Al Wathba National Insurance Company PJSC and its subsidiary

Consolidated financial statements

31 December 2020

Principal business address:
Al Wathba National Insurance Company PJSC
P.O. Box: 45154
Abu Dhabi
UAE

Al Wathba National Insurance Company PJSC and its subsidiary

Consolidated financial statements

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Report of the Board of Directors

On the Company's Business for the Financial Year Ending on (31/12/2020)

The Board of Directors of Al Wathba National Insurance Co. is pleased to submit its annual report for the year 2020 on the company's business and activities, accompanied by audited financial statements for the financial year ending on (31/12/2020).

The year 2020 was exceptional by all means, as the Covid 19 pandemic and the resultant complete shutdown of economic and social activities in various parts of the world had a considerable negative impact on the levels of economic growth causing a state of instability. During the first half of the year, global and local economic and financial indicators have retreated; however, the measures and precautions taken by the governments helped mitigate these retreats. It is worth noting that the economic relief packages and subsequent directions issued by the government of the United Arab Emirates, being a forerunner in that regard, helped manage and control the crisis. During the second half of the year, there was improvement in the economic indicators, reflecting the announced results of companies for 2020.

Al Wathba National Insurance Co. has succeeded to a large extent in managing the crisis, especially during the period of complete shutdown. The company continued to communicate directly with its clients and was able to provide all services without interruption. It showed full readiness to face such circumstances through the optimal use of all types of advanced technology that has not only helped the company to maintain its client base but also to succeed in achieving a growth rate in such difficult circumstances This success won the appreciation of the Insurance Authority which sent a thank-you letter to the company, and in the previous year it also selected Al Wathba National Insurance Co. as a pioneer in the field of technological development and use.

Al Wathba National Insurance Co. also took the lead in honoring the pandemic front-line workers by providing insurance services at nominal prices to them.

As for the financial results, the company achieved a growth rate of 23% in the total underwritten premiums, amounting to AED 307 million for 2020, compared to an amount of AED 250 million for 2019. Likewise, insurance profits rose to AED 38 million for 2020 compared to AED 33 million for 2019.

As for the net final results, the company achieved a net profit of AED 15.22 million for 2020, compared to an amount of AED 5.96 million for 2019 with a growth rate of 155%.

The company also maintained its Standard & Poor's BBB- credit rating, which reflects the company's financial strength and the confidence in its performance.

Quality and Sustainability Initiatives

AWNIC also became one of the first listed insurance companies in the region to publish its Sustainability report 2019, affirming our commitment to ADX ESG Disclosure Guidance issued in 2019, in alignment with UAE National Vision 2021 and Abu Dhabi Economic Vision 2030.

AWNIC also got triple certified with ISO 9001:2015 (QMS), ISO 14001 :2015 (EMS) and ISO 27001:2013 (ISMS). This endorses AWNIC's continued commitment to deliver quality service and products to our esteemed customers.

The Basis of Continuity

The Board of Directors reasonably expects that the company has sufficient resources and support to continue its anticipated operational existence in the future. For this reason, we, the Board of Directors, continue to adopt the principle of continuity in preparing the financial statements ending on December 31, 2020.

Related-Party Transactions

The financial statements reveal transactions and balances relevant to related parties, which were disclosed in Note no. 20. All transactions were executed as part of our normal course of business and in compliance with applicable laws and regulations.
In conclusion, the Board of Directors takes the chance to extend its highest thanks and gratitude to HH Sheikh Khalifa bin Zayed bin Sultan Al Nahyan, President of the United Arab Emirates and Ruler of Abu Dhabi, to HH Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister and Ruler of Dubai, and to the Crown Prince HH Sheikh Mohammed bin Zayed bin Sultan Al Nahyan and also to all Rulers of the Emirates for their care and support for the march of this country and all its economic institutions, including Al Wathba National Insurance Co.
The Board of Directors also wishes to express its sincere appreciation and gratitude to all the company's shareholders and clients for their continuous confidence and support, and to all the company’s employees for their dedication and contribution to the company's performance during the past period.

Sheikh Saif bin Mohammed bin Butti Al Hamed
Chairman of the Board

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Independent Auditors' Report

To the Shareholders of Al Wathba National Insurance Company PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including international Independent Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

The company also maintained its Standard & Poor's BBB- credit rating, which reflects the company's financial strength and the confidence in its performance.

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Sheikh Saif bin Mohammed bin Butti Al Hamed
Chairman of the Board

Key Audit Matters (continued)

1. Valuation of insurance contract liabilities

Refer to notes 2(e), 3, 18 and 31 to the consolidated financial statements.

Valuation of these liabilities involves significant judgment and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those liabilities ("IBNR") that are recognised in respect of claims that have been incurred but not reported 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 the 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 judgments over key assumptions, is not complete and accurate then material impacts on the valuation of these liabilities may arise.

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

- evaluating and testing of key controls around the claims handling and case reserve setting processes of the Group. Examining evidence of the operation of controls over the valuation of individual reserve for outstanding claims and consider if the amounts recorded in the consolidated financial statements are valued adequately;

- obtaining an understanding of and assessing the methodology and key assumptions applied by management. Independently re-projecting the reserve balances for certain classes of business;

- assessing the experience and competence of the Group's actuary and degree of challenge applied through the reserving process;

- checking sample of reserves for outstanding claims through comparing the estimated amount of the reserves for outstanding claims to appropriate documentation, such as reports from loss adjusters; and

- assessing the Group's disclosure in relation to these liabilities including the claims development table is appropriate.

Key Audit Matters (continued)

2. Insurance balances receivable

Refer to notes 3 and 10 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 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, taken into account.

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

Our response: Our procedures on the recoverability and impairment of insurance balances receivables supported by our specialists 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;
- performing alternate procedures where no confirmations were received by tracing the outstanding amount to underlying supporting documents;
- 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 a 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

Refer to notes 2(e), 3 and 12 to the consolidated financial statements.

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

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

- assessing the competence, qualification, independence and integrity of the Group's external valuation experts and reviewing their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;

- obtaining the external valuation reports for all properties and confirming that the valuation approach is in accordance with Royal Institute of Chartered Surveyors' (RICS) standards and is suitable for use in determining the fair values;

- assessing the reasonability of the key inputs used by the Group's external valuation experts in determining the fair values and concluding on the appropriateness of fair values reported by the Group's external valuation expert;

- performing procedures to test whether property specific standing data supplied to the external valuers by management is adequate and reliable; and

- based on the outcome of our evaluation, determining the adequacy of the disclosure in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the Board of Directors' report.

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

Other Information (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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

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

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

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that for the year ended 31 December 2020:

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

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

iii) the Group has maintained proper books of account;

iv) the financial information included in the Board of Directors' report, is consistent with the books of account of the Group;

v) as disclosed in notes 7 and 8 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2020;

vi) note 25 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

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

viii) note 1 to the consolidated financial statements discloses that the Group has not made any social contributions during the year.

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

KPMG Lower Gulf Limited

Saif Fayez Shawer
Registration No: 1131
Abu Dhabi, United Arab Emirates

Date: 28 MAR 2021

Al Wathba National Insurance Company PJSC and its subsidiary

Consolidated statement of financial position

as at 31 December

	Notes	2020 AED'000	2019 AED'000
Assets			
Property and equipment	14	**4,758**	5,282
Investment in associates	13	**121,922**	107,595
Financial assets at amortised cost	9	**14,320**	14,368
Financial assets at fair value through other comprehensive income	7	**273,613**	346,585
Financial assets at fair value through profit or loss	8	**382,902**	424,537
Investment properties	12	**278,077**	307,469
Investment property under development	11	**9,423**	9,394
Statutory deposit	6	**6,000**	6,000
Insurance balances receivable	10	**56,637**	49,059
Reinsurers' share of unearned premiums reserve	18	**27,628**	28,002
Reinsurers' share of outstanding claims reserve	18	**110,980**	118,302
Reinsurers' share of claims incurred but not reported reserve	18	**8,883**	9,977
Prepayments and other receivables	10	**28,144**	8,248
Deposits	6	**98,447**	91,544
Bank balances and cash	6	**144,901**	43,206
Total assets		**1,566,635**	1,569,568
Equity and liabilities			
Equity			
Share capital	15	**207,000**	207,000
Legal reserve	16	**103,500**	103,500
Statutory reserve	16	**51,750**	51,750
General reserve	16	**88,753**	88,753
Capital reserve	16	**9,959**	9,959
Reinsurance risk reserve	16	**15**	-
Investment revaluation reserve		**(127,019)**	(95,122)
Cash flow hedge reserve	23	**(5,929)**	-
Retained earnings		**395,090**	400,019
Total equity		**723,119**	765,859
Liabilities			
Borrowings	22	**373,671**	-
Employees' end of service benefits	24	**7,724**	7,316
Derivative financial instrument	23	**6,306**	-
Bank overdrafts	6	**-**	386,619
Trade and other payables	21	**101,127**	75,370
		488,828	469,305
Technical reserves			
Unearned premiums reserve	18	**131,254**	119,545
Outstanding claims reserve	18	**176,209**	171,815
Claims incurred but not reported reserve	18	**40,905**	36,177
Unallocated loss adjustment expenses reserve	18	**4,732**	4,373
Unexpired risk reserve	18	**1,588**	2,494
Total liabilities		**843,516**	803,709
Total equity and liabilities		**1,566,635**	1,569,568

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 at, and for the year ended 31 December 2020.

Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on pages 3 to 9.

Al Wathba National Insurance Company PJSC and its subsidiary

Consolidated statement of profit or loss

for the year ended 31 December

	Notes	**2020** **AED'000**	2019 AED'000
Gross premiums written	*33.1*	**306,607**	250,030
Reinsurance share of gross written premiums	*33.1*	**(87,217)**	(86,202)
Net premiums written		**219,390**	163,828
Net change in unearned premiums reserve	*33.1*	**(12,083)**	14,528
Net premium earned		**207,307**	178,356
Commission earned	*33.1*	**20,300**	28,767
Commission incurred	*33.1*	**(42,955)**	(32,304)
Gross underwriting income		**184,652**	174,819
Gross claims paid		**(123,340)**	(136,838)
Reinsurance share of claims paid		**43,797**	41,511
Net claims paid		**(79,543)**	(95,327)
Change in outstanding claims reserve		**(4,394)**	(30,532)
Change in reinsurance share of outstanding claims reserve		**(7,322)**	28,642
Increase in incurred but not reported claims reserve		**(5,822)**	(2,441)
Increase in unallocated loss adjustment expense reserve		**(359)**	(1,018)
Decrease / (increase) in unexpired risk reserve		**906**	(2,494)
Net claims incurred	*33.1*	**(96,534)**	(103,170)
Underwriting income		**88,118**	71,649
Other income relating to underwriting		**2,990**	4,788
General and administrative expenses allocated to underwriting	*26*	**(43,115)**	(36,105)
Allowance for expected credit losses, *net*	*10*	**(9,908)**	(6,870)
Net underwriting income		**38,085**	33,462
(Loss) / income from investments, *net*	*27*	**(20,507)**	9,671
Income from investment properties (rental income), *net*	*12*	**5,299**	7,153
Loss from hedging		**(1,411)**	-
Share of profit / (loss) from associates	*13*	**13,243**	(21,803)
Total income		**34,709**	28,483
Other expenses	*26*	**(4,678)**	(4,162)
Board of directors' remuneration		**(1,575)**	(630)
Finance costs		**(13,233)**	(17,724)
Profit for the year		**15,223**	5,967
Earnings per share:			
Basic and diluted earnings per share (AED)	*29*	**0.07**	0.03

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on pages 3 to 9

Al Wathba National Insurance Company PJSC and its subsidiary

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December

	Notes	**2020 AED'000**	2019 AED'000
Profit for the year		**15,223**	5,967
Other comprehensive loss			
Items that will not be reclassified subsequently to statement of profit or loss:			
Share of other comprehensive income / (loss) of associates	*13*	**2,398**	(25,376)
(Loss) / gain on sale of financial assets at fair value through other comprehensive income		**(5,619)**	7,112
Changes in fair value relating to financial assets at fair value through other comprehensive income, *net*	*7*	**(48,813)**	(41,940)
Items that are or may be reclassified subsequently to statement of profit or loss:			
Cash flow hedge - effective portion of changes in fair value		**(5,929)**	-
Other comprehensive loss for the year		**(57,963)**	(60,204)
Total comprehensive loss for the year		**(42,740)**	(54,237)

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on pages 3 to 9.

Consolidated statement of changes in equity
for the year ended 31 December

	Attributable to the equity holders											
	Share capital AED'000	**Legal reserve AED'000**	**Statutory reserve AED'000**	**General reserve AED'000**	**Capital reserve AED'000**	**Reinsurance risk reserve AED'000**	**Investment revaluation reserve AED'000**	**Cashflow hedge reserve AED'000**	**Retained earnings AED'000**	**Total AED'000**	**Non-controlling interest AED'000**	**Total equity AED'000**
Balance at 1 January 2019	207,000	103,500	51,750	81,185	9,959	-	(31,227)	-	428,979	851,146	77	851,223
Total comprehensive income:												
Profit for the year	-	-	-	-	-	-	-	-	5,967	5,967	-	5,967
Other comprehensive (loss) / income for the year	-	-	-	-	-	-	(67,316)	-	7,112	(60,204)	-	(60,204)
Total comprehensive (loss) / income for the year	-	-	-	-	-	-	(67,316)	-	13,079	(54,237)	-	(54,237)
Transactions with owners of the Company:												
Net changes in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(77)	(77)
Dividends paid *(note 15)*	-	-	-	-	-	-	-	-	(31,050)	(31,050)	-	(31,050)
Total transactions with owners of the Company	-	-	-	-	-	-	-	-	(31,050)	(31,050)	(77)	(31,127)
Transfer from retained earnings to general reserve *(note 16)*	-	-	-	7,568	-	-	-	-	(7,568)	-	-	-
Transfer from retained earnings on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	3,421	-	(3,421)	-	-	-
Balance at 31 December 2019	207,000	103,500	51,750	88,753	9,959	-	(95,122)	-	400,019	765,859	-	765,859
Balance at 1 January 2020	**207,000**	**103,500**	**51,750**	**88,753**	**9,959**	**-**	**(95,122)**	**-**	**400,019**	**765,859**	**-**	**765,859**
Total comprehensive income:												
Profit for the year	-	-	-	-	-	-	-	-	15,223	15,223	-	15,223
Other comprehensive loss for the year	-	-	-	-	-	-	(46,415)	(5,929)	(5,619)	(57,963)	-	(57,963)
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(46,415)**	**(5,929)**	**9604**	**(42,740)**	**-**	**(42,740)**
Transfer from retained earnings on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	14,518	-	(14,518)	-	-	-
Transfer from retained earnings to reinsurance risk reserve *(note 16)*	-	-	-	-	-	15	-	-	(15)	-	-	-
Balance at 31 December 2020	**207,000**	**103,500**	**51,750**	**88,753**	**9,959**	**15**	**(127,019)**	**(5,929)**	**395,090**	**723,119**	**-**	**723,119**

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December

	Notes	2020 AED'000	2019 AED'000
Cash flow from operating activities			
Profit for the year		**15,223**	5,967
Adjustments for:			
Provision for allowance of impaired receivables, net of reversals	10	**9,908**	6,870
Provision for reinsurance ceded		**-**	431
Write-off of old fund in bank		**-**	143
Write-back of old accounts		**-**	(1980)
Change in fair value of financial assets at fair value through profit or loss	27	**(25,821)**	26,519
Loss / (gain) on disposal of financial assets at fair value through profit or loss	27	**38,184**	(28,675)
Provision for employees end of service benefits	24	**767**	825
Gain on disposal of property and equipment		**(9)**	(35)
Depreciation of property and equipment	14 & 28	**1,571**	1,210
Share of (profit) / loss of associates	13	**(13,243)**	21,803
Changes in fair value of investment properties	12	**29,392**	21,006
Finance costs		**13,233**	17,724
Dividend income	27	**(29,307)**	(34,074)
Interest income	27	**(342)**	(376)
Loss on hedge instruments		**1,411**	-
Cash flow from operating activities before working capital		**40,967**	37,358
Working capital changes:			
Insurance balances receivable, prepayments and other receivables		**(37,415)**	6,134
Trade and other payables		**25,757**	(8,366)
Change in unearned premium reserve, *net*		**12,083**	(14,528)
Change in gross outstanding claims, claims incurred but not reported reserve including unallocated loss adjustment expense and unexpired risk reserve		**8,575**	38,654
Change in reinsurance share of outstanding claims and claims incurred but not reported reserves		**8,416**	(30,811)
Cash generated from operations		**58,383**	28,441
Employees' end of service benefits paid	24	**(359)**	(368)
Net cash from operating activities		**58,024**	28,073
Cash flow from investing activities			
Purchase of property and equipment	14	**(1,047)**	(2,105)
Proceeds from disposal of property and equipment		**9**	35
Additions to investment property under development	11	**(29)**	(473)
Purchase of financial assets at fair value through profit or loss	8	**(78,732)**	(322,734)
Proceeds from disposal of financial assets at fair value through profit or loss		**108,004**	366,841
Purchase of investment at associates	13	**(17)**	-
Purchase of financial assets at fair value through other comprehensive income	7	-	(163,605)
Proceeds from disposal of financial assets at fair value through other comprehensive income		**18,540**	50,057
Purchase of financial assets at amortised cost		**-**	(5,000)
(Placement) / withdrawal of term deposits		**(6,903)**	2,438
Interest received		**423**	225
Dividends received from associates	13	**1,331**	4,625
Dividends received	27	**29,307**	34,074
Net cash generated from / (used in) investing activities		**70,886**	(35,622)
Cash flow from financing activities			
Dividends paid		**-**	(31,050)
Long term loan received	22	**373,671**	-
Restricted cash		**(77,239)**	-
Settlement on derivative financial instrument		**(1,034)**	-
Finance costs paid		**(13,233)**	(17,724)
Net cash generated from / (used in) financing activities		**282,165**	(48,774)
Net increase / (decrease) in cash and cash equivalents		**411,075**	(56,323)
Cash and cash equivalents at the beginning of the year		**(343,413)**	(287,090)
Cash and cash equivalents at the end of the year	6	**67,662**	(343,413)

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on pages 3 to 9.

1 Legal status and activities

Al Wathba National Insurance Company PJSC (the "Company"), incorporated in Abu Dhabi is registered as a public shareholding Company in accordance with the UAE Federal Law No. (8) of 1984 (as amended) and is governed by the provisions of Federal Law No. (6) of 2007 concerning the establishment of the Insurance Authority and organization of the Insurance Operations and its amendments, Federal Law No. (2) of 2015, concerning the Commercial Companies and its Amendments, Insurance Authority Board of Directors' Decision No. (25) of 2014 Pertinent to Financial Regulations for Insurance Companies

The Company's principal activity is the writing of general insurance business of all classes. The Company operates through its head office in Abu Dhabi and branch offices in Dubai, Al Ain, and Sharjah. The Company is domiciled in the United Arab Emirates and its registered head office is P.O. Box 45154, Abu Dhabi, United Arab Emirates. The Company's shares are listed on Abu Dhabi Securities Exchange (ADX). The Group has not made any social contributions during the year,

2 Basis of preparation

a) Basis of consolidation

The consolidated financial statements comprise the financial results of the Company and its wholly owned subsidiary:

Subsidiary	Principal Activity	Country of Incorporation	Ownership
AWNIC Investments Limited	Investment Management	Cayman Islands	100%

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.

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

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with applicable requirements of the Federal Law No. (6) of 2007 Concerning the Establishment of the Insurance Authority & Organisation of the Insurance Operations, the Federal Law No. (2) of 2015 Concerning the Commercial Companies and 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.

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, financial assets at fair value through other comprehensive income and derivative financial instruments which are measured 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.

2 Basis of preparation *(continued)*

(e) Use of judgments and estimates

While applying the accounting policies as stated in note 3, management of the Group has made certain judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The ultimate liability arising from claims made under insurance contracts

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

Impairment of amounts for insurance receivables

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Other estimates

Liability adequacy test

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

Impairment of investment properties and property and equipment

Investment properties and property and equipment are assessed for impairment, when there are impairment indicators, using acceptable valuation techniques which is conducted by an independent third-party valuator. The fair values are compared to the carrying amount, to assess any possible impairment.

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 on the amounts recognised in the consolidated financial statements.

2 Basis of preparation *(continued)*

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

Classification and fair value of investments

Management designates at the time of acquisition of securities whether these should be classified as at Fair Value through Other Comprehensive Income (“FVOCI”), Fair Value through Profit or Loss (“FVTPL) or amortised cost. While making the judgments of whether investments in securities are as at FVOCI, FVTPL or amortised cost, management has considered the detailed criteria for determination of such classification as set out in IFRS 9 “Financial Instruments”. Management is satisfied that its investments in securities are appropriately classified.

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 FVOCI or FVTPL.

Investments in equity instruments are classified and measured at FVTPL except if the equity investment is not held for trading and is designated by the Group at 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.

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 value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair value of derivative financial instruments is based on their quoted market price, if available. Where the fair value of such instruments cannot be derived from active markets, it is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of derivative financial instruments.

3 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Insurance contracts

Definition

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

3 Significant accounting policies *(continued)*

Insurance contracts *(continued)*

Recognition and measurement

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

These contracts are casualty and property insurance contracts.

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

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

For all these insurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability.

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

Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Group reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the end of the reporting period, 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 end of the reporting period and is estimated using the time proportionate method.

The re-insurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the consolidated financial statements.

Deferred policy acquisition costs

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are amortised over the terms of the policies as premium is earned.

Salvage and subrogation reimbursements

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

3 Significant accounting policies *(continued)*

Insurance contracts *(continued)*

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs. Any deficiency is immediately charged to profit or loss initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Receivables and payables related to insurance contracts

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

As per IFRS 9 ECL model, the Group reduces the carrying amount of insurance receivables under the new expected credit loss model.

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 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 lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimate of costs to dismantle and remove the underlying assets or to restore the underlying asset or the site on which it is located, less any lease incentives received. Subsequently, the right of use asset is measured at cost less any accumulated depreciation and impairment losses 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 lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

(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.

3 Significant accounting policies *(continued)*

Leases *(continued)*

***(b) As a lessor** (continued)*

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 recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'income from investment properties'.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to profit or loss in the period they are incurred.

Depreciation is calculated so as to write off the cost of property and equipment less their estimated residual values, on a straight-line basis over their expected useful economic lives. The useful lives used for this purpose are:

Buildings	20
Furniture, fixtures and office equipment	2-4
Motor vehicles	4
Computer equipment and accessories	4

The asset’s residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Capital work in progress

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

3 Significant accounting policies *(continued)*

Investment properties

Investment properties which are properties held to earn rentals and/or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at fair value with any change therein recognised in operating income in the consolidated statement of profit or loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. The Group holds investment properties which are disclosed in *note 12.*

Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. 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. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

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

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

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. The Group also has a separate pension scheme for the expatriate employees.

Financial assets

All financial assets are recognised and derecognised on trade date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the

3 Significant accounting policies *(continued)*

Financial assets *(continued)*

market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value. All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value

Classification of financial assets

The Group classifies its financial assets under the following categories: financial assets at amortised cost, financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI).

Financial assets at amortised cost and the effective interest method

Cash and cash equivalents

Cash and cash equivalents which include cash on hand and deposits held at call with banks with original maturities of three months or less, are classified as financial assets at amortised cost.

Insurance receivables

Insurance receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial assets at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Investments at amortised cost

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

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

- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs except if they are designated as at FVTPL. They are subsequently measured at amortised cost using the effective interest method less any impairment.

Subsequent to initial recognition, the Group is required to reclassify debt instruments from amortised cost to FVTPL if the objective of the business model changes so that the amortised cost criteria is no longer met.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

Financial assets at FVTPL

Debt instrument financial assets that do not meet the amortised cost criteria or that meet the criteria, but the entity has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL.

Subsequent to initial recognition, the Group is required to reclassify debt instruments from FVTPL to amortised cost if the objective of the business model changes so that the amortised cost criteria starts to be met and the instrument’s contractual cash flows meet the amortised cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition is not permitted.

3 Significant accounting policies *(continued)*

Financial assets *(continued)*

Financial assets at FVTPL *(continued)*

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVOCI at initial recognition as described in the note below.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising being recognised in consolidated statement of profit or loss.

Financial assets at FVOCI

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

A financial asset is held for trading if:

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

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to the consolidated profit or loss but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in the consolidated profit or loss and are included in ‘net investment income’ in the consolidated statement of profit or loss.

Impairment of financial assets at amortised cost

The Group recognises a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortised cost, insurance receivables and bank balances including term deposits. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

ECL for bank balances, term deposits and debt instruments at amortised cost are determined using the low credit risk expedient, and therefore recognised a 12 month ECL, as they are held with reputable financial institutions. The Group considers a financial asset to have low credit risk when the asset has external credit rating of ‘investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of ‘performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

The Group always recognises lifetime ECL for insurance receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument.

3 Significant accounting policies *(continued)*

Financial assets *(continued)*

Impairment of financial assets at amortised cost *(continued)*

Definition of default:

The Group's considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of insurance receivables, when the amounts are long past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses:

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. There is no discounting effect on the insurance receivables as these are interest free and has a lifetime of less than one year.

Derecognition of financial assets

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

3 Significant accounting policies *(continued)*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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

Financial liabilities

Financial liabilities comprised of insurance payables and other liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term liabilities when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rate and foreign currency rate risks, including interest rate swaps and foreign currency forward contracts.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit of loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss

Dividend distribution

Dividend distribution to the Group'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 Group's Shareholders.

3 Significant accounting policies *(continued)*

Revenue recognition

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

Commission income and expense

Commission income is recognised as ‘deferred income’ when the reinsurance contract is entered into and subsequently amortised in profit or loss over the term of the reinsurance contract.

Commission expense is recognised as ‘deferred acquisition cost’ under prepayment when the policies are issued and subsequently amortised in profit or loss over the term of the policies as premium is earned.

Dividend income

Dividend income is recognised when the Group’s right to receive the payment has been established.

Interest income

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

Foreign currencies

For the purpose of these consolidated financial statements, UAE Dirhams (AED) is the functional and the presentation currency of the Group. Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

4 Newly effective standards

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

New standard or amendments

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

5 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

IFRS 17 Insurance Contracts

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

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

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

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

Other standards

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

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

6 Cash and cash equivalents

	2020 AED'000	2019 AED'000
Bank balances and cash	**144,901**	43,206
Statutory deposit	**6,000**	6,000
Term deposits	**98,447**	91,544
Bank balances and cash	**249,348**	140,750
Less: bank overdrafts	**-**	(386,619)
Less: term deposits with original maturity over 3 months	**(98,447)**	(91,544)
Less: Restricted cash pledged against borrowings *(note 22)*	**(77,239)**	-
Less: statutory deposits	**(6,000)**	(6,000)
Cash and cash equivalents for the purpose of the consolidated statement of cash flows	**67,662**	(343,413)

Geographical concentration of cash and bank balances including bank overdrafts is as follows:

	2020 AED'000	2019 AED'000
Within UAE	**144,901**	(245,869)

Term deposits are held with financial institutions in UAE, with an original maturity of twelve months. Interest is receivable at annual rates ranging from 0.03% to 6.15% per annum *(2019: 0.85% to 6.00% per annum)*.

In accordance with the requirements of UAE Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its Operations, the Group maintains a bank deposit of AED 6 million *(2019: AED 6 million)* which cannot be utilised without the consent of the UAE Insurance Authority.

7 Financial assets at fair value through other comprehensive income

The Group's financial assets at fair value through other comprehensive income at the end of the reporting period are detailed below:

	2020 AED'000	2019 AED'000
Quoted securities	**258,016**	323,547
Unquoted securities	**15,597**	23,038
	273,613	346,585

The Group has registered certain unquoted securities in the name of a director for the beneficial interest of the Group. The fair value of these securities as at 31 December 2020 was AED 9.8 million *(31 December 2019: AED 12.8 million)*.

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

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

	2020	2019
	AED'000	AED'000
Balance at 1 January	**346,585**	267,865
Additions	**-**	163,605
Disposals	**(24,159)**	(42,945)
Change in fair value	**(48,813)**	(41,940)
Balance at 31 December	**273,613**	346,585

The geographical distribution of financial assets at fair value through other comprehensive income is as follows:

	2020	2019
	AED'000	AED'000
Within UAE	**269,839**	342,604
Outside UAE	**3,774**	3,981
	273,613	346,585

8 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of quoted equities in UAE stock exchanges.

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

	2020	2019
	AED'000	AED'000
Balance at 1 January	**424,537**	466,488
Additions	**78,732**	322,734
Disposals	**(146,188)**	(338,166)
Change in fair value (*note 27*)	**25,821**	(26,519)
Balance at 31 December	**382,902**	424,537

9 Financial assets at amortised cost

Included in financial assets at amortised cost are three sukuks with a total amount of AED 9 million which carry profit of six month EIBOR+495 bps or 6.05%, whichever is higher and one bond amounting to AED 5 million which carries profit of 8.25% *(31 December 2019: three unlisted five-year sukuks amounting to AED 14 million)* having an accrued profit of AED 0.32 million *(31 December 2019: accrued profit of AED 0.37 million).*

10 Insurance balances receivable, prepayments and other receivables

	2020 **AED'000**	2019 AED'000
Due from policyholders and brokers	**41,757**	37,863
Due from policyholders – related parties *(note 25)*	**24,021**	16,002
Due from insurance and reinsurance companies	**20,143**	15,201
	85,921	69,066
Less: allowance for expected credit losses	**(29,284)**	(20,007)
Insurance balances receivable	**56,637**	49,059
Prepayments	**1,849**	2,773
Accrued income	**2,091**	1,365
Other receivables	**24,204**	4,110
Prepayments and other receivables	**28,144**	8,248
	84,781	57,307

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

	2020 **AED'000**	2019 AED'000
Less than 30 days	**10,806**	11,626
30 - 90 days	**21,221**	7,437
91 - 180 days	**17,675**	14,396
More than 181 days	**36,219**	35,607
Insurance balances receivable	**85,921**	69,066

The movement in the allowance for expected credit loss is as follows:

	2020 **AED'000**	2019 AED'000
At 1 January	**20,007**	13,670
Charge for the year	**15,834**	12,499
Reversed during the year	**(5,926)**	(5,629)
Written-off during the year	**(631)**	(533)
At 31 December	**29,284**	20,007

11 Investment property under development

	2020 AED'000	2019 AED'000
At 1 January	**9,394**	8,921
Additions during the year	**29**	473
At 31 December	**9,423**	9,394

The Group plans to construct a new residential tower on a plot of land located in Technology, Electronic, Commerce and Media Free Zone Authority ("Tecom, Dubai") which is expected to be completed in 2022.

12 Investment properties

	Note	**Land AED'000**	**Buildings AED'000**	**Total AED'000**
31 December 2020				
At 1 January 2020		**78,858**	**228,611**	**307,469**
Changes in fair value	*12*	**(10,990)**	**(18,402)**	**(29,392)**
		67,868	**210,209**	**278,077**
31 December 2019				
At 1 January 2019		85,000	243,475	328,475
Changes in fair value	*12*	(6,142)	(14,864)	(21,006)
		78,858	228,611	307,469

Investment properties include:

(i) Abu Dhabi Head Office building

This property is located in Abu Dhabi and part of the same is available for letting to third parties. The fair value of this property is estimated by an external RICS certified appraiser at AED 141.64 million *(31 December 2019: AED 161.09 million).*

(ii) Al Jumeirah Island commercial villas

This property consists of five villas in Dubai available for letting to third parties. The fair value of this property is estimated by an external RICS certified appraiser at AED 20.45 million (*31 December 2019: AED 20.99 million*).

(iii) Al Nakheel flat

This property is located at Al Nakheel building, The Greens Dubai, and is available for letting to third parties. The fair value of this property is estimated by an external RICS certified appraiser at AED 1.30 million (*31 December 2019: AED 1.35 million*).

(iv) Land in Dubai Technology, Electronic, Commerce and Media Free Zone Authority

The freehold land in Dubai was purchased in 2004. The fair value of this plot of land in Dubai is estimated by an external RICS certified appraiser at AED 67.87 million (*31 December 2019: AED 78.86 million*).

(v) New York residential condominium units

Three condominium units, being unit no.'s 11D, 14A and 14B located in New York, United States of America. The fair value of these properties are estimated by an external RICS certified appraiser at AED 46.82 million (*31 December 2019: AED 45.17 million).*

12 Investment properties *(continued)*

The property rental income earned by the Group from its investment properties, part of which is leased out under operating leases and the direct operating expenses arising on the investment properties are as follows:

	2020 AED'000	2019 AED'000
Rental income	**10,009**	11,685
Direct operating expenses	**(4,710)**	(4,532)
	5,299	7,153

The fair value of investment property was determined by an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The fair value measurement of the investment property has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

The fair value of investment properties is determined using market based approach. Market based approach considers recent market transactions for similar assets or quotes / bid prices for same or similar assets. The economic disruption caused by the COVID-19 coronavirus pandemic may have a material adverse effect on the valuation of investment properties and the inputs into the fair value determination.

The valuation as at 31 December 2020 contains a 'material valuation uncertainty' clause due to the market disruption caused by the COVID-19 pandemic, which resulted in a reduction in transactional evidence and market yields. This clause does not invalidate the valuation but implies that there is substantially more uncertainty than under normal market conditions. Accordingly, the valuer cannot attach as much weight as usual to previous market evidence for comparison purposes, and there is an increased risk that the price realised in an actual transaction would differ from the value conclusion. As a result of this uncertainty, the assumptions may be revised significantly in 2021.

13 Investment in associates

Details of the Group's associates as of 31 December are as follows:

Name of the associate	**Principal activities'**	**Place of incorporation**	**2020 Ownership interest %**	2019 Ownership interest %
Vision Insurance SAOC	Insurance business	Sultanate of Oman	**17.53%**	17.53%
UR International Insurance	Insurance business	Iraq	**40.00%**	40.00%
FOODCO Holding PJSC	Import and distribution of food stuff	United Arab Emirates	**22.82%**	22.81%

The movement in investment in associates during the year is as follows:

	2020 AED'000	2019 AED'000
At 1 January	**107,595**	159,399
Share of profit / (loss) for the year	**13,243**	(21,803)
Share of other comprehensive income / (loss) of associates	**2,398**	(25,376)
Purchases of additional shares	**17**	-
Less: cash dividend received	**(1,331)**	(4,625)
At 31 December	**121,922**	107,595

13 Investment in associates *(continued)*

The ownership interest of the Group in Vision Insurance SAOC is 17.53%. The Group's investment in Vision Insurance continues to be classified as an investment in associate, as significant influence exists as a result of having a representation on the board of directors of the investment. The Group's CEO and one director are on the board of directors of the associate.

The summarised consolidated financial information in respect of the Group's associates is set out below:

	FOODCO Holding PJSC AED'000	**Vision Insurance SAOC AED'000**	**UR International Insurance AED'000**	**Total AED'000**
31 December 2020				
Total assets	**920,772**	**568,263**	**24,407**	**1,513,442**
Total liabilities	**(522,301)**	**(425,694)**	**(7,936)**	**(955,931)**
Net assets	**398,471**	**142,569**	**16,471**	**557,511**
Group's share of associates' net assets	**90,931**	**24,403**	**6,588**	**121,922**
Total revenue	**62,848**	**218,002**	**3,230**	**284,080**
Profit / (loss) for the year	**55,870**	**10,717**	**(2,010)**	**64,577**
Group's share of associates' profit / (loss) for the year	**12,176**	**1,871**	**(804)**	**13,243**
31 December 2019				
Total assets	1,011,097	594,474	24,394	1,629,965
Total liabilities	(681,066)	(453,405)	(5,451)	(1,139,922)
Net assets	330,031	141,069	18,943	490,043
Group's share of associates' net assets	75,294	24,724	7,577	107,595
Total revenue	232,708	72,758	4,585	310,051
(Loss) / profit for the year	(103,108)	11,589	2,387	(89,132)
Group's share of associates' (loss) / profit for the year	(24,789)	2,031	955	(21,803)

14 Property and equipment

	Building and land AED'000	Furniture and fixtures AED'000	Motor vehicles AED'000	Computer equipment AED'000	Total AED'000
31 December 2020					
Cost:					
1 January 2020	4,741	10,403	770	2,162	18,076
Additions	-	454	42	551	1,047
Disposals	-	-	(9)	-	(9)
At 31 December 2020	**4,741**	**10,857**	**803**	**2,713**	**19,114**
Accumulated depreciation:					
1 January 2020	2,844	9,010	293	647	12,794
Charge for the year	316	650	146	459	1,571
Disposals	-	-	(9)	-	(9)
At 31 December 2020	**3,160**	**9,660**	**430**	**1,106**	**14,356**
Net carrying amount:					
At 31 December 2020	**1,581**	**1,197**	**373**	**1,607**	**4,758**
31 December 2019					
Cost:					
1 January 2019	4,741	9,403	634	1,325	16,103
Additions	-	1,001	267	837	2,105
Disposals	-	(1)	(131)	-	(132)
At 31 December 2019	4,741	10,403	770	2,162	18,076
Accumulated depreciation:					
1 January 2019	2,528	8,418	314	456	11,716
Charge for the year	316	593	110	191	1,210
Disposals	-	(1)	(131)	-	(132)
At 31 December 2019	2,844	9,010	293	647	12,794
Net carrying amount:					
At 31 December 2019	1,897	1,393	477	1,515	5,282

15 Share capital

	2020 AED'000	2019 AED'000
Authorised, issued and fully paid		
207,000,000 (*31 December 2019: 207,000,000*) ordinary shares of AED 1 each	**207,000**	207,000

At the Annual General Meeting held on 26 April 2020, the shareholders approved the distribution of cash dividend of AED Nil *(31 December 2019: AED 0.15 per share amounting to AED 31.05 million)*.

16 Reserves

Legal reserve

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

Statutory reserve

As required by the Company's Articles of Association, 10% of the profit for the year is required to be transferred to the statutory reserve until the balance of the statutory reserve equals 25% of the Group's paid-up share capital. This reserve is not available for distribution. The Group has resolved to discontinue such annual transfers since the reserve totals 25% of the paid-up share capital.

General reserve

Transfers to and from the general reserve are made at the discretion of the Board of Directors as per the authority granted to them in the Group's Articles of Association. This reserve may be used for such purposes as they deem fit.

The Board of Directors proposed a transfer of AED Nil *(31 December 2019: AED 7,568 thousand*) from retained earnings to general reserve, which was approved in the Annual General Meeting held on 26 April 2020 (*31 December 2019: 23 April 2019).*

Capital reserve

In accordance with the Board of Directors' resolution which was adopted by the Shareholders in their Annual General Meeting held on 19 May 1999, this reserve is earmarked for the settlement of any claims with respect to compensating the previous non-national shareholders of the Group. There was no payment made to these shareholders during the year (*31 December 2019: AED Nil*).

Reinsurance risk reserve

In accordance with Article (34) to Insurance Authority's Board of Directors Decision No. (23) of 2019, insurance companies incorporated in the State and licensed by the Insurance Authority shall bind in the preparation of its annual consolidated financial statements and its final accounts to allocate an amount equal to 0.5% (five per thousand) of the total reinsurance premiums ceded by them in all classes in order to create a provision for the probability of failure of any of the reinsurers with whom the Group deals to pay what is due to the Group or default in its financial position. The provision shall be accounted year after year based on the reinsurance premiums ceded and may not be disposed of without the written approval of the Director General. The decision is effective from 1 December 2020. Accordingly, an amount of AED 15,004 has been recorded in equity as a reinsurance risk reserve.

17 Proposed cash dividends

In respect of the current year, the Board of Directors propose a cash dividend of AED 0.05 per share *(31 December 2019: AED Nil)* amounting to AED 10,350 thousand *(31 December 2019: Nil)*. The cash dividends are subject to the approval of the shareholders at the Annual General Meeting.

18 Insurance contract liabilities and re-insurance contract assets

Gross outstanding claims reserve, claims incurred but not reported reserve (IBNR), unearned premiums reserve, and related reinsurers' share are as follow:

	2020 AED'000	2019 AED'000
Insurance contract liabilities		
Outstanding claims reserve (i)	**176,209**	171,815
Unallocated loss adjustment reserve	**4,732**	4,373
Claims incurred but not reported reserve	**40,905**	36,177
Unexpired risk reserve	**1,588**	2,494
Unearned premium reserve	**131,254**	119,545
	354,688	334,404
Re-insurance contract assets		
Outstanding claims reserve	**(110,980)**	(118,302)
Claims incurred but not reported reserve	**(8,883)**	(9,977)
Unearned premium reserve	**(27,628)**	(28,002)
	(147,491)	(156,281)
Insurance liabilities - ***net***		
Outstanding claims reserve (i)	**65,229**	53,513
Unallocated loss adjustment reserve	**4,732**	4,373
Claims incurred but not reported reserve	**32,022**	26,200
Unexpired risk reserve	**1,588**	2,494
Unearned premium reserve	**103,626**	91,543
	207,197	178,123

(i) Outstanding claims reserve includes allocated loss adjustment expenses reserve of AED 4.5 million *(31 December 2019: AED 4.1 million*).

Actuarial valuation for incurred but not reported reserve (IBNR), allocated and unallocated loss adjustment expenses reserve (ALAE/ULAE), premium deficiency reserve (PDR), unexpired risk reserve (URR) and related assumptions.

IBNR reserve and 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 methods are used to take into account different claim development trends for each line of business. IBNR 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.

PDR, if any, and URR is 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.

19 Unearned premium reserve

The movement in the unearned premium reserve, and the related reinsurers share, was as follows:

	31 December 2020			31 December 2019		
	Gross AED'000	**Reinsurers' share AED'000**	**Net AED'000**	Gross AED'000	Reinsurers' share AED'000	Net AED'000
Unearned premium reserve						
At 1 January	**119,545**	**(28,002)**	**91,543**	133,770	(27,699)	106,071
Written during the year	**306,607**	**(87,217)**	**219,390**	250,030	(86,202)	163,828
Earned during the year	**(294,898)**	**87,591**	**(207,307)**	(264,255)	85,899	(178,356)
At 31 December	**131,254**	**(27,628)**	**103,626**	119,545	(28,002)	91,543

20 Outstanding claims reserve and claims incurred but not reported

The movement in the provision for outstanding claims reserve, claims incurred but not reported reserve and the related reinsurers share, was as follows

	31 December 2020			31 December 2019		
	Gross AED'000	**Re-insurance AED'000**	**Net AED'000**	Gross AED'000	Re-insurance AED'000	Net AED'000
Claims						
Outstanding claims reserve	**176,188**	**(118,302)**	**57,886**	144,638	(89,660)	54,978
Claims incurred but not reported reserve	**36,177**	**(9,977)**	**26,200**	31,567	(7,808)	23,759
Total at 1 January	**212,365**	**(128,279)**	**84,086**	176,205	(97,468)	78,737
Claims paid during the year	**(123,340)**	**43,797**	**(79,543)**	(136,838)	41,511	(95,327)
Increase in liabilities	**132,821**	**(35,381)**	**97,440**	172,998	(72,322)	100,676
Total at 31 December	**221,846**	**(119,863)**	**101,983**	212,365	(128,279)	84,086
Outstanding claims reserve including ALAE and ULAE	**180,941**	**(110,980)**	**69,961**	176,188	(118,302)	57,886
Claims incurred but not reported reserve	**40,905**	**(8,883)**	**32,022**	36,177	(9,977)	26,200
Total at 31 December	**221,846**	**(119,863)**	**101,983**	212,365	(128,279)	84,086

21 Trade and other payables

	2020 AED'000	2019 AED'000
Trade payables	**19,598**	13,306
Due to related parties	**11,592**	9,176
Insurance and reinsurance balances payable	**30,116**	13,122
Accrued expenses	**20,319**	23,559
Dividend payable	**6,345**	6,425
Other payables	**13,157**	9,782
	101,127	75,370

Accounts payable are non-interest bearing and are normally settled on 60 to 90 days terms.

22 Borrowings

	2020 **AED'000**	2019 AED'000
Term loan 1	**129,238**	-
Term loan 2	**244,433**	-
	373,671	-

The movement in the borrowing facilities of the Group is as follows:

	2020 **AED'000**	2019 AED'000
Term loan facilities		
Proceeds from borrowings during the year	**373,828**	-
Add: finance cost incurred during the year	**10,617**	-
Payments made during the year	**(10,774)**	-
Balance as at 31 December	**373,671**	-

Term loan 1

During 2020, the Group obtained a bank facility amounting to AED 237.90 million *(31 December 2019: AED Nil)* from an international commercial bank to finance its operations and short-term liabilities. The loan carries fixed interest rate of 3-month EIBOR plus 1.75% per annum and paid quarterly. The amount of the loan is repayable in one bullet payment at the end of the loan term of three years. The loan is secured against cash deposit, investments in equity securities and investment in associates. As at reporting date, the outstanding loan balance was AED 244.43 million *(31 December 2019: AED Nil).*

Term loan 2

During 2020, the Group obtained a bank facility amounting to AED 133.50 million *(31 December 2019: AED Nil)* from a local commercial bank. The loan carries fixed interest rate of 3-month EIBOR plus 2.30% per annum and paid quarterly. The amount of the loan is repayable in twenty quarterly principal instalments commencing from 12 April 2020 till 12 January 2025. The loan is secured against investment properties comprising head office building and a plot of land. As at reporting date, the outstanding loan balance was AED 129.24 million *(31 December 2019: AED Nil)*.

Cash amounting to AED 77.24 million is secured against bank borrowings *(note 6)*.

23 Derivative financial instruments

Cash flow hedge – Interest rate swap

The Group is exposed to variability in future interest cash flows on interest bearing loans and borrowings which bear interest at a variable rate.

In order to reduce its exposure to interest rates fluctuations on the term loan 1 disclosed in *note 22* above, the Group has entered into an interest rate swap arrangement, from floating interest rate to fixed interest rate with a counter-party bank for a notional amount that mirrors the draw down and repayment schedule of the loans, covering 100% of the outstanding interest-bearing loans and borrowings. The fixed interest rate for the Group is 1.67% per annum. The floating interest rate is based on EIBOR. The notional amount outstanding at 31 December 2020 was AED 245.00 million *(31 December 2019: AED Nil)*. The derivative instrument which is entered into for the purpose of cash flow hedge had a negative fair value of AED 6.31 million at 31 December 2020 *(31 December 2019: Nil).*

23 Derivative financial instruments *(continued)*

	Positive market value	Negative market value	Notional amount	Less than three months	From three months to one year	From one year to three years
				—Notional amounts by term to maturity—		
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2020						
Held as cash flow hedge						
Interest rate derivates swap	6,306	6,291	245,000	-	-	245,000
31 December 2019						
Held as cash flow hedge						
Interest rate derivates swap	-	-	-	-	-	-

24 Employees' end of service benefits

	2020	2019
	AED'000	AED'000
Balance at 1 January	**7,316**	6,859
Charge for the year	**767**	825
Paid during the year	**(359)**	(368)
Balance at 31 December	**7,724**	7,316

25 Related Parties

Related parties represent major shareholders, directors and key management personnel of the Group, and the - companies of which they are principal owners and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Compensation of key management personnel

Compensation of key management personnel of the Group, consisting of salaries and benefits, is AED 6.14 million *(31 December 2019: AED 10.95 million)* made up as follows:

	2020	2019
	AED'000	AED'000
Short term benefits	**4,216**	4,376
Bonus	**1,950**	6,390
Employees' end of service benefits	**173**	185
	6,339	10,951

25 Related Parties *(continued)*

	2020	2019
	AED'000	AED'000
Transactions with related parties		
Gross premiums written:		
Directors and related companies	**42,215**	53,456
Claims paid:		
Directors and related companies	**(14,976)**	(12,712)
Other expenses	**(501)**	(509)
Board remuneration	**1,575**	630
Balances with related parties		
Due from related parties:		
Directors and related companies	**24,021**	16,002
Due to related parties:		
Directors and related companies	**(11,592)**	(9,176)
Prepaid expenses	**383**	424

Certain securities are registered in the name of a director for the beneficial interest of the Group. The fair value of these securities as at 31 December 2020 was AED 9.80 million *(31 December 2019: AED 12.80 million) (refer note 7).*

26 General and administrative expenses

	Note	**2020**	2019
		AED'000	AED'000
Staff costs	*28*	**29,022**	26,330
Maintenance expenses		**3,109**	3,059
Fees and licenses		**2,527**	2,324
Rent		**1,675**	1,541
Depreciation of property and equipment	*14*	**1,571**	1,210
Write-off of old fund in bank		**-**	143
Other expenses		**9,889**	5,660
		47,793	40,267
Allocated to:			
Underwriting		**43,115**	36,105
Other expenses		**4,678**	4,162
		47,793	40,267

27 Net investment income

		2020 AED'000	2019 AED'000
Changes in fair value of investment properties	*12*	**(29,392)**	(21,006)
(Loss) / gain on disposal of financial assets at fair value through profit or loss		**(38,184)**	28,675
Changes in fair value of financial assets at fair value through profit or loss	*8*	**25,821**	(26,519)
Dividend income		**29,307**	34,074
Interest income		**342**	376
Other investment expense, *net*		**(8,401)**	(5,929)
		(20,507)	9,671

28 Profit for the year

Profit for the year was arrived at after charging:

		2020 AED'000	2019 AED'000
Staff costs	*26*	**29,022**	26,330
Depreciation of property and equipment	*14*	**1,571**	1,210

29 Earnings per share

Basic earnings per share are calculated by dividing profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the earnings per share computations:

	2020	2019
Profit for the year (AED'000)	**15,223**	5,967
Weighted number of shares in issue throughout the year (shares in '000)	**207,000**	207,000
Earnings per share (AED)	**0.07**	0.03

As of 31 December 2020 and 2019, the Group has not issued any instruments that have a dilutive impact on earnings per share when exercised.

30 Risk management

Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that could hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

Capital management objectives, policies and approach

The Group has established the following capital management objectives, policies and approach to manage the risks that affect its capital position.

The capital management objectives are:

- To maintain the required level of stability of the Group thereby providing a degree of security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To retain financial flexibility by maintaining strong liquidity;
- To align the profile of assets and liabilities taking account of risks inherent in the business;
- To hold sufficient capital to cover the statutory requirements;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders; and
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.

The operations of the Group are also subject to regulatory requirements within the United Arab Emirates where it operates.

Approach to capital management

The Group seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders.

The Group's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Group in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Group is equity funds provided by shareholders and borrowings from commercial banks.

The Group has had no significant changes in its policies and processes relating to its capital structure during the past year from previous years.

No changes were made in the objectives, policies or processes during the years ended 31 December 2020 and 31 December 2019. Equity comprises share capital, legal reserve, statutory reserve, general reserve, capital reserve, investment revaluation reserve and retained earnings, and is measured at AED 723.12 million as at 31 December 2020 *(31 December 2019: AED 765.86 million)*.

The Group is subject to local insurance solvency regulations. The Group has incorporated in its policies and procedures the necessary tests to ensure compliance with such regulations. Insurance Authority allows an alignment period of up to three years for the insurance companies to be in compliance with the regulations.

30 Risk management *(continued)*

Approach to capital management *(continued)*

As per the Federal Law No. (6) of 2007 Concerning the Establishment of the Insurance Authority & Organization of the Insurance Operations, the minimum capital requirement remains at AED 100.00 million for insurance companies.

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

	2020 **AED'000**	2019 AED'000
Total capital held by the Group	**207,000**	207,000
Minimum regulatory capital	**100,000**	100,000

31 Insurance and financial risk

Regulatory framework

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

The operations of the Group are subject to regulatory requirements within the jurisdictions in which it operates. 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 insurance companies to meet unforeseen liabilities as these arise.

The chairman of the Insurance Authority vide Board of Directors' Decision No. (25) of 2014 dated 28 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 regulations are summarised in the below table:

Regulation

1. Basis of investing the rights of the policy holders
2. Solvency margin and minimum guarantee fund
3. Basis of calculating the technical reserves
4. Determining the Group's assets that meet the accrued insurance liabilities
5. 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
6. Principles of organising accounting books and records of the Group, agents and brokers and determining data to be maintained in these books and records
7. Accounting policies to be adopted and the necessary forms needed to be prepared and present reports and consolidated financial statements

Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

31 Insurance and financial risk *(continued)*

Insurance risk *(continued)*

The above risk exposure is mitigated by diversification across a portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements use.

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 reinsurance strategy of the Group is designed to protect exposures to individual risks and events based in current risk exposures through cost effective insurance agreements.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly fire and general accident and marine and aviation risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Property

For property insurance contracts the main risks are fire and business interruption.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Group has obtained necessary reinsurance covers to limit losses from individual claims.

Motor

For motor contracts, the main risks are claims for death and bodily injury and the replacement or repair of vehicles.

The level of court awards for deaths and to injured parties and the replacement costs of, and repairs to motor vehicles are the key factors that influence the level of claims. The Group has excess of loss protection to limit losses from individual claims, in addition to a reinsurance treaty arrangement of 75% for high valued claims (i.e. claims above AED 300 thousand).

Medical

For medical insurance, the main risks are claims for in-patient which includes the non-excluded cases of medical conditions or bodily injuries requiring hospitalisation and claims for out-patient which includes physician consultation, diagnostic procedures, pharmaceuticals, therapies and minor day care surgery.

The Group underwrites medical policies exclusively for their employees. During the year only one medical policy was written *(31 December 2019: one policy),* relating to the Group's employees. The policy has a reinsurance treaty arrangement of 80% to limit the losses.

Marine and aviation

For marine and aviation insurance, the main risks are loss or damage to marine hull, aviation craft and accidents resulting in the total or partial loss of cargoes. The underwriting strategy for the marine and aviation class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Group has obtained necessary reinsurance covers to limit losses from individual claims.

31 Insurance and financial risk *(continued)*

Insurance risk *(continued)*

Concentration of insurance risk

The Group does not have any single insurance contract or small number of related contracts that cover low frequency, high-severity risks such as earthquakes, or insurance contracts covering risks for single incidents that expose the Group to multiple insurance risks. The Group has adequately reinsured for insurance risks that might involve significant litigation. The segmental concentration of insurance risk is set out below.

Sensitivity of underwriting profits and losses

The contribution by the insurance operations in the profit of the Group amounts to AED 38.09 million for the year ended 31 December 2020 *(31 December 2019: AED 33.46 million)*. The Group does not foresee any major impact from insurance operations due to the following reasons:

The Group has an overall risk retention level of 72% *(31 December 2019: 66%)* and the same is mainly contributed by one specific class of business i.e., Motor wherein the retention level is 90% *(31 December 2019: 85%)*. However, in this class the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Group's 28% volume of business *(31 December 2019: 28%)* has low risk retention. The Group has limited exposure in high retention areas like Motor, and as a result the Group is comfortable to maintain a net loss ratio of 47% *(31 December 2019: 58%)* and does not foresee any serious financial impact in the insurance net profit.

Managing reinsurance 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. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts.

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

31 Insurance and financial risk *(continued)*

Insurance risk *(continued)*

Claims development process

The following schedules reflect 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 for motor and non-motor:

Accident year	2016 and earlier AED'000	2017 AED'000	2018 AED'000	2019 AED'000	2020 AED'000	Total AED'000
Non-Motor- Gross:						
At the end of the accident year	965,739	41,260	26,811	62,830	48,644	1,145,284
One year later	956,117	32,923	23,916	58,588	-	1,071,544
Two year later	929,430	32,227	23,921	-	-	985,578
Three year later	933,370	30,254	-	-	-	963,624
Four year later	928,142	-	-	-	-	928,142
Current estimate of cumulative claims	928,142	30,254	23,921	58,588	48,644	1,089,549
Cumulative payments to date	(880,525)	(24,782)	(16,211)	(31,127)	(8,727)	(961,372)
Liability recognised in the consolidated statement of financial position	**47,617**	**5,472**	**7,710**	**27,461**	**39,917**	**128,177**

Accident year	2016 and earlier AED'000	2017 AED'000	2018 AED'000	2019 AED'000	2020 AED'000	Total AED'000
Motor- Gross:						
At the end of the accident year	844,536	105,427	98,457	118,132	111,943	1,278,495
One year later	846,564	91,913	87,397	110,217	-	1,136,091
Two year later	856,799	95,440	81,807	-	-	1,034,046
Three year later	856,028	96,251	-	-	-	952,279
Four year later	852,589	-	-	-	-	852,589
Current estimate of cumulative claims	852,589	96,251	81,807	110,217	111,943	1,252,807
Cumulative payments to date	(825,793)	(89,473)	(83,623)	(99,046)	(61,203)	(1,159,138)
Liability recognised in the consolidated statement of financial position	**26,796**	**6,778**	**(1,816)**	**11,171**	**50,740**	**93,669**

31 Insurance and financial risk *(continued)*

Insurance risk *(continued)*

Claims development process *(continued)*

Accident year	**2016 and earlier AED'000**	**2017 AED'000**	**2018 AED'000**	**2019 AED'000**	**2020 AED'000**	**Total AED'000**
Non-Motor- Net of reinsurance:						
At the end of the accident year	236,276	10,080	7,150	8,917	10,182	272,605
One year later	233,495	7,733	5,235	6,965	-	253,428
Two year later	231,812	7,583	5,211	-	-	244,606
Three year later	230,638	7,425	-	-	-	238,063
Four year later	229,063	-	-	-	-	229,063
Current estimate of cumulative claims	229,063	7,425	5,211	6,965	10,182	258,846
Cumulative payments to date	(223,332)	(5,743)	(2,986)	(3,121)	(1,507)	(236,689)
Liability recognised in the consolidated statement of financial position	**5,731**	**1,682**	**2,225**	**3,844**	**8,675**	**22,157**

Accident year	**2016 and earlier AED'000**	**2017 AED'000**	**2018 AED'000**	**2019 AED'000**	**2020 AED'000**	**Total AED'000**
Motor- Net of reinsurance:						
At the end of the accident year	708,200	77,775	84,603	103,699	101,293	1,075,570
One year later	709,564	63,979	75,104	95,667	-	944,314
Two year later	717,176	66,159	75,971	-	-	859,306
Three year later	715,774	66,966	-	-	-	782,740
Four year later	711,845	-	-	-	-	711,845
Current estimate of cumulative claims	711,845	66,966	75,971	95,667	101,293	1,051,742
Cumulative payments to date	(696,373)	(62,472)	(70,964)	(87,355)	(54,752)	(971,916)
Liability recognised in the consolidated statement of financial position	**15,472**	**4,494**	**5,007**	**8,312**	**46,541**	**79,826**

31 Insurance and financial risk *(continued)*

Financial risk

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, market price risk and liquidity risk. Senior management reviews and agrees policies for managing each of these risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counter-parties.

The Group's five largest customers account for 34% of outstanding insurance balances receivable at 31 December 2020 *(31 December 2019: 27%)*.

With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group manages credit risk on its cash deposits and investments by ensuring that counter parties have a good credit rating. The Group does not have an internal credit rating of counter parties and consider all counter parties with which the Group deals to be of the same high credit quality.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the Board of Directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

Equity price risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Group is exposed to market risk with respect to its investment securities. The Group limits market risks 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 the market movements, including analysis of the operational and financial performance of investees.

Equity price risk is the risk that the fair values of equities change as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The following table estimates the sensitivity to a possible change in equity markets on the Group's total comprehensive income for the year, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

Market index	**Change in variables**	**2020 Impact on comprehensive income AED'000**	2019 Impact on comprehensive income AED'000
Abu Dhabi Securities Exchange	+5%	**29,423**	34,200
Dubai Financial Market	+5%	**2,603**	3,182
Other Markets	+5%	**20**	21

31 Insurance and financial risk *(continued)*

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is not excessively exposed to interest rate risk as its interest sensitive assets are repriced frequently.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit based on interest bearing financial assets held at 31 December.

	Effect on profit AED'000
31 December 2020	
100 decrease in basis points	**(1,188)**
100 increase in basis points	**1,188**
31 December 2019	
100 decrease in basis points	(1,119)
100 increase in basis points	1,119

Currency risk

Foreign currency risk is the risk that financial instrument will fluctuate due to change in foreign exchange rates. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Management believes that there is a minimal risk of significant loss due to exchange rate fluctuations and consequently the Group does not hedge its foreign currency exposure.

The Group's major transactions in foreign currencies are in US Dollars. As the exchange rates of the UAE Dirham is pegged to the US Dollar, the Group is not subject to significant currency risk.

Liquidity risk

Liquidity risk is the risk that Group will not be able to meet its commitments associated with insurance contracts and financial liabilities as they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December 2020 and 31 December 2019, based on contractual payment dates and current market interest rates:

	Current Up to 1 year AED'000	**Non-current more than 1 year AED'000**	**Total AED'000**
31 December 2020			
Trade and other payables	**101,127**	**-**	**101,127**
Borrowings	**-**	**373,671**	**373,671**
Total	**101,127**	**373,671**	**474,798**
31 December 2019			
Trade and other payables	75,370	-	75,370
Bank overdrafts	386,619	-	386,619
Total	461,989	-	461,989

31 Insurance and financial risk *(continued)*

Liquidity risk *(continued)*

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

	Current AED '000	Non-current AED '000	Total AED '000
31 December 2020			
Cash and bank balances (note 6)	**243,348**	**6,000**	**249,348**
Financial assets at fair value through other comprehensive income	**-**	**273,613**	**273,613**
Financial assets at fair value through profit or loss	**382,902**	**-**	**382,902**
Financial assets at amortised cost	**-**	**14,320**	**14,320**
Insurance receivables and prepayments (note 10)	**84,781**	**-**	**84,781**
Reinsurance contracts assets (note 18)	**147,491**	**-**	**147,491**
Investment properties	**-**	**278,077**	**278,077**
Investment property under development	**-**	**9,423**	**9,423**
Investment in associates	**-**	**121,922**	**121,922**
Property and equipment	**-**	**4,758**	**4,758**
	858,522	**708,113**	**1,566,635**
31 December 2019			
Cash and bank balances (note 6)	134,750	6,000	140,750
Financial assets at fair value through other comprehensive income	-	346,585	346,585
Financial assets at fair value through profit or loss	424,537	-	424,537
Financial assets at amortised cost	-	14,368	14,368
Insurance receivables and prepayments (note 10)	57,307	-	57,307
Reinsurance contracts assets (note 18)	156,281	-	156,281
Investment properties	-	307,469	307,469
Investment property under development	-	9,394	9,394
Investment in associates	-	107,595	107,595
Property and equipment	-	5,282	5,282
	772,875	796,693	1,569,568

Except for end of service benefits of AED 7,724 thousand *(31 December 2019: AED 7,316 thousand)* and borrowings of AED 374 thousand (*31 December 2019: nil)*, the Group expects its liabilities of AED 462,121 thousand *(31 December 2019: AED 795,122 thousand)* to mature in less than twelve months from the date of the consolidated statement of financial position.

Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes.

32 Fair values

Fair value of financial instruments and non-financial assets

Financial instruments comprise of financial assets and financial liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

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

The following table shows the analysis of financial instruments and non-financial assets recorded at fair value by level of the fair value hierarchy:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2020				
Financial assets at fair value through profit or loss	**359,228**	**23,674**	**-**	**382,902**
Financial assets at other comprehensive income	**230,457**	**27,559**	**15,597**	**273,613**
	589,685	**51,233**	**15,597**	**656,515**
At 31 December 2019				
Financial assets at fair value through profit or loss	424,537	-	-	424,537
Financial assets at other comprehensive income	323,547	-	23,038	346,585
	748,084	-	23,038	771,122

During the reporting period ended 31 December 2020, there were 2 transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The investments in quoted equities are valued based on quoted prices in an active market and thus these have been classified as Level 1.

For investment in funds, the 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. The valuation of funds and unquoted equity securities qualifies as Level 3 fair value measurement

32 Fair values *(continued)*

Fair value of financial instruments and non-financial assets *(continued)*

Movement in level 3 for financial assets at fair value through other comprehensive income is as follows:

	2020 AED'000	2019 AED'000
Balance as at 1 January	**23,038**	27,611
Disposal	**-**	(58)
Change in fair value	**(7,441)**	(4,515)
Balance at 31 December	**15,597**	23,038

33 Segment reporting

For management purposes the Group is organised into departments based on the classes of insured risks. The reportable operating segments of the Group are marine and aviation, fire and general accident, motor and investments and medical,

Management monitors the underwriting results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on underwriting profit. The following table presents disclosure of segment revenues, measurement of segment profit for the year and their reconciliation to the Group's income and profit for the year.

33.1 Segment revenue and results

	31 December 2020					
	Marine and Aviation	**Fire and General Accident**	**Motor**	**Medical**	**Investments**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Gross premiums written	**6,546**	**75,469**	**222,207**	**2,385**	**-**	**306,607**
Reinsurance share of ceded premiums	**(5,113)**	**(57,672)**	**(22,988)**	**(1,444)**	**-**	**(87,217)**
Net change in unearned premium reserve	**(338)**	**(1,665)**	**(10,273)**	**193**	**-**	**(12,083)**
Net claims incurred	**(160)**	**(5,270)**	**(91,009)**	**(95)**	**-**	**(96,534)**
Net commission earned / (incurred)	**1,029**	**3,627**	**(27,625)**	**(46)**	**-**	**(22.655)**
Income from investment properties (rental income), *net*	**-**	**-**	**-**	**-**	**5,299**	**5,299**
Share of profit from associates, *net*	**-**	**-**	**-**	**-**	**13,243**	**13,243**
Loss from investments, *net of finance costs*	**-**	**-**	**-**	**-**	**(35,151)**	**(35,151)**
Segment profit / (loss) before allocated expenses	**1,964**	**14,489**	**70,312**	**993**	**(16,609)**	**71,149**
Allocated expenses, *net*	**(1,600)**	**(11,704)**	**(38,767)**	**(952)**	**-**	**(53,023)**
Segment profit / (loss)	**364**	**2,785**	**31,545**	**41**	**(16,609)**	**18,126**
Unallocated expenses						**(2,903)**
Profit for the year						**15,223**

33 Segment reporting *(continued)*

33.1 Segment revenue and results *(continued)*

	31 December 2019					
	Marine & Aviation AED'000	Fire and General Accident AED'000	Motor AED'000	Medical AED'000	Investments AED'000	Total AED'000
Gross premiums written	4,409	63,123	179,080	3,418	-	250,030
Reinsurance share of ceded premiums	(3,712)	(53,557)	(27,323)	(1,610)	-	(86,202)
Net change in unearned premium reserve	46	1,695	13,388	(601)	-	14,528
Net claims incurred	(558)	(6,713)	(95,000)	(899)	-	(103,170)
Net commission earned (incurred)	1,916	9,771	(15,322)	98	-	(3,537)
Income from investment properties (rental income), *net*	-	-	-	-	7,153	7,153
Share of profit of associates	-	-	-	-	(21,803)	(21,803)
Loss from investments, net of finance costs	-	-	-	-	(8,683)	(8,683)
		-				
Segment profit before allocated expenses	2,101	14,319	54,823	406	(23,333)	48,316
Allocated expenses, *net*	(1,298)	(9,535)	(26,242)	(1,112)	-	(38,187)
Segment profit / (loss)	803	4,784	28,581	(706)	(23,333)	10,129
Unallocated expenses						(4,162)
Profit for the year						5,967

33 Segment reporting *(continued)*

33.2 Segment assets and liabilities

	31 December 2020			31 December 2019		
	Underwriting AED'000	**Investments AED'000**	**Total AED'000**	Underwriting AED'000	Investments AED'000	Total AED'000
Segment assets	**392,702**	**1,165,050**	**1,557,752**	358,483	1,201,973	1,560,456
Unallocated assets			**8,883**			9,112
Total assets			**1,566,635**			1,569,568
Segment liabilities	**422,173**	**393,203**	**815,376**	373,733	399,285	773,018
Unallocated liabilities			**28,140**			30,691
Total liabilities			**843,516**			803,709
Capital expenditure	**1,047**	**-**	**1,047**	2,105	-	2,105

33.3 Segment revenue from underwriting departments

The following is an analysis of the Group's revenues (representing gross premiums, commission earned and other income relating to underwriting) classified by major underwriting departments.

	2020 AED'000	2019 AED'000
Motor	**233,796**	192,438
Engineering	**31,599**	26,909
Fire and general accidents	**53,737**	54,029
Marine and aviation	**8,379**	6,607
Medical and personal assurance	**2,386**	3,602
	329,897	283,585

33.4 Geographical segment

The Group's underwriting business is based entirely within UAE, except for treaty re-insurance arrangements which are held with companies based primarily in Europe. All the investments of the Group are held in the UAE except for certain investments in securities which are held in other countries and investment properties which are held in the United States of America (USA).

Total revenues (representing gross premiums and commission earned) and total assets by geographical location are detailed below:

	Revenue		**Total assets**	
	2020 AED'000	2019 AED'000	**2020 AED'000**	2019 AED'000
UAE	**316,147**	269,932	**1,402,420**	1,413,656
Europe	**13,750**	13,653	**76,051**	69,364
USA	**-**	-	**46,824**	45,172
Other countries	**-**	-	**41,340**	41,376
	329,897	283,585	**1,566,635**	1,569,568

34 Commitments and contingent liabilities

Contingent liabilities

At 31 December 2020, the Group had contingent liabilities in respect of outstanding letters of guarantee issued in the normal course of business, amounting to AED 0.46 million *(31 December 2019: AED 0.41 million).*

At 31 December 2020, the Group's share in contingent liabilities and commitments in respect of its associates amounts to AED 3.63 million *(31 December 2019: AED 10.97 million) and AED* 1.24 million *(31 December 2019: AED 1.63 million).*

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 and internal legal counsel, has made a provision of AED 16.3 million *(31 December 2019: AED 14 million)* representing amounts expected to result in a probable outflow of economic resources.

35 Impact of Covid-19

The economic repercussions from the global outbreak of Covid-19 have significantly and adversely affected businesses worldwide. As at 31 December 2020, the Group has primarily been impacted in its investments segment where the net unrealised losses on financial assets measured at fair value through other comprehensive income and fair value through profit or loss amounted to AED 48.8 million and AED 38.20 million respectively. The losses in investments are consistent with the worldwide trend. There is insufficient information available to assess the direction of this trend for the future.

(a) Insurance risk

In its underwriting segment, the Group is primarily exposed to business interruption policies.

With regards to Business Interruption (BI) policies, the Group has in place pandemic and infectious disease policy exclusions as well. The Group has evaluated all business interruption policies in force for which the Group may have to incur claim payouts. As a result of initial examination of the policies, the Group determined that these will not have a material impact in relation to the net claims paid due to lower retention levels of the Group. Furthermore, the Group has been able to retain major customers during the year ended 31 December 2020 and has generally witnessed renewals and new business across some major lines of businesses.

(b) Credit risk

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the credit worthiness of counterparties.

(c) Liquidity risk

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

35 Impact of Covid-19 *(continued)*

(d) Business continuity plan

The Group has remained fully operational throughout the period and has put in place effective business continuity and remote working plans enabled by the right technologies and systems to ensure uninterrupted services to customers and the operations. The outbreak has not caused any significant delays in policies issuance and claims settlements. The Group will continue to monitor the reverberations of Covid-19, if any, on its customers and operations and will take further action as needed.

The steps taken by the Group to estimate the impact of Covid-19 and the judgments applied by management in assessing the values of assets and liabilities as at 31 December 2020 includes both quantitative and qualitative criteria such as risk profiling and actuarial analysis. Such analysis has enabled the Group to timely and accurately identify its exposure although these are subject to significant judgment due to the rapidly changing dynamics of Covid-19.

36 Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue in their meeting held on 25 March 2021.