Al Buhaira National Insurance Company P.S.C.
and its Subsidiary

Independent auditor's report and consolidated financial statements
For the year ended 31 December 2021

Al Buhaira National Insurance Company P.S.C. and its Subsidiary

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Directors' report

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2021.

Incorporation and registered offices

Al Buhaira National Insurance Company P.S.C. – Sharjah, is incorporated as a public shareholding Company by an Emiri Decree issued by His Highness, The Ruler of Sharjah on 16 May 1978. The Parent Company is subject to the regulations of UAE Federal Law No. 6 of 2007, concerning the formation of Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.). The Parent Company is registered in the Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) under registration number 15. The address of the Parent Company's registered corporate office is P.O. Box 6000, Sharjah, United Arab Emirates.

Principal activities

The principal activity of the Group is the writing of insurance of all types - other than savings and accumulation of funds. The Group operates through its Head Office in Sharjah and has branches in Dubai, Abu Dhabi, Al Ain, Khorfakkan, Fujairah and Ajman.

Financial position and results

The consolidated financial position and results of the Group for the year ended 31 December 2021 are set out in the accompanying consolidated financial statements. There were no social contributions during the year.

Directors

The following were the Directors of the Group for the year ended 31 December 2021:

Sheikh Faisal Bin Khalid Sultan Al Qasimi (Chairman)
Sheikh Abdulla Mohd Ali Al Thani (Vice Chairman)
Sheikh Khaled Abdulla Sultan Al Qasimi (Managing Director)
Mr. Abdalla Juma Al Sari (Director)
Mr. Rashid Ali Rashid Dimas Al Suwaidi (Director)
Mr. Humaid Mohamed Humaid Mohamed Shattaf (Director)
Mr. Ali Mohammed Kayed (Director)
Mr. Nader T. Qaddumi (General Manager)

Auditors

Grant Thornton were appointed as auditors of the Group for the year ended 31 December 2021 and being eligible, have offered themselves for re-appointment.

Chairman of the Board of Directors

9 March 2022

الشارقة
SHARJAH

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Independent Auditor's Report

To the Shareholders of Al Buhaira National Insurance Company P.S.C. and its subsidiary

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Al Buhaira National Insurance Company P.S.C. (the "Parent Company") and its subsidiary (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements including summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Al Buhaira National Insurance Company P.S.C. (the "Company") and its subsidiary (together the "Group") as at 31 December 2021 and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including international independence standards) (IESBA Code) together with the other ethical requirements that are relevant to our audit of Group's consolidated financial statements in United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with 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 year. 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.

Grant Thornton

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Al Buhaira National Insurance Company P.S.C and its subsidiary (continued)

Key audit matters (continued)

i) Valuation of insurance contract liabilities and reinsurance contract assets

The estimation of liabilities and assets arising from insurance contracts amounting to AED 544.7 million for insurance contract liabilities and AED 356.4 million for reinsurance contract assets (2020: AED 535.8 million for insurance contract liabilities and AED 383.1 million for reinsurance contract assets) such as outstanding claims, incurred but not reported claims, unallocated loss adjustment expenses and unearned premium reserve, as disclosed in note 9 to the consolidated financial statements, involves a significant degree of judgement. These liabilities are based on the best estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and the pattern of risk distribution over the coverage period. Actuarial computations have been used to determine these provisions. Underlying these computations are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Since the determination of such a provision requires the expertise of an external valuation expert who incorporates significant assumptions, judgements and estimations, the valuation of these liabilities was significant to our audit.

Our audit procedures, among others, included:

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

- We assessed the competence, capabilities, and objectivity of external valuation expert;
- We tested the underlying Group data to source documentation;
- We applied our industry knowledge and experience and we compared the methodology, models and assumptions used against recognized actuarial practices;
- We understood the governance process in place to determine the insurance contract liabilities;
- We reperformed computations on selected classes of business, particularly focusing on the largest and most uncertain reservesthen re-computed claims reserves to those booked by management, and sought to understand any significant differences;
- For the remaining classes we evaluated the methodology and assumptions, or performed a diagnostic check to identify and follow up any anomalies;
- Checking samples of unearned premium with appropriate documentation;
- Evaluating the objectivity and competence of independent external actuary; and
- We involved our own actuarial specialist to assist us in performing our procedures in this area.

ii) Valuation of investment properties

Group holds investment properties under the fair value method as at 31 December 2021 amounting to AED 836.5 million (2020: AED 857.4 million), as detailed in note 6. The fair value estimate requires significant judgement and estimates by management and independent external valuers. The Group has involved independent external valuers in order to value the investment properties for the purpose of determining the fair value for inclusion in the consolidated financial statements. The existence of significant estimation and judgement coupled with change in valuation assumptions used could result in material change. Therefore, the valuation of these investment properties was significant to our audit.

Our audit procedures, among others, included:

- We assessed the competence, capabilities, and objectivity of external valuers;
- We discussed with independent valuer to understand the basis of valuation for each property and other judgements used in performing the valuation;
- We checked the accuracy, completeness and relevance of the input data used for deriving fair values; and
- We assessed the appropriateness of the key assumptions and methodologies used.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Al Buhaira National Insurance Company P.S.C and its subsidiary (continued)

Other information

The Board of Directors and management is responsible for the other information. The other information comprises the annual report of the Parent Company. We have obtained the Directors' report, prior to the date of this auditor's report and the remaining of the annual report is expected to be made available to us after that date.

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

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

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the articles of association of the Parent Company, UAE Federal Law No. (2) of 2015, as amended, 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.

The Directors are responsible for overseeing the Group's financial reporting process.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Grant Thornton

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Al Buhaira National Insurance Company P.S.C and its subsidiary (continued)

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidenced 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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 to 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to 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 auditor's report unless law and regulations preclude 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.

Grant Thornton

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Al Buhaira National Insurance Company P.S.C and its subsidiary (continued)

Report on other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, as amended, we report that:

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

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

iii) The Group has maintained proper books of account;

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

v) Note 7 to the consolidated financial statements discloses investment in securities by the Group during the financial year ended 31 December 2021;

vi) Note 21 to the consolidated financial statements discloses material related party transactions and balances, and the terms under which they were conducted; and

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, during the financial year ended 31 December 2021, contravened any of the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, or, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2021; and

Further, as required by the U.A.E. Federal Law No. 6 of 2007 and the related Financial Regulations for Insurance Companies, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Grant Thornton

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GRANT THORNTON
Audit and Accounting Limited (Sharjah Branch)

Grant Thornton
Farouk Mohamed
Registration No: 86

Sharjah, 9 March 2022

Al Buhaira National Insurance Company P.S.C. and its Subsidiary

Consolidated statement of financial position
As at 31 December 2021

	Notes	2021 AED	2020 AED
ASSETS			
Non-current assets			
Property and equipment	5	**10,781,690**	9,499,004
Investment properties	6	**836,553,000**	857,393,500
Investments in securities at FVTOCI	7	**26,852,264**	20,711,683
Statutory deposit	8	**10,000,000**	10,000,000
Total non-current assets		**884,186,954**	897,604,187
Current assets			
Reinsurance contract assets	9	**356,440,652**	383,111,305
Insurance and other receivables	10	**386,129,181**	322,854,281
Bank balances and cash	11	**337,895,458**	317,151,662
Total current assets		**1,080,465,291**	1,023,117,248
TOTAL ASSETS		**1,964,652,245**	1,920,721,435
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**250,000,000**	250,000,000
Statutory reserve	13.1	**122,126,377**	119,622,924
Voluntary reserve	13.2	**200,000,000**	200,000,000
Reinsurance reserve	13.3	**6,816,786**	3,619,051
Cumulative changes in fair value		**(15,352,299)**	(21,499,614)
Retained earnings		**117,316,644**	122,984,784
Total Equity		**680,907,508**	674,727,145
Non-current liabilities			
Provision for employees' end of service indemnity	14	**39,787,312**	36,713,478
Bank borrowings	15	**124,203,923**	187,974,511
Lease liabilities	25	**3,641,342**	1,129,355
Total non-current liabilities		**167,632,577**	225,817,344
Current liabilities			
Insurance contract liabilities	9	**544,707,772**	535,818,778
Insurance and other payables	16	**437,354,055**	387,930,578
Lease liabilities	25	**1,596,270**	3,112,586
Bank borrowings	15	**132,454,063**	93,315,004
Total current liabilities		**1,116,112,160**	1,020,176,946
Total liabilities		**1,283,744,737**	1,245,994,290
TOTAL EQUITY AND LIABILITIES		**1,964,652,245**	1,920,721,435

Chairman **General Manager**

The accompanying notes from 1 to 30 form an integral part of these consolidated financial statements.

Al Buhaira National Insurance Company P.S.C. and its Subsidiary

Consolidated statement of income
For the year ended 31 December 2021

	Notes	2021 AED	2020 AED
Insurance premium revenue	17	**901,306,018**	926,218,347
Less: Insurance premium ceded to reinsurers	17	**(651,064,373)**	(736,773,076)
Net insurance premium revenue	17	**250,241,645**	189,445,271
Gross claims incurred	9	**(721,354,011)**	(631,988,028)
Insurance claims recovered from insurers	9	**492,467,579**	502,433,097
Net claims incurred	9	**(228,886,432)**	(129,554,931)
Gross commission earned		**108,693,451**	86,503,627
Less: Commission incurred		**(27,897,493)**	(46,620,882)
Net commission earned		**80,795,958**	39,882,745
Underwriting profit		**102,151,171**	99,773,085
General and administrative expenses relating to underwriting activities		**(57,303,361)**	(55,747,476)
Net underwriting profit		**44,847,810**	44,025,609
Investment and other income	18	**5,151,765**	8,159,307
Finance costs		**(10,646,522)**	(16,229,940)
Finance costs – lease		**(1,886,492)**	(1,866,421)
Unallocated general and administrative expenses		**(12,432,033)**	(10,103,407)
Profit for the year	20	**25,034,528**	23,985,148
Basic and diluted earnings per share	20	**0.10**	0.10

The accompanying notes from 1 to 30 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2021

	2021 AED	2020 AED
Profit for the year	**25,034,528**	23,985,148
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to profit or loss		
Increase/ (decrease) in fair value of investments carried at FVOCI	**6,144,355**	(1,128,457)
Gain/ (loss) on sale of investment carried at FVOCI	**1,480**	(2,296,031)
Other comprehensive income / (loss) for the year	**6,145,835**	(3,424,488)
Total comprehensive income for the year	**31,180,363**	20,560,660

Consolidated statement of changes in equity
For the year ended 31 December 2021

	Share capital AED	Statutory reserve AED	Voluntary reserve AED	Reinsurance reserve AED	Cumulative changes in fair value AED	Retained earnings AED	Total AED
Balance at 31 December 2019	250,000,000	117,224,409	200,000,000	-	(20,371,157)	107,313,233	654,166,485
Profit for the year	-	-	-	-	-	23,985,148	23,985,148
Other comprehensive loss for the year	-	-	-	-	(3,424,488)	-	(3,424,488)
Total comprehensive income for the year	-	-	-	-	(3,424,488)	23,985,148	20,560,660
Transfer to statutory reserve	-	2,398,515	-		-	(2,398,515)	-
Transfer to reinsurance reserve	-	-	-	3,619,051	-	(3,619,051)	-
Transfer to retained earnings on sale of investments at FVOCI	-	-	-	-	2,296,031	(2,296,031)	-
Balance at 31 December 2020	**250,000,000**	**119,622,924**	**200,000,000**	**3,619,051**	**(21,499,614)**	**122,984,784**	**674,727,145**
Profit for the year	-	-	-	-	-	25,034,528	25,034,528
Other comprehensive income	-	-	-	-	6,145,835	-	6,145,835
Total comprehensive income for the year	-	-	-	-	6,145,835	25,034,528	31,180,363
Transfer to statutory reserve	-	2,503,453	-	-	-	(2,503,453)	-
Transfer to reinsurance reserve	-	-	-	3,197,735	-	(3,197,735)	-
Transfer to retained earnings on sale of investments at FVOCI	-	-	-	-	1,480	(1,480)	-
Dividends	-	-	-	-	-	(25,000,000)	(25,000,000)
Balance at 31 December 2021	**250,000,000**	**122,126,377**	**200,000,000**	**6,816,786**	**(15,352,299)**	**117,316,644**	**680,907,508**

The accompanying notes from 1 to 30 form an integral part of these consolidated financial statements.

Al Buhaira National Insurance Company P.S.C. and its Subsidiary

Consolidated statement of cash flows
For the year ended 31 December 2021

	Notes	2021	2020
Cash flows from operating activities		**AED**	AED
Profit for the year		**25,034,528**	23,985,148
Adjustments for:			
Depreciation of property and equipment	5	**3,401,699**	3,358,844
Interest income on deposits	18	**(8,389,624)**	(10,159,582)
Dividend income	18	**(784,673)**	(620,206)
Expected credit loss	10	**2,500,000**	-
Net gain from investment properties	6	**(18,901,696)**	(28,004,420)
Change in fair value of investment properties	6	**23,005,500**	30,725,500
Provision for employees' end of service indemnity	14	**4,110,113**	1,981,183
Finance costs		**12,533,014**	18,096,361
Gain on disposal of property and equipment		**(2,500)**	-
Other income		**(81,272)**	(100,599)
Operating cash flows before changes in working capital		**42,425,089**	39,262,229
Change in working capital			
Insurance and other receivables		**(65,774,900)**	33,585,102
Reinsurance contract assets		**26,670,653**	20,087,610
Insurance and other payables		**49,423,477**	58,365,613
Insurance contract liabilities		**8,888,994**	(41,473,667)
Cash generated from operating activities		**61,633,313**	109,826,887
Employees' end of service benefits paid	14	**(1,036,279)**	(4,272,475)
Net cash generated from operating activities		**60,597,034**	105,554,412
Cash flows from investing activities			
Fixed deposit under lien and with maturity of more than three months	11	**(28,189,086)**	(955,183)
Additions on investment properties	6	**(2,165,000)**	-
Margin deposits	11	**282,000**	(590,000)
Purchase of investments at FVTOCI	7	**-**	(2,074,548)
Proceeds from sale of investments at FVTOCI	7	**5,254**	2,525,199
Purchase of property and equipment	5	**(617,481)**	(1,006,710)
Proceeds from sale of property and equipment		**2,500**	-
Interest received	18	**8,389,624**	10,159,582
Dividends received	18	**784,673**	620,206
Income from investment properties	6	**18,901,696**	28,004,420
Other income		**41,769**	100,599
Net cash (used in)/ generated from investing activities		**(2,564,051)**	36,783,565
Cash flows from financing activities			
Dividends paid		**(25,000,000)**	-
Bank borrowings – net	15	**(24,631,529)**	(123,723,369)
Finance costs paid		**(10,646,522)**	(16,229,940)
Lease payments		**(4,918,222)**	(4,402,169)
Net cash used in financing activities		**(65,196,273)**	(144,355,478)
Net change in cash and cash equivalents		**(7,163,290)**	(2,017,501)
Cash and cash equivalents at the beginning of the year	11	**46,216,022**	48,233,523
Cash and cash equivalents at the end of the year	11	**39,052,732**	46,216,022

Non cash transactions	**2021**	2020
	AED	AED
Rights of use asset	**4,066,904**	4,175,097
Lease liability	**(4,027,401)**	(4,175,097)
Gain on cancellation of lease	**39,503**	-

The accompanying notes from 1 to 30 form an integral part of these consolidated financial statements.

1. General information

Al Buhaira National Insurance Company P.S.C. (the "Company") is incorporated as a public shareholding company by an Emiri Decree issued by His Highness, The Ruler of Sharjah on 16 May 1978. The Parent Company is subject to the regulations of UAE Federal Law No. 6 of 2007, as the Group is registered in the Insurance Companies register of Insurance Authority of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) under registration No.12. The address of the Parent Company's registered corporate office is P.O. Box 6000, Sharjah, United Arab Emirates.

The Group consists of Al Buhaira National Company P.S.C. and its subsidiary (the "Group") as disclosed in Note 3.3 to the consolidated financial statements.

The principal activity of the Parent Company is the writing of insurance of all types - other than savings and accumulation of funds. The Group operates through its Head Office in Sharjah and has branches in Dubai, Abu Dhabi, Al Ain, Khorfakkan, Fujairah and Ajman.

Federal Law By Decree No. 32 of 2021 on Commercial Companies (the "New Companies Law") was issued on September 20, 2021 with an effective date of January 2, 2022, and will entirely replace Federal Law No. 2 of 2015, as amended, on Commercial Companies, as amended. The Parent Company has twelve months from the effective date to comply with the provisions of the New Companies Law.

Decretal Federal Law No. 25 of 2020 which amends certain provisions of the U.A.E. Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. Effective 2 January 2021, the Insurance Authority has now merged into the CBUAE, which commenced its operational procedures to assume the supervisory and regulatory responsibility of the insurance sector.

2. Application of new and revised International Financial Reporting Standards ("IFRS")

2.1 Standards, interpretations and amendments to existing standards that are effective in 2021

Following relevant new amendments to existing standards were issued by the IASB, which are effective for the annual period beginning on or after 1 January 2021 do not have a significant impact on the Group's financial results or position include:

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)

The amendments provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

- COVID-19 Rent related concessions beyond 30 June 2021 (Amendments to IFRS 16)

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendment provides relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

This amendment did not have a significant impact on these consolidated financial statements. and therefore, the disclosures have not been made.

2. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB include:

IFRS 17 *Insurance Contracts*

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.

Management anticipates that IFRS 17 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2023. The application of IFRS 17 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its insurance contracts. However, it is not practicable to provide a reasonable estimate of the effects of the application of this standard until the Group performs a detailed review. Management is in the process of performing a detailed assessment as required by the Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) on implementation of IFRS 17.

Other Standards and amendments that are not yet effective and have not been adopted early by the Group include:

- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Deferred Tax related to Assets and Liabilities from a Single Transaction

3. Significant accounting policies

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

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates Federal Law No. (2) of 2015, as amended, and United Arab Emirates Federal Law No. 6 of 2007 on Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.).

The Group is in the process of complying with the requirements of the Financial Regulations for Insurance Companies issued by the Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) especially pertaining to Article (8) of Section (2) and Article (3) of Section (1) , relating to maintenance of solvency margin; and asset distribution and allocation limits respectively. During the prior year, the Group has resolved their solvency issue with the requirements of the Central Bank of the U.A.E.

3.2 Basis of preparation

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

3. Significant accounting policies (continued)

3.3 Basis of consolidation

The consolidated financial statements of Al Buhaira National Insurance Company P.S.C. and its subsidiary (the "Group") incorporate the consolidated financial statements of the Parent Company and the entity controlled by the Parent Company (its subsidiary).

Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and consolidated statement of other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Details of the Group's subsidiary at 31 December 2021 is as below:

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest and voting power held	Principal activity
Al Buhaira Economic Investments Establishment	Sharjah, U.A.E.	100%	Investing in economic projects.

3. Significant accounting policies (continued)

3.4 Insurance contracts

The principal accounting policies are set out below.

3.4.1 Definition, recognition and measurement

The Group issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

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

3.4.2 Short-term insurance contracts

These contracts are casualty, property and short-duration life 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.

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).

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

Short-duration life insurance contracts protect the Group's customers from the consequences of events that would affect on the ability of the customer or customer's dependents to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these insurance contracts, premiums are recognised as revenue (earned premiums) on time-proportion basis wherein revenue from an insurance contract is recognised over the effective period of the policy with the exception of marine, where the UPR is recognised as fixed proportion of the written premiums as required in the financial regulation issued by Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.). 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 consolidated statement of income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct claims settlement costs and arise from events that have occurred up to the reporting date even if even they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Unallocated loss adjustment expense reserves correspond to the provision representing future claim expenses and related handling costs that are not case specific. It represents all other expenses and costs that are related to the adjudication of claims but cannot be assigned to a specific claim and is calculated based on recommendation of Group's external actuarial valuation report.

3. Significant accounting policies (continued)

3.4 Insurance contracts (continued)

3.4.3 Reinsurance contracts

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. 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. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

3.4.3 Reinsurance contracts (continued)

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. 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 consolidated statement of income. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

3.4.4 Insurance contract liabilities

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 reinsurers' portion of the above outstanding claims and unearned premium is classified as reinsurance contract assets in the consolidated financial statements.

3.4.5 Salvage and subrogation reimbursements

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

3.4.6 Liability adequacy test

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

3.4.7 Receivables and payables related to insurance contracts

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

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in consolidated statement of income. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

3. Significant accounting policies (continued)

3.4 Insurance contracts (continued)

3.4.8 Policy acquisition costs

Commissions and other acquisition costs are accounted on an incurred basis.

3.5 Revenue recognition

3.5.1 Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these consolidated financial statements (Note 3.4)

3.5.2 Commission income

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

3.5.3 Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

3.5.4 Dividend income

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

3.5.5 Rental income

Rental income from investment properties which are leased under operating leases are recognised on a straight-line basis over the term of the relevant lease.

3.6 General and administrative expenses

Direct expenses are charged to the respective departmental revenue accounts. Indirect expenses are allocated to departmental revenue accounts on the basis of gross written premiums of each department. Other administration expenses are charged to consolidated statement of income as unallocated general and administrative expenses.

3.7 Foreign currencies

The consolidated financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of a group entity are expressed in Arab Emirates Dirhams ("AED"), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

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

Exchange differences are recognized in consolidated statement of income in the year in which they arise.

3. Significant accounting policies (continued)

3.8 Employee benefits

3.8.1 Defined contribution plan

U.A.E. national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Group is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the "contribution calculation salary" respectively, to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to consolidated statement of income

3.8.2 Annual leave and leave passage

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

3.8.3 Provision for employees' end of service indemnity

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

The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service indemnity is disclosed as a non-current liability.

3.9 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Land is stated at cost less impairment if any.

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 consolidated statement of income.

The useful lives considered in the calculation of depreciation for the assets are as follows:

	Years
Furniture and equipment	5
Computer equipment	5
Office fixture and fittings	10
Residential villa	15

3.10 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs.

Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise.

3. Significant accounting policies (continued)

3.10 Investment properties (continued)

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

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

3.11 Impairment of non financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non financial 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 for which the estimates of future cash flows have not been adjusted.

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

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

3.12 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.

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

3. Significant accounting policies (continued)

3.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in consolidated statement of income in the period in which they are incurred.

3.14 Financial instruments

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL). Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

(i) debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

(ii) debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVOCI);

(iii) all other debt instruments (e.g. debt instruments managed on a fair value basis or held for sale) and equity investments are subsequently measured at FVTPL. However, the Group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

a. the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and

b. the Group may irrevocably designate a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Cash and bank and insurance and other receivables

Cash and bank and insurance and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short- term receivables when the recognition of interest would be immaterial.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

3. Significant accounting policies (continued)

3.14 Financial instruments (continued)

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

Equity instruments at FVOCI

Investments in equity instruments/funds 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 and accumulated in the cumulative changes in fair value reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments in equity instruments/funds, but reclassified to retained earnings. The Group has designated all investments in equity instruments that are not held for trading as FVOCI.

Dividends on these investments in equity instruments are recognised in consolidated statement of income 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. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Debt instruments at amortised cost or at FVOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models. When a debt instrument measured at FVOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. Debt instruments that are subsequently measured at amortised cost or at FVOCI are subject to impairment.

Financial assets at FVTPL

Financial assets at FVTPL are:

(i) assets with contractual cash flows that are not SPPI; or/and
(ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
(iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Fair value option: A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an "accounting mismatch").

3. Significant accounting policies (continued)

3.14 Financial instruments (continued)

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period, there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made.

Measurement of ECL

The Group considers broader range of information when assessing the credit risk, and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. In applying this forward looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk. (Stage 1); and

- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low. (Stage 2)

Stage 3 would cover financial assets that have objective evidence of impairment at the reporting date. The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade".

12-month expected credit loss are recognized for the first category (Stage 1) while " life time expected credit losses" are recognized for the second category (Stage 2). Measurement of the expected credit losses is determined by a probability - weighted estimate of credit losses over the expected life of the financial instrument.

The Group makes use of a simplified approach in accounting for insurance receivables and for other receivables records life time expected credit loss. These are expected shortfalls in the contractual cashflows, considering the potential for default at any point during the life of a financial instrument. In calculating, the Group uses its historical experience, external indicators and forward looking information to calculate the expected credit losses using a provision matrix.

The Group assesses impairment of insurance receivables on a collective basis as they possess shared credit riks characteristics , they have been grouped based on the days pastdue.

3. Significant accounting policies (continued)

3.14 Financial instruments (continued)

Measurement of ECL

The Group employs statistical models for ECL calculations. ECLs are a probability-weighted estimate of credit losses.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

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

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. At each reporting date, the Group assesses whether financial assets carried at amortised costs are credit-impaired.

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 and also recognises a collateralised borrowing for the proceeds received.

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

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

Presentation of allowance for ECL in the consolidated financial statements

Loss allowances for ECL are presented in the in the consolidated financial statements as follows:

- for financial assets measured at amortised cost (insurance and other receivables and cash and bank): as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the consolidated statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in revaluation reserve and recognised in other comprehensive income;

3. Significant accounting policies (continued)

3.15 Financial liabilities and equity instruments issued by the Group

3.15.1 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.

3.15.2 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.

3.15.3 Financial liabilities

Financial liabilities are classified as 'other financial liabilities'.

3.15.4 Other financial liabilities

Insurance and other payables and bank borrowings are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except for short term payable 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 to the net carrying amount on initial recognition.

3.15.5 Derecognition of financial liabilities

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

3.15.6 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 dividend is approved by the Group's shareholders.

3.16 Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

3.16.1 Lessee

For any new contracts entered into on or after January 1, 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract or part of a contract, that conveys the right-to-use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group.
- The Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- The Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

3. Significant accounting policies (continued)

3.16 Leases (continued)

3.16.1 Lessee (continued)

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognizes a right of use asset and a lease liability on the statement of financial position. The right of use asset is measured at cost, which is made up of the initial measurement of the lease liability, any direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right of use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The Group also assesses the right of use asset for impairment when such indicators exist. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of the fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right of-use asset, or profit and loss if the right of use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in consolidated statement of income on a straight-line basis over the lease term.
On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in as a separate line item as lease liabilities.

3.16.2 Lessor

The Group's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

3.17 Fair value measurment

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. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the se of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized with in fair value hierarchy, based on the lowest level of input that is significant to the fair value measurement as a whole.

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

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3 to these consolidated financial statements, management is required to make 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical accounting judgements

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

4.1.1 Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as at FVTOCI or FVTPL. In judging whether investments in securities are as at FVTOCI or FVTPL, management has considered the detailed criteria for determination of such classification as set out IFRS 9 Financial Instruments. Management is satisfied that its investments in securities are appropriately classified.

4.1.2 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

4.1.3 Significant increase in credit risk

ECL are measured as an allowance equal to lifetime ECL for assets. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision 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.

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

4.1 Critical accounting judgements (continued)

4.1.4 Classification of properties

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

4.2 Key sources of estimation uncertainty

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

4.2.1 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the 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 both for the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of each reporting period. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on external actuarial assessment, taking into account the historical data of the claims reported and settlement pattern. Such method takes into account the best estimates of the future contractual cash flows estimated based on the historical data. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

4.2.2 Impairment of financial assets

When measuring ECL and IFRS 9, 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.

The determination of whether the insurance receivables are impaired, entails the Group evaluating, the credit and liquidity position of the insurance companies, historical recovery rates including detailed investigations carried out and feedback received from the legal department. The difference between the estimated collectible amount and the carrying value is recognised as an expense in the consolidated statement of income. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the consolidate statement of income at the time of collection.

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

4.2 Key sources of estimation uncertainty (continued)

4.2.3 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The 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 consolidated statement of income.

4.2.4 Valuation of unquoted equity instruments

Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models. In the absence of an active market for these investments or any recent transactions that could provide evidence of the current fair value, management estimates the fair value of these instruments using expected cash flows discounted at current rates for similar instruments or other valuation models.

4.2.5 Depreciation of property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. Management has not considered any residual value as it is deemed immaterial.

4.2.6 Revaluation of investment properties

The investment properties are carried at fair value, with changes in the fair value being recognized in the consolidated statement of income. The management engaged independent valuation specialists to assess fair value during the year. The fair value of plots of land was determined based on the acceptable approach that reflects recent transactions prices for similar properties. The fair value of buildings was determined using income approach. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

5. Property and equipment

	Land AED	Furniture and equipment AED	Computer equipment AED	Office fixture and fittings AED	Residential Villa AED	Right of Use AED	Total AED
Cost							
31 December 2020	649,000	6,623,058	12,039,224	6,027,111	1,057,827	9,633,869	36,030,089
Additions	-	65,459	552,022	-	-	4,237,861	4,855,342
Disposal	-	(21,200)	-	-	-	(341,912)	(363,112)
31 December 2021	**649,000**	**6,667,317**	**12,591,246**	**6,027,111**	**1,057,827**	**13,529,818**	**40,522,319**
Accumulated depreciation							
31 December 2020	-	6,305,757	7,584,853	5,529,425	1,057,827	6,053,223	26,531,085
Charge for the year	-	153,764	310,531	78,332	-	2,859,072	3,401,699
Relating to disposals	-	(21,200)	-	-	-	(170,955)	(192,155)
31 December 2021	**-**	**6,438,321**	**7,895,384**	**5,607,757**	**1,057,827**	**8,741,340**	**29,740,629**
Carrying amount							
31 December 2021	**649,000**	**228,996**	**4,695,862**	**419,354**	**-**	**4,788,478**	**10,781,690**

At 31 December 2021, the cost of fully depreciated property and equipment that was still in use amounted to AED 23.83 million (2020: AED 17.7 million).

5. Property and equipment (continued)

	Land AED	Furniture and equipment AED	Computer equipment AED	Office fixture and fittings AED	Residential villa AED	Right of Use AED	Total AED
Cost							
31 December 2019	649,000	6,534,107	11,173,965	5,974,611	1,057,827	5,458,772	30,848,282
Additions	-	88,951	865,259	52,500	-	4,175,097	5,181,807
31 December 2020	649,000	6,623,058	12,039,224	6,027,111	1,057,827	9,633,869	36,030,089
Accumulated depreciation							
31 December 2019	-	6,078,252	7,232,945	5,451,908	1,057,827	3,351,309	23,172,241
Charge for the year	-	227,505	351,908	77,517	-	2,701,914	3,358,844
31 December 2020	-	6,305,757	7,584,853	5,529,425	1,057,827	6,053,223	26,531,085
Carrying amount							
31 December 2020	649,000	317,301	4,454,371	497,686	-	3,580,646	9,499,004

6. Investment properties

Investment properties comprises the following at fair value:

	2021 AED	2020 AED
Plots of land	**75,165,000**	78,100,000
Buildings	**761,388,000**	779,293,500
	836,553,000	857,393,500

Movement during the year was as follows:

	2021 AED	2020 AED
Fair value at the beginning of the year	**857,393,500**	888,119,000
Additions*	**2,165,000**	-
Change in fair value during the year (Note 18)	**(23,005,500)**	(30,725,500)
Fair value at the end of the year	**836,553,000**	857,393,500

*The additions include improvements that enhances investments properties efficiency of use.

The fair value of the Group's investments properties as at 31 December 2021 has been arrived at on the basis of valuations carried on the respective dates by independent competent valuers who have recent market experience in the valuation of properties in the United Arab Emirates.

The fair value of plots of land was determined based on the acceptable approach that reflects recent transactions prices for similar properties. The fair value of buildings was determined using income approach. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group's investment properties are classified as Level 3 in the fair value hierarchy as at 31 December 2021 (2020: Level 3).

Investment property amounting to AED 836.5 million (2020: AED 853.4 million) is mortgaged to a bank towards credit facilities granted to the Group (Note 15).

The rental proceeds from Al Khan, Al Nahda and Al Buhairah Corniche Towers are assigned to a bank against credit facilities granted to the Group (Note 15).

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

	2021 AED	2020 AED
Rental income	**40,383,333**	48,495,140
Direct operating expenses	**(21,481,637)**	(20,490,720)
Income from investment properties (Note 18)	**18,901,696**	28,004,420

7. Investments in securities

	2021 AED	2020 AED
Equity at FVOCI		
Quoted – at fair value	**23,374,166**	17,233,799
Unquoted – at fair value	**3,478,098**	3,477,884
	26,852,264	20,711,683

Movement during the year was as follows:

	2021 AED	2020 AED
Fair value at the beginning of the year	**20,711,683**	24,586,822
Purchases during the year	**-**	2,074,548
Disposals during the year	**(5,254)**	(2,525,199)
Change in fair value	**6,145,835**	(3,424,488)
Fair value at the end of the year	**26,852,264**	20,711,683

	Within U.A.E.		Outside U.A.E.		Total	
	2021 AED	2020 AED	2021 AED	2020 AED	2021 AED	2020 AED
- Quoted	**23,374,166**	17,233,799	**-**	-	**23,374,166**	17,233,799
- Unquoted	**3,478,098**	3,477,884	**-**	-	**3,478,098**	3,477,884
	26,852,264	20,711,683	**-**	-	**26,852,264**	20,711,683

8. Statutory deposit

In accordance with the requirements of Federal Law No. 6 of 2007 on Establishment of Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) and Organisation of its operations, the Group maintains a bank deposit of AED 10 million (2020: AED 10 million) as a statutory deposit.

9. Insurance contract liabilities and reinsurance contract assets

	2021 AED	2020 AED
Insurance contract liabilities		
Claims reported unsettled	**271,705,507**	244,958,009
Claims incurred but not reported	**71,056,021**	95,160,305
Unallocated loss adjustment exposure reserve	**6,353,052**	6,794,346
Unearned premium	**183,641,387**	187,202,605
Unexpired risk reserve	**11,951,805**	1,703,513
Total insurance contract liabilities, gross	**544,707,772**	535,818,778
Recoverable from reinsurers		
Claims reported unsettled	**195,162,889**	187,365,249
Claims incurred but not reported	**45,507,382**	68,458,214
Unearned premium	**115,770,381**	127,287,842
Total reinsurers' share of insurance liabilities	**356,440,652**	383,111,305
Net		
Claims reported unsettled	**76,542,618**	57,592,760
Claims incurred but not reported	**25,548,639**	26,702,091
Unallocated loss adjustment exposure reserve	**6,353,052**	6,794,346
Unearned premium	**67,871,006**	59,914,763
Unexpired risk reserve	**11,951,805**	1,703,513
	188,267,120	152,707,473

9. Insurance contract liabilities and reinsurance contract assets (continued)

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

	2021			2020		
	Gross AED	**Reinsurance AED**	**Net AED**	Gross AED	Reinsurance AED	Net AED
Claims						
Notified claims	**244,958,009**	**(187,365,249)**	**57,592,760**	292,942,866	(217,159,953)	75,782,913
Incurred but not reported	**95,160,305**	**(68,458,214)**	**26,702,091**	68,314,023	(45,788,230)	22,525,793
Unexpired Risk Reserve - URR	**1,703,513**	**-**	**1,703,513**	5,788,230	-	5,788,230
Unallocated loss adjustment expense reserve	**6,794,346**	**-**	**6,794,346**	6,403,106	-	6,403,106
Total at the beginning of the year	**348,616,173**	**(255,823,463)**	**92,792,710**	373,448,225	(262,948,183)	110,500,042
Claims settled during the year	**(708,903,799)**	**507,620,772**	**(201,283,027)**	(656,820,080)	509,557,817	(147,262,263)
Claims incurred	**721,354,011**	**(492,467,579)**	**228,886,432**	631,988,028	(502,433,097)	129,554,931
Total at the end of the year	**361,066,385**	**(240,670,270)**	**120,396,115**	348,616,173	(255,823,463)	92,792,710
Notified claims	**271,705,507**	**(195,162,889)**	**76,542,618**	244,958,009	(187,365,249)	57,592,760
Incurred but not reported	**71,056,021**	**(45,507,381)**	**25,548,640**	95,160,305	(68,458,214)	26,702,091
Unallocated loss adjustment expense reserve	**6,353,052**	**-**	**6,353,052**	6,794,346	-	6,794,346
Unexpired Risk Reserve	**11,951,805**	**-**	**11,951,805**	1,703,513	-	1,703,513
Total at the end of the year	**361,066,385**	**(240,670,270)**	**120,396,115**	348,616,173	(255,823,463)	92,792,710
Unearned premium	**187,202,605**	**(127,287,842)**	**59,914,763**			
Total at the beginning of the year				203,844,220	(140,250,732)	63,593,488
Increase during the year	**183,641,387**	**(115,770,381)**	**67,871,006**	187,202,605	(127,287,842)	59,914,763
Released during the year	**(187,202,605)**	**127,287,842**	**(59,914,763)**	(203,844,220)	140,250,732	(63,593,488)
Net change during the year (Note 17)	**(3,561,218)**	**11,517,461**	**7,956,243**	(16,641,615)	12,962,890	(3,678,725)
Total at the end of the year	**183,641,387**	**(115,770,381)**	**67,871,006**	187,202,605	(127,287,842)	59,914,763

10. Insurance and other receivables

	2021 AED	2020 AED
Receivables arising from insurance and reinsurance contracts		
Due from policyholders	**286,457,977**	262,523,754
Due from reinsurance companies	**44,330,895**	22,909,381
Due from insurance companies	**86,462,126**	64,915,283
Expected credit loss	**(59,107,518)**	(56,607,518)
	358,143,480	293,740,900
Other receivables		
Staff receivables	**3,734,197**	4,332,235
Rent receivable	**13,336,542**	14,489,241
Prepayments and others	**10,914,962**	10,291,905
	386,129,181	322,854,281

The Group has adopted a policy of dealing with credit worthy counter parties. Adequate credit assessment is made before accepting any insurance contracts from any counter party. The average credit period is 120 days.

The Group writes off an insurance receivable 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 etc.

The Group always measures the loss allowance for receivables at an amount equal to lifetime ECL. The expected credit losses on insurance receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. There has been no change in the estimation techniques or significant assumptions made during the current year.

The expected credit loss rate used to compute the loss allowance for the receivables outstanding between 0-90 days was between 2% to 37% (2020: 2% to 37%) and outstanding more than 90 days 40% (2020: more than 90 days 40%).

Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customer.

The geographical allocation of receivables arising from insurance and reinsurance contracts is as follows:

31 December 2021

	Inside UAE AED	Outside UAE AED	Total AED
Due from policy holders	286,457,977	-	286,457,977
Due from insurance companies	85,465,506	996,620	86,462,126
Due from reinsurance companies	7,782,285	36,548,610	44,330,895
Less: Expected credit loss	(56,607,518)	(2,500,000)	(59,107,518)
	323,098,250	35,045,230	358,143,480

10. Insurance and other receivables (continued)

31 December 2021 (continued)

	Due from Policy holders AED	Due from insurance companies AED	Due from reinsurance companies AED	Total AED
Inside UAE				
Less than 60 days	119,977,311	30,960,960	4,401,303	155,339,574
61 to 120 days	65,185,099	18,199,865	3,154,053	86,539,017
121 to 180 days	11,095,755	6,650,007	5,541	17,751,303
181 to 270 days	12,121,647	3,935,614	576	16,057,837
271 to 365 days	45,178,493	604,166	-	45,782,659
More than 365 days	32,899,672	25,114,894	220,812	58,235,378
	286,457,977	85,465,506	7,782,285	379,705,768
Less: Expected credit loss	(42,705,896)	(13,901,622)	-	(56,607,518)
	243,752,081	71,563,884	7,782,285	323,098,250

	Due from Policy Holders AED	Due from insurance companies AED	Due from reinsurance companies AED	Total AED
Outside UAE				
Less than 60 days	-	-	12,981,975	12,981,975
61 to 120 days	-	-	971,004	971,004
121 to 180 days	-	-	182,616	182,616
181 to 270 days	-	-	755,079	755,079
271 to 365 days	-	-	2,431,785	2,431,785
More than 365 days	-	996,620	19,226,151	20,222,771
	-	996,620	36,548,610	37,545,230
Less: Expected credit loss	-	-	(2,500,000)	(2,500,000)
	-	996,620	34,048,610	35,045,230

31 December 2020

	Inside UAE AED	Outside UAE AED	Total AED
Due from policy holders	262,523,754	-	262,523,754
Due from insurance companies	63,707,638	1,207,645	64,915,283
Due from reinsurance companies	1,691,972	21,217,409	22,909,381
Less: Expected credit loss	(56,607,518)	-	(56,607,518)
	271,315,846	22,425,054	293,740,900

10. Insurance and other receivables (continued)

	Due from Policy Holders AED	Due from insurance companies AED	Due from reinsurance companies AED	Total AED
Inside UAE				
Less than 60 days	67,572,652	12,173,074	130,139	79,875,865
61 to 120 days	65,653,717	18,059,210	508,371	84,221,298
121 to 180 days	11,646,919	1,826,167	25,318	13,498,404
181 to 270 days	44,664,152	2,632,075	169	47,296,396
271 to 365 days	40,523,130	1,843,826	281	42,367,237
More than 365 days	32,463,184	27,173,286	1,027,694	60,664,164
	262,523,754	63,707,638	1,691,972	327,923,364
Less: Expected credit loss	(56,607,518)	-	-	(56,607,518)
	205,916,236	63,707,638	1,691,972	271,315,846

	Due from Policy holders AED	Due from insurance companies AED	Due from reinsurance companies AED	Total AED
Outside UAE				
Less than 60 days	-	36,950	389,792	426,742
61 to 120 days	-	18,598	678,159	696,757
121 to 180 days	-	-	543,089	543,089
181 to 270 days	-	1,000	330,041	331,041
271 to 365 days	-	6,124	-	6,124
More than 365 days	-	1,144,973	19,276,328	20,421,301
	-	1,207,645	21,217,409	22,425,054

Movements in Expected credit loss:

	2021 AED	2020 AED
Balance at the beginning of the year	**56,607,518**	56,607,518
Charged during the year	**2,500,000**	-
Balance at the end of the year	**59,107,518**	56,607,518

10. Insurance and other receivables (continued)

In determining the recoverability of an insurance receivable, the Group considers any change in the credit quality of the insurance receivable from the date credit was initially granted up to the reporting date.

11. Bank balances and cash

	2021 AED	2020 AED
Cash on hand	**120,474**	114,100
Bank balances:		
Current accounts	**29,447,896**	32,735,048
Call accounts	**9,484,362**	3,366,874
Margin deposits	**1,181,000**	1,463,000
Fixed deposits	**297,661,726**	279,472,640
Bank balances and cash	**337,895,458**	317,151,662
Less: Deposits under lien (Note 15)	**(105,910,236)**	(93,549,664)
Less: Deposits with original maturity of more than three months	**(191,751,490)**	(175,922,976)
Less: Margin deposits	**(1,181,000)**	(1,463,000)
Cash and cash equivalents	**39,052,732**	46,216,022

The interest rate on fixed deposits with banks ranges from 0.55% to 3.25% (2020: 0.89% to 3.8%) per annum. All fixed deposits are held in local banks in the United Arab Emirates.

12. Share capital

	2021 AED	2020 AED
Authorised, issued and fully paid:		
250 million ordinary shares of AED 1 each (2020: 250 million ordinary shares of AED 1 each)	**250,000,000**	250,000,000

13. Reserves

13.1 Statutory reserve

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

13.2 Voluntary reserve

The voluntary reserve is established through transfers from profit for the year as recommended by the Board of Directors and approved by the Shareholders at the Annual General Meeting. The reserve is distributable based on a recommendation by the Board of Directors, approved by a Shareholders' resolution. No transfers were approved by the Board of Directors for the years ended 31 December 2021 and 31 December 2020.

13. Reserves (continued)

13.3 Reinsurance reserve

In accordance with Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) Board of Directors' Decision No. 23 Article 34, an amount of AED 3,197,735 (2020: 3,619,051) was transferred from retained earnings to reinsurance reserve. The reserve is not available for distribution and will not be disposed of without prior approval from Central Bank of the U.A.E. ("CBUAE").

14. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2021 AED	2020 AED
Balance at the beginning of the year	**36,713,478**	39,004,770
Amounts charged during the year	**4,110,113**	1,981,183
Amounts paid during the year	**(1,036,279)**	(4,272,475)
	39,787,312	36,713,478

15. Bank borrowings

	2021 AED	2020 AED
Bank overdraft	**60,565,828**	35,311,096
Term loans	**196,092,158**	245,978,419
	256,657,986	281,289,515
The bank borrowings are repayable as follows:		
On demand or within one year	**132,454,063**	93,315,004
In the second year	**105,870,588**	63,770,588
In the third and subsequent years	**18,333,335**	124,203,923
	256,657,986	281,289,515
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(132,454,063)**	(93,315,004)
Amount due for settlement after 12 months (shown under non-current liabilities)	**124,203,923**	187,974,511

Bank overdrafts are repayable on demand and carry out interest rates ranging from 2.35% to 3.25% plus 3 months EIBOR (2020: 2.35% to 2.75% plus 3 months EIBOR) per annum.

The term loans description, maturity dates, and classification are set in the table below:

	Note	Maturity	2021 AED	2020 AED
Loan 1	(i)	31 December 2025	**38,333,333**	48,333,333
Loan 2	(ii)	30 June 2023	**73,058,825**	97,411,766
Loan 3	(iii)	1 May 2024	**25,000,000**	33,333,320
Loan 4	(iv)	27 August 2023	**59,700,000**	66,900,000
			196,092,158	245,978,419

15. Bank borrowings (continued)

Main features of bank borrowings:

- Bank loans are obtained to finance the construction of investment properties and to meet its operating capital requirements.
- Bank overdraft is payable on demand.

(i) Bank loan for the amount of AED 75,000,000 was obtained in November 2017 to be repaid on monthly instalments of AED 833,333 commencing from May 2019 till October 2025 with interest rate 2.75% plus 1 month EIBOR.

(ii) Bank loan for the amount of AED 276,000,000 was obtained in November 2014 to refinance original facility and expend additional borrowing to be repaid on quarterly instalment of AED 8,117,647 till June 2023 with interest rate of 2.35% plus EIBOR rate paid every 3 months.

(iii) Bank loan for the amount of AED 50,000,000 was obtained in May 2017, AED 25,000,000 is to be repaid on monthly instalments of AED 694,444 commencing from January 2020 till December 2021, whereas remaining balance is to be repaid in two installment of AED 12,500,000 each on May 2023 & May 2024 and bears interest rate of 2.35% plus 1 month EIBOR.

(iv) Bank loan for the amount of AED 75,000,000 was obtained in August 2019. AED 2,600,000 is to be repaid on four quarterly instalments of AED 650,000 commencing from November 2019, AED 5,500,000 is to be repaid on five quarterly instalments of AED 1,100,000 commencing from November 2020, AED 7,200,000 is to be repaid on four quarterly instalments of AED 1,800,000 commencing from February 2021, AED 8,800,000 is to be repaid on four quarterly instalments of AED 2,200,000 commencing from February 2022, AED 28,400,000 is to be repaid on two quarterly instalments of AED 14,200,000 commencing from February 2023, whereas the remaining amount of AED 22,500,000 is to be repaid in one installment on August 2023 and bears interest rate of 2.35% plus 3 month EIBOR.

At 31 December 2021, bank borrowings were secured by lien on fixed deposits amounting to AED 105.9 million (2020: AED 93.6 million) (Note 11), mortgage of investment properties with fair value of AED 836.5 million (2020: AED 853.4 million) and assignment of rental proceeds from certain investment properties (Note 6).

Borrowing agreements included financial covenants, of which neither of them was breached during the year.

Classification of bank borrowings between current and non current is as follows:

	2021	2020
	AED	AED
Current portion	**132,454,063**	93,315,004
Non current portion	**124,203,923**	187,974,511
	256,657,986	281,289,515

16. Insurance and other payables

	2021 AED	2020 AED
Payables arising from insurance and reinsurance contracts:		
Claims payables	**118,690,371**	53,224,266
Due to insurance companies	**19,551,917**	25,320,222
Due to reinsurance companies	**261,996,622**	260,869,862
Premium received in advance	**1,949,362**	1,017,299
	402,188,272	340,431,649
Other payables		
Rent received in advance	**2,302,423**	4,273,821
Accrued expenses and other payable	**18,674,158**	29,229,943
Due to employees	**14,189,202**	13,995,165
	437,354,055	387,930,578

17. Net insurance premium revenue

	2021 AED	2020 AED
Gross premium written		
Gross premium written	**897,744,800**	909,576,732
Change in unearned premium (Note 9)	**3,561,218**	16,641,615
	901,306,018	926,218,347
Reinsurance premium ceded		
Reinsurance premium ceded	**(639,546,912)**	(723,810,186)
Change in unearned premium (Note 9)	**(11,517,461)**	(12,962,890)
	(651,064,373)	(736,773,076)
Net insurance premium revenue	**250,241,645**	189,445,271

18. Investment and other income

	2021 AED	2020 AED
Interest income on deposits	**8,389,624**	10,159,582
Dividend from investments	**784,673**	620,206
Decrease in fair value of investment properties (Note 6)	**(23,005,500)**	(30,725,500)
Income from investment properties (Note 6)	**18,901,696**	28,004,420
Gain on cancellation of lease	**39,503**	-
Other income	**41,769**	100,599
	5,151,765	8,159,307

19. Profit for the year

Profit for the year has been arrived at after charging the following expenses:

	2021 AED	2020 AED
Staff costs	**39,888,539**	38,583,444
Depreciation of property and equipment	**3,401,699**	3,358,844

There were no social contributions during the year.

20. Basic and diluted earnings per share

	2021	2020
Profit for the year (in AED)	**25,034,528**	23,985,148
Number of outstanding shares	**250,000,000**	250,000,000
Basic and diluted earnings per share (in AED)	**0.10**	0.10

Basic earnings per share has been calculated by dividing the profit for the year by the number of shares outstanding at the end of the reporting period. Diluted earnings per share as of 31 December 2021 and 31 December 2020 are equivalent to basic earnings per share as the Group did not issue any new instrument that would impact earnings per share when executed.

21. Related party transactions

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

At the end of the reporting period, amounts due from/to related parties included under due from policyholders and gross outstanding claims were as follows:

	2021 AED	2020 AED
Due from policyholders	**38,999,024**	39,680,855
Gross outstanding claims	**446,069**	7,666,718

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received and no expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

Transactions:

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

	2021 AED	2020 AED
Gross premium	**4,635,057**	3,054,747
Claims paid	**903,547**	188,531

21. Related party transactions (continued)

Compensation of board of directors/key management personnel

	2021 AED	2020 AED
Short-term benefits	**3,976,784**	4,109,684
Long-term benefits	**259,870**	283,750

22. Contingent liabilities

	2021 AED	2020 AED
Letters of guarantee	**6,240,296**	6,633,771

22.1 Legal proceedings

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial statements if settled unfavorably.

23. Insurance risk

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

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

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

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

23.1 Frequency and severity of claims

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

23. Insurance risk (continued)

23.1 Frequency and severity of claims (continued)

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

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

23.2 Sources of uncertainty in the estimation of future claim payments

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

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

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

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

23. Insurance risk (continued)

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

In calculating the estimated cost of unpaid claims (both reported and not), the Group's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes. The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The initial estimate of the loss ratios used for the current year (before reinsurance) are analyzed below by type of risk where the insured operates for current and prior year premiums earned.

	2021	2020
Type of risk		
Motor	**95%**	95%
Non-Motor	**84%**	84%

23.3 Process used to decide on assumptions

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

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

23.4 Concentration of insurance risk

Substantially all of the Group's underwriting activities are carried out in the United Arab Emirates.

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 arrangement with other parties for reinsurance purposes.

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. 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.

23.5 Sensitivity of underwriting profit and losses

The contribution by the insurance operations is a profit of AED 44 million for the year ended 31 December 2021 (2020: profit of AED 44 million). The Group does not foresee any major impact from insurance operations to the Group's results and expects to increase the contribution by insurance operations to the profitability due to the following reasons.

23. Insurance risk (continued)

23.5 Sensitivity of underwriting profit and losses

The Group has an overall retention level of 28% (2020: 20%) and the same is mainly contributed by motor and medical class of business. The Group tries to arrange appropriate excess of loss reinsurance cover to guard against major financial impact.

The Group earns a gross commission income of AED 108.7 million (2020: AED 86.5 million). These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

24. Capital risk management

The Group's objectives when managing capital are:

- to comply with the insurance capital requirements required by U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) and Organization of its Operations.
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

In U.A.E., Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) specifies the minimum amount and type of capital that must be held by the Group in addition to its insurance liabilities. The minimum required capital (presented in the table below) must be maintained at all times throughout the year.

The table below summarises the minimum required capital of the Group and the total capital held.

	2021 AED	2020 AED
Total capital held	**250,000,000**	250,000,000
Minimum regulatory capital	**100,000,000**	100,000,000

The Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) has issued resolution No. 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing insurance firms and AED 250 million for reinsurance firms. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies. The Group is in compliance with the minimum capital requirements.

Further, as per Article (8) of section (2) of financial regulations issued for insurance companies in U.A.E., the Group shall at all times comply with the requirements of solvency margin.

24. Capital risk management (continued)

24.1 Gearing ratio

The Group reviews the capital structure on a semi-annual basis. As part of this review, the Group considers the cost of capital and the risks associated with capital.

The gearing ratio at the year-end was as follows:

	2021 AED	2020 AED
Debt (i)	**256,657,986**	281,289,515
Bank balances and cash (ii)	**(347,895,458)**	(327,151,662)
	(91,237,472)	(45,862,147)
Equity (iii)	**680,907,508**	674,727,145
Net debt to equity ratio	**(0.13)**	(0.07)

(i) Debt is defined as bank borrowings (see Note 15).
(ii) Bank balances and cash includes statutory deposit (see Note 11).
(iii) Equity comprises of capital, reserves, cumulative changes in fair value and retained earnings.

25. Lease Liability

Lease liabilities are presented in the statement of financial position as follows:

	2021 AED	2020 AED
Current	**1,596,270**	3,112,586
Non-current	**3,641,342**	1,129,355
	5,237,612	4,241,941

The Group has leases for the offices all in UAE. Each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property and equipment (Note 5).

Right of use asset	**Number of right-of-use assets leased**	**Range of remaining term**	**Average remaining lease term**	**Number of leases with extension options**	**Number of leases with termination options**
Offices	20	1 to 2	2	20	20

25. Lease Liability (continued)

The incremental borrowing rate used for lease liabilities is 4% (2020: 4%). Future minimum lease payments at December 31, 2021 were as follows:

	Minimum lease payments due		
	Within 1 year	1-3 year	Total
December 31, 2021	AED	AED	**AED**
Lease payments	**3,733,455**	**5,501,023**	**9,234,478**
Finance charges	**(2,137,185)**	**(1,859,681)**	**(3,996,866)**
Net present value	**1,596,270**	**3,641,342**	**5,237,612**
31 December 2020			
Lease payments	4,759,828	1,348,534	6,108,362
Finance charges	(1,647,242)	(219,179)	(1,866,421)
Net present value	3,112,586	1,129,355	4,241,941

26. Financial instruments

The Group is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, foreign currency risk and credit risk.

26.1 Significant accounting policies

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

26.2 Categories of financial instruments

31 December 2021

	Amortised cost AED	FVOCI AED	Total AED
Financial assets			
Investments in securities at FVTOCI	-	26,852,264	26,852,264
Insurance and other receivables (excluding prepayments)	375,214,219	-	375,214,219
Bank balances and cash (including statutory deposit)	347,895,458	-	347,895,458
Total financial assets	723,109,677	26,852,264	749,961,941

26. Financial instruments (continued)

26.2 Categories of financial instruments (continued)

	At amortized cost AED
Financial liabilities	
Bank borrowings	**256,657,986**
Insurance and other payables (excluding premiums and rent received in advance)	**433,102,270**
Lease liabilities	**5,237,612**
Total financial liabilities	**694,997,868**

31 December 2020

	Amortised cost AED	FVOCI AED	Total AED
Financial assets			
Investments in securities at FVTOCI	-	20,711,683	20,711,683
Insurance and other receivables (excluding prepayments)	312,562,376	-	312,562,376
Bank balances and cash (including statutory deposit)	327,151,662	-	327,151,662
Total financial assets	639,714,038	20,711,683	660,425,721

	At amortized cost AED
Financial liabilities	
Bank borrowings	281,289,515
Insurance and other payables (excluding premiums and rent received in advance)	382,639,458
Lease liabilities	4,241,941
Total financial liabilities	668,170,914

26.3 Fair value measurements

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

26.3.1 Fair value of financial instruments carried at amortized cost

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair values.

26.3.2 Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial and non-financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the annual consolidated financial statements for the year ended 31 December 2021.

26. Financial instruments (continued)

26.3 Fair value measurements (continued)

26.3.3 Fair value measurements recognised in the consolidated statement of financial position

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

	Fair value as at 31 December 2021 AED	**31 December 2020 AED**	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
FVOCI investments						
Quoted equity securities	**23,374,166**	17,233,799	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	**3,478,098**	3,477,884	Level 3	Net assets valuation method	Net asset value	Higher the net assets, value of the investees, higher the fair value.
	26,852,264	20,711,683				

Reconciliation of FVOCI investments, movements in level 3 financial assets measured at fair value:

	2021 AED	2020 AED
Balance at the beginning of the year	**3,477,884**	**5,202,383**
Changes in fair value	**214**	**(1,700,000)**
Disposal of shares	**-**	**(24,499)**
Balance at the end of the year	**3,478,098**	**3,477,884**

There were no transfers between the levels during the year.

26.4 Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Market risk exposures are measured using sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

26. Financial instruments (continued)

26.5 Foreign currency risk

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

26.6 Credit risk

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

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

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

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

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

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

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

For insurance receivables the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Notes 3.14 include further details on the expected credit loss for these assets respectively.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

26. Financial instruments (continued)

26.6 Credit risk (continued)

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

26.7 Liquidity risk

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

The table below summarizes the maturity profile of the Group's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the financial assets and financial liabilities at the reporting date based on contractual repayment arrangements was as follows:

	Less than 1 month AED	1 to 3 months AED	3 months to 1 year AED	1 year to 5 years AED	More than 5 years AED	Total AED
31 December 2021						
Financial assets						
Investments in securities at FVTOCI	-	-	-	26,852,264	-	26,852,264
Insurance and other receivables (excluding prepayments)	67,565,076	272,902,310	34,746,833	-	-	375,214,219
Bank balances and cash (excluding cash on hand)	38,932,258	68,150,720	230,692,006	-	-	337,774,984
Statutory deposit	-	-	-	-	10,000,000	10,000,000
	106,497,334	341,053,030	265,438,839	26,852,264	10,000,000	749,841,467
Financial liabilities						
Bank borrowing	1,527,777	13,373,202	117,553,084	124,203,923	-	256,657,986
Insurance and other payables (excluding premium and rental received in advance)	13,200,104	31,918,922	387,983,244	-	-	433,102,270
Lease liabilities	181,398	289,330	1,125,542	3,641,342	-	5,237,612
	14,909,279	45,581,454	506,661870	127,845,265	-	694,997,868

26. Financial instruments (continued)

26.7 Liquidity risk (continued)

	Less than 1 month AED	1 to 3 months AED	3 months to 1 year AED	1 year to 5 years AED	More than 5 years AED	Total AED
31 December 2020						
Financial assets						
Investments in securities at FVTOCI	-	-	-	20,711,683	-	20,711,683
Insurance and other receivables (excluding prepayments)	66,851,309	184,042,136	-	61,668,931	-	312,562,376
Bank balances and cash (excluding cash on hand)	36,101,922	11,699,800	269,235,840	-	-	317,037,562
Statutory deposit	-	-	-	-	10,000,000	10,000,000
	102,953,231	195,741,936	269,235,840	82,380,614	10,000,000	660,311,621
Financial liabilities						
Bank borrowing	1,527,777	12,973,202	78,814,025	187,974,511	-	281,289,515
Insurance and other payables (excluding premium and rental received in advance)	13,003,629	15,512,377	354,123,452	-	-	382,639,458
Lease liabilities	209,960	440,991	478,404	3,112,586	-	4,241,941
	14,741,366	28,926,570	433,415,881	191,087,097	-	668,170,914

26.8 Interest risk

The Group's exposure to interest rate risk relates to its bank deposits and bank borrowings. During the year, bank deposits carried interest at the range of 0.55% to 3.25% per annum (2020: 0.89% to 3.8% per annum). Bank loans carried an interest rate in the range from 2.35% to 3.25% to plus 3 months EIBOR per annum (2020: 2.35% to 2.75% plus three months EIBOR per annum).

If interest rates had been 50 basis points lower throughout the year and all other variables were held constant, the Group's profit for the year ended 31 December 2021 and equity as at 31 December 2021 would increase by AED 210,924 (2020: Decrease AED 51,769).

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

26.9 Equity price risk

26.9.1 Sensitivity analysis

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Group's other comprehensive income and equity would have increased/decreased by AED 2.7 million (2020: AED 2 million).

26.9.2 Method and assumptions for sensitivity analysis

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

27. Segment information

The Group is organized into three business segments: general insurance, life assurance and investments. The general insurance segment incorporates all classes of general insurance including fire, marine, medical, motor, general accident and other classes of insurance. The life assurance segment includes group life insurance.

Investments segment includes investments in equity securities, investment properties and statutory deposit.

These segments are the basis on which the Group reports its primary segment information to the Chief Operating decision maker. Insurance premium represents the total income arising from insurance contracts. There are no transactions between the business segments.

27. Segment information (continued)

a) Segment consolidated statement of income for the year ended 31 December 2021

	Marine AED	Fire AED	Accident and liabilities AED	General and others AED	Life AED	Total insurance AED	Investments AED	Total AED
Gross written premiums	42,414,838	44,735,682	274,052,237	522,486,332	14,055,711	897,744,800	-	897,744,800
Change in unearned premiums	(1,331,315)	5,948,989	1,186,470	(2,196,797)	(46,129)	3,561,218	-	3,561,218
	41,083,523	50,684,671	275,238,707	520,289,535	14,009,582	901,306,018	-	901,306,018
Premiums ceded to reinsurance	27,962,738	38,835,832	155,401,464	404,238,907	13,107,971	639,546,912	-	639,546,912
Change in unearned premiums	691,012	4,896,636	6,963,953	(690,828)	(343,312)	11,517,461	-	11,517,461
	28,653,750	43,732,468	162,365,417	403,548,079	12,764,659	651,064,373	-	651,064,373
Net earned premiums	12,429,773	6,952,203	112,873,290	116,741,456	1,244,923	250,241,645	-	250,241,645
Gross claims paid	5,070,332	31,850,074	227,194,162	438,790,022	5,999,209	708,903,799	-	708,903,799
Gross outstanding claims, UALE, URR and IBNR - 1 January 2021	(23,021,133)	(21,637,827)	(148,496,407)	(142,319,228)	(13,141,578)	(348,616,173)	-	(348,616,173)
Gross outstanding claims, UALE, URR and IBNR - 31 December 2021	16,528,736	20,355,610	122,640,982	187,279,029	14,262,028	361,066,385	-	361,066,385
	(1,422,065)	30,567,857	201,338,737	483,749,823	7,119,659	721,354,011	-	721,354,011

27. Segment information (continued)

a) Segment consolidated statement of income for the year ended 31 December 2021 (continued)

	Marine AED	Fire AED	Accident and liabilities AED	General and Others AED	Life AED	Total insurance AED	Investments AED	Total AED
Reinsurance recoveries	2,025,005	21,761,819	131,907,638	346,916,353	5,009,957	507,620,772	-	507,620,772
Reinsurance outstanding claims , UALE, URR and IBNR - 1 January 2021	14,625,455	15,540,726	96,263,408	119,650,675	9,743,199	255,823,463	-	255,823,463
Reinsurance outstanding claims , UALE, URR and IBNR - 31 December 2021								
	7,280,842	13,171,706	65,110,340	144,377,260	10,730,122	240,670,270	-	240,670,270
	(5,319,608)	19,392,799	100,754,570	371,642,938	5,996,880	492,467,579	-	492,467,579
Net incurred claims	3,897,543	11,175,059	100,584,167	112,106,886	1,122,777	228,886,432	-	228,886,432
Net commissions	5,606,674	2,303,929	30,314,840	39,801,348	2,769,167	80,795,958	-	80,795,958
Net underwriting results	14,138,904	(1,918,927)	42,603,962	44,435,918	2,891,314	102,151,171	-	102,151,171
Investment properties income	-	-	-	-	-	-	(4,103,804)	(4,103,804)
Net gain from investment in securities and other investments	-	-	-	-	-	-	9,255,569	9,255,569
Net income/ (loss) before operating and administrative expenses	14,138,904	(1,918,927)	42,603,962	44,435,918	2,891,314	102,151,171	5,151,765	107,302,936
Operating and administrative expenses	8,128,763	3,275,733	25,009,651	20,141,289	747,925	57,303,361	24,965,047	82,268,408
Net operating results	6,010,141	(5,194,660)	17,594,311	24,294,629	2,143,389	44,847,810	(19,813,282)	25,034,528

27. Segment information (continued)

b) Segment consolidated statement of income for the year ended 31 December 2020

	Marine AED	Fire AED	Accident and liabilities AED	General and Others AED	Life AED	Total Insurance AED	Investments AED	Total AED
Gross written premiums	39,728,789	52,891,638	296,741,858	511,464,230	8,750,217	909,576,732	-	909,576,732
Change in unearned premiums	(2,205,506)	623,424	18,656,104	(949,019)	516,612	16,641,615	-	16,641,615
	37,523,283	53,515,062	315,397,962	510,515,211	9,266,829	926,218,347	-	926,218,347
Premiums ceded to reinsurance	28,190,589	44,294,349	213,554,146	429,676,900	8,094,202	723,810,186	-	723,810,186
Change in unearned premiums	(481,430)	965,559	9,945,621	1,695,270	837,870	12,962,890	-	12,962,890
	27,709,159	45,259,908	223,499,767	431,372,170	8,932,072	736,773,076	-	736,773,076
Net earned premiums	9,814,124	8,255,154	91,898,195	79,143,041	334,757	189,445,271	-	189,445,271
Gross claims paid	7,102,632	11,156,378	186,064,221	447,400,852	5,095,997	656,820,080	-	656,820,080
Gross outstanding claims, UALE, URR and IBNR - 1 January 2020	19,984,855	21,310,731	148,421,942	172,098,177	11,632,520	373,448,225	-	373,448,225
Gross outstanding claims, UALE, URR and IBNR - 31 December 2020	23,021,133	21,637,827	148,496,407	142,319,228	13,141,578	348,616,173	-	348,616,173
	10,138,910	11,483,474	186,138,686	417,621,903	6,605,055	631,988,028	-	631,988,028

27. Segment information (continued)

b) Segment consolidated statement of income for the year ended 31 December 2020 (continued)

	Marine AED	Fire AED	Accident and Liabilities AED	General and Others AED	Life AED	Total insurance AED	Investments AED	Total AED
Reinsurance recoveries	3,822,565	7,697,536	113,930,238	380,304,186	3,803,292	509,557,817	-	509,557,817
Reinsurance outstanding claims , UALE, URR and IBNR - 1 January 2020	13,018,018	15,474,534	84,655,547	141,266,114	8,533,970	262,948,183	-	262,948,183
Reinsurance outstanding claims , UALE, URR and IBNR - 31 December 2020	14,625,455	15,540,726	96,263,408	119,650,675	9,743,199	255,823,463	-	255,823,463
	5,430,002	7,763,728	125,538,099	358,688,747	5,012,521	502,433,097	-	502,433,097
Net incurred claims	4,708,908	3,719,746	60,600,587	58,933,156	1,592,534	129,554,931	-	129,554,931
Net commissions	4,304,502	4,810,120	8,911,058	19,112,480	2,744,585	39,882,745	-	39,882,745
Net underwriting results	9,409,719	9,345,527	40,208,666	39,322,365	1,486,808	99,773,085	-	99,773,085
Investment properties income	-	-	-	-	-	-	(2,721,080)	(2,721,080)
Net gain from investment in securities and other investments	-	-	-	-	-	-	10,880,387	10,880,387
Net income before operating and administrative expenses	9,409,719	9,345,527	40,208,666	39,322,365	1,486,808	99,773,085	8,159,307	107,932,392
Operating and administrative expenses	5,429,090	4,764,266	25,723,392	19,126,969	703,759	55,747,476	28,199,768	83,947,244
Net operating results	3,980,629	4,581,261	14,485,274	20,195,396	783,049	44,025,609	(20,040,461)	23,985,148

27. Segment information (continued)

c) Segment consolidated statement of financial position is as follows:

	31 December 2021				31 December 2020			
	General insurance AED	Life insurance AED	Investments AED	Total AED	General insurance AED	Life insurance AED	Investments AED	Total AED
Segment assets	685,778,996	28,805,137	1,174,403,532	1,888,987,665	651,388,315	25,463,891	1,172,067,064	1,848,919,270
Un allocated assets	-	-	-	75,664,580	-	-	-	71,802,165
Total	685,778,996	28,805,137	1,174,403,532	1,964,652,245	651,388,315	25,463,891	1,172,067,064	1,920,721,435
Segment liabilities	927,299,376	19,596,668	190,276,935	1,137,172,979	857,797,094	18,453,333	226,252,895	1,102,503,322
Un allocated liabilities	-	-	-	146,571,758	-	-	-	143,490,968
	927,299,376	19,596,668	190,276,935	1,283,744,737	857,797,094	18,453,333	226,252,895	1,245,994,290

28. Dividends

At the annual Assembly General Meeting held on 29 March 2021, the shareholders approved a dividend of AED 10 Fils per share amounting to AED 25 million for the year 2020, and it was fully paid on 5 April 2021.

The Board of Directors propose that a dividend of AED 10 fils per share amounting to AED 25 million for 2021 to be paid to the shareholders in 2022.The Board also proposed a remuneration for the year ended 31 December 2021 of AED 1,050,000. These are subject to approval by the shareholders at the Annual General Meeting and have not been included as a liability in these consolidated financial statements.

29. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 9 March 2022.

30. Subsequent events

On January 31, 2022, the UAE Ministry of Finance announced the introduction of a 9% federal corporate tax rate effective for fiscal years commencing on or after June 1, 2023. There is no impact of this announcement on the consolidated financial statements of the Group for the year ended December 31, 2021. Management will commence the process of assessing the implications of this federal corporate tax on the Group.