ANNUAL REPORT 2021

ADNIC
شركة أبوظبي الوطنية للتأمين
ABU DHABI NATIONAL INSURANCE COMPANY

Your Reliable Insurer

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)

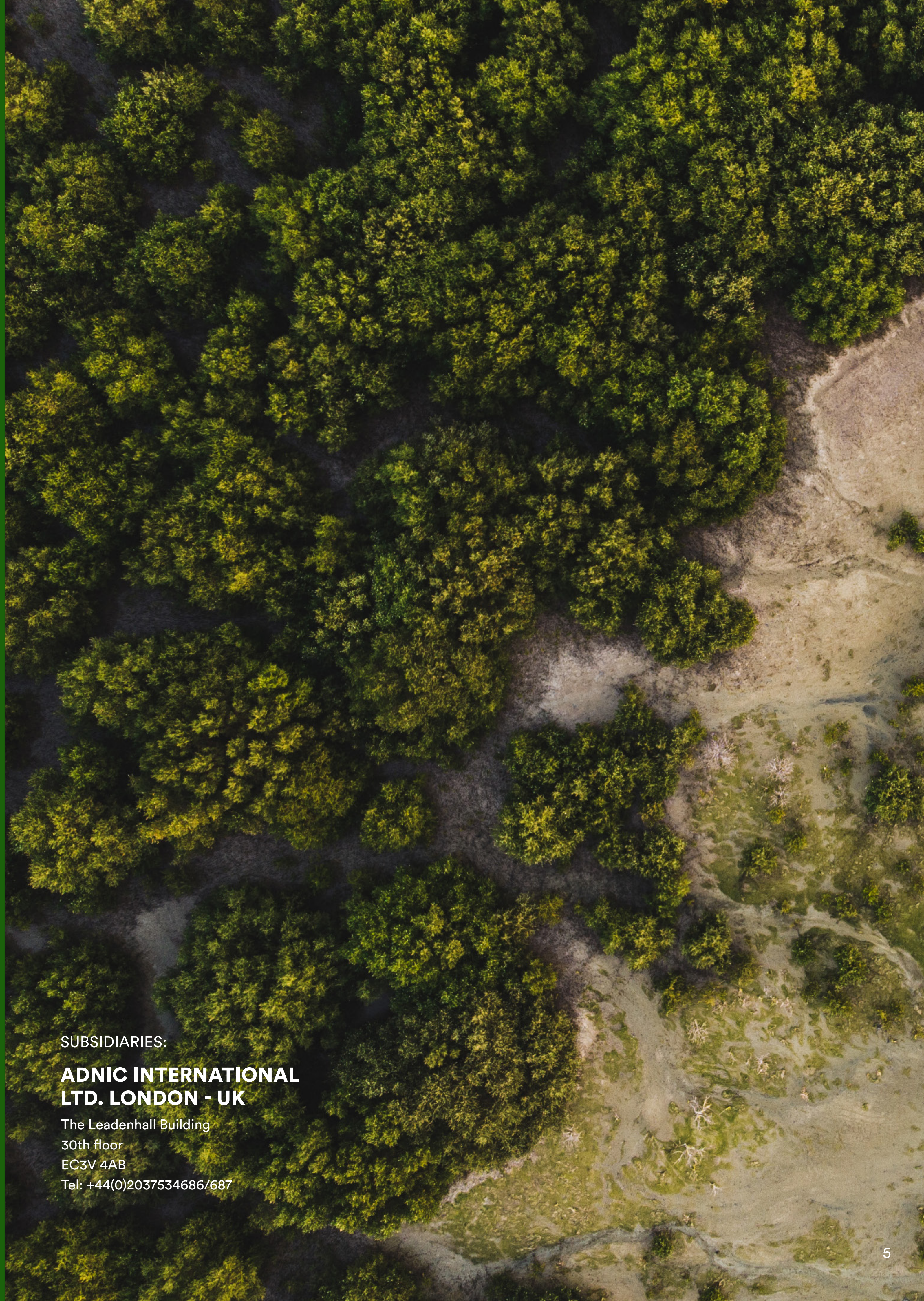
Al Muraikhi Tower, Al Maktoum Street
P.O. Box: 11236 – Deira
Tel: 04 5154850
Fax: 04 5154910

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

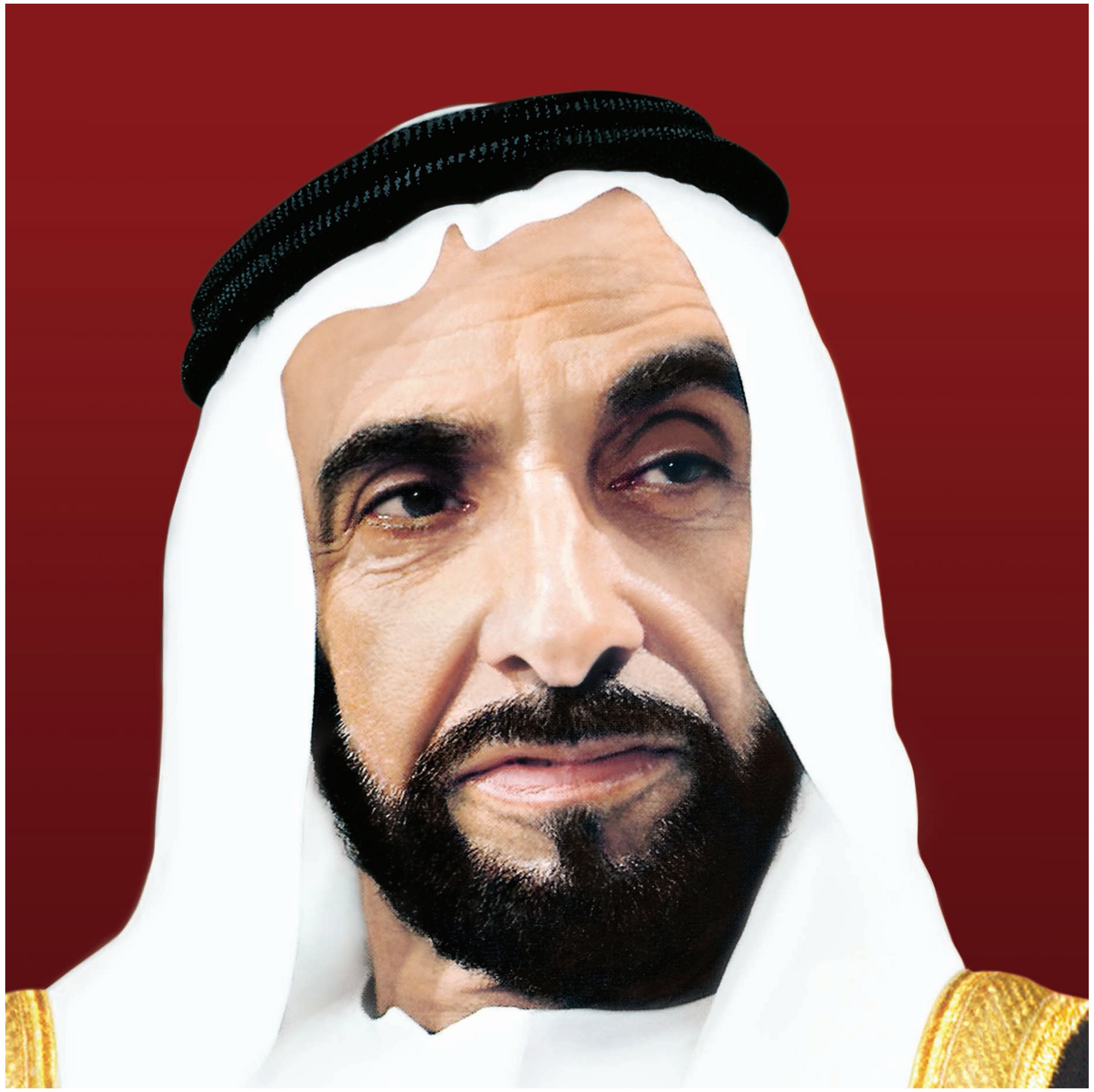


SUBSIDIARIES:

ADNIC INTERNATIONAL LTD. LONDON - UK

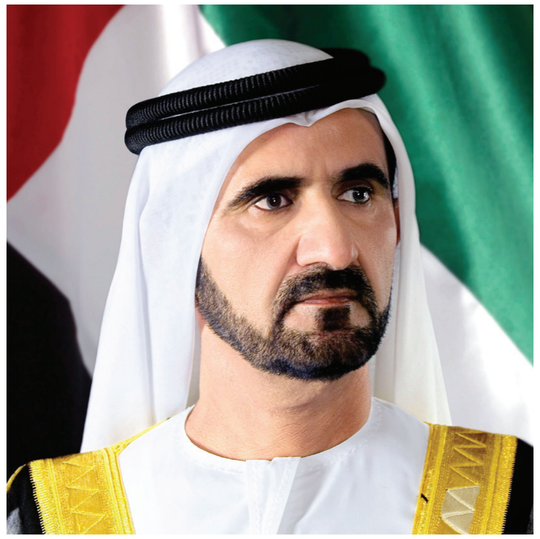
The Leadenhall Building
30th floor
EC3V 4AB
Tel: +44(0)2037534686/687

ANNUAL REPORT 2021



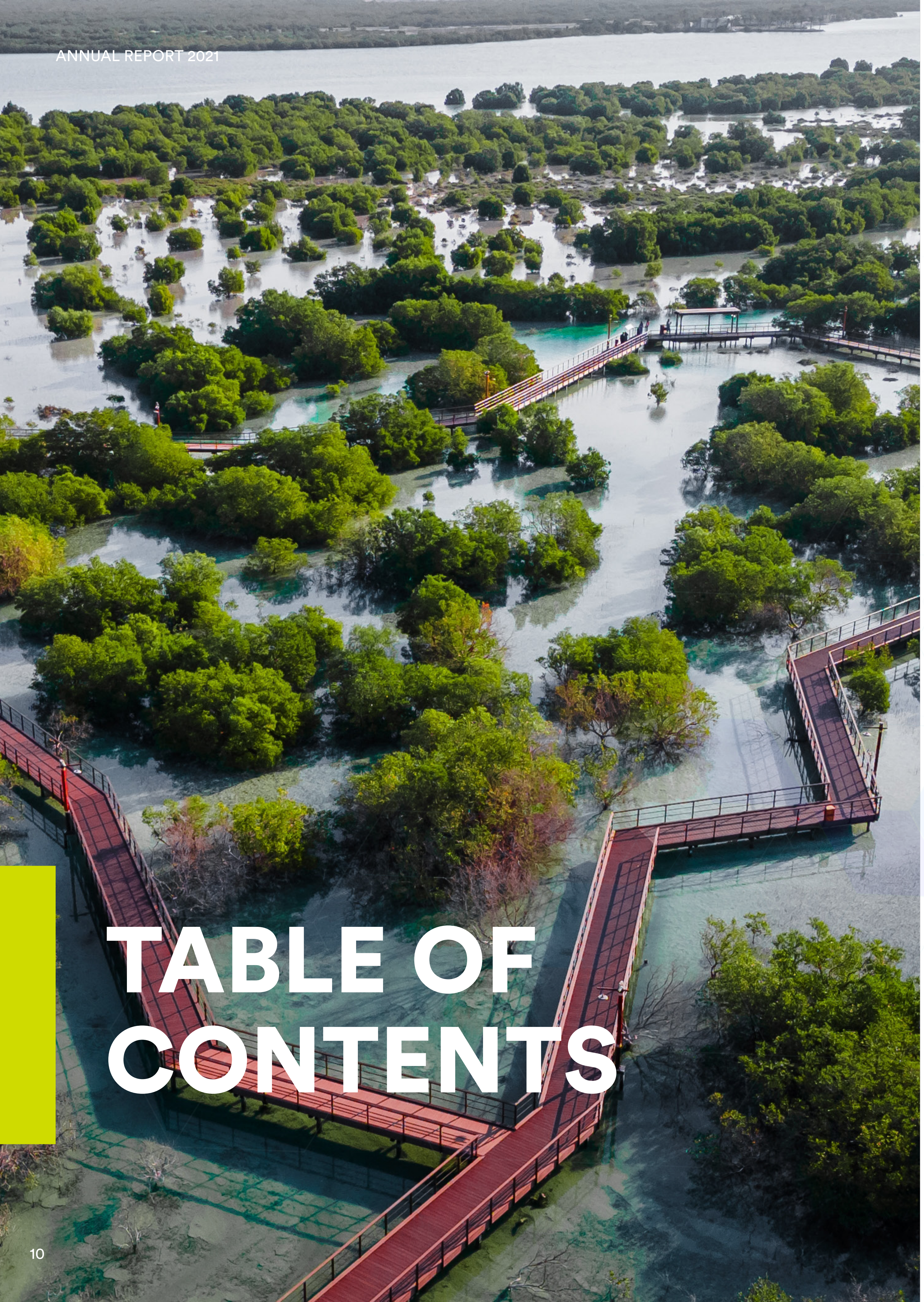
THE LATE
SHEIKH ZAYED BIN SULTAN AL NAHYAN
THE FOUNDING FATHER OF THE UNITED ARAB EMIRATES

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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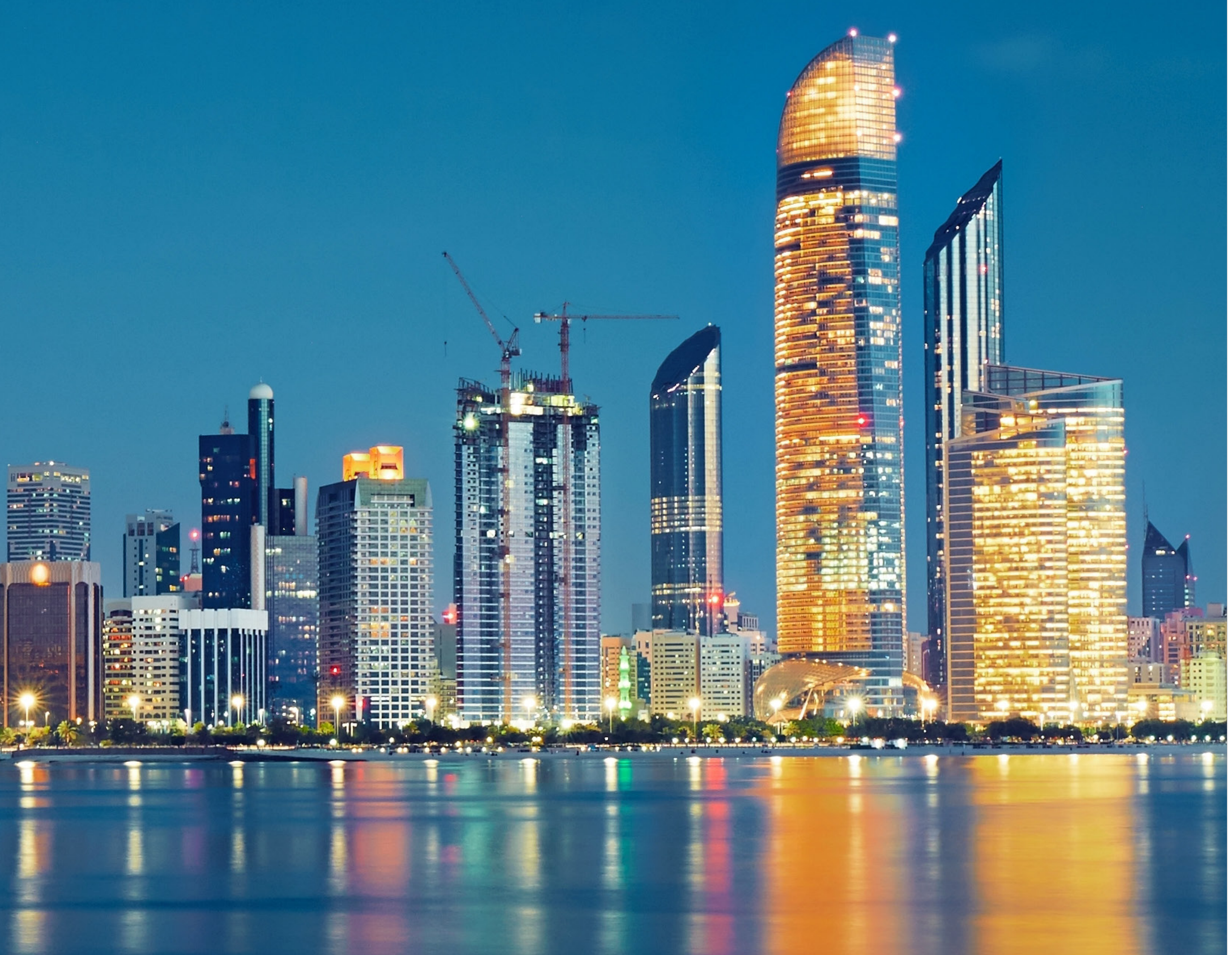
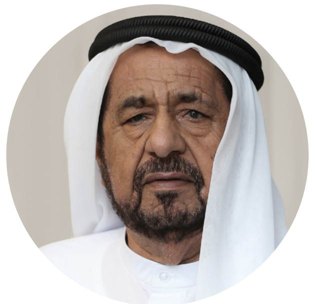
BOARD OF DIRECTORS



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. Hazza 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

On behalf of the Board of Directors, I am pleased to report Abu Dhabi National Insurance Company's financial results for the year ended 31 December 2021.

As we entered the second year of the pandemic, ADNIC continued to adapt and adjust to the new environment to ensure uninterrupted services to its customers. At the same time, the Company's underwriting skills, particularly in large and complex business lines, as well as product improvements allowed it to further enhance its customer proposition and increase its presence in a number of product lines.

ADNIC's strong results in 2021 are a testament to the Company's core strengths in the insurance business. Our market share continued to grow and the Gross Written Premium grew by 6.4% over the prior year. As the economic activity is gradually recovering to pre-pandemic levels, loss ratios in certain lines of business have also begun to normalize. However, ADNIC's disciplined risk management and ability to price risks correctly ensured that core underwriting profitability was maintained. The Company's diversified investment portfolio delivered excellent results with an increase in the Investment Income of 25.6% compared to 2020. ADNIC continued to maintain expense discipline without compromising on investments in technology and to make ADNIC 'future-ready'.

ADNIC's digital initiatives will be key contributors to its success going forward. The Company's full year Net Profit is AED 401.8 million and the Earnings per Share is AED 0.70, an increase of 8.3% and 7.7%, respectively, over the prior year.

In 2021, the Company's rating was upgraded to A with a Stable outlook by S&P. Moreover, A.M. Best assigned ADNIC a rating of A with Stable outlook. This is a great vote of confidence in the Company from two of the leading rating agencies. The bedrock of this rating is ADNIC's consistency in delivering on financial metrics, strong underwriting capabilities, diversified investment book, robust solvency and market leadership in the local and regional insurance markets.

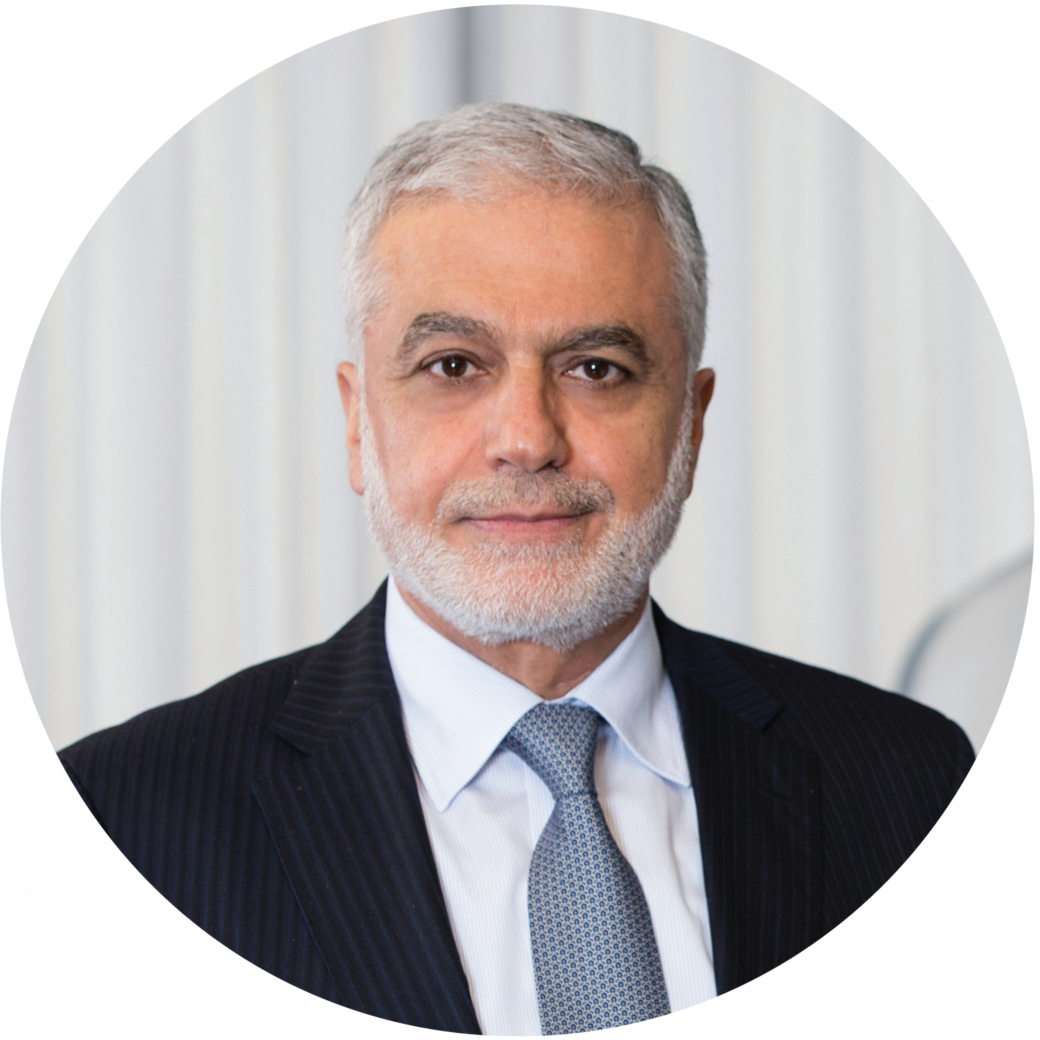
The consolidated financial statements disclose related party transactions and balances in note 26. All transactions are carried out as part of normal course of business and in compliance with applicable laws and regulations.

As a reliable insurer, ADNIC is embracing its responsibility in supporting the UAE leadership's vision and journey for the next 50 years. The year 2022 will also be the year that ADNIC celebrates the 50th anniversary of its founding and we are preparing for the next phase of growth.

On behalf of the Board of Directors, I would like to extend our sincere gratitude for the guidance received from the UAE's leadership and 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.

I would like to thank all our business partners and stakeholders for their continuous support and trust in our expertise. I would also like to thank our employees for their hard work, dedication and their ability to provide an exceptional service and look forward to supporting the Country as it begins its journey towards the next 50 years.

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 2021.

ADNIC delivered a strong performance with a full-year net profit of AED 401.8 million and sustained growth across key metrics, representing an increase by 8.3 % compared to the previous year. Despite continued uncertainties due to COVID-19 and an uneven global economic recovery, ADNIC managed to adapt to the new normal and to launch various new initiatives to support the growth of its consumer segment.

As a customer centric company, we will continue to pursue our digital transformation journey across all customer channels and consumer lines products. We will continue to be engaged in numerous initiatives that contribute to the betterment of society from tackling environmental challenges to enhancing safety.

2021 was a milestone year for the UAE, marking the Golden Jubilee and the launch of a new vision that will drive the nation's development over the coming 50 years. As a UAE national insurance company for nearly half a century, we look forward to supporting the UAE's strategic projects as it begins the journey towards the next 50 years.

Key Financial Highlights

Gross Written Premiums
For the year 2021, ADNIC's gross written premiums increased by 6.4% to AED 4.27 billion, compared to AED 4.01 billion for the same period in 2020.

Premium Retention
The overall premium retention ratio is 37.9% for the year 2021, compared to 33.6% for the same period in 2020.

Underwriting Income
For the year 2021, ADNIC's underwriting income stood at AED 491.9 million, against AED 497.2 million for the same period in 2020.

General and Administrative Expenses
General and administrative expenses for the year 2021 stood at AED 234.3 million, compared to AED 240.9 million for the same period in 2020.

Net Technical Profit
Net technical profit for the year 2021 increased by 0.4% to AED 262.9 million, against AED 261.8 million for the same period in 2020.

Net Investment Income
ADNIC's net investment and other income increased by 25.6% to AED 144.2 million for the year 2021, compared to AED 114.8 million for the same period in 2020.

Net Profit
For the year 2021, net profit increased by 8.3% to AED 401.8 million, compared to AED 371.0 million for the,same period in 2020.

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 REPONSIBILITY

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 in 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 in 2021 to the Social Investment Fund, administered by the Authority of Social Contribution - Ma'an, to support the Abu Dhabi community in addressing its most pressing social challenges and tackling key causes such as health, employment, education, family and community and the environment.

CONSOLIDATED FINANCIAL STATEMENTS

PROPOSAL TO SHAREHOLDERS

The Board of Directors, after review of the Company's operations during the year 2021, 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 31/12/2021.
3. Listen to and approve the Auditor's Report for the Fiscal Year ended on 31/12/2021.
4. Discuss and approve the Company's Balance Sheet and Profit & Loss Account for the Fiscal Year ended on 31/12/2021.
5. Discuss and approve the Board of Directors' proposal regarding the distribution of cash dividends of 40% of the Share Nominal Value (AED 0.40 per Share), amounting to AED 228 million for the Fiscal Year ended on 31/12/2021.
6. Discharge the Members of the Board of Directors from the responsibility for the Fiscal Year ended on 31/12/2021.
7. Discharge the Auditors from the responsibility for the Fiscal Year ended on 31/12/2021.
8. Approve the proposal regarding the remuneration of the Members of the Board of Directors for the Fiscal Year ended on 31/12/2021.
9. Appoint KPMG Lower Gulf Limited as the Auditors for the Fiscal Year 2022 and determine their fees.
10. Elect the new Board of Directors for the term of 2022 – 2025.

Note:

The above proposals to shareholders were approved during the annual general assembly meeting held on 15th March 2022.

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 2021, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in shareholders' 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 2021, 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

See note 2(e)(i), 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 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.

Key Audit Matters (continued)

1. Valuation of insurance contract liabilities (continued)

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 considering 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 the 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

See note 2(e)(i), 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 audit procedures on the recoverability and impairment of insurance balances receivable 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;
- 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.

Key Audit Matters (continued)

3. Valuation of investment properties

See note 2(e)(i), 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 2021 as determined by the Group's external valuation experts.

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 experts;
- 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.

Other Information

Management is responsible for the other information. The other information comprises the Board of Directors' statement 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 that 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 (as amended) and UAE Federal Law No. (6) of 2007 (as amended), 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.
- 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 of 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.

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

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 (as amended), we report that for the year ended 31 December 2021:

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; (as amended);

iii) the Group has maintained proper books of account;

iv) the financial information included in the Board of Directors' statement 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 2021;

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

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 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) 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 2021; and

viii) note 29 to the consolidated financial statements discloses social contributions made during the year ended 31 December 2021.

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

Richard Ackland
Registration No: 1015
Abu Dhabi, United Arab Emirates
Date: 9 FEB 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December

	Note	2021 AED'000	2020 AED'000
Assets			
Property and equipment	8	83,368	70,186
Financial assets at amortised cost	9	759,325	850,951
Financial assets at fair value through other comprehensive income	9	1,865,607	1,282,308
Financial assets at fair value through profit or loss	9	378,031	358,439
Investment properties	10	663,711	684,190
Statutory deposits	11,14	10,000	10,000
Insurance balances receivable	12	945,724	1,085,657
Reinsurers' share of unearned premiums reserve	13	772,391	1,007,567
Reinsurers' share of outstanding claims reserve	13	1,670,971	1,638,954
Reinsurers' share of mathematical reserve	13	2,854	-
Reinsurers' share of claims incurred but not reported reserve	13	253,816	358,930
Prepayments and other receivables	12	178,488	112,448
Deposits	11	243,440	274,851
Bank balances and cash	11	778,549	595,300
Total assets		8,606,275	8,329,781
Equity and liabilities			
Equity			
Share capital	15	570,000	570,000
Share premium		110,925	110,925
Legal reserve	16	285,000	253,025
General reserve	17	1,000,000	1,000,000
Reinsurance default risk reserve	18	26,563	13,319
Fair value reserve		195,219	155,252
Retained earnings	19	643,746	404,548
Total equity		2,831,453	2,507,069
Liabilities			
Employees' end of service benefits	20	24,106	26,557
Bank overdraft	11	56,393	-
Accounts payables	21	1,250,063	1,145,714
Other payables	21	228,899	288,389
		1,559,461	1,460,660
Technical reserves			
Unearned premiums reserve	13	1,231,830	1,481,936
Outstanding claims reserve	13	2,328,252	2,319,993
Mathematical reserve	13	232,924	-
Claims incurred but not reported reserve	13	389,739	529,189
Allocated and unallocated loss adjustment expenses reserve	13	32,616	30,934
Total technical reserves	13	4,215,361	4,362,052
Total liabilities		5,774,822	5,822,712
Total equity and liabilities		8,606,275	8,329,781

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 2021.

Chairman of the Board of Directors

Chief Executive Officer

The notes set out on pages 35 to 81 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 24 to 29.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December

	Note	2021 AED'000	2020 AED'000
Underwriting income			
Gross written premiums	27	4,267,377	4,012,193
Reinsurers' share of gross written premiums	27	(2,648,819)	(2,663,710)
Net written premiums		1,618,558	1,348,483
Net transfer to unearned premiums reserve	27	14,930	(15,800)
Net transfer to mathematical reserve	27	(230,070)	-
Net premiums earned	27	1,403,418	1,332,683
Commissions earned	27	212,070	183,386
Commissions incurred	27	(156,341)	(138,343)
Gross underwriting income		1,459,147	1,377,726
Gross claims paid	27	(1,755,202)	(1,816,593)
Reinsurer's share of claims paid	27	786,214	895,190
Net claims paid	27	(968,988)	(921,403)
Change in outstanding claims reserve		(8,259)	73,212
Change in reinsurers' share of outstanding claims reserve		32,017	4,171
Net change in incurred but not reported claims reserve		34,336	7,878
Change in allocated and unallocated loss adjustment expenses reserve		(1,682)	4,772
Net claims incurred	27	(912,576)	(831,370)
Underwriting income		546,571	546,356
Other income related to underwriting activities	27	22,269	17,677
Other expenses related to underwriting activities	27	(76,948)	(66,862)
Net underwriting income		491,892	497,171
Income from investments, *net*	22	131,696	86,776
Income from investment properties (rental income), *net*	22	12,494	28,024
Total income		636,082	611,971
General and administrative expenses	23	(229,989)	(231,661)
Charge for expected credit losses of insurance balances receivable	12	(4,278)	(9,263)
Profit before tax	27	401,815	371,047
Tax expense	24	(15)	(51)
Profit for the year		401,800	370,996
Earnings per share:			
Basic and diluted earnings per share (AED)	25	0.70	0.65

The notes set out on pages 35 to 81 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 24 to 29.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

	2021 AED'000	2020 AED'000
Profit for the year	401,800	370,996
Other comprehensive income		
Items that will not be reclassified subsequently to statement of profit or loss:		
Net gain / (loss) on sale of equity investments at fair value through other comprehensive income	82,117	(76,835)
Net change in fair value of equity investments at fair value through other comprehensive income	80,848	56,118
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	(40,678)	5,342
Impairment reversal on debt investments measured at fair value through other comprehensive income – reclassified to profit or loss	(203)	(334)
Other comprehensive income / (loss) for the year	122,084	(15,709)
Total comprehensive income for the year	523,884	355,287

The notes set out on pages 35 to 81 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 24 to 29.

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*	*Retained earnings AED'000*	*Total AED'000*
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 reinsurance default risk *(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
Balance at 1 January 2021	570,000	110,925	253,025	1,000,000	13,319	155,252	404,548	2,507,069
Total comprehensive income:								
Profit for the year	-	-	-	-	-	-	401,800	401,800
Other comprehensive income for the year	-	-	-	-	-	39,967	82,117	122,084
Total comprehensive income for the year	-	-	-	-	-	39,967	483,917	523,884
Transactions with owners of the Company:								
Dividends paid *(note 19)*	-	-	-	-	-	-	(199,500)	(199,500)
Total transactions with owners of the Company	-	-	-	-	-	-	(199,500)	(199,500)
Transfer from retained earnings to legal reserve *(note 16)*	-	-	31,975	-	-	-	(31,975)	-
Transfer from retained earnings to reisurance default risk reserve *(note 18)*	-	-	-	-	13,244	-	(13,244)	-
Balance at 31 December 2021	570,000	110,925	285,000	1,000,000	26,563	195,219	643,746	2,831,453

The notes set out on pages 35 to 81 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

	Note	2021 AED'000	2020 AED'000
Cash flows from operating activities			
Profit for the year		401,800	370,996
Adjustments for:			
Depreciation	8,23	17,437	18,757
Charge for expected credit losses of insurance balances receivable	12	4,278	9,263
(Reversal) / Charge for expected credit losses of other financial assets, *net*		(77)	251
Change in fair value of financial assets at fair value through profit or loss	9	(14,246)	7,014
Amortisation expense – *net*	9	1,853	2,295
Change in fair value of investment properties	10	16,967	19,052
Write-off of property and equipment	8	5	41
Provision for employees' end of service benefits	20	3,663	3,540
Tax expense	24	15	51
Finance cost		719	-
Interest income	22	(31,083)	(38,160)
Dividend income	22	(112,648)	(82,476)
Gain on sale of financial assets at fair value through profit or loss	22	(791)	-
Net cash generated from operations		287,892	310,624
Changes in:			
Insurance balances receivable, prepayments and other receivables		66,029	(131,774)
Accounts payable	21	104,349	16,948
Other payables		(59,490)	77,568
Unearned premiums reserve - *net*	13	(14,930)	15,800
Gross outstanding claims, IBNR, allocated and unallocated loss adjustment expense reserves	13	(129,509)	13,751
Mathematical reserve, net		230,070	-
Reinsurers' share of outstanding claims and IBNR reserves	13	73,097	(103,784)
Cash generated from operations		557,508	199,133
Employees' end of service benefits paid	20	(6,114)	(7,899)
Tax paid during the year		(15)	(36)
Interest paid		(719)	-
Net cash generated from operating activities		550,660	191,198
Cash flows from investing activities			
Proceeds from sale of investments		1,219,590	659,688
Purchase of investments		(1,595,099)	(846,690)
Bank deposits withdrawn / (placed), *net*		31,615	(146,735)
Additions to investment properties	10	(152)	(2,667)
Additions to property and equipment	8	(26,960)	(17,163)
Interest received		33,852	37,757
Dividend income received		112,648	82,476
Net cash used in investing activities		(224,506)	(233,334)
Cash flows from financing activities			
Dividends paid	19	(199,500)	(144,555)
Net cash used in financing activities		(199,500)	(144,555)
Net increase / (decrease) in cash and cash equivalents		126,654	(186,691)
Cash and cash equivalents at 1 January		595,827	782,518
Cash and cash equivalents at 31 December	11	722,481	595,827

Material non-cash transactions include transfer from investment properties to property and equipment of AED 3,664 thousand *(31 December 2020: AED 2,452 thousand)*.

The notes set out on pages 35 to 81 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 24 to 29.

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 virtue of Law No. (4) of 1972 (as amended), and is governed by the provisions of Federal Law No. (6) of 2007 (as amended) Concerning the Organization of the Insurance Operations and the Federal Law No. (2) of 2015 (as amended) Concerning the Commercial Companies, 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 and it is licensed and supervised by the Central Bank of UAE (previously the Insurance Authority) 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.

The Group is required, for the year ended 31 December 2021, to be in compliance with the provisions of the UAE Federal Law No. (2) of 2015 (as amended). On 20 September 2021, the UAE Federal Decree Law No. (32) of 2021 was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. (2) of 2015 (as amended). The Group has 12 months from 2 January 2022 to comply with the provisions of the UAE Federal Decree Law No. (32) of 2021.

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 (as amended) Concerning the Establishment of the Insurance Authority & Organisation of the Insurance Operations, the Federal Law No. (2) of 2015 (as amended) 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 judgments 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 last annual consolidated financial statements for the year ended 31 December 2020, except the following estimate for mathematical reserve which is applicable from 1 January 2021.

Mathematical reserve

Considerable judgment by management is required in the estimation of mathematical reserve which is calculated for long term insurance contracts of Insurance of Persons and Fund Accumulation Operations of the Group (with policy term of more than one year), to cover all future claim liabilities as determined by actuarial valuation as at the consolidated statement of financial position date. The Group bases this estimate on standard industry and mortality tables that best reflect historical mortality experience adjusted where appropriate to reflect the Group's own experiences. The carrying value at the reporting date of mathematical reserve (net of related reinsurance receivable) is AED 230.07 million *(31 December 2020: AED Nil)*.

(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 consolidated 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 135.92 million *(31 December 2020: AED 170.26 million)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation *(continued)*

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

(i) *Estimation uncertainty (continued)*

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 689.90 million *(31 December 2020: AED 711.97 million)*.

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 16.97 million *(31 December 2020: decrease of AED 19.05 million)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation *(continued)*

(e) Use of estimates and judgment (continued)

(i) Estimation uncertainty (continued)

Other estimate

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

Unearned premium reserves (UPR) 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 459.44 million *(31 December 2020: AED 474.37 million)*.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation *(continued)*

(e) Use of estimates and judgment (continued)

(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 2021.

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 2021, the Group has used the mechanism to stress the probability scenario weightages to assess additional ECL requirements due to COVID-19.

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 – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) from 1 January 2021; however, these amendments do not have any material effect on the Group's consolidated financial statements. Amendment to IFRS 16 – COVID-19-Related Rent Concessions *(beyond 30 June 2021)* is also effective from 1 April 2021; however, these amendments do not have a material effect on the Group's consolidated financial statements.

4 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning 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 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
Annual Improvements to IFRS Standards 2018–2020	1 January 2022
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8 – Definition of Accounting Estimates	1 January 2023

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Significant accounting policies *(continued)*

Leases ***(continued)***

(a) As a lessee (continued)

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 consolidated statement of 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 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 income'.

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 profit or loss and other comprehensive income, for investments at FVOCI. At the time of derecognition of FVOCI equity investment any revaluation reserve is transferred to retained earnings. On derecognition of FVOCI debt investments, gains and losses accumulated in OCI are reclassified to profit or loss.

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 fair value

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 which is recognised on the date on which the Group's right to receive payment is established, 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 best economic 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. The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

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 charged to consolidated statement of profit or loss and reduces the fair value loss otherwise recognised in consolidated statement of profit or loss and other comprehensive income.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties) 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 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), mathematical reserves (MR), 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, MR, 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 statement of profit or loss 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 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 based on the consideration specified in a contract.

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.

Investment income

Interest income is recognised in the consolidated statement of profit or loss as it accrues on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable. 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 which is is recognised when the right to receive dividend is established. Usually this is the ex-dividend date for equity securities.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(i) **Introduction and overview *(continued)***

Regulatory framework (continued)

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 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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Risk management *(continued)*

(ii) Insurance risk *(continued)*

Underwriting strategy (continued)

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:

	31 December 2021		31 December 2020	
Type of risk	Gross loss ratio	Net loss ratio	Gross loss ratio	Net loss ratio
Commercial	14%	32%	30%	40%
Consumer	73%	76%	72%	72%

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 38% *(31 December 2020: 34%)* 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:

	2016 and earlier AED'000	2017 AED'000	2018 AED'000	2019 AED'000	2020 AED'000	2021 AED'000	Total AED'000
Commercial, *gross*							
At the end of the reporting year	-	1,279,382	851,066	844,903	591,506	778,697	4,345,554
One year later	-	1,181,674	977,445	815,259	683,651	-	3,658,029
Two years later	-	1,057,676	1,012,390	741,864	-	-	2,811,930
Three years later	-	1,042,445	995,347	-	-	-	2,037,792
Four years later	-	1,037,945	-	-	-	-	1,037,945
Current estimate of cumulative claims	-	1,037,945	995,347	741,864	683,651	778,697	4,237,504
Cumulative payments to date	-	917,710	530,575	509,339	225,906	80,798	2,264,328
Total liability recognised in the consolidated statement of financial position	**164,025**	**120,235**	**464,772**	**232,525**	**457,745**	**697,899**	**2,137,201**
Net liability recognised in the consolidated statement of financial position	**31,158**	**36,577**	**74,105**	**80,541**	**113,459**	**206,488**	**542,328**
Commercial, *gross*							
At the end of the reporting year	-	885,329	1,065,605	1,049,941	963,967	1,322,060	5,286,902
One year later	-	836,589	1,064,369	1,234,786	1,130,700	-	4,266,444
Two years later	-	827,537	1,073,885	1,276,247	-	-	3,177,669
Three years later	-	824,288	1,086,824	-	-	-	1,911,112
Four years later	-	824,537	-	-	-	-	824,537
Current estimate of cumulative claims	-	824,537	1,086,824	1,276,247	1,130,700	1,322,060	5,640,368
Cumulative payments to date	-	817,339	1,061,536	1,225,344	1,063,742	882,656	5,050,617
Total liability recognised in the consolidated statement of financial position	**23,655**	**7,198**	**25,288**	**50,903**	**66,958**	**439,404**	**613,406**
Net liability recognised in the consolidated statement of financial position	**11,770**	**5,143**	**15,172**	**21,706**	**28,647**	**201,054**	**283,492**
Total commercial and consumer, *gross*	**187,680**	**127,433**	**490,060**	**283,428**	**524,703**	**1,137,303**	**2,750,607**
Total commercial and consumer, *net*	**42,928**	**41,720**	**89,277**	**102,247**	**142,106**	**407,542**	**825,820**

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 2021 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	**2,194,954,274**	**211,913,829**	**113,501,183**	**25,619,080**	**2,308,455,457**	**237,532,909**
GCC countries	**120,904,466**	**23,663,252**	**2,283,839**	**1,627,847**	**123,188,305**	**25,291,099**
Others	**234,504,080**	**32,297,822**	**2,332,851**	**1,246,774**	**236,836,931**	**33,544,596**
	2,550,362,820	**267,874,903**	**118,117,873**	**28,493,701**	**2,668,480,693**	**296,368,604**

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

(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:

	2021 AED'000	2020 AED'000
Maximum exposure		
Financial assets at amortised cost	759,325	850,951
Insurance balances and other receivables	1,024,345	1,115,220
Bank balances, including deposits	1,031,909	880,074
Total	2,815,579	2,846,245

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.

	Carrying amount AED'000	Contractual cash outflows Up to 180 days AED'000	181 to 365 days AED'000
Financial liabilities at 31 December 2021			
Accounts and other payables	1,310,470	(1,310,470)	-
Total	1,310,470	(1,310,470)	-

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 2020			
Accounts and other payables	1,265,893	(1,265,893)	-
Total	1,265,893	(1,265,893)	-

The expected maturity profile of the assets at 31 December 2021 and 2020 is as follows:

31 December 2021	Current AED'000	Non-current AED'000	Total AED'000
Cash and bank balances	1,021,989	10,000	1,031,989
Insurance balances and other receivables	1,124,212	-	1,124,212
Investments	1,955,658	1,047,305	3,002,963
	4,101,859	1,057,305	5,159,164
31 December 2020			
Cash and 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

The Group expects its financial liabilities of AED 1,310.47 million (*31 December 2020: AED 1,265.89 million*) 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 quantifies the adverse impact due to broad, systemic movements in one or more market risk drivers. Market risk drivers include equity prices, credit spreads, foreign exchange rates and interest rates. 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 2.53 million *(31 December 2020: AED 2.85 million)*.

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 UAE Dirham is pegged to the US Dollar since November 1980 accordingly, the Group's exposure to currency risk is limited to that extent. Management believes that there is a minimal risk of significant losses due to exchange rate fluctuations and consequently the Group has not hedged their foreign currency exposures.

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 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 financial performance of the investees

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 37.80 million *(31 December 2020: AED 35.84 million).*

For investments held at fair value through other comprehensive income

Changes in revaluation reserves of shares would increase/decrease by AED 186.56 million *(31 December 2020: AED 128.23 million)* 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 (as amended) Concerning the Organization of Insurance Operations (as amended).

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 ties. 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 (as amended) Concerning the Organization of 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.

	2021 AED'000	2020 AED'000
Total capital held by the Group	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 2021				
Financial assets at fair value through profit or loss	95,185	-	282,846	378,031
Financial assets at fair value through OCI	1,621,573	45,466	198,568	1,865,607
	1,716,758	45,466	481,414	2,243,638
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

Transfers between Levels 1 and 2

At 31 December 2021, FVOCI debt securities with a carrying amount of 45.5 million *(31 December 2020: AED Nil)* were transferred from Level 1 to Level 2 because quoted prices in the market for such debt securities were no longer regularly available. To determine the fair value of such debt securities, management used a valuation technique in which all significant inputs were based on observable market data. There were no transfers from Level 2 to Level 1 in 2021 and no transfers in either direction in 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Fair value of financial instruments *(continued)*

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.

	Carrying Amount AED'000	Fair value AED'000
31 December 2021		
Financial assets at amortised cost	759,325	780,011
31 December 2020		
Financial assets at amortised cost	850,951	891,483

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

	2021 AED'000	2020 AED'000
Balance as at 1 January	440,351	499,121
Change in fair value	10,897	(16,050)
Additions	89,804	130,124
Transfers	-	(96,780)
Disposals	(59,638)	(76,064)
Balance at 31 December	481,414	440,351

During the year ended 31 December 2021, there were no transfers from Level 3 to Level 1 *(31 December 2020: AED 96.78 million).*

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 2021		
Adjusted net asset value (5% movement)	24,071	(24,071)
31 December 2020		
Adjusted net asset value (5% movement)	22,018	(22,018)

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:

	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
Cost							
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)	-
Transfers from investment properties	2,452	-	-	-	-	-	2,452
At 31 December 2020	27,942	45,305	112,509	231	-	4,739	190,726
At 1 January 2021	27,942	45,305	112,509	231	-	4,739	190,726
Additions	-	1,023	10,048	-	284	15,605	26,960
Deletions	-	-	-	(34)	-	-	(34)
Write off	-	(6)	-	-	-	-	(6)
Transfers	-	554	9,147	-	-	(9,701)	-
Transferred from Investment properties	3,664	-	-	-	-	-	3,664
At 31 December 2021	31,606	46,876	131,704	197	284	10,643	221,310
Accumulated depreciation:							
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
At 1 January 2021	12,409	39,622	68,368	141	-	-	120,540
Charge for the year	1,824	1,456	13,957	31	169	-	17,437
Deletions	-	-	-	(34)	-	-	(34)
Write off	-	(1)	-	-	-	-	(1)
At 31 December 2021	14,233	41,077	82,325	138	169	-	137,942
Carrying amounts:							
At 31 December 2020	15,533	5,683	44,141	90	-	4,739	70,186
At 31 December 2021	17,373	5,799	49,379	59	115	10,643	83,368

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Investments

	2021 AED'000	2020 AED'000
Financial assets at amortised cost	759,325	850,951
Financial assets at fair value through other comprehensive income	1,865,607	1,282,308
Financial assets at fair value through profit or loss	378,031	358,439
	3,002,963	2,491,698

Financial assets at amortised cost

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

	2021 AED'000	2020 AED'000
At 1 January	850,951	800,872
Additions during the year	205,537	154,359
Disposals during the year	(295,595)	(101,896)
Impairment loss on debt securities at amortised cost	285	(89)
Amortisation expense	(1,853)	(2,295)
At 31 December	759,325	850,951

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:

	2021 AED'000	2020 AED'000
At 1 January	1,282,308	1,203,104
Additions during the year	1,250,314	534,424
Disposals during the year	(707,185)	(516,680)
Net change in fair value	40,170	61,460
At 31 December	1,865,607	1,282,308

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:

	2021 AED'000	2020 AED'000
At 1 January	358,439	325,493
Additions during the year	139,248	157,907
Disposals during the year	(133,902)	(117,947)
Net change in fair value *(note 22)*	14,246	(7,014)
At 31 December	378,031	358,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Investments *(continued)*

Geographical concentration of investments is as follows:

	2021 AED'000	2020 AED'000
Within UAE	1,630,484	1,490,675
Outside UAE	1,372,479	1,001,023
	3,002,963	2,491,698

During the year ended 31 December 2021, the Group has purchased equity shares amounting to AED 769.67 million *(31 December 2020: AED 516.29 million).*

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
At 1 January 2021	122,198	10,162	45,760	300,220	205,850	684,190
Additions	-	-	152	-	-	152
Transferred to property and equipment	(3,664)	-	-	-	-	(3,664)
Decrease in fair values during the year *(note 22)*	(4,679)	(1,084)	(8,316)	(3,203)	315	(16,967)
At 31 December 2021	113,855	9,078	37,596	297,017	206,165	663,711
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

(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 Investment 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 was 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 was higher / (lower);
- rent-free periods were shorter / (longer); or
- the risk-adjusted discount rate was lower / (higher).

11 Cash and cash equivalents

	2021 AED'000	2020 AED'000
Cash on hand	80	77
Statutory deposits	10,000	10,000
Cash / call / current accounts with banks, including deposits	1,022,271	870,842
Less: allowance for expected credit losses	(362)	(768)
Total bank balances and cash	1,031,989	880,151
Less: statutory deposits	(10,000)	(10,000)
Less: deposits with original maturities of three months or more	(243,440)	(274,851)
Bank balances and cash	778,549	595,300
Add: allowance for expected credit losses for bank balances and cash	325	527
	778,874	595,827
Less: bank overdraft repayable on demand and used for cash management purposes (iii)	(56,393)	-
Cash and cash equivalents for the purpose of the consolidated statement of cash flows	722,481	595,827

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:

	2021 AED'000	2020 AED'000
Within UAE	984,533	846,890
Outside UAE	47,456	33,261
	1,031,989	880,151

(i) Interest rates on bank deposits range between 0.4% to 1.2% *(31 December 2020: 0.5% to 2.5%)*.

(ii) During the period, the Group has availed an overdraft facility of AED 200,000 thousand which is unsecured. Interest is payable at 3 months' EIBOR plus 1.6% per annum and the tenure of the facility is 12 months. As at reporting date the Group has utilised the facility up to AED 56,393 thousand *(31 December 2020: AED Nil)*.

12 Insurance balances receivable, prepayments and other receivables

	2021 AED'000	2020 AED'000
Insurance balances receivable	1,088,035	1,235,087
Less: allowance for expected credit losses	(153,708)	(149,430)
Add: write offs during the year	11,397	-
Insurance balances receivable	945,724	1,085,657
Prepayments and other receivables:		
Deferred acquisition costs	93,764	77,868
Rental income receivables, *net*	9,922	5,350
Prepayments	6,103	5,017
Other receivables, net of expected credit losses	68,699	24,213
Prepayments and other receivables	178,488	112,448
Total insurance balances receivables, prepayments and other receivables	1,124,212	1,198,105

The average credit period for receivable counterparties is 120 days. No interest is charged on insurance balances receivable 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 balances receivable is as follows:

	2021 AED'000	2020 AED'000
Not due	708,947	848,963
Less than 30 days	32,794	68,199
30 - 90 days	83,950	69,752
91 - 180 days	61,461	44,823
More than 181 days	58,572	53,920
Insurance balances receivable	945,724	1,085,657

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:

	2021 AED'000	2020 AED'000
At 1 January	149,430	140,167
Write-offs during the year	(11,397)	-
Charge for the year	4,278	9,263
At 31 December	142,311	149,430

Movement in deferred acquisition costs were as follows:

	2021 AED'000	2020 AED'000
At 1 January	77,868	76,721
Acquisition costs paid / payable during the year	249,185	206,351
Incurred during the year	(233,289)	(205,204)
At 31 December	93,764	77,868

13 Insurance contract liabilities and reinsurance contract assets

	2021 AED'000	2020 AED'000
Insurance contract liabilities		
Unearned premiums reserve (i)	1,231,830	1,481,936
Outstanding claims reserve (ii)	2,360,868	2,350,927
Mathematical reserve	232,924	-
Claims incurred but not reported reserve	389,739	529,189
	4,215,361	4,362,052

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2021 AED'000	2020 AED'000
Re-insurance contract assets		
Unearned premiums reserve	772,391	1,007,567
Outstanding claims reserve	1,670,971	1,638,954
Mathematical reserve	2,854	-
Claims incurred but not reported reserve	253,816	358,930
	2,700,032	3,005,451

	2021 AED'000	2020 AED'000
Insurance contract liabilities, ***net***		
Unearned premiums reserve (i)	459,439	474,369
Outstanding claims reserve (ii)	689,897	711,973
Mathematical reserve	230,070	-
Claims incurred but not reported reserve	135,923	170,259
	1,515,329	1,356,601

(i) Unearned premiums reserve includes:

	2021 AED'000	2020 AED'000
Unearned premiums reserve - *gross*	1,191,095	1,383,086
Unearned premiums reserve - *net*	453,130	453,428
Premiums deficiency reserve - *gross*	-	49,106
Premiums deficiency reserve - *net*	44	9,158
Unexpired risk reserve - *gross*	40,735	49,739
Unexpired risk reserve - *net*	6,265	11,778
Unit linked funds reserve – *gross and net*	-	5

(i) Outstanding claims reserve includes allocated and unallocated loss adjustment expenses reserve of AED 32.62 million *(31 December 2020: AED 30.93 million).*

Actuarial valuation for Incurred But Not Reported Reserve (IBNR), Mathematical Reserve (MR), 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), mathematical reserve 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), MR 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 balances receivable, prepayments and other receivables

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

	31 December 2021			31 December 2020		
	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	2,350,927	(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 1 Jaunuary	2,880,116	(1,997,884)	882,232	2,866,365	(1,894,100)	972,265
Claims settled	(1,755,202)	786,214	(968,988)	(1,816,593)	895,190	(921,403)
Increase in liabilities	1,625,693	(713,117)	912,576	1,830,344	(998,974)	831,370
Total at 31 December	2,750,607	(1,924,787)	825,820	2,880,116	(1,997,884)	882,232
Outstanding claims including ALAE and ULAE	2,360,868	(1,670,971)	689,897	2,350,927	(1,638,954)	711,973
Incurred but not reported	389,739	(253,816)	135,923	529,189	(358,930)	170,259
Total at 31 December	2,750,607	(1,924,787)	825,820	2,880,116	(1,997,884)	882,232
Unearned premium:						
Total at 1 January	1,432,825	(967,619)	465,206	1,275,139	(846,401)	428,738
Increase during the year	4,267,377	(2,648,819)	1,618,558	4,012,193	(2,663,710)	1,348,483
Release during the year	(4,468,372)	2,844,003	(1,624,369)	(3,854,507)	2,542,492	(1,312,015)
Net increase / (release) during the year	(200,995)	195,184	(5,811)	157,686	(121,218)	36,468
Total at 31 December	1,231,830	(772,435)	459,395	1,432,825	(967,619)	465,206
Premium Deficiency Reserve:						
Total at 1 January	49,106	(39,948)	9,158	110,097	(80,266)	29,831
Net decrease during the year	(49,106)	39,992	(9,114)	(60,991)	40,318	(20,673)
Total at 31 December	-	44	44	49,106	(39,948)	9,158
Mathematical reserve:						
Total at 1 January	-	-	-	-	-	-
Net increase during the year	232,924	(2,854)	230,070	-	-	-
Total at 31 December	232,924	(2,854)	230,070	-	-	-
Unit linked funds reserve:						
Total at 1 January	5	-	5	-	-	-
Net (decrease) / increase during the year	(5)	-	(5)	5	-	5
Total at 31 December	-	-	-	5	-	5
Grand total	4,215,361	(2,700,032)	1,515,329	4,362,052	(3,005,451)	1,356,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Statutory deposits

In accordance with the Federal Law No. (6) of 2007 (as amended) Concerning the Establishment of the Insurance Authority & Organisation of the Insurance Operations, the Group maintains a bank deposit of AED 10 million *(31 December 2020: AED 10 million)* which cannot be utilised without the consent of the Assistant Governor of the Banking and Insurance Supervision Department of Central Bank of UAE.

15 Share capital

	2021 AED'000	2020 AED'000
Authorised		
570,000,000 ordinary shares of AED 1 each *(31 December 2020: 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 2020: 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 (as amended) Concerning the Commercial Companies and the Group'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 Group's paid up share capital. This reserve is not available for any distribution to the shareholders. Since the Group reached the 50% limit, less than 10% was transferred during the year.

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 Central Bank of UAE (previously 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 Assistant Governor of the Banking and Insurance Supervision Department of Central Bank of UAE. The decision is effective from 1 December 2020. Accordingly, an amount of AED 26.56 million *(31 December 2020: AED 13.32 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 2021 of AED 0.40 per share.

At the Annual General Assembly held on 21 March 2021 *(31 December 2020: held on 15 March 2020 relating to the results of the year ended 31 December 2019)*, the Shareholders approved the distribution of cash dividend relating to the results for the year ended 31 December 2020 of AED 0.35 per share amounting to AED 199,500 thousand *(31 December 2020 relating to the results for the year ended 31 December 2019: AED 0.30 per share amounting to AED 144,555 thousand).*

20 Employees' end of service benefits

	2021 AED'000	2020 AED'000
At 1 January	26,557	30,916
Charge for the year	3,663	3,540
Paid during the year	(6,114)	(7,899)
At 31 December	24,106	26,557

21 Accounts and other payables

	2021 AED'000	2020 AED'000
Accounts payable	1,250,063	1,145,714
Other payables:		
Accrued expenses	74,058	61,681
Deferred commission income	83,863	91,137
Deferred income	6,112	5,773
Other payables	64,866	129,798
Total other payables	228,899	288,389
Total accounts and other payables	1,478,962	1,434,103

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Net investments and other income

	2021 AED'000	2020 AED'000
Income from investment properties (rental income), *net* (i)	12,494	28,024
Dividend income	112,648	82,476
Net interest income on bank deposits and bonds	31,083	38,160
Changes in fair value of financial assets at fair value through profit or loss *(note 9)*	14,246	(7,014)
Reversal for impairment losses on financial assets	120	94
Gain on disposal of investment through profit or loss	791	-
Decrease in fair value of investment properties *(note 10)*	(16,967)	(19,052)
Other expenses, *net*	(10,225)	(7,888)
Income from investments, *net*	131,696	86,776
Net investments and other income	144,190	114,800

(i) Repair and maintenance on properties amounts to AED 8.92 million *(31 December 2020: AED 6.92 million).*

23 General and administrative expenses

	2021 AED'000	2020 AED'000
Salaries and other benefits	149,146	153,786
Depreciation charge *(note 8)*	17,437	18,757
Directors' remuneration	5,800	5,800
Advertisement	3,231	3,420
Social contribution *(note 29)*	4,070	3,808
Rent expense	3,039	3,614
Communication and office supplies	5,683	6,615
Charge for impairment losses on financial assets	43	345
Other expenses	41,540	35,516
	229,989	231,661

At the Annual General Assembly held on 21 March 2021, the Shareholders approved board of directors' remuneration relating to the results for the year ended 31 December 2020 amounting to AED 5,800 thousand *(31 December 2020: AED 5,800 thousand relating to the results for the year ended 31 December 2019).*

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's subsidiary operates in the United Kingdom and is subject to income tax.

	2021 AED'000	2020 AED'000
Current income tax	15	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.

	2021	2020
Profit for the year (AED'000)	401,800	370,996
Ordinary shares outstanding during the year (shares in '000)	570,000	570,000
Earnings per share (AED)	0.70	0.65

There is no dilution effect to the basic earnings per share.

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 Mamoura Diversified Global Holding PJSC.

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 2021			
	Directors and key management AED'000	Major shareholders AED'000	Others AED'000	Total AED'000
Insurance balances receivable, prepayments and other receivables	289	-	141,901	142,190
Accounts payables	2	96	56,474	56,572
End of service benefit payable	2,798	-	-	2,798
Cash and bank balances	-	-	351,135	351,135
Bank overdraft	-	-	56,393	56,393
Investments	-	119,202	353,047	472,249
Statutory deposits	-	-	10,000	10,000
Insurance contract liabilities	100	11	1,125,860	1,125,971

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 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
End of service benefit payable	2,158	-	-	2,158
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

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 2021 amounted to AED 99.05 million *(31 December 2020: AED 94.27 million).*

Transactions with related parties during the year are as follows:

	31 December 2021			
	Directors and key management AED'000	Major shareholders AED'000	Others AED'000	Total AED'000
Premiums written	47	26	1,215,733	1,215,806
Claims incurred	28	-	487,314	487,342
Dividend income	-	-	21,078	21,078
Interest income	-	3,879	6,156	10,035
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 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

Compensation of key management personnel is as follows:

	2021 AED'000	2020 AED'000
Salaries and short-term benefits	16,056	14,920
Staff end of service benefits	640	763
	16,696	15,683

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.

	31 December					
	Commercial		Consumer		Total	
	2021 AED'000	2020 AED'000	2021 AED'000	2020 AED'000	2021 AED'000	2020 AED'000
Gross written premiums	2,281,416	2,426,273	1,985,961	1,585,920	4,267,377	4,012,193
Less: reinsurers' share of gross written premiums	(1,924,566)	(2,065,430)	(724,253)	(598,280)	(2,648,819)	(2,663,710)
Net premiums written	356,850	360,843	1,261,708	987,640	1,618,558	1,348,483
Net transfer to unearned premiums reserve	4,646	25,714	10,284	(41,514)	14,930	(15,800)
Net transfer to mathematical reserve	-	-	(230,070)	-	(230,070)	-
Net premiums earned	361,496	386,557	1,041,922	946,126	1,403,418	1,332,683
Commission income earned	150,474	117,396	61,596	65,990	212,070	183,386
Commission expenses incurred	(95,212)	(94,315)	(61,129)	(44,028)	(156,341)	(138,343)
Gross underwriting income	416,758	409,638	1,042,389	968,088	1,459,147	1,377,726
Gross claims paid	(550,089)	(723,780)	(1,205,113)	(1,092,813)	(1,755,202)	(1,816,593)
Less: reinsurers' share of claims paid	369,536	488,544	416,678	406,646	786,214	895,190
Net claims paid	(180,553)	(235,236)	(788,435)	(686,167)	(968,988)	(921,403)
Net change in outstanding claims, incurred but not reported claims reserves, ALAE and ULAE	63,256	80,395	(6,844)	9,638	56,412	90,033
Net claims incurred	(117,297)	(154,841)	(795,279)	(676,529)	(912,576)	(831,370)
Underwriting income	299,461	254,797	247,110	291,559	546,571	546,356
Other underwriting income	15,875	13,915	6,394	3,762	22,269	17,677
Other underwriting expenses	(29,851)	(23,989)	(47,097)	(42,873)	(76,948)	(66,862)
Net underwriting income	285,485	244,723	206,407	252,448	491,892	497,171
Net investments and other income					144,190	114,800
General and administrative expenses					(229,989)	(231,661)
Charge for expected credit losses of insurance balances receivable					(4,278)	(9,263)
Profit before tax					401,815	371,047
Tax expense					(15)	(51)
Profit for the year					401,800	370,996

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Segment information *(continued)*

Details of segment assets and liabilities as at 31 December 2021 is presented below:

	Commercial AED'000	Consumer AED'000	Investments AED'000	Total AED'000
Segment assets	2,747,963	1,141,825	4,716,487	8,606,275
Segment liabilities	3,991,058	1,770,577	13,187	5,774,822

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

28 Contingent liabilities and commitments

	2021 AED'000	2020 AED'000
Commitments in respect of uncalled subscription of equities held as investments	54,152	30,779
Bank guarantees	232,985	215,383
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 amounts to AED 4.07 million *(31 December 2020: AED 3.81 million) (note 23)*.

30 General

The consolidated financial statements of the Group were approved for issuance on behalf of the Board of Directors on 9 February 2022.