portion of commission income and other income and portion of commission expenses and other expenses related to underwriting activities are deferred to cover for unexpired risks. The reserves are calculated on a time-proportion basis over the effective period of the policy.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for expected credit losses, whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of profit or loss.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Insurance contracts *(continued)*

Insurance contract liabilities

Insurance contract liabilities include claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER), premium deficiency reserve (PDR), outstanding claims (OSLR), reserve for unearned premium (UPR), reserve for unexpired risk reserve (URR) and the reserve for allocated and unallocated loss adjustment expenses (ALAE/ULAE).

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the reporting date, in addition for claims incurred but not reported.

The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the consolidated statement of financial position date. Unearned premiums are calculated on a time proportion basis over the effective period of the policy. The proportion attributable to subsequent periods is deferred as a reserve for unearned premiums. The Group provides unearned premium reserve based on actual terms of the policy.

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

The reinsurers' portion towards the above contract liabilities is classified as reinsurance contract assets in the consolidated financial statements.

Finance cost

Interest paid is recognised in the consolidated statement of profit or loss as it accrues and is calculated by using the effective interest rate method.

Property and equipment

Recognition and measurement

All items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent cost

The cost of replacing a part of property and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of day to day servicing of property and equipment is recognised in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Property and equipment ***(continued)***

Subsequent cost (continued)

Gains and losses on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within other operating income in the consolidated statement of profit or loss.

Depreciation

Depreciation is recognised in the consolidated income statement on a straight-line basis over the remaining economic useful lives of all property and equipment. Freehold land and capital work in progress are not depreciated.

The economic useful lives of assets, from the date of use, for the current and comparative period are estimated to be as follows:

	Useful life
Building	10 - 20 years
Furniture, fixtures and leasehold improvements	4 - 10 years
Computer hardware, software and office equipment	2 - 8 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Impairment

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in the consolidated statement of profit or loss to the extent that carrying values do not exceed the recoverable amounts.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less.

Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at fair value with any change therein recognised in operating income in the consolidated statement of profit or loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. The Group holds investment properties which are disclosed in *note 10*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Revenue - non insurance

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

Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the lease and is stated net of related expenses.

Interest income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable.

Dividend income

Dividend income is recognised when the right to receive dividend is established. Usually this is the ex-dividend date for equity securities.

Investment income

Interest income is recognised in the consolidated statement of profit or loss as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established.

Realised and unrealised gain

Net gains/losses on financial assets classified at fair value through profit or loss and fair value through other comprehensive income are described under the accounting policy for financial assets and liabilities.

Foreign currency

Transactions denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the consolidated statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AED at the foreign exchange rate ruling at the date of the transaction. Realised and unrealised exchange gains and losses have been dealt with in the consolidated statement of profit or loss.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Staff end of service benefits

Defined benefit plan

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final basic salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Defined contribution plan

The Group pays its obligations for UAE citizens into a Social Security and UAE Pension Fund in accordance with the Federal Law No. (7) of 1999 for Pension and Social Security.

Dividend

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

Taxes

Current income tax

The tax currently payable is based on taxable profit for the year. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group or its subsidiary operates and generates taxable income.

6 Risk management

This section summarises the risks faced by the Group and the way the Group manages them.

(i) Introduction and overview

Overall framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of the set financial performance objectives. Management recognises the critical importance of having efficient and effective enterprise risk management systems in place.

Capital management framework

The Group has an internal risk management framework for identifying risks to which each of its business units and the Group as a whole is exposed. Ultimately the internal framework estimates the required levels of capital to withstand the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(i) Introduction and overview *(continued)*

Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and shareholders and monitor closely to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Group are also subject to regulatory requirements within the UAE. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. The chairman of the Insurance Authority vides Board of Directors' Decision No. (25) of 2014 dated 28th December 2014, issued Financial Regulation for Insurance Companies (FRIC) applicable to insurance companies incorporated in the UAE and the foreign insurance companies licensed to practice the activity in the UAE. The major highlights of the regulation are summarised in the below table:

Regulation

a) Basis of Investing the Rights of the Policy Holders
b) Solvency Margin and Minimum Guarantee Fund
c) Basis of calculating the technical reserves
d) Determining the Group's assets that meet the accrued insurance liabilities
e) Records which the Group shall be obligated to organise and maintain as well as the data and documents that shall be made available to the Authority
f) Principles of organising accounting books and records of the Group, agents and brokers and determining data to be maintained in these books and records
g) Accounting policies to be adopted and the necessary forms needed to be prepared and present reports and financial statements

(ii) Insurance risk

The Group accepts insurance risk through its written insurance contracts. The Group is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Group writes the following types of general insurance contracts:

- Marine hull insurance
- Marine cargo insurance
- Aviation insurance
- Engineering and construction insurance
- Energy insurance
- Liability insurance
- Financial lines insurance
- Property insurance
- Personal accident insurance
- Group and credit life insurance
- Motor insurance
- Health insurance

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(ii) Insurance risk *(continued)*

Two key elements of the Group's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

Underwriting strategy

The Group's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolio's outcome.

The underwriting strategy is set out by the Group, which establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Group is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. Generally, all general insurance contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Medical selection is part of the Group's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts, including specific risks and guarantees, are tested for profitability according to predefined procedures before approval.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

The Group operates a number of oversight committees that monitor aggregate risk data and take overall risk management decisions.

Geographical concentration of risks

The insurance risk arising from insurance contracts is primarily concentrated in the United Arab Emirates. The geographical concentration of risks is similar to last year.

Reinsurance strategy

The reinsurance arrangements include proportional, excess and catastrophe coverage. The Group reinsures a portion of the insurance risks it underwrites in order to control manage its exposure to losses and protect capital resources.

Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Group has a reinsurance department that is responsible for setting the minimum-security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy.

The underwriters buy a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Group. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchases of facultative reinsurance are subject to business unit pre-approval and the total expenditure on facultative reinsurance is monitored regularly by the reinsurance department.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(ii) Insurance risk *(continued)*

Reinsurance Strategy (continued)

The estimated loss ratios are analysed below by class of business for the current and previous year:

Type of risk	31 December 2020		31 December 2019	
	Gross loss ratio	Net loss ratio	Gross loss ratio	Net loss ratio
Commercial	30%	40%	41%	51%
Consumer	72%	72%	77%	81%

Sensitivity of underwriting profit and losses

The underlying risk of any agreed insurance contract is the possibility that the insured event occurs and the level of certainty the insurer can project on any resulting claim. By the nature of an insurance contract, this risk is often random and the amount of payable claim even more unpredictable. Therefore, the Group applies the principle of probability across all pricing and provisioning. Despite this principle the risk that actual claims payments exceed the estimated amount of the insurance liabilities is still ever present due to the uncertainty of the frequency or severity of claims being greater than estimated. Whilst the Group applies the portfolio approach to understand its projected claims, events leading to actual claims vary and therefore profitability is impacted, either positively or negatively on an annual basis.

The Group has an overall risk retention level of 34% *(31 December 2019: 32%)* and this is mainly due to overall low retention levels in commercial lines. Despite these low retention levels on commercial lines, due to the unpredictability in events and their extreme volatility, large events stress the performance of the Group despite transferring risks to other parties. For all lines of business, the Group is adequately covered by excess of loss reinsurance programs to guard against any major financial impact.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(ii) Insurance risk *(continued)*

Claim development

The following schedule reflects the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last five years on an accident year basis:

	2015 and earlier AED'000	2016 AED'000	2017 AED'000	2018 AED'000	2019 AED'000	2020 AED'000	Total AED'000
Commercial (gross)							
At the end of the reporting year		925,939	1,133,273	851,066	844,903	985,273	4,740,454
One year later		730,350	1,117,976	977,445	834,028	-	3,659,799
Two years later		661,482	1,047,058	1,014,953	-	-	2,723,493
Three years later		627,640	1,042,445	-	-	-	1,670,085
Four years later		618,087	-	-	-	-	618,087
Current estimate of cumulative claims		618,087	1,042,445	1,014,953	834,028	985,273	4,494,786
Cumulative payments to date		557,779	825,122	454,704	363,442	98,091	2,299,138
Total liability recognised in the consolidated statement of financial position	138,993	60,308	217,323	560,249	470,586	887,182	2,334,641
Net liability recognised in the consolidated statement of financial position	25,892	18,282	49,065	104,686	148,936	258,722	605,583
Commercial (gross)							
At the end of the reporting year		864,253	795,707	1,065,605	1,049,941	1,241,480	5,016,986
One year later		816,489	825,136	1,064,369	1,246,660	-	3,952,654
Two years later		796,621	826,075	1,077,902	-	-	2,700,598
Three years later		804,515	824,288	-	-	-	1,628,803
Four years later		798,735	-	-	-	-	798,735
Current estimate of cumulative claims		798,735	824,288	1,077,902	1,246,660	1,241,480	5,189,065
Cumulative payments to date		785,236	812,489	1,043,353	1,183,192	829,380	4,653,650
Total liability recognised in the consolidated statement of financial position	10,060	13,499	11,799	34,549	63,468	412,100	545,475
Net liability recognised in the consolidated statement of financial position	3,612	5,800	7,661	21,519	28,020	210,037	276,649
Total commercial and consumer (gross)	149,053	73,807	229,121	594,798	534,054	1,299,282	2,880,116
Total commercial and consumer (net)	29,504	24,082	56,726	126,205	176,956	468,759	882,232

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(ii) Insurance risk *(continued)*

Concentration of insurance risk

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. The Group manages its risks through its prudent underwriting strategy, reinsurance arrangements aligned with the Group's risk appetite and thorough claims handling.

Underwriting limits are in place to enforce appropriate risk selection criteria for the type of risk being underwritten based on our historical data and market analysis.

As part of the Group's strategy to decrease volatility due to concentration of exposure, the Group 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 where relevant. Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders. The Group 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.

The concentration of insurance risk as at 31 December 2020 was as follows:

	Commercial		Consumer		Total exposure	
	Gross AED'000	Net AED'000	Gross AED'000	Net AED'000	Gross AED'000	Net AED'000
UAE	2,517,109,270	264,412,530	95,474,459	25,946,448	2,612,583,729	290,358,978
GCC countries	131,226,170	26,566,724	1,466,538	1,073,654	132,692,708	27,640,378
Others	234,365,378	32,326,529	1,518,145	774,506	235,883,523	33,101,035
	2,882,700,818	323,305,783	98,459,142	27,794,608	2,981,159,960	351,100,391

The concentration of insurance risk as at 31 December 2019 was as follows:

	Commercial		Consumer		Total exposure	
	Gross AED'000	Net AED'000	Gross AED'000	Net AED'000	Gross AED'000	Net AED'000
UAE	2,336,462,729	362,686,790	141,343,037	24,509,199	2,477,805,766	387,195,989
GCC countries	100,030,819	39,126,749	944,642	604,118	100,975,461	39,730,867
Others	122,928,736	55,259,090	1,508,998	918,311	124,437,734	56,177,401
	2,559,422,284	457,072,629	143,796,677	26,031,628	2,703,218,961	483,104,257

(iii) Financial risk management

The Group has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(iii) Financial risk management *(continued)*

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group has been established and policies and procedures are in place to mitigate the Group's exposure to credit risk:

	2020 AED'000	2019 AED'000
Maximum exposure		
Financial assets at amortised cost	850,951	800,872
Insurance balances and other receivables	1,115,220	991,563
Bank balances, including deposits	880,074	920,275
Total	2,846,245	2,712,710

Credit risk exposures are monitored and management actions are taken to ensure exposure is kept within the risk appetite of the Group.

For all classes of financial assets held by the Group, the maximum credit risk exposure to the Group is the carrying value as disclosed in the consolidated financial statements at the reporting date.

Reinsurance credit risk is managed through the placement with approved reinsurers, which are generally international reputed companies with acceptable credit ratings. Reinsurance agreements are placed by the Group with an "A" or above rated company on S&P or equivalent rating agency.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group regularly 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.

Management of credit risk

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

The credit risk on liquid funds maintained with banks is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies or reputable local banks closely monitored by the regulatory body.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(iii) Financial risk management *(continued)*

Credit risk (continued)

Management of credit risk (continued)

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

At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance strategy, ascertaining suitable allowance for impairment if required.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations when they become due.

Forward-looking liquidity requirements are monitored on an ongoing basis by the Finance department, who ensures that sufficient funds are available to meet commitments as they arise.

Management of liquidity risk

The Group manages liquidity risk by maintaining adequate liquid reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Details of the Group's financial liabilities are summarised in the table below by the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

		Contractual cash outflows	
	Carrying amount AED'000	Up to 180 days AED'000	181 to 365 days AED'000
Financial liabilities at 31 December 2020			
Accounts and other payables	1,265,893	(1,265,893)	-
Total	1,265,893	(1,265,893)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(iii) Financial risk management *(continued)*

Liquidity risk (continued)

Management of liquidity risk (continued)

	Carrying amount AED'000	Contractual cash outflows Up to 180 days AED'000	181 to 365 days AED'000
Financial liabilities at 31 December 2019			
Accounts and other payables	1,194,777	(1,194,777)	-
Total	1,194,777	(1,194,777)	-

The expected maturity profile of the assets at 31 December 2020 and 2019 is as follows:

31 December 2020	Current AED'000	Non-current AED'000	Total AED'000
Bank balances	870,151	10,000	880,151
Insurance balances and other receivables	1,198,105	-	1,198,105
Investments	1,609,704	881,994	2,491,698
	3,677,960	891,994	4,569,954
31 December 2019			
Bank balances	910,365	10,000	920,365
Insurance balances and other receivables	1,075,430	-	1,075,430
Investments	1,329,824	999,645	2,329,469
	3,315,619	1,009,645	4,325,264

The Group expects its financial liabilities of AED 1,265,893 thousand *(31 December 2019: AED 1,194,777 thousand)* to mature in less than twelve months from the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management (continued)

(iii) Financial risk management (continued)

Market risk

Market 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 Group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in local equity, real estate and debt markets. In addition, the Group actively monitors the key factors that affect market movements, including analysis of the operational and financial performance of investees and properties.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Group actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees and properties.

Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income, or net solvency position. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

The substantial portion of the Group's assets and liabilities are re-priced within one year. Accordingly, interest rate risk is limited to that extent.

The effective interest rate of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

At the reporting date if the interest rates are 1% (100 basis point) higher/lower and all the other variables were held constant the Group's net profit would have increased/decreased by AED 2,848 thousand *(31 December 2019: AED 1,383 thousand)*.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham.

The Group has considerable exposures denominated in US Dollar. As the AED Dirham is pegged to the US Dollar since November 1980 accordingly, the Group's exposure to currency risk is limited to that extent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(iii) Financial risk management *(continued)*

Market risk (continued)

Equity price risk

Equity price risk arises from the change in fair value of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

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

For investments held at fair value through profit or loss

Fair value would have increased/decreased by AED 35,844 thousand *(31 December 2019: AED 32,549 thousand).*

For investments held at fair value through other comprehensive income

Changes in revaluation reserves of shares would increase/decrease by AED 128,231 thousand *(31 December 2019: AED 120,310 thousand)* as a result of the changes in fair value of quoted shares.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, human error, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Board has oversight responsibilities for operational risk management in the Group. These responsibilities are exercised through the Board Risk Management Committee with an established framework of policies and procedures to identify, assess, monitor, control, manage and report risks. The Risk Management Committee employs clear internal policies and procedures to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance. The framework also provides for the interrelation with other risk categories.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit as well as Compliance Departments. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(iv) Capital risk management

The Group's objectives when managing capital is to comply with the insurance capital requirements required by the Federal Law No. (6) of 2007 Concerning the Establishment of the Insurance Authority & Organisation of the Insurance Operations.

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

In UAE, all insurance companies are required to comply with Financial Regulations for Insurance Companies that came into force on 29 January 2015. The Group is subject to local insurance solvency regulations with which it has complied with during the year. The Group has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

As per the Federal Law No. (6) of 2007 Concerning the Establishment of the Insurance Authority & Organisation of the insurance Operations, the minimum capital requirement remains at AED 100 million for insurance companies.

The table below summarises the Minimum Capital Requirement of the Group and the total capital held by the Group.

	2020 AED'000	2019 AED'000
Total capital held by the Company	570,000	570,000
Minimum regulatory capital	100,000	100,000

7 Fair value of financial instruments

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRS. It unifies the definition of fair value as 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.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Fair value of financial instruments *(continued)*

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in the different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Assets measured at fair value – fair value hierarchy

The table below analyses assets at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2020				
Financial assets at fair value through profit or loss	70,915	-	287,524	358,439
Financial assets at fair value through OCI	1,129,481	-	152,827	1,282,308
	1,200,396	-	440,351	1,640,747
31 December 2019				
Financial assets at fair value through profit or loss	1,871	-	323,622	325,493
Financial assets at fair value through OCI	1,027,605	-	175,499	1,203,104
	1,029,476	-	499,121	1,528,597

Fair value of financial assets measured at amortised cost

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Fair value of financial instruments *(continued)*

	Carrying Amount AED'000	Fair value AED'000
31 December 2020		
Financial assets at amortised cost	850,951	891,483
31 December 2019		
Financial assets at amortised cost	800,872	822,750

Movement in level 3 for investments carried at fair value through profit or loss and investments at fair value through OCI is as follows:

	2020 AED'000	2019 AED'000
Balance as at 1 January	499,121	501,799
Change in fair value	(16,050)	(26,341)
Additions	130,124	105,855
Transfers	(96,780)	(18,275)
Disposals	(76,064)	(63,917)
Balance at 31 December	440,351	499,121

During the year ended 31 December 2020, there were transfers from Level 3 to Level 1 of AED 96,780 thousand *(31 December 2019: AED 18,275 thousand).*

Sensitivity analysis for investments under level 3

For the fair values of equity securities, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	Total comprehensive income	
Equity securities	**Increase AED'000**	**Decrease AED'000**
31 December 2020		
Adjusted net asset value (5% movement)	22,018	(22,018)
31 December 2019		
Adjusted net asset value (5% movement)	24,956	(24,956)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Property and equipment

Property and equipment consist of buildings, furniture and fixtures, computer hardware, software, office equipment, motor vehicles, right of use leased assets and capital work in progress. Cost and accumulated depreciation accounts are aggregated as follows:

Cost	Building AED'000	Furniture, fixtures and leasehold improvements AED'000	Computer hardware, software and office equipment AED'000	Motor vehicles AED'000	Right of use of leased assets AED'000	Capital work in progress AED'000	Total AED'000
At 1 January 2019	24,760	42,469	95,223	232	-	1,118	163,802
Additions	730	1,868	2,644	46	-	4,659	9,947
Deletions	-	(1,742)	(8)	(52)	-	-	(1,802)
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	-	13,294	-	13,294
Changes to right-of-use assets	-	-	-	-	(3,313)	-	(3,313)
Transfers	-	671	1,630	-	-	(2,301)	-
At 31 December 2019	25,490	43,266	99,489	226	9,981	3,476	181,928
At 1 January 2020	25,490	43,266	99,489	226	9,981	3,476	181,928
Additions	-	1,018	6,065	41	-	10,039	17,163
Deletions	-	(732)	(68)	(36)	-	-	(836)
Write off	-	-	-	-	(9,981)	-	(9,981)
Transfers	-	1,753	7,023	-	-	(8,776)	-
Transferred from Investment properties	2,452	-	-	-	-	-	2,452
At 31 December 2020	27,942	45,305	112,509	231	-	4,739	190,726
Accumulated depreciation:							
At 1 January 2019	9,510	38,837	43,666	165	-	-	92,178
Charge for the year	1,326	1,605	11,464	31	4,938	-	19,364
Deletions	-	(1,506)	(6)	(52)	-	-	(1,564)
At 31 December 2019	10,836	38,936	55,124	144	4,938	-	109,978
At 1 January 2020	10,836	38,936	55,124	144	4,938	-	109,978
Charge for the year	1,573	1,378	13,312	32	2,462	-	18,757
Deletions	-	(692)	(68)	(35)	-	-	(795)
Write off	-	-	-	-	(7,400)	-	(7,400)
At 31 December 2020	12,409	39,622	68,368	141	-	-	120,540
Carrying amounts: At 31 December 2019	14,654	4,330	44,365	82	5,043	3,476	71,950
At 31 December 2020	15,533	5,683	44,141	90	-	4,739	70,186

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Investments

	2020 AED'000	2019 AED'000
Financial assets at amortised cost	850,951	800,872
Financial assets at fair value through other comprehensive income	1,282,308	1,203,104
Financial assets at fair value through profit or loss	358,439	325,493
	2,491,698	2,329,469

Financial assets at amortised cost

The movement in financial assets at amortised cost during the year is as follows:

	2020 AED'000	2019 AED'000
At 1 January	800,872	774,315
Additions during the year	154,359	149,850
Disposals during the year	(101,896)	(120,525)
Impairment loss on debt securities at amortised cost	(89)	(501)
Amortisation expense	(2,295)	(2,267)
At 31 December	850,951	800,872

Financial assets at fair value through other comprehensive income

The movement in financial assets carried at fair value through other comprehensive income during the year is as follows:

	2020 AED'000	2019 AED'000
At 1 January	1,203,104	1,135,973
Additions during the year	534,424	536,110
Disposals during the year	(516,680)	(476,463)
Net change in fair value	61,460	7,484
At 31 December	1,282,308	1,203,104

Financial assets at fair value through profit or loss

The movement in financial assets carried at fair value through profit or loss is as follows:

	2020 AED'000	2019 AED'000
At 1 January	325,493	270,218
Additions during the year	157,907	105,924
Disposals during the year	(117,947)	(54,338)
Net change in fair value *(note 22)*	(7,014)	3,689
At 31 December	358,439	325,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Investments *(continued)*

Geographical concentration of investments is as follows:

	2020 AED'000	2019 AED'000
Within UAE	1,490,675	1,382,786
Outside UAE	1,001,023	946,683
	2,491,698	2,329,469

During the year ended 31 December 2020, the Group has purchased equity shares amounting to AED 516,295 thousand *(31 December 2019: AED 523,326 thousand).*

10 Investment properties

	Abu Dhabi Head Office Land and Building(i) AED'000	Al Ain Land and Building(ii) AED'000	Sharjah Land and Building (iii) AED'000	Al Raha Beach (Plot 406) and Building(iv) AED'000	Al Raha Beach (Plot 408)and Building(v) AED'000	Total AED'000
31 December 2020						
At 1 January 2020	128,338	10,842	47,705	302,867	213,275	703,027
Additions		-	-	2,667	-	2,667
Transferred to property and equipment	(2,452)	-	-	-	-	(2,452)
Decrease in fair values during the year *(note 22)*	(3,688)	(680)	(1,945)	(5,314)	(7,425)	(19,052)
At 31 December 2020	122,198	10,162	45,760	300,220	205,850	684,190
31 December 2019						
At 1 January 2019	129,327	11,200	44,870	306,932	217,658	709,987
Additions	944	-	2,767	-	-	3,711
(Decrease) / increase in fair value during the year *(note 22)*	(1,933)	(358)	68	(4,065)	(4,383)	(10,671)
At 31 December 2019	128,338	10,842	47,705	302,867	213,275	703,027

(i) The construction of this building which is comprised of 14 floors was completed in 1980. Part of building is classified as owner occupied and the remaining portion is available for letting to third parties.

(ii) The construction of this six storey building was completed in 2003. The entire building is available for letting to third parties.

(iii) This 16 storey building was purchased during 1993. The entire building is available for letting to third parties.

(iv) In 2007, the Group purchased land at Al Raha Beach in Abu Dhabi City (Plot 406). The construction on plot no 406 was completed in 2013. The entire building is available for letting to third parties.

(v) In 2007, the Group purchased land at Al Raha Beach in Abu Dhabi City (Plot 408). The construction on plot no 408 was completed in 2015. The entire building is available for letting to third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Investments properties *(continued)*

Measurement of fair value

In accordance with the requirements of the Insurance Authority Board Decision No. (25) of 2014, two independent real estate valuators performed the revaluation of the investment properties, with the average of the two being accounted for the purpose of financial reporting.

The fair value of investment properties is determined using market based approach, discounted cash flow (DCF) model and cap rate. The fair value of the investment properties were determined (a) by an external, independent property valuer having appropriate recognised professional qualifications and recent experience in the locations and categories of the properties being valued (for DCF valuations) and (b) market based valuations.

Market based approach considers recent market transactions for similar assets or quotes / bid prices for same or similar assets.

DCF considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms.

The estimated fair value would increase / (decrease) if:

- expected market rental growth were higher / (lower);
- void periods were shorter / (longer);
- the occupancy rate were higher / (lower);
- rent-free periods were shorter (longer); or
- the risk-adjusted discount rate were lower (higher).

11 Cash and cash equivalents

	2020 AED'000	2019 AED'000
Cash on hand	77	90
Statutory deposits	10,000	10,000
Cash / call / current accounts with banks, including deposits	870,842	910,785
Less: allowance for expected credit losses	(768)	(510)
Total bank balances and cash	880,151	920,365
Less: statutory deposits	(10,000)	(10,000)
Less: deposits with original maturities of three months or more	(274,851)	(128,292)
Bank balances and cash	595,300	782,073
Add: allowance for expected credit losses for bank balances and cash	527	445
Cash and cash equivalents for the purpose of the consolidated statement of cash flows	595,827	782,518

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Cash and cash equivalents *(continued)*

Geographical concentration of cash and cash equivalents, statutory deposits and deposits with original maturities of three months or more, net of allowance of expected credit losses are as follows:

	2020 AED'000	2019 AED'000
Within UAE	846,890	901,153
Outside UAE	33,261	19,212
	880,151	920,365

Interest rates on bank deposits range between 0.5% to 2.5% *(31 December 2019: 2.0% to 3.5%).*

12 Insurance balances receivable, prepayments and other receivables

	2020 AED'000	2019 AED'000
Insurance balances receivable	1,235,087	1,102,937
Less: allowance for expected credit losses	(149,430)	(140,167)
Insurance balances receivable	1,085,657	962,770
Prepayments and other receivables:		
Deferred acquisition costs	77,868	76,721
Rental income receivables, *net*	5,350	3,131
Prepayments	5,017	7,146
Other receivables, net of expected credit losses	24,213	25,662
Prepayments and other receivables	112,448	112,660
Total insurance receivables, prepayments and other receivables	1,198,105	1,075,430

The average credit period for receivable counterparties is 120 days. No interest is charged on insurance balances and other receivables. Insurance balances receivable are provided for, after considering claims payable to policyholders.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. In determining the recoverability of insurance balances receivable, the Group considers any change in the credit quality of the insurance balances receivable from the date credit was initially granted up to the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Insurance balances receivable, prepayments and other receivables *(continued)*

As at 31 December, the ageing analysis of insurance balance receivables is as follows:

	2020 AED'000	2019 AED'000
Not due	848,963	727,830
Less than 30 days	68,199	27,230
30 - 90 days	69,752	91,721
91 - 180 days	44,823	55,063
More than 181 days	53,920	60,926
Insurance balances receivable	1,085,657	962,770

It is not the practice of the Group to obtain collateral over receivables and all of them are, therefore, unsecured.

Movements in the allowance for expected credit losses of insurance balances and other receivables were as follows:

	2020 AED'000	2019 AED'000
At 1 January	140,167	142,258
Write-offs during the year	-	(8,616)
Charge for the year	9,263	6,525
At 31 December	149,430	140,167

Movement in deferred acquisition costs were as follows:

	2020 AED'000	2019 AED'000
At 1 January	76,721	81,669
Acquisition costs paid / payable during the year	206,351	209,638
Incurred during the year	(205,204)	(214,586)
At 31 December	77,868	76,721

13 Insurance contract liabilities and reinsurance contract assets

	2020 AED'000	2019 AED'000
Insurance contract liabilities		
Unearned premiums reserve (i)	1,481,936	1,385,236
Outstanding claims reserve (ii)	2,350,927	2,428,911
Claims incurred but not reported reserve	529,189	437,454
	4,362,052	4,251,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Insurance contract liabilities and reinsurance contract assets *(continued)*

	2020 AED'000	2019 AED'000
Re-insurance contract assets		
Unearned premiums reserve	1,007,567	926,667
Outstanding claims reserve	1,638,954	1,634,783
Claims incurred but not reported reserve reserve	358,930	259,317
	3,005,451	2,820,767
Insurance contract liabilities - *net*		
Unearned premiums reserve (i)	474,369	458,569
Outstanding claims reserve (ii)	711,973	794,128
Claims incurred but not reported reserve	170,259	178,137
	1,356,601	1,430,834

(i) Unearned premiums reserve includes:

	2020 AED'000	2019 AED'000
Unearned premiums reserve - *gross*	1,383,086	1,234,279
Unearned premiums reserve - *net*	453,428	415,658
Premiums deficiency reserve - *gross*	49,106	110,097
Premiums deficiency reserve - *net*	9,158	29,831
Unexpired risk reserve - *gross*	49,739	40,860
Unexpired risk reserve - *net*	11,778	13,080
Unit linked funds reserve – *gross and net*	5	-

(ii) Outstanding claims reserve includes allocated and unallocated loss adjustment expenses reserve of AED 30.9 million *(31 December 2019: AED 35.7 million).*

Actuarial valuation for Incurred But Not Reported Reserve (IBNR), Allocated and Unallocated Loss Adjustment Expenses Reserve (ALAE/ULAE), Premium Deficiency Reserve (PDR), Unexpired Risk Reserve (URR) and related assumptions

Incurred but not reported (IBNR) reserve along with reserves for incurred but not enough reported (IBNER) and allocated and unallocated loss adjustment expenses reserves (ALAE/ULAE) are calculated by external actuaries using a selection of actuarial methods. The analysis is segmented by line of business to provide enough credible and homogeneous claims data and different (selection of) methods are used to take into account different claim development trends for each line of business. IBNR (and IBNER) and ALAE / ULAE are calculated both gross and net of reinsurance using actual reinsurance data to ensure the correct impact of reinsurance is reflected in the reserves.

Premium deficiency reserve (PDR) and unexpired risk reserve (URR) are calculated by external actuaries using a selection of actuarial methods on those lines of business where the unearned premiums is not adequate to meet the expected future liabilities from claims, commissions and expenses. Actuaries analysed the expected losses on the in-force policies separately for each of these lines of business using a selection of actuarial method. Actual commission payouts and expected expenses on the in-force portfolio were used to calculate premium deficiency reserves. PDR also includes consideration of cost of capital or other profit loadings. Additional URR is held for lines of business where the risk is not linear across the policy term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Insurance contract liabilities and reinsurance contract assets *(continued)*

Movement in the insurance contract liabilities and reinsurance contract assets during the year was as follows:

	2020			2019		
	Gross AED'000	Re-Insurance AED'000	Net AED'000	Gross AED'000	Re-Insurance AED'000	Net AED'000
Claims:						
Outstanding claims including ALAE and ULAE	2,428,911	(1,634,783)	794,128	2,136,741	(1,296,925)	839,816
Incurred but not reported	437,454	(259,317)	178,137	537,214	(318,937)	218,277
Total at 1 Jaunuary	2,866,365	(1,894,100)	972,265	2,673,955	(1,615,862)	1,058,093
Claims settled	(1,816,593)	895,190	(921,403)	(1,909,469)	882,458	(1,027,011)
Increase in liabilities	1,830,344	(998,974)	831,370	2,101,879	(1,160,696)	941,183
Total at 31 December	2,880,116	(1,997,884)	882,232	2,866,365	(1,894,100)	972,265
Outstanding claims including ALAE and ULAE	2,350,927	(1,638,954)	711,973	2,428,911	(1,634,783)	794,128
Incurred but not reported	529,189	(358,930)	170,259	437,454	(259,317)	178,137
Total at 31 December	2,880,116	(1,997,884)	882,232	2,866,365	(1,894,100)	972,265
Unearned premium:						
Total at 1 January	1,275,139	(846,401)	428,738	1,200,335	(681,184)	519,151
Increase during the year	4,012,193	(2,663,710)	1,348,483	3,755,680	(2,550,674)	1,205,006
Release during the year	(3,854,507)	2,542,492	(1,312,015)	(3,680,876)	2,385,457	(1,295,419)
Net increase / (release) during the year	157,686	(121,218)	36,468	74,804	(165,217)	(90,413)
Total at 31 December	1,432,825	(967,619)	465,206	1,275,139	(846,401)	428,738
Premium Deficiency Reserve:						
Total at 1 January	110,097	(80,266)	29,831	83,800	(58,400)	25,400
Net (decrease) / increase during the year	(60,991)	40,318	(20,673)	26,297	(21,866)	4,431
Total at 31 December	49,106	(39,948)	9,158	110,097	(80,266)	29,831
Unit linked funds reserve:						
Total at 1 January	-	-	-	-	-	-
Net increase during the year	5	-	5	-	-	-
Total at 31 December	5	-	5	-	-	-
Grand total	4,362,052	(3,005,451)	1,356,601	4,251,601	(2,820,767)	1,430,834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Statutory deposits

In accordance with the Federal Law No. (6) of 2007 Concerning the Establishment of the Insurance Authority & Organisation of the Insurance Operations, the Group maintains a bank deposit of AED 10,000,000 *(31 December 2019: AED 10,000,000)* which cannot be utilised without the consent of the Chairman of the Insurance Authority's Board of Directors.

15 Share capital

	2020 AED'000	2019 AED'000
Authorised		
570,000,000 ordinary shares of AED 1 each (31 December 2019: 570,000,000 ordinary shares of AED 1 each)	570,000	570,000
Issued and fully paid		
570,000,000 ordinary shares of AED 1 each (31 December 2019: 570,000,000 ordinary shares of AED 1 each)	570,000	570,000

16 Legal reserve

In accordance with the Federal Law No. (2) of 2015 Concerning the Commercial Companies and the Company's Articles of Association, 10% of net profit is to be transferred to a non-distributable legal reserve until the balance of the legal reserve equals 50% of the Company's paid up share capital. This reserve is not available for any distribution to the shareholders.

17 General reserve

Transfers to and from the general reserve are made at the discretion of the Board of Directors and the approval of the General Assembly. This reserve may be used for such purposes as the Directors deem fit.

18 Reinsurance default risk reserve

In accordance with Article (34) to Insurance Authority's Board of Directors Decision No. (23) of 2019, insurance companies incorporated in the State and licensed by the Insurance Authority shall bind in the preparation of its annual consolidated financial statements and its final accounts to allocate an amount equal to 0.5% (five per thousand) of the total reinsurance premiums ceded by them in all classes in order to create a provision for the probability of failure of any of the reinsurers with whom the Group deals to pay what is due to the Group or default in its financial position. The provision shall be accounted year after year based on the reinsurance premiums ceded and may not be disposed of without the written approval of the Director General. The decision is effective from 1 December 2020. Accordingly, an amount of AED 13.3 million has been recorded in equity as a reinsurance default risk reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Retained earnings

The Board of Directors propose, subject to the approval of the Annual Ordinary General Assembly, a cash dividend in respect of the year 2020 of AED 0.35 per share.

At the Annual General Assembly held on 15 March 2020 *(31 December 2019: held on 19 March 2019 relating to the results of the year ended 31 December 2018)*, the Shareholders approved the distribution of cash dividend relating to the results for the year ended 31 December 2019 of AED 0.30 per share amounting to AED 144,555 thousand *(31 December 2019 relating to the results for the year ended 31 December 2018: AED 0.30 per share amounting to AED 112,500 thousand).*

At the Annual General Assembly held on 15 March 2020, the Shareholders approved board of directors' remuneration relating to the results for the year ended 31 December 2019 amounting to AED 5,800 thousand *(31 December 2019: AED 5,800 thousand relating to the results for the year ended 31 December 2018).*

20 Employees' end of service benefits

	2020 AED'000	2019 AED'000
At 1 January	30,916	31,600
Charge for the year	3,540	4,517
Paid during the year	(7,899)	(5,201)
At 31 December	26,557	30,916

21 Accounts and other payables

	2020 AED'000	2019 AED'000
Accounts payable	1,145,714	1,128,766
Other payables:		
Accrued expenses	61,681	48,994
Deferred commission income	91,137	87,205
Deferred income	5,773	8,800
Other payables	129,798	68,389
Total other payables	288,389	213,388
Total accounts and other payables	1,434,103	1,342,154

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Net investments and other income

	2020 AED'000	2019 AED'000
Income from investment properties (rental income), *net* (i)	28,024	31,882
Dividend income	82,476	79,024
Net interest income on bank deposits and bonds	38,160	48,820
Changes in fair value of financial assets at fair value through profit or loss *(note 9)*	(7,014)	3,689
Reversal / (charge) for impairment losses on financial assets	94	(1,891)
Decrease in fair value of investment properties *(note 10)*	(19,052)	(10,671)
Other expenses, net	(7,888)	(8,637)
Income from investments, *net*	86,776	110,334
Net investments and other income	114,800	142,216

(i) Repair and maintenance on properties amounts to AED 6.9 million *(31 December 2019: AED 8.3 million).*

23 General and administrative expenses

	2020 AED'000	2019 AED'000
Salaries and other benefits	153,786	166,214
Depreciation charge *(note 8)*	18,757	19,364
Directors remuneration	5,800	5,800
Advertisement	3,420	3,536
Social contribution *(note 29)*	3,808	1,427
Rent expense	3,614	4,777
Communication and office supplies	6,615	5,991
Charge for impairment losses on financial assets	345	236
Other expenses	35,516	37,243
	231,661	244,588

24 Income tax

The Group calculates the annual income tax expense using the tax rate that would be applicable to the expected annual earnings. The Group subsidiary operates in United Kingdom and is subject to income tax.

	2020 AED'000	2019 AED'000
Current income tax	51	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year.

	2020 AED'000	2019 AED'000
Profit for the year	370,996	284,250
Accretion recognised during the year on mandatory convertible bonds	-	1,290
Profit for the year used for calculating basic and diluted earnings per share	370,996	285,540
Ordinary shares outstanding during the year	570,000	570,000
Effect of conversion of mandatory convertible bonds	-	-
Weighted average number of ordinary shares adjusted for the effect of mandatory convertible bonds used for calculating basic and diluted earnings per share	570,000	570,000
Basic and diluted earnings per share (AED)	0.65	0.50

26 Related parties

Identity of related parties
Related parties comprise major shareholders, associated companies, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Government of Abu Dhabi holds 24 percent shareholding in the Group through Abu Dhabi Investment Council.

Pricing policies and terms of these transactions are approved by management. The Group maintains significant balances with these related parties, which arise from commercial transactions as follows:

Balances with related parties included in the consolidated statement of financial position are as follows:

	31 December 2020			
	Directors and key management AED'000	Major shareholders AED'000	Others AED'000	Total AED'000
Insurance balances receivable, prepayments and other receivables	274	-	187,251	187,525
Accounts payables	3	126	16,902	17,031
Cash and bank balances	-	-	309,792	309,792
Investments	-	-	485,037	485,037
Statutory deposits	-	-	10,000	10,000
Insurance contract liabilities	204	59	1,348,610	1,348,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Related parties *(continued)*

Balances with related parties included in the consolidated statement of financial position are as follows: (continued)

	31 December 2019			
	Directors and key management AED'000	Major shareholders AED'000	Others AED'000	Total AED'000
Insurance balances receivable, prepayments and other receivables	1,588	2	143,799	145,389
Accounts payables	316	-	11,031	11,347
Cash and bank balances	-	-	127,087	127,087
Investments	-	-	417,847	417,847
Statutory deposits	-	-	10,000	10,000
Insurance contract liabilities	103	70	1,014,827	1,015,000

Others comprise of companies controlled by directors of the Group and major shareholders.

Contingent liabilities issued in favor of related parties as at 31 December 2020 amounted to AED 94,265 thousand *(31 December 2019: AED 96,237 thousand).*

Transactions with related parties during the year are as follows:

	31 December 2020			
	Directors and key management AED'000	Major shareholders AED'000	Others AED'000	Total AED'000
Premiums written	396	80	1,132,418	1,132,894
Claims incurred	27	46	434,629	434,702
Dividend income	-	-	9,369	9,369
Interest income	-	-	10,485	10,485
Directors remuneration	(5,800)	-	-	(5,800)
Other investment income	-	-	168	168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Related parties *(continued)*

Transactions with related parties during the year are as follows: (continued)

	31 December 2019			
	Directors and key management AED'000	Major shareholders AED'000	Others AED'000	Total AED'000
Premiums written	202	164	979,933	980,299
Claims incurred	8	26	395,665	395,699
Dividend income	-	-	8,508	8,508
Interest income	-	-	20,796	20,796
Directors remuneration	(5,800)	-	-	(5,800)
Other investment income	-	-	179	179

Compensation of key management personnel is as follows:

	2020 AED'000	2019 AED'000
Salaries and short-term benefits	14,920	17,441
Staff end of service benefits	763	684
	15,683	18,125

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Segment information

The Group is organised into two main business segments:

Underwriting of commercial lines of business – incorporating all classes of general insurance including marine cargo, marine hull, aviation, energy, property and engineering; and

Underwriting of consumer line of business – incorporating all classes of insurance including accident, motor and medical.

Year ended 31 December

	Commercial		Consumer		Total	
	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000
Gross written premiums	2,426,273	2,144,769	1,585,920	1,610,911	4,012,193	3,755,680
Less: reinsurance share of gross written premiums	(2,065,430)	(1,807,989)	(598,280)	(742,685)	(2,663,710)	(2,550,674)
Net premiums written	360,843	336,780	987,640	868,226	1,348,483	1,205,006
Net change in unearned premiums reserves	25,714	21,952	(41,514)	64,031	(15,800)	85,983
Net premiums earned	386,557	358,732	946,126	932,257	1,332,683	1,290,989
Gross claims paid	(723,780)	(639,882)	(1,092,813)	(1,269,587)	(1,816,593)	(1,909,469)
Less: reinsurance share of claims paid	488,544	440,600	406,646	441,858	895,190	882,458
Net claims paid	(235,236)	(199,282)	(686,167)	(827,729)	(921,403)	(1,027,011)
Net change in outstanding claims and incurred but not reported claims reserves	80,395	17,033	9,638	68,794	90,033	85,827
Net claims incurred	(154,841)	(182,249)	(676,529)	(758,935)	(831,370)	(941,184)
Commission earned	117,396	149,130	65,990	90,330	183,386	239,460
Commission incurred	(94,315)	(104,588)	(44,028)	(49,613)	(138,343)	(154,201)
Net commissions income	23,081	44,542	21,962	40,717	45,043	85,259
Other underwriting income	13,915	13,124	3,762	5,344	17,677	18,468
Other underwriting expenses	(23,989)	(19,133)	(42,873)	(41,252)	(66,862)	(60,385)
Net other underwriting expense	(10,074)	(6,009)	(39,111)	(35,908)	(49,185)	(41,917)
Net underwriting income	244,723	215,016	252,448	178,131	497,171	393,147
Net investments and other income					114,800	142,216
General and administrative expenses					(231,661)	(244,588)
Charge for expected credit losses of insurance balances receivable					(9,263)	(6,525)
Profit before tax					371,047	284,250
Tax expense					(51)	-
Profit for the year					370,996	284,250

Details of segment assets and liabilities as at 31 December 2020 is presented below:

	Commercial AED'000	Consumer AED'000	Investments AED'000	Total AED'000
Segment assets	3,426,399	828,730	4,074,652	8,329,781
Segment liabilities	4,531,197	1,277,504	14,011	5,822,712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Segment information *(continued)*

Details of segment assets and liabilities as at 31 December 2019 is presented below:

	Commercial AED'000	Consumer AED'000	Investments AED'000	Total AED'000
Segment assets	3,133,873	818,287	3,968,848	7,921,008
Segment liabilities	4,283,391	1,325,205	16,075	5,624,671

28 Contingent liabilities and commitments

	2020 AED'000	2019 AED'000
Commitments in respect of uncalled subscription of equities held as investments	30,779	64,600
Bank guarantees	215,383	218,602
Letters of credit	384	384

The above bank guarantees and letters of credit were issued in the normal course of business.

Legal claims

The Group, in common with the significant majority of insurers, is subject to litigation in the normal course of the business. Management, based on advice from independent loss adjusters, internal and external legal counsels, makes provision, where applicable, representing amounts expected to result in a probable outflow of economic resources.

29 Social Contributions

The social contributions (including donations and charity) made during the year amount to AED 3,808 thousand *(31 December 2019: AED 1,427 thousand) (note 23).*

30 General

The consolidated financial statements of the Group was approved for issuance on behalf of the Board of Directors on 14 February 2021.