

Al Dhafra Insurance Company (P.S.C.)

**BOARD OF DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

For the year ended 31 December 2020

Al Dhafra Insurance Company (P.S.C.)
Audited Financial Statements

For the year ended 31 December 2020

Composition of Board of Directors

Chairman:	H.E Sheikh Mohamed Bin Sultan Bin Soroor Al Dhahiry
Deputy Chairman:	H.E. Yousef Bin Mohamad Ali Nasser Al Nowais
Directors:	H.E. Sh. Ahmed Moh'd Sultan Suroor Al Dhahiri
	Mr. Rashid Saeed Ahmad Saeed Ghobash
	H.E Sh. Sultan Saeed Sultan Surour Al Dhahiri
	H.E. Saif Mubarak Saif Al Riyami
	H.E. Saif Saeed Ahmed Saeed Ghobash
	Mr. Mohamed Saeed Ahmed Omran Al Mazrouei
	Mr. Mohamed Hussain Jasim Naser Al Nowais
General Manager	Mr. Kamal Sartawi
Address:	P.O. Box 319 Abu Dhabi United Arab Emirates
External auditors:	Grant Thornton Middle East

Al Dhafra Insurance Company (P.S.C.)
Audited Financial Statements

For the year ended 31 December 2020

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THE BOARD OF DIRECTORS' 41th ANNUAL REPORT
FOR THE YEAR ENDED 31st DECEMBER 2020

Dear Shareholders,

The Board of Directors have the pleasure to welcome you to the Ordinary General Assembly of Al Dhafra Insurance Company P.S.C. (the "Company") and present to you the 41th Annual Report regarding the business activities of the Company during 2020 as well as the financial statements for the year ended 31st December 2020 along with Auditor's Report.

At the outset, the Board of Directors would like to express their appreciation and utmost respect to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the President of the United Arab Emirates and His Brothers, the Rulers of other Emirates and His Highness Sheikh Mohamad Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi for their continuous limitless support and patronage for National institutions and Companies. All credits for the progress and stability achieved by the Country go to our wise leadership.

The year under report was an unprecedented year in the history of the company with the pandemic ravaging economic activity globally and forced several restrictions on the way business were set to function. Despite this formidable challenges faced, your company managed to maintain its distinguished performance through the dedicated, loyal and hardworking team of Al Dhafra Insurance Company at all levels who could do everything to reduce negative impact of the pandemic.

Company continues its strong position in the market in terms of technical results, net profit, EPS, ROI which is the result of balanced, long term business model and prudent investment strategy adopted by the Company in the volatile global and regional economic scenario.



We give here below summary of various aspects of the balance sheet

Gross and Net premium

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The gross premium written for the year ended 31 December 2020 amounted to AED 289,773,699 (2019: AED 323,786,185), depicting a decrease of (10.51 %).

The net retained premium for the year ended 31 December 2020 amounted to AED 73,424,255 (2019: AED 87,924,794), depicting a decrease of (16.49 %).

Gross and Net claims

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The gross claims paid by the Company during the year amounted to AED 140,990,838 (2019: AED 168,831,958), depicting a decrease of (16.49 %).

Net claims paid during the year amounted to AED 28,071,930 (2019: AED 42,716,392), depicting a decrease of (34.28 %).

Technical Provisions

=====

The net technical provisions (excluding deferred acquisition costs and unearned commission income) at 31 December 2020 amounted to AED 93,767,927 (2019: AED 101,297,258).

The net technical provision for the current year is hence 128 % of the retained premium (2019: 115%).



Figures relating to Different classes of Insurance

Gross written Premiums	2020 (AED)	2019 (AED)
Marine	58,796,862	62,235,279
Other classes of business	230,976,837	261,550,906
Total	289,773,699	323,786,185

Gross Paid Claims	2020 (AED)	2019 (AED)
Marine	22,017,312	4,453,131
Other classes of business	118,973,526	164,378,827
Total	140,990,838	168,831,958

Net Technical Provisions	2020 (AED)	2019 (AED)
Marine	3,780,348	5,455,721
Other classes of business	89,987,579	95,841,537
Total	93,767,927	101,297,258

Investments:

The total investments including investment properties of the Company stand at AED 276,505,223 as at 31 December 2020 (2019: AED 299,693,220), showing a decrease of (7.74 %). Decrease is attributable to the fluctuation in market value.

It is worth mentioning that most of the investments of company are within the U.A.E. The Company has no investments in United States of America or in Europe and all available cash are deposited in the banks within the U.A.E.



General, administrative and other operating expenses:

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The general, administrative and other expenses for the year amounted to AED 41,917,957 (2019: AED 45,031,839), depicting a decrease of (6.91 %).

Profits for the year

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The profit of the Company from insurance and investment activities for the year under review is AED 54,795,358 (2019: AED 71,098,034), showing a decrease of (22.93 %).

The Company's branches and offices

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The Company has branches and point of sales in most residential areas and service centers in Abu Dhabi, Al Ain, Baniyas, Musaffah, and in the Traffic Department of Abu Dhabi in addition to branches in Dubai and Sharjah.

Distribution of profit

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The net profit for the year of AED 54,795,358 achieved by the Company with the retained profit from the previous years amounted to a distributable income of AED 118,417,671. We recommend appropriation of the above profit as follows:

Details of Appropriation	AED
- To be distributed as cash dividend	40,000,000
- Board of Directors Remuneration	4,500,000
- To be carried forwarded to the subsequent year	73,917,671

Plan for the year 2020

=====

- Company will continue its efforts to maintain its performance irrespective of the ongoing pandemic induced economic scenario.



Recommendations of Board of Directors to Shareholders:

The Board of Directors is pleased to present the following recommendations to the Ordinary General Assembly of the Shareholders of the Company for their approval.

1. Listen to and approve the Board of Director's Report on the Company's activity and its financial position for the fiscal year ended 31/12/2020.
2. Listen to and approve the Auditor's Report for the fiscal year ended on 31/12/2020.
3. Discuss and approve the Company's balance sheet and profit and loss account for the fiscal year ended on 31/12/2020.
4. Consider the Board of Director's proposals concerning the distribution of profits by 40 % of the nominal value of the share as a cash dividend of AED 40 million. At 40 fils per share.
5. Approve a proposal concerning the remuneration of the members of the Board of Director's.
6. Discharge the members of the Board of Directors for the fiscal year ended on 31/12/2020, or remove them and file a liability action against them, as the case may be.
7. Discharge the auditors for the fiscal year ended 31/12/2020, or remove them and file a liability action against them, as the case may be.
8. Appoint the auditors for the year 2021 and determine their fees.

Conclusion:

The Board of Directors would like to praise Company's clients, reinsurance companies and brokers for their strong support and confidence in the Company and also the persistent efforts of the management and staff of the Company who did their best to serve the Company.

On behalf of the Board of Directors,

Chairman



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**Independent Auditor's Report
To the Shareholders of Al Dhafra Insurance Company P.S.C.**

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Al Dhafra Insurance Company P.S.C. (the "Company"), which comprise the statement of financial position as at 31 December 2020, statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Company for the year ended 31 December 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

i) Valuation of technical provisions

The estimation of liabilities arising from insurance contracts such as unearned premiums reserve, claims under settlement reserve, incurred but not reported claims reserve and unallocated loss adjustment expenses reserve as disclosed in Note 11 to the financial statements, involves a significant degree of judgement. These liabilities are based on the pattern of risk distributions over coverage period, 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 persistency (including consideration of policyholder behavior). 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.

**Independent Auditor's Report
To the Shareholders of Al Dhafra Insurance Company P.S.C.**

Report on the Financial Statements (continued)

Key Audit Matters (continued)

We assessed management's calculations of the technical reserves by performing the following procedures:

- We have obtained the report prepared by the independent actuary which was appointed by the Company.
- We involved our actuarial specialists to assist us in performing the audit procedures in this area, which included amongst others, review of methodology, data used as input, and estimates and judgements used in the Actuary's valuation.
- We have assessed the Actuary's independence, expertise and qualifications and read their terms of engagement to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.

ii) Revenue recognition

Gross premiums comprise the total premium receivable for the whole period of cover by contracts entered into during the accounting period, and are recognised on the date on which the policy commences. At the end of each year, a proportion of net retained premiums is provided for as an unearned premium reserve to cover portions of risk that have not expired at the reporting date. The reserve is required to be calculated in accordance with the requirements of the UAE Insurance Law relating to insurance companies.

We assessed management's calculation of gross premiums amounting to AED 289,773,699 and net unearned premium reserve amounting to AED 36,658,958 (note 11) by performing audit procedures, which included among others:

- We assessed whether the Company's revenue recognition policies complied with IFRS and tested the implementation of those policies. Specifically, we considered whether the premium on policies are accounted for on the date of inception of policies, by testing a sample of revenue items to policy contracts.
- We evaluated and tested the operating effectiveness of the internal controls over the recording of revenue in the correct period.
- We compared the unearned premium reserve balance as per the financial statements to the reserve balance computed by the Company's actuary.
- We recalculated the unearned premium reserve based on the earning period of policy contracts existing as of 31 December 2020.

Other Information

Management is responsible for the other information contained in the financial statements which comprises the information included in the *Board of Director's Report*, but which does not include the financial statements and our auditors' report thereon.

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



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Independent Auditor's Report

To the Shareholders of Al Dhafra Insurance Company P.S.C.

Report on the Financial Statements (continued)

Other Information (continued)

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



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Independent Auditor's Report

To the Shareholders of Al Dhafra Insurance Company P.S.C.

Report on the Financial Statements (continued)

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

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Further, as required by the Federal Law No. 6 of 2007 on the Establishment of the Insurance Authority and Organisation of the Insurance Operations and UAE Federal Law No. 2 of 2015, we report that:

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organization of the Insurance Operations and UAE Federal Law No. 2 of 2015;



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Independent Auditor's Report

To the Shareholders of Al Dhafra Insurance Company P.S.C.

Report on Other Legal and Regulatory Requirements (continued)

- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Board of Director's Report, in so far as it relates to these financial statements, is consistent with the books of account of the Company;
- v) as disclosed in note 8 and 9 to the financial statements, the Company has sold certain shares during the year ended 31 December 2020;
- vi) note 13 to the financial statements discloses material related party transactions, 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 Company has contravened during the financial year ended 31 December 2020 any of the applicable provisions of the Federal Law No. 6 of 2007 on the Establishment of the Insurance Authority and Organization of the Insurance Operations and UAE Federal Law No. 2 of 2015 or of its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2020;

Grant Thornton

GRANT THORNTON

Farouk Mohamed

Registration No: 86

Abu Dhabi, United Arab Emirates

Date: 9 February 2021



Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Statement of Financial Position
As at 31 December 2020

		2020 AED	2019 AED
	Notes		
ASSETS			
Property and equipment	3	1,534,096	1,985,244
Intangible assets	4	3,817,779	1,253,615
Right-of-use-assets	5	5,312,243	8,101,123
Investment properties	6	65,812,225	65,812,225
Statutory deposits	7	9,980,000	9,980,000
Investments carried at fair value through other comprehensive income	8	170,556,736	190,053,996
Investments carried at fair value through profit and loss	9	40,136,262	43,826,999
Insurance balances receivable	10	106,329,866	116,875,552
Deferred acquisitions costs		16,432,759	15,510,242
Reinsurer's share of unearned premium reserve	11	85,530,265	98,900,552
Reinsurer's share of outstanding claims reserves	11	134,554,763	130,648,879
Reinsurer's share of claims incurred but not reported reserve	11	44,274,346	37,391,660
Reinsurer's share of unexpired risk reserve (premium deficiency reserve)	11	-	591,565
Prepayments and other receivables	10	7,800,394	6,110,522
Deposits	12	183,208,101	104,367,554
Cash and cash equivalents	12	98,881,191	193,071,447
TOTAL ASSETS		974,161,026	1,024,481,175
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	100,000,000	100,000,000
Legal reserve	15	50,000,000	50,000,000
General reserve	15	145,000,000	145,000,000
Investment revaluation reserve	15	(20,696,624)	(5,276,307)
Reinsurance reserve	15	1,101,777	-
Retained earnings		113,917,671	101,749,453
TOTAL EQUITY		389,322,824	391,473,146
LIABILITIES			
Provision for employees' end of service benefits	16	8,341,652	7,915,825
Lease liabilities	5	4,872,807	7,669,571
Insurance payables	17	168,494,390	193,864,669
Other payables	17	23,154,394	29,988,056
Unearned commission income		21,847,658	24,739,994
Technical provisions			
Unearned premium reserve	11	122,189,223	138,792,481
Outstanding claims reserve	11	161,604,927	161,984,266
Claims incurred but not reported reserve	11	68,798,559	61,124,793
Unallocated loss adjustment expense reserve	11	4,488,031	4,263,508
Unexpired risk reserve (premium deficiency reserve)	11	1,046,561	2,664,866
TOTAL LIABILITIES		584,838,202	633,008,029
TOTAL EQUITY AND LIABILITIES		974,161,026	1,024,481,175

These financial statements were approved by the Board of Directors on 9 February 2021 and signed on their behalf by:

Assistant General Manager - Finance

General Manager

Board member

The accompanying notes from 1 to 31 form an integral part of these financial statements.



Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Statement of income
For the year ended 31 December 2020

	Notes	2020 AED	2019 AED
Gross premiums written	20	289,773,699	323,786,185
Reinsurance premium ceded	20	(216,349,444)	(235,861,391)
Net premium	20	73,424,255	87,924,794
Net change in unearned premium		3,232,971	5,282,726
Net premium earned		76,657,226	93,207,520
Commission earned		56,613,948	62,445,212
Commission incurred		(34,674,362)	(36,988,639)
Gross underwriting income		98,596,812	118,664,093
Gross claims paid	21	(140,990,838)	(168,831,958)
Reinsurance share of claims paid	21	112,918,908	126,115,566
Net claims paid	21	(28,071,930)	(42,716,392)
Change in outstanding claims reserve		379,339	4,080,530
Change in reinsurer's share of outstanding claims reserve		3,905,884	9,025,260
Change in claims incurred but not reported reserve, net		(791,080)	1,334,557
Change in unexpired risk reserve – net		1,026,740	(2,073,301)
Change in unallocated loss adjustment expense reserve		(224,523)	157,688
Net claims incurred		(23,775,570)	(30,191,658)
Underwriting income		74,821,242	88,472,435
Other income relating to underwriting		5,102,387	1,674,914
General and administrative expenses relating to underwriting	23	(2,453,810)	(4,887,936)
Net underwriting income		77,469,819	85,259,413
Income from investments	22	14,853,466	23,668,549
Income from investment properties (rental income)	6	1,923,157	2,290,808
Other income, net		13,063	23,167
Total income		94,259,505	111,241,937
General and administrative expenses	23	(39,202,529)	(39,767,637)
Finance cost		(261,618)	(376,266)
PROFIT FOR THE YEAR		54,795,358	71,098,034
Basic and diluted earnings per share	19	0.55	0.71

The accompanying notes from 1 to 31 form an integral part of these financial statements.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Statement of comprehensive income
For the year ended 31 December 2020

	Note	2020 AED	2019 AED
Profit for the year		54,795,358	71,098,034
Other comprehensive income/ (loss)			
<i>Items that will not be reclassified to statement of income:</i>			
Gain on sale of investments carried at fair value through other comprehensive income		209,120	-
Change in fair value relating to investments carried at fair value through other comprehensive income	8	(17,154,800)	5,122,104
Other comprehensive (loss) / income for the year		(16,945,680)	5,122,104
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		37,849,678	76,220,138

The accompanying notes from 1 to 31 form an integral part of these financial statements.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Statement of changes in equity
For the year ended 31 December 2020

	Share capital AED	Legal reserve AED	General reserve AED	Investment revaluation reserve AED	Reinsurance reserve AED	Retained earnings AED	Total equity AED
Balance as at 1 January 2019	100,000,000	50,000,000	145,000,000	(9,603,042)	-	64,856,050	350,253,008
Net profit for the year	-	-	-	-	-	71,098,034	71,098,034
Other comprehensive income for the year	-	-	-	5,122,104	-	-	5,122,104
Total comprehensive income for the year	-	-	-	5,122,104	-	71,098,034	76,220,138
Transfer to retained earnings on disposal of investments carried at fair value through other comprehensive income	-	-	-	(795,369)	-	795,369	-
Dividends declared and paid	-	-	-	-	-	(35,000,000)	(35,000,000)
Balance as at 31 December 2019	100,000,000	50,000,000	145,000,000	(5,276,307)	-	101,749,453	391,473,146
Balance as at 1 January 2020	100,000,000	50,000,000	145,000,000	(5,276,307)	-	101,749,453	391,473,146
Net profit for the year	-	-	-	-	-	54,795,358	54,795,358
Other comprehensive loss for the year	-	-	-	(16,945,680)	-	-	(16,945,680)
Total comprehensive income for the year	-	-	-	(16,945,680)	-	54,795,358	37,849,678
Dividends declared and paid	-	-	-	-	-	(40,000,000)	(40,000,000)
Transfer to reinsurance reserve	-	-	-	-	1,101,777	(1,101,777)	-
Transfer of cumulative unrealized loss to retained earnings on disposal of equity investments carried at FVOCI	-	-	-	1,525,363	-	(1,525,363)	-
Balance as at 31 December 2020	100,000,000	50,000,000	145,000,000	(20,696,624)	1,101,777	113,917,671	389,322,824

The accompanying notes from 1 to 31 form an integral part of these financial statements.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Statement of cashflows
For the year ended 31 December 2020

	Notes	31 December 2020 AED	31 December 2019 AED
OPERATING ACTIVITIES			
Profit for the year		54,795,358	71,098,034
Adjustments for:			
Unearned premium and unexpired risk reserve, net		(4,259,711)	(3,209,425)
Change in outstanding claims and claims incurred but not reported reserves		7,518,950	(11,904,892)
Change in reinsurance share of outstanding claims and claims incurred but not reported reserves		(10,788,570)	(2,693,143)
Reversal of expected credit loss on insurance receivable	10	(82,419)	-
Change in fair value of investments carried at fair value through profit or loss	9, 22	2,149,122	(1,095,013)
Gain on disposal of investments carried at fair value through profit or loss	22	(137,625)	(1,502,289)
Provision for employees' end of service benefits	16	538,825	553,404
Depreciation of property and equipment and right-of-use asset	23	1,806,268	2,010,646
Amortisation of intangible assets	4, 23	766,671	521,722
Finance cost		261,618	376,266
Gain on termination of lease contract		(107,710)	-
Gain on disposal of property and equipment		(12,490)	(23,167)
Dividend income	22	(9,563,163)	(10,636,145)
Interest income	22	(7,303,512)	(10,459,200)
		35,581,612	33,036,798
Working capital changes:			
Insurance receivable, other receivables and prepayments		9,954,750	(16,286,210)
Insurance and other payables		(32,203,941)	10,736,158
Deferred acquisition costs		(922,517)	1,464,417
Unearned commission income		(2,892,336)	(3,239,879)
Cash generated from operations		9,517,568	25,711,284
Employees' end of service benefits paid	16	(112,998)	(186,452)
Net cash generated from operating activities		9,404,570	25,524,832
INVESTING ACTIVITIES			
Purchase of property and equipment	3	(331,522)	(1,460,367)
Proceeds from disposal of property and equipment		13,063	23,167
Purchase of intangible assets	4	(3,330,835)	(681,305)
Purchase of Investments carried at fair value through profit or loss		-	(90,058)
Proceeds from disposal of investment carried at fair value through profit and loss		1,679,240	48,520,528
Proceeds from disposal of investment carried at fair value through other comprehensive income		2,551,580	(581,502)
Additional placement in term deposits		(78,840,547)	120,354,902
Interest received		6,286,994	10,459,200
Dividends received		9,563,163	10,636,145
Net cash (used in)/ generated from investing activities		(62,408,864)	187,180,710
FINANCING ACTIVITIES			
Dividends paid	14	(40,000,000)	(35,000,000)
Lease liability instalment paid		(1,185,962)	(1,680,544)
Net cash used in financing activities		(41,185,962)	(36,680,544)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(94,190,256)	176,024,998
Cash and cash equivalents at the beginning of the year		193,071,447	17,046,449
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	98,881,191	193,071,447

The accompanying notes from 1 to 31 form an integral part of these financial statements.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements
For the year ended 31 December 2020

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Dhafra Insurance Company (P.S.C.) (the "Company"), is a public shareholding company incorporated in Abu Dhabi by Emiri Decree No. 8 of 1979.

The Company's ordinary shares are listed on the Abu Dhabi Securities Exchange.

The Company is engaged in insurance and reinsurance of all classes of business with the exception of endowments and annuities. The Company is domiciled in the United Arab Emirates and its registered office address is P.O. Box 319, Abu Dhabi, United Arab Emirates.

The financial statements of the Company for the year ended 31 December 2020 have been authorised for issuance in accordance with a resolution of the Board of Directors on 9 February 2021.

2 GENERAL INFORMATION

2.1 BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention as modified for investment properties and certain financial instruments that are measured at fair values as at the end of each reporting date.

The financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the Federal Law No. (6) of 2007 Concerning the Establishment of the Insurance Authority & Organization of the Insurance Operations, the Federal Law No. (2) of 2015 Concerning the Commercial Companies which has come into effect from 1 July 2015 and Insurance Authority Board Decision No. (25) of 2014 Pertinent to Financial Regulations for Insurance Companies.

The financial statements are presented in United Arab Emirates Dirhams (AED) being the functional currency of the Company.

The Company presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement of assets and liabilities within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 25.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements (continued)
For the year ended 31 December 2020

2 GENERAL INFORMATION (continued)

2.2 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS

Standards, interpretations and amendments to existing standards that are effective in 2020

In the current period, the Company has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2020. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Company's future transactions or arrangements.

- Amendments to References to the Conceptual Framework in IFRS Standards.
- Amendment to IFRS 3 regarding the definition of business.
- Amendment to IFRS 7, IFRS 9 and IAS 39 regarding the interest rate benchmark reforms.
- Amendments to IAS 1 and IAS 8 regarding the definition of materiality.
- Amendments to IFRS 16 regarding Covid-19 related rent concession.

These amendments do not have a significant impact on these financial statements and therefore the disclosures have not been made.

Standards and interpretations in issue but not yet effective and has not been adopted early by the Company

New standards and revised IFRSs not yet effective and has not been adopted early by the Company	Effective date
Amendments to IAS 1 to address classification of liabilities as current or non-current providing a more general approach based on the contractual arrangements in place at the reporting date.	1 January 2022
Amendments to IAS 16 'Property, Plant and Equipment' regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.	1 January 2022
Amendments to IAS 37 amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.	1 January 2022
Amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing its requirements	1 January 2022
Annual improvements to IFRS Standards 2018-2020	1 January 2022
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures (2011)' relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these amendments will be adopted in the financial information in the initial period when they become mandatorily effective. The impact of these standards and amendments is currently being assessed by the management.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements (continued)
For the year ended 31 December 2020

2 GENERAL INFORMATION (continued)

2.2 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS (CONTINUED)

Standards and interpretations in issue but not yet effective and has not been adopted early by the Company (continued)

Standard number	Title	Effective date
IFRS 17	Insurance Contracts	1 January 2023

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

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

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

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

2.3 SIGNIFICANT ACCOUNTING POLICIES

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- a) Financial assets at amortised cost (debt instruments, cash and cash equivalents and insurance balances receivable)
- b) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- c) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- d) Financial assets at fair value through profit or loss

Cash and cash equivalents

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

Financial assets at amortised cost

The Company measures financial assets at amortised cost if both of the following conditions are met:

- a) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through OCI

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of income.

This category includes listed equity investments which the Company had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of income when the right of payment has been established.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on financial assets measured at amortised cost, lease receivables, insurance receivables, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at the end of each reporting period to reflect changes in credit risk since initial recognition of the respective financial instrument.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For insurance receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 240 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition

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

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due and measured on initial recognition at the fair value of the consideration receivable/payable. Subsequent to initial recognition, insurance receivables and payables are measured at amortised cost, using the Effective Interest Rate ("EIR") method. 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 Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- a) There is a currently enforceable legal right to offset the recognised amounts; and
- b) There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Fair value measurement (continued)

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 26.

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment of non-financial assets

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

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

Impairment losses of continuing operations are recognised in the statement of income in those expense categories consistent with the function of the impaired asset.

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

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of non-financial assets (continued)

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill is allocated. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Insurance contracts

Classification

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

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

Premiums

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

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

Unearned premium reserve

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premium reserve is calculated as follows

- For marine cargo line of business, it is assumed that each policy is earned fully in the quarter following the quarter in which it was written. Hence the total unearned premium reserve at the end of a particular quarter will be equal to the written premium in that quarter;
- For engineering line of business, it is assumed that the pattern of risk is non-uniform, and accordingly, premiums are allocated and earned on a daily increasing basis over the term of policy period. The unearned premium reserve is calculated as the sum of earned premiums across all months after the valuation date; and
- For the remaining lines of businesses, the premiums are assumed to be earned evenly over time and the unearned premium reserve is calculated on a daily pro rata basis.

The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contracts continued

Unexpired risk reserve

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

Provision for premium deficiency / liability adequacy test

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

Claims

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

Reinsurance

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

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

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

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contracts (continued)

Deferred acquisition cost and Unearned commission income

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

Insurance contract liabilities

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

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

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

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

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

Leases

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

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Finance cost

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fittings	4 years
Motor vehicles	3 years
Computer equipment and accessories	5 years
Building	25 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Al Dhafra Insurance Company (P.S.C.)
Financial Statements

Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as the expense is incurred.

Intangible assets

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Cost includes purchase cost, together with any incidental expenses of acquisition. The amortisation charge is calculated so as to write off the cost of the intangible asset on a straight-line basis over the expected useful economic life of 6 years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period with the effect of any changes in estimation accounted for on a prospective basis.

Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at fair value with any change therein recognised in operating income in the statement of income. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. The Company holds investment properties which are disclosed in note 6.

Revenue - non insurance

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

Rental income

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

Interest income

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

Dividend income

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

Investment income

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

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

Realised and unrealised gain

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

Al Dhafra Insurance Company (P.S.C.)
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Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency

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

Provisions

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

Staff end of service benefits

Defined benefit plan

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

Defined contribution plan

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

Dividend

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

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as at fair value through other comprehensive income, fair value through profit or loss or amortised cost. In judging whether investments in securities are as at fair value through other comprehensive income, fair value through profit or loss or amortised cost, management has considered the detailed criteria for determination of such classification as set out in IFRS 9 Financial Instruments. Management is satisfied that its investments in securities are appropriately classified.

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Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, property, plant and equipment and/or property held for resale. The Company develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property, plant and equipment and property held for resale. In making its judgment, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 2 Inventories, IAS 16 Property, Plant and Equipment and IAS 40 Investment Property, and in particular, the intended usage of property as determined by management.

Fair value of financial instruments

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

Determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Estimation uncertainty

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

Liability adequacy test

The Company maintains a provision in respect of premium deficiency for the line of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance, from claims and other supplementary expenses expected to be incurred after the reporting date in respect of the unexpired policies in that line of business at the reporting date. The Company 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. The movement in the premium deficiency reserve (unexpired risk reserve) is recorded as an expense / income in profit or loss for the year.

Leases - estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses of insurance receivables

The Company uses a provision matrix to calculate ECLs for insurance receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating etc.).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

At the reporting date, gross insurance receivables were AED 130,173,447 (2019: AED 140,801,552) and the provision for expected credit losses was AED 23,843,581 (2019: AED 23,926,000). Any difference between the amounts actually collected in future periods and the amounts expected to be received will be recognised in the statement of income.

Provision for unearned premium reserve and unexpired risk reserve

Unearned premium reserves includes premium deficiency reserve (PDR) and unexpired risk reserve (URR) which are estimated using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The carrying value at the reporting date of UPR, PDR and URR reserve (net of related reinsurance asset) is AED 37,705,519 (2019: AED 41,965,230).

Provision for incurred but not reported claims (IBNR)

Estimates are made for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR), using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The carrying value at the reporting date of IBNR reserve (net of related reinsurance asset) is AED 24,524,213 (2019: AED 23,733,133).

Provision for outstanding claims

Provision for outstanding claims include provision for ULAE reserves. Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company generally estimates its claims based on previous experience and / or loss adjustor reports. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters along with the Company's internal legal counsel normally estimate such claims. ULAE reserves are estimated using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The carrying value at the reporting date of provision for outstanding claims (net of related reinsurance assets including ULAE reserves) is AED 31,538,195 (2019: AED 35,598,895).

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Notes to the financial statements (continued)
For the year ended 31 December 2020

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgments (continued)

Reinsurance

The Company is exposed to disputes with, and possibility of defaults by its reinsurer. The Company monitors on a monthly basis the evolution of disputes with and the strength of its reinsurer.

Estimation of fair value of investment properties

The fair value of investment properties is determined by independent real estate valuation consultants based on Discounted Cash Flow (DCF) and Investment Method of Valuation. The Investment method analyses potential rental income from the property and deducts the expenses incurred in the operation of the asset. The net rental income is then capitalised at market standards to arrive at Fair Value. The DCF method calculates the net.

Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual values realised. There was no change in fair value recognised in the statement of income for the year (2019: NIL).

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Notes to the financial statements (continued)
For the year ended 31 December 2020

3 PROPERTY AND EQUIPMENT

	Furniture and Fittings AED	Motor Vehicles AED	Computer Equipment and accessories AED	Total AED
Cost				
At 1 January 2019	2,852,892	862,100	2,376,976	6,091,968
Additions during the year	206,068	588,233	666,066	1,460,367
Disposals during the year	(63,095)	(48,900)	(124,653)	(236,648)
At 31 December 2019	2,995,865	1,401,433	2,918,389	7,315,687
Additions during the year	84,871	-	246,651	331,522
Disposals during the year	(103,228)	-	(115,106)	(218,334)
At 31 December 2020	2,977,508	1,401,433	3,049,934	7,428,875
Accumulated depreciation				
At 1 January 2019	2,630,865	741,032	1,555,133	4,927,030
Charge for the year	193,580	74,957	371,524	640,061
Disposals during the year	(63,095)	(48,900)	(124,653)	(236,648)
At 31 December 2019	2,761,350	767,089	1,802,004	5,330,443
Charge for the year	164,686	240,955	376,456	782,097
Disposals during the year	(102,655)	-	(115,106)	(217,761)
At 31 December 2020	2,823,381	1,008,044	2,063,354	5,894,779
Carrying amount				
As at 31 December 2020	154,127	393,389	986,580	1,534,096
As at 31 December 2019	234,515	634,344	1,116,385	1,985,244

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Notes to the financial statements (continued)
For the year ended 31 December 2020

4 INTANGIBLE ASSETS

	Computer Software AED	Capital Work in Progress AED	Total AED
Cost			
Balance at 1 January 2020	6,550,357	-	6,550,357
Additions	1,384,675	1,946,160	3,330,835
Disposal	(45,845)	-	(45,845)
Balance at 31 December 2020	7,889,187	1,946,160	9,835,347
Accumulated amortization			
Balance at 1 January 2020	5,296,742	-	5,296,742
Amortization for the year	766,671	-	766,671
Disposal	(45,845)	-	(45,845)
Balance at 31 December 2020	6,017,568	-	6,017,568
Carrying amount	1,871,619	1,946,160	3,817,779
Cost			
Balance at 1 January 2019	7,318,653	-	7,318,653
Additions	681,305	-	681,305
Disposal	(1,449,601)	-	(1,449,601)
Balance at 31 December 2019	6,550,357	-	6,550,357
Accumulated amortization			
Balance at 1 January 2019	6,224,621	-	6,224,621
Amortization for the year	521,722	-	521,722
Disposal	(1,449,601)	-	(1,449,601)
Balance at 31 December 2019	5,296,742	-	5,296,742
Carrying amount	1,253,615	-	1,253,615

5 LEASES

The carrying amounts of the Company's right-of-use assets is as follows:

	2020 AED	2019 AED
Cost		
Balance at 1 January	9,471,708	9,471,708
Additions	398,250	-
Termination	(2,506,205)	-
Balance at 31 December	7,363,753	9,471,708
Accumulated depreciation		
Balance at 1 January	1,370,585	-
Depreciation for the year	1,024,171	1,370,585
Termination	(343,246)	-
Balance at 31 December	2,051,510	1,370,585
Carrying amount	5,312,243	8,101,123

Al Dhafra Insurance Company (P.S.C.)
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Notes to the financial statements (continued)
For the year ended 31 December 2020

5 LEASES (continued)

Lease liabilities is analysed in the statement of financial position as follows:

	2020 AED	2019 AED
Within one year	1,203,375	2,348,198
One to ten years	3,669,432	5,321,373
	<u>4,872,807</u>	<u>7,669,571</u>

6 INVESTMENT PROPERTIES

	Abu Dhabi Land and Building AED	Al Ain Land and Building AED	Total AED
Balance at 1 January 2019	55,089,680	10,722,545	65,812,225
Change in fair value	-	-	-
At 31 December 2019	<u>55,089,680</u>	<u>10,722,545</u>	<u>65,812,225</u>
Balance at 1 January 2020	55,089,680	10,722,545	65,812,225
Change in fair value	-	-	-
At 31 December 2020	<u>55,089,680</u>	<u>10,722,545</u>	<u>65,812,225</u>

The plots of land in Abu Dhabi and Al Ain on which investment properties are constructed were awarded to the Company free of cost by the Executive Council of the Government of Abu Dhabi on 21 June 1981 and 27 August 1983, respectively.

The fair value of the Company's investment properties as at 31 December 2020 and 2019 has been arrived by management by reference to valuation carried out on the respective dates by an independent valuer not related to the Company. The independent valuer has appropriate qualifications and recent experience in the valuation of properties in the relevant locations.

The fair value of investment properties is determined using market based approach and discounted cash flow (DCF) model.

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

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

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Notes to the financial statements (continued)
For the year ended 31 December 2020

6 INVESTMENT PROPERTIES (continued)

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy for the year ended 31 December:

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
31 December 2020				
Investment properties	-	38,000,000	27,812,225	65,812,225
31 December 2019				
Investment properties	-	38,000,000	27,812,225	65,812,225

There were no transfers between Level 1, Level 2 and Level 3 during current and previous year.

Following is the summary of valuation techniques and inputs used in the valuation of investment properties:

Property	Valuation technique	Significant unobservable inputs
Abu Dhabi and Al Ain buildings	Discounted cash flow (DCF)	Estimated rental value per annum, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property, as follows: • Abu Dhabi property AED 4,836,000; and • Al Ain property AED 1,020,000. Discount rate, taking into consideration the risk premium between prime and sub-prime properties and the capacity to earn rentals, range from 7%.

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

	2020 AED	2019 AED
Rental income	2,848,885	3,093,575
Direct operating expenses	(925,728)	(802,767)
	<u>1,923,157</u>	<u>2,290,808</u>

There are no restrictions on the realisability of investment properties. The Company has no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance or enhancements.

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7 STATUTORY DEPOSITS

In accordance with the requirements of Federal Law No. (6) of 2007, concerning the formation of Insurance Authority of UAE, the Company maintains the below deposit which cannot be utilized without the consent of the UAE Insurance Authority.

	2020 AED	2019 AED
Statutory deposit	10,000,000	10,000,000
Expected credit losses	(20,000)	(20,000)
	<u>9,980,000</u>	<u>9,980,000</u>

8 INVESTMENTS CARRIED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 AED	2019 AED
Quoted UAE equity securities	<u>170,556,736</u>	<u>190,053,996</u>

The movement in the investments at fair value through other comprehensive income is as follows:

	2020 AED	2019 AED
Fair value at beginning of the year	190,053,996	184,350,390
Additions	-	5,124,729
Disposals	(2,342,460)	(4,543,227)
Change in fair value	(17,154,800)	5,122,104
Fair value at end of the year	<u>170,556,736</u>	<u>190,053,996</u>

9 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 AED	2019 AED
Quoted debt securities	16,584,183	16,674,536
Quoted UAE equity securities	16,723,343	19,149,724
Unquoted equity security	6,828,736	8,002,739
	<u>40,136,262</u>	<u>43,826,999</u>

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Notes to the financial statements (continued)
For the year ended 31 December 2020

9 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS
(continued)

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

	2020 AED	2019 AED
Fair value at beginning of the year	43,826,999	89,660,167
Additions	-	591,966
Disposals	(1,541,615)	(47,520,147)
Change in fair value (note 22)	(2,149,122)	1,095,013
Fair value at end of the year	<u>40,136,262</u>	<u>43,826,999</u>

10 INSURANCE BALANCES RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	2020 AED	2019 AED
Due from policy holders	92,409,118	108,655,872
Due from policy holders - related parties (note 13)	641,565	137,393
Due from reinsurance companies	5,324,394	5,678,701
Due from insurance companies, broker and agents	<u>31,798,370</u>	<u>26,329,586</u>
	130,173,447	140,801,552
Less: allowance for impairment	<u>(23,843,581)</u>	<u>(23,926,000)</u>
Insurance balances receivable	106,329,866	116,875,552
Prepayments	1,271,331	1,170,645
Interest receivables	3,375,986	2,359,468
Other receivables	<u>3,153,077</u>	<u>2,580,409</u>
Prepayments and other receivables	7,800,394	6,110,522
	<u><u>114,130,260</u></u>	<u><u>122,986,074</u></u>

Receivables at nominal value of AED 23,843,581 (2019: AED 23,926,000) were impaired.

Al Dhafra Insurance Company (P.S.C.)
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Notes to the financial statements (continued)
For the year ended 31 December 2020

10 INSURANCE BALANCES RECEIVABLES, PREPAYMENT AND OTHER RECEIVABLES (continued)

The movement in the allowance for impaired receivables is as follows:

	2020 AED	2019 AED
At 1 January	23,926,000	24,824,044
Charge for the year	-	-
Amount written off	(82,419)	(898,044)
At 31 December	23,843,581	23,926,000

The average credit period on due from policy holders is 90 to 180 days. No interest is charged and no collateral is taken on trade and other receivables.

As at 31 December, the ageing of insurance balances receivable is as follows:

	Total AED	0-180 days AED	180-240 days AED	>240 days AED
31 December 2020				
Expected credit loss rate		8.35%	1.62%	27.35%
Estimated total gross carrying amount at default	130,173,447	39,304,182	16,668,396	74,200,869
Expected credit loss	23,843,581	3,282,075	270,111	20,291,395
31 December 2019				
Expected credit loss rate		3.58%	4.03%	46.36%
Estimated total gross carrying amount at default	140,801,552	83,209,878	13,591,892	43,999,782
Expected credit loss	23,926,000	2,979,173	547,524	20,399,303

Geographical concentration of insurance balances receivable and its ageing are as follows:

	31 December 2020			31 December 2019		
	Inside UAE AED	Outside UAE AED	Total AED	Inside UAE AED	Outside UAE AED	Total AED
Due from policy holders	91,810,792	598,326	92,409,118	108,655,872	-	108,655,872
Due from policy holders - related parties	641,565	-	641,565	137,393	-	137,393
Due from reinsurance companies	2,185,459	3,138,935	5,324,394	1,990,729	3,687,972	5,678,701
Due from insurance companies, broker and agents	30,253,338	1,545,032	31,798,370	25,145,898	1,183,688	26,329,586
	124,891,154	5,282,293	130,173,447	135,929,892	4,871,660	140,801,552
Less: allowance for impairment	(23,843,581)	-	(23,843,581)	(23,926,000)	-	(23,926,000)
Net insurance balances receivable	101,047,573	5,282,293	106,329,866	112,003,892	4,871,660	116,875,552

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Notes to the financial statements (continued)
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10 INSURANCE BALANCES RECEIVABLES, PREPAYMENT AND OTHER RECEIVABLES (continued)

	31 December 2020			31 December 2019		
	Inside UAE AED	Outside UAE AED	Total AED	Inside UAE AED	Outside UAE AED	Total AED
0 to 180 days	36,312,481	2,991,700	39,304,181	54,769,057	1,236,288	56,005,345
181 to 365 days	32,022,085	60,273	32,082,358	31,866,066	1,197,703	33,063,769
More than 365 days	56,556,587	2,230,321	58,786,908	49,294,769	2,437,669	51,732,438
	124,891,153	5,282,294	130,173,447	135,929,892	4,871,660	140,801,552
Less: allowance for impairment	(23,843,581)	-	(23,843,581)	(23,926,000)	-	(23,926,000)
Net insurance balances receivable	101,047,572	5,282,294	106,329,866	112,003,892	4,871,660	116,875,552

11 INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS

	2020 AED	2019 AED
Insurance contract liabilities		
Outstanding claims reserve	161,604,927	161,984,266
Claims incurred but not reported reserve	68,798,559	61,124,793
Unearned premiums reserve	122,189,223	138,792,481
Unallocated loss adjustment expense reserve	4,488,031	4,263,508
Unexpired risk reserve (premium deficiency reserve)	1,046,561	2,664,866
	358,127,301	368,829,914
Reinsurance contract assets		
Outstanding claims reserve	134,554,763	130,648,879
Claims incurred but not reported reserve	44,274,346	37,391,660
Unearned premiums reserve	85,530,265	98,900,552
Unexpired risk reserve (premium deficiency reserve)	-	591,565
	264,359,374	267,532,656
Insurance liabilities – net		
Outstanding claims reserve	27,050,164	31,335,387
Claims incurred but not reported reserve	24,524,213	23,733,133
Unearned premiums reserve	36,658,958	39,891,929
Unallocated loss adjustment expense reserve	4,488,031	4,263,508
Unexpired risk reserve (premium deficiency reserve)	1,046,561	2,073,301
	93,767,927	101,297,258

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Notes to the financial statements (continued)
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11 INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS (continued)

The reserves are allocated to the lines of business as follows:

	Outstanding claims reserve AED	Claims incurred but not reported reserve AED	Unearned premiums reserve AED	Unallocated loss adjustment reserve AED	Unexpired risk reserve AED	Total AED
31 December 2020 (gross)						
Motor	46,126,608	31,760,570	52,359,977	1,644,717	-	131,891,872
Fire	61,832,865	11,790,479	17,269,432	1,281,207	-	92,173,983
Medical	8,229,941	5,525,067	19,717,720	289,201	996,732	34,758,661
Engineering	18,968,912	4,028,934	12,500,620	405,402	-	35,903,868
Marine	20,343,243	11,630,003	16,844,087	654,049	-	49,471,382
Workman compensation and third-party liability	3,110,777	2,791,091	3,054,962	130,394	-	9,087,224
Other lines of business	2,992,581	1,272,415	442,425	83,061	49,829	4,840,311
	161,604,927	68,798,559	122,189,223	4,488,031	1,046,561	358,127,301
31 December 2019 (gross)						
Motor	59,175,303	28,606,269	67,312,780	1,745,817	-	156,840,169
Fire	44,181,147	9,394,655	15,145,141	944,557	-	69,665,500
Medical	8,655,232	5,924,369	17,394,357	307,560	2,383,291	34,664,809
Engineering	14,984,403	4,548,333	17,239,509	361,216	-	37,133,461
Marine	26,189,815	8,626,494	17,474,795	651,642	175,596	53,118,342
Workman compensation and third-party liability	5,154,612	2,771,781	3,434,305	160,473	-	11,521,171
Other lines of business	3,643,754	1,252,892	791,594	92,243	105,979	5,886,462
	161,984,266	61,124,793	138,792,481	4,263,508	2,664,866	368,829,914

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

	31 December 2020			31 December 2019		
	Gross AED	Reinsurance AED	Total AED	Gross AED	Reinsurance AED	Net AED
Claims:						
Outstanding claims (including ULAE)	166,247,774	130,648,879	35,598,895	170,485,992	121,623,619	48,862,373
Incurred but not reported	61,124,793	37,391,660	23,733,133	68,791,467	43,723,777	25,067,690
Total at 1 January	227,372,567	168,040,539	59,332,028	239,277,459	165,347,396	73,930,063
Claims settled	(140,990,838)	(112,918,908)	(28,071,930)	(168,831,958)	(126,115,566)	(42,716,392)
Increase in liabilities	148,509,788	123,707,478	24,802,310	156,927,066	128,808,709	28,118,357
Total at 31 December	234,891,517	178,829,109	56,062,408	227,372,567	168,040,539	59,332,028
Outstanding claims (including ULAE)	166,092,958	134,554,763	31,538,195	166,247,774	130,648,879	35,598,895
Incurred but not reported	68,798,559	44,274,346	24,524,213	61,124,793	37,391,660	23,733,133
Total at 31 December	234,891,517	178,829,109	56,062,408	227,372,567	168,040,539	59,332,028

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Notes to the financial statements (continued)
For the year ended 31 December 2020

11 INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS (continued)

	31 December 2020			31 December 2019		
	Gross AED	Reinsurance AED	Total AED	Gross AED	Reinsurance AED	Net AED
Unearned premium:						
Total at 1 January	138,792,481	98,900,552	39,891,929	154,623,506	109,448,851	45,174,655
Increase during the year	289,773,699	216,349,445	73,424,254	323,786,185	235,861,391	87,924,794
Release during the year	(306,376,957)	(229,719,732)	(76,657,225)	(339,617,210)	(246,409,690)	(93,207,520)
Net decrease during the year	(16,603,258)	(13,370,287)	(3,232,971)	(15,831,025)	(10,548,299)	(5,282,726)
Total at 31 December	122,189,223	85,530,265	36,658,958	138,792,481	98,900,552	39,891,929

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

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by claims technicians and established case setting procedures. Ultimate claims are estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that the past claims development experience can be used to project future claims development and hence ultimate claims. As such, these methods extrapolate the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period. IBNR claims are estimated by subtracting outstanding claims provisions from ultimate claims estimates.

Claim development is separately analysed for each LOB. The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

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

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Notes to the financial statements (continued)
For the year ended 31 December 2020

12 CASH AND CASH EQUIVALENTS

	2020 AED	2019 AED
Cash on hand	200,410	176,961
Current accounts	98,680,781	192,894,486
Term deposits*	183,208,101	104,367,554
Bank balances and cash	282,089,292	297,439,001
Less: term deposits with an original maturity of more than three months	(183,208,101)	(104,367,554)
Cash and cash equivalents	98,881,191	193,071,447

*Term deposits are stated net of expected credit losses amounting to AED 392,227 as at 31 December 2020 (2019: AED 392,220).

Geographical concentration of cash and bank balances is as follows:

	2020 AED	2019 AED
Within UAE	282,089,292	297,439,001

The interest rate on term deposits and current accounts with banks ranges between 0.50% and 3% (31 December 2019: 2.25% and 4.10%) per annum. All bank balances are held in local banks in the United Arab Emirates.

13 RELATED PARTY TRANSACTIONS AND BALANCES

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

Directors are expected to avoid any action, position or interest that conflict with an interest of the Company. Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors for their review and approval. When a potential conflict of interest arises, Directors concerned neither participates in the discussions nor exercise any influence over other members of the Board. If a major shareholder or a Director has any conflict of interests with any matter to be considered by the Board of Director and the Board of Directors determines that such a matter is significant, the decision thereon by the Board of Directors shall be made in the presence of all Directors and in the absence of the interested Director's vote.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, being the directors, managing director and his direct reports.

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Notes to the financial statements (continued)
For the year ended 31 December 2020

13 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The following balances were outstanding at the end of the reporting period:

	<i>Nature of relationship</i>	2020 AED	2019 AED
Due from policyholders – related parties (note 10)	<i>Affiliates</i>	641,565	137,393
Remuneration of the Directors (note 17)		4,500,000	4,500,000

Transactions with related parties during the period are as follows:

	<i>Nature of relationship</i>	2020 AED	2019 AED
Gross premiums written	<i>Affiliates</i>	1,665,774	1,490,773
Claims paid	<i>Affiliates</i>	939,299	1,474,671
Remuneration of the Directors (note 17)		4,500,000	4,500,000

The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions.

Remuneration of key management personnel

	2020 AED	2019 AED
Short term benefits	2,349,312	2,349,720
Post-employment benefits	114,907	114,592
	2,464,219	2,464,312

The remuneration of key management personnel is based on the remuneration agreed in their employment contracts as approved by the Board of Directors.

14 SHARE CAPITAL

	2020 AED	2019 AED
<i>Authorised, issued and fully paid:</i>		
100,000,000 (2019: 100,000,000) ordinary shares of AED 1 each	100,000,000	100,000,000

Dividends:

On 17 March 2020, the shareholders at the Annual General Assembly approved cash dividends of 0.40 fils per share amounting to AED 40,000,000 (2019: AED 35,000,000).

Al Dhafra Insurance Company (P.S.C.)**Financial Statements****Notes to the financial statements (continued)****For the year ended 31 December 2020**

15 RESERVES***Legal reserve***

In accordance with the UAE Federal Law Number (2) of 2015 concerning Commercial Companies and the Company's Articles of Association, 10% of profit is to be transferred to a non-distributable legal reserve until the balance of the legal reserve equals 50% of the Company's paid up share capital. This reserve is not available for dividend distribution.

General reserve

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

Investment revaluation reserve

Investments revaluation reserve represents the accumulated unreleased gains or losses that are recognised on investments carried at fair value through other comprehensive income at reporting date.

Reinsurance reserve

In accordance with Insurance Authority's Board of Directors' Decision No. 23, Article 34, an amount of AED 1,101,777 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 Insurance Authority.

16 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFIT

	2020 AED	2019 AED
At 1 January	7,915,825	7,548,873
Charge for the year	538,825	553,404
Paid during the year	(112,998)	(186,452)
At 31 December	<u>8,341,652</u>	<u>7,915,825</u>

During the year, the Company paid pension contributions in respect of UAE national employees amounting to AED 202,574 (2019: AED 197,323).

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Notes to the financial statements (continued)
For the year ended 31 December 2020

17 INSURANCE AND OTHER PAYABLES

	2020 AED	2019 AED
Due to policy holders	53,528,607	57,193,698
Due to insurance companies	47,427,301	56,900,548
Due to reinsurance companies	13,439,685	21,819,973
Premium reserve withheld	54,098,797	57,950,450
Insurance payables	168,494,390	193,864,669
Dividend payable	5,269,737	5,475,715
Fee payable to insurance authority	1,173,886	1,385,998
Deferred income	1,401,598	1,351,767
Remuneration of the Directors	4,500,000	4,500,000
Other payables	10,809,173	17,274,576
Other payables	23,154,394	29,988,056
	191,648,784	223,852,725

The average credit period is 60 to 90 days. The Company has financial risk management policies in place to ensure that all payables are paid within credit time frame.

Geographical concentration of insurance payables is as follows:

	31 December 2020			31 December 2019		
	Inside UAE AED	Outside UAE AED	Total AED	Inside UAE AED	Outside UAE AED	Total AED
Due to policy holders	53,300,998	227,609	53,528,607	57,193,698	-	57,193,698
Due to insurance companies	45,143,130	2,284,171	47,427,301	54,307,393	2,593,155	56,900,548
Due to reinsurance companies	1,182,508	12,257,177	13,439,685	1,643,305	20,176,668	21,819,973
	99,626,636	14,768,957	114,395,593	113,144,396	22,769,823	135,914,219

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Notes to the financial statements (continued)
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18 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2020 AED	2019 AED
Staff costs (note 23)	23,325,373	26,924,484
Depreciation of property and equipment right-of-use assets (note 23)	1,806,268	2,010,646
Amortisation of intangible assets (notes 4 & 23)	766,671	521,722

19 BASIC AND DILUTED EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

	2020 AED	2019 AED
Profit for the year (AED)	54,795,358	71,098,034
Weighted average number of ordinary shares in issue throughout the year	100,000,000	100,000,000
Basic and diluted earnings per share (AED)	0.55	0.71

As of 31 December 2020 and 2019, the Company has not issued any instruments that have an impact on the basic and diluted earnings per share when exercised.

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Notes to the financial statements (continued)
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20 NET PREMIUMS

	Gross premiums written		Reinsurance premiums ceded		Net premiums	
	2020	2019	2020	2019	2020	2019
	AED	AED	AED	AED	AED	AED
Motor	98,871,023	130,533,652	62,436,566	80,886,795	36,434,457	49,646,857
Fire	61,064,423	57,234,567	55,955,577	54,205,831	5,108,846	3,028,736
Medical	36,999,246	40,910,190	17,299,691	25,329,862	19,699,555	15,580,328
Engineering	20,677,461	19,759,521	18,999,980	18,840,191	1,677,481	919,330
Marine	58,796,862	62,235,279	53,593,193	49,765,356	5,203,669	12,469,923
Workmen's compensation and third-party liability	10,863,746	9,527,022	6,133,253	3,742,450	4,730,493	5,784,572
Other lines of business	2,500,938	3,585,954	1,931,184	3,090,906	569,754	495,048
	289,773,699	323,786,185	216,349,444	235,861,391	73,424,255	87,924,794

21 NET CLAIMS PAID

	Gross claims paid		Reinsurance share of claims paid		Net claims paid	
	2020	2019	2020	2019	2020	2019
	AED	AED	AED	AED	AED	AED
Motor	58,883,266	103,007,217	42,343,147	73,219,804	16,540,119	29,787,413
Fire	22,224,648	11,559,107	21,303,635	11,169,910	921,013	389,197
Medical	26,926,664	38,280,487	17,822,602	26,955,204	9,104,062	11,325,283
Engineering	7,111,668	6,469,556	6,972,432	6,373,028	139,236	96,528
Marine	22,017,312	4,453,131	21,338,766	4,233,636	678,546	219,495
Workmen's compensation and third-party liability	382,563	1,123,028	8,489	532,375	374,074	590,653
Other lines of business	3,444,717	3,939,432	3,129,837	3,631,609	314,880	307,823
	140,990,838	168,831,958	112,918,908	126,115,566	28,071,930	42,716,392

22 INCOME FROM INVESTMENTS

	2020 AED	2019 AED
Dividend income	9,563,163	10,636,145
Interest income	7,303,512	10,459,200
Change in fair value of investments carried at fair value through profit or loss (note 9)	(2,149,122)	1,095,013
Gain on sale of investments carried at fair value through profit or loss	137,625	1,502,289
Other investment loss/expense	(1,712)	(24,098)
	14,853,466	23,668,549

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23 GENERAL AND ADMINISTRATIVE EXPENSES

	2020 AED	2019 AED
Staff costs (note 18)	23,325,373	26,924,484
Remuneration of the Directors (note 13)	4,500,000	4,500,000
Legal and professional fees	2,100,944	2,415,724
Insurance Authority fees	1,173,881	1,385,992
Depreciation of property and equipment and right-of-use assets (note 3, 5 & 18)	1,806,268	2,010,646
Impairment of outstanding claims recoveries	-	2,100,000
Travelling and communication	782,472	1,130,842
Amortisation of intangible assets (note 4 & 18)	766,671	521,722
Printing and stationery	355,598	481,255
Interest expense on withheld reinsurance balance	529,601	538,798
Training cost	289,774	323,786
Repair and maintenance	500,540	420,165
Other expenses	5,525,217	1,902,159
	41,656,339	44,655,573
<i>Allocated to:</i>		
Underwriting	2,453,810	4,887,936
Other expenses	39,202,529	39,767,637
	41,656,339	44,655,573

24 RISK MANAGEMENT

Governance framework

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

Capital management objectives, policies and approach

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

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

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

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Notes to the financial statements (continued)
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24 RISK MANAGEMENT (continued)

Approach to capital management

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

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

The primary source of capital used by the Company is equity funds provided by shareholders.

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

No changes were made in the objectives, policies or processes during the years ended 31 December 2020 and 31 December 2019. Capital comprises share capital, legal reserve, general reserve, investment revaluation reserve and retained earnings, and is measured at AED 389 million as at 31 December 2019 (2019: AED 391 million).

On 28 December 2014, the United Arab Emirates (UAE) Insurance Authority issued Financial Regulations for Insurance Companies and were then subsequently published in the UAE Official Gazette No. 575 on 28 January 2015 and came into force on 29 January 2015. The Company is subject to local insurance solvency regulations. The Company has incorporated in its policies and procedures the necessary tests to ensure compliance with such regulations. Insurance Authority allows an alignment period of up to three years for the insurance companies to be in compliance with the regulations.

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

The solvency regulations identify the required Solvency Margin to be held in addition to insurance liabilities. The Solvency Margin (presented in the table below) must be maintained at all times throughout the year.

The table below summarises the Minimum Capital Requirement, Minimum Guarantee Fund and Solvency Capital Requirement of the Company and the total capital held to meet these required Solvency Margins.

	2020 AED	2019 AED
Minimum Capital Requirement (MCR)	100,000,000	100,000,000
Solvency Capital Requirement (SCR)	131,566,174	134,275,730
Minimum Guarantee Fund (MGF)	42,634,469	44,758,577
<i>Own Funds</i>		
Basic Own Funds	233,457,059	277,421,918
Ancillary Own Funds	-	-
MCR Solvency Margin (surplus)	133,457,059	177,421,918
SCR Solvency Margin (surplus)	101,890,885	143,146,188
MGF Solvency Margin (surplus)	190,822,590	232,663,341

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Notes to the financial statements (continued)
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25 INSURANCE AND FINANCIAL RISK

Regulatory framework

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

The operations of the Company are subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimise the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.

The chairman of the Insurance Authority vide Board of Directors' Decision No. (25) of 2014 dated 28th December 2014, issued Financial Regulation for Insurance Companies (FRIC) applicable to insurance companies incorporated in the UAE and the foreign insurance companies licensed to practice the activity in the UAE.

The major highlights of the new regulation is summarized in the below table:

Regulation

1. Basis of Investing the Rights of the Policy Holders
2. Solvency Margin and Minimum Guarantee Fund
3. Basis of calculating the technical reserves
4. Determining the Company's assets that meet the accrued insurance liabilities
5. Records which the Company shall be obligated to organise and maintain as well as the data and documents that shall be made available to the Authority
6. Principles of organising accounting books and records of the Company, agents and brokers and determining data to be maintained in these books and records
7. Accounting policies to be adopted and the necessary forms needed to be prepare and present reports and financial statements.

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. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

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

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

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Notes to the financial statements (continued)
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25 INSURANCE AND FINANCIAL RISK (continued)

Insurance risk (continued)

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

Frequency and severity of claims

The Company has the right not to renew individual policies, re-price the risk, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Company's strategy limits the total exposure to any one territory and the exposure to any one industry.

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set minimum limit of AED 500,000 for motor and workmen's compensation and third-party liability AED 300,000 in any one event. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and element of the claims provision includes incurred but not reported claims (IBNR). The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some insurance contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

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. In estimating the liability for the cost of reported claims not yet paid, the Company considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Claims requiring court or arbitration decisions are estimated individually by independent loss adjusters along with the Company's internal legal counsel.

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Notes to the financial statements (continued)
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25 INSURANCE AND FINANCIAL RISK (continued)

Insurance risk (continued)

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

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

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

In calculating the estimated cost of unpaid claims (both reported and not), the Company's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined 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 estimated loss ratios are analysed below by class of business for the current and previous year:

	<i>31 December 2020</i>		<i>31 December 2019 (Restated)</i>	
	Gross loss ratio	Net loss ratio	Gross loss ratio	Net loss ratio
Motor	138%	139%	146%	32%
Non-motor	68%	78%	52%	84%

Process used to decide on assumptions

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

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 Company's accident years within the same class of business.

Al Dhafra Insurance Company (P.S.C.)
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Notes to the financial statements (continued)
For the year ended 31 December 2020

25 INSURANCE AND FINANCIAL RISK (continued)

Insurance risk (continued)

Claims development process

The following schedules reflect the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last five years on an accident year basis for motor and non-motor:

<i>Accident year</i>	<i>2016 and earlier AED</i>	<i>2017 AED</i>	<i>2018 AED</i>	<i>2019 AED</i>	<i>2020 AED</i>	<i>Total AED</i>
Non-Motor- Gross:						
At the end of the accident year	947,001,994	96,738,322	82,742,058	107,929,183	130,499,128	1,364,910,685
One year later	901,459,443	74,006,018	70,946,976	90,759,301	-	1,137,171,738
Two years later	884,430,864	73,964,091	63,891,142	-	-	1,022,286,097
Three years later	882,889,653	71,087,383	-	-	-	953,977,036
Four years later	<u>882,521,223</u>	-	-	-	-	<u>882,521,223</u>
Current estimate of						
Cumulative claims	882,521,223	71,087,383	63,891,142	90,579,301	130,499,128	1,238,758,177
Cumulative payments to date	<u>859,537,586</u>	<u>63,925,174</u>	<u>56,845,117</u>	<u>66,540,991</u>	<u>39,393,002</u>	<u>1,086,241,870</u>
Liability recognised in the statement of financial position	<u>22,983,637</u>	<u>7,162,209</u>	<u>7,046,025</u>	<u>24,218,310</u>	<u>91,106,126</u>	<u>152,516,307</u>
Motor- Gross:						
At the end of the accident year	535,523,974	146,640,701	121,908,015	92,203,877	67,490,132	963,766,699
One year later	463,302,257	125,308,055	101,760,899	84,244,582	-	774,615,793
Two years later	460,249,046	126,327,646	103,983,590	-	-	690,560,282
Three years later	459,803,089	120,526,263	-	-	-	580,329,352
Four years later	<u>453,206,779</u>	-	-	-	-	<u>453,206,779</u>
Current estimate of						
Cumulative claims	453,206,779	120,526,263	103,983,590	84,244,582	67,490,132	829,451,346
Cumulative payments to date	448,675,018	<u>115,733,102</u>	<u>91,532,769</u>	<u>66,862,137</u>	<u>28,761,143</u>	<u>751,564,169</u>
Liability recognised in the statement of financial position	<u>4,531,761</u>	<u>4,793,161</u>	<u>12,450,821</u>	<u>17,382,445</u>	<u>38,728,989</u>	<u>77,887,177</u>

Concentration of insurance risk

The Company's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe and Asia.

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

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

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Notes to the financial statements (continued)
For the year ended 31 December 2020

25 INSURANCE AND FINANCIAL RISK (continued)

Insurance risk (continued)

Concentration of insurance risk (continued)

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarised below:

	<i>31 December 2020</i>		<i>31 December 2019</i>	
	Gross AED	Net AED	Gross AED	Net AED
Motor				
UAE	18,481,937,354	5,544,581,206	22,450,219,437	6,730,582,831
Non-motor				
UAE	180,880,832,340	7,120,272,667	185,613,744,184	8,670,105,259
GCC Countries	19,196,123,909	4,336,553,963	16,680,830,379	3,327,863,247
	<u>200,076,956,249</u>	<u>11,456,826,630</u>	<u>202,294,574,563</u>	<u>11,997,968,506</u>
Grand Total	<u>218,558,893,603</u>	<u>17,001,407,836</u>	<u>224,744,794,000</u>	<u>18,728,551,337</u>

Sensitivity of underwriting profit and losses

The insurance operations of the Company resulted in a profit of AED 77,469,819 (2019: AED 85,259,413).

• The Company has an overall risk retention level in the region of 7.78% (2019: 8.33%) and the Company is adequately covered by proportional and non-proportional programs to guard against major financial impact.

• The Company has net commission earnings of AED 21,939,586 during the year against AED 25,456,573 in 2019 from underwriting operations, predominantly from the reinsurance placement which remains as a comfortable source of income.

Credit risk

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

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from banks for its bank balances and fixed deposits and bonds.

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

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

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Notes to the financial statements (continued)
For the year ended 31 December 2020

25 INSURANCE AND FINANCIAL RISK (continued)

Credit risk (continued)

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

For receivables the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company 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.

The Company's five largest customers account for 31% of outstanding accounts receivable at 31 December 2020 (2019: 26%).

At 31 December 2020 and 2019, all term deposits were placed with banks within UAE. Management is confident that this concentration of liquid assets at year-end does not result in any credit risk to the Company as the banks are major banks operating in the UAE and are highly regulated by the Central Bank.

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

Equity price risk

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

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

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

For investments held at fair value through profit or loss

Fair value would have increased/decreased by AED 4,013,626 (2019: AED 4,382,700).

For investments held at fair value through other comprehensive income

Changes in revaluation reserves of shares would increase/decrease by AED 17,055,674 (2019: AED 19,005,400) as a result of the changes in fair value of quoted shares.

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Notes to the financial statements (continued)
For the year ended 31 December 2020

25 INSURANCE AND FINANCIAL RISK (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Company. The Company is exposed to interest rate risk on its investment in bonds and term deposits that carry fixed interest rates which are detailed in Notes 9 and 12, respectively.

The Company generally tries to minimise the interest rate risk by closely monitoring the market interest rates and investing in those financial assets in which such risk is expected to be minimal.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for interest-bearing financial assets assuming the amount of assets at the end of the reporting period were outstanding for the whole year.

As all the interest-bearing financial assets and liabilities of the Company carry fixed interest rates, the Company is not subject to fluctuation of interest rate at the reporting date.

Currency risk

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

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

Liquidity risk

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

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

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

	Current Up to 1 year AED	Non-current >1 year AED	Total AED
31 December 2020			
Trade and other payables	191,648,784	-	191,648,784
Insurance contract liabilities	358,127,301	-	358,127,301
	<u>549,776,085</u>	<u>-</u>	<u>549,776,085</u>
31 December 2019			
Trade and other payables	223,852,725	-	223,852,725
Insurance contract liabilities	368,829,914	-	368,829,914
	<u>592,682,639</u>	<u>-</u>	<u>592,682,639</u>

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Notes to the financial statements (continued)
For the year ended 31 December 2020

25 INSURANCE AND FINANCIAL RISK (continued)

Liquidity risk (continued)

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

	Current AED	Non-current AED	Total AED
<i>31 December 2020</i>			
Property and equipment	-	1,534,096	1,534,096
Intangible assets	-	3,817,779	3,817,779
Right-of-use-assets	-	5,312,243	5,312,243
Investment properties	-	65,812,225	65,812,225
Statutory deposits	-	9,980,000	9,980,000
Deferred acquisition costs	16,432,759	-	16,432,759
Investments carried at fair value through other comprehensive income	-	170,556,736	170,556,736
Investments carried at fair value through profit or loss	40,136,262	-	40,136,262
Insurance balances receivable	106,329,866	-	106,329,866
Reinsurer's share of unearned premium reserve	85,530,265	-	85,530,265
Reinsurer's share of outstanding claims reserve	134,554,763	-	134,554,763
Reinsurer's share of claims incurred but not reported reserve	44,274,346	-	44,274,346
Reinsurer's share of unexpired risk reserve (premium deficiency reserve)	-	-	-
Prepayments and other receivables	7,800,394	-	7,800,394
Deposits	183,208,101	-	183,208,101
Bank balances and cash	98,881,191	-	98,881,191
	717,147,947	257,013,079	974,161,026

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Notes to the financial statements (continued)
For the year ended 31 December 2020

25 INSURANCE AND FINANCIAL RISK (continued)

Liquidity risk (continued)

	Current AED	Non-current AED	Total AED
<i>31 December 2019</i>			
Property and equipment	-	1,985,244	1,985,244
Intangible assets	-	1,253,615	1,253,615
Right-of-use-assets	-	8,101,123	8,101,123
Investment properties	-	65,812,225	65,812,225
Statutory deposits	-	9,980,000	9,980,000
Deferred acquisition costs	15,510,242	-	15,510,242
Investments carried at fair value through other comprehensive income	-	190,053,996	190,053,996
Investments carried at fair value through profit or loss	43,826,999	-	43,826,999
Insurance balances receivable	116,875,552	-	116,875,552
Reinsurer's share of unearned premium reserve	98,900,552	-	98,900,552
Reinsurer's share of outstanding claims reserve	130,648,879	-	130,648,879
Reinsurer's share of claims incurred but not reported reserve	37,391,660	-	37,391,660
Reinsurer's share of unexpired risk reserve (premium deficiency reserve)	591,565	-	591,565
Prepayments and other receivables	6,110,522	-	6,110,522
Deposits	104,367,554	-	104,367,554
Bank balances and cash	193,071,447	-	193,071,447
	747,294,972	277,186,203	1,024,481,175

Except for employees' end of service benefits of AED 8,341,652 (2019: AED 7,915,825) and the non-current portion of lease liabilities amounting to AED 3,669,432 (2019: AED 5,321,373), the Company expects its liabilities of AED 572,827,118 (2019: AED 619,770,831) to mature in less than twelve months from the reporting date.

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

The fair values of the financial assets and liabilities of the Company are not materially different from their carrying values at the reporting date.

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Notes to the financial statements (continued)
For the year ended 31 December 2020

26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2020 and 31 December 2019:

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
31 December 2020				
Investments carried at fair value through other comprehensive income	170,556,736	-	-	170,556,736
Investments carried at fair value through profit and loss	33,307,526	-	6,828,736	40,136,262
	<u>203,864,262</u>	<u>-</u>	<u>6,828,736</u>	<u>210,692,998</u>
31 December 2019				
Investments carried at fair value through other comprehensive income	190,053,996	-	-	190,053,996
Investments carried at fair value through profit and loss	35,824,260	-	8,002,739	43,826,999
	<u>225,878,256</u>	<u>-</u>	<u>8,002,739</u>	<u>233,880,995</u>

Valuation technique:

Level 1: Quoted bid prices in an active market

Level 3: Net assets value based on audited financials

During the reporting periods ended 31 December 2020 and 31 December 2019, there were no transfers between level 1 and level 2 fair value measurements, and no transfer into and out of level 3 fair value measurements.

27 SEGMENT REPORTING

27.1 Segment revenue and results

The Company has two reportable segments, as described below, which are the Company's strategic business units. The strategic business units are managed separately because they require different approach, technology and marketing strategies. For each of the strategic business units, the Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis.

The following summary describes the two main business segments:

- Underwriting of general insurance business - incorporating all classes of general insurance such as fire, marine, motor, medical, general accident and miscellaneous.
- Investments - incorporating investments in marketable equity securities and investment funds, development bonds, term deposits with banks and investment properties and other securities.

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Notes to the financial statements (continued)
For the year ended 31 December 2020

27 SEGMENT REPORTING (continued)

27.1 Segment revenue and results (continued)

Information regarding the Company's reportable segments is presented below:

	31 December 2020			31 December 2019		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Direct revenues	346,387,647	19,853,185	366,240,832	382,991,518	24,701,889	407,693,407
Direct costs	(271,566,406)	(925,728)	(272,492,134)	(294,519,084)	(821,260)	(295,340,344)
Other underwriting income	5,102,387	-	5,102,387	1,674,914	-	1,674,914
Other underwriting expenses	(2,453,810)	-	(2,453,810)	(4,887,936)	-	(4,887,936)
Non-cash investment (loss)/gain	-	(2,150,833)	(2,150,833)	-	2,078,729	2,078,729
Segment profit	77,469,818	16,776,624	94,246,442	85,259,412	25,959,358	111,218,770
General and administrative expenses			(39,202,529)			(39,767,637)
Finance cost			(261,618)			(376,266)
Other income			13,063			23,167
Profit for the year			54,795,358			71,098,034

27.2 Segment assets and liabilities

	31 December 2020			31 December 2019		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment assets	405,586,511	469,693,324	875,279,835	610,440,398	220,969,330	831,409,728
Unallocated assets	-	-	98,881,191	-	-	193,071,447
Total assets			974,161,026			1,024,481,175
Segment liabilities	573,059,379	6,509,086	579,568,465	618,352,282	9,180,029	627,532,311
Unallocated liabilities	-	-	5,269,737	-	-	5,475,718
Total liabilities			584,838,202			633,008,029
Capital expenditure	3,662,357	-	3,662,357	2,141,672	-	2,141,672

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Notes to the financial statements (continued)
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27 SEGMENT REPORTING (continued)

27.3 Revenue from underwriting departments

The following is an analysis of the Company's revenues classified by major underwriting departments.

	2020 AED	2019 AED
Motor	115,723,647	152,250,525
Medical	39,594,200	43,255,895
Engineering	27,296,330	26,554,445
Fire	80,483,973	75,123,899
Marine	66,074,942	71,186,463
Workman compensation and third-party liability	11,550,562	9,980,158
Other lines of business	2,771,657	4,640,133
	343,495,311	382,991,518

27.4 Geographical information

The Company's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe. All the investments of the Company are held in the UAE and other GCC countries.

Total revenues and total assets of the underwriting and investment segments by geographical location are detailed below:

	Revenue 2020 AED	Revenue 2019 AED	Total assets 2020 AED	Total assets 2019 AED
United Arab Emirates	284,028,854	329,529,291	968,942,034	1,019,609,515
Other GCC Countries	9,094,927	7,084,165	2,533,747	2,898,175
Others	50,371,530	46,378,062	2,185,973	1,973,485
	343,495,311	382,991,518	973,661,754	1,024,481,175

28 COMMITMENTS AND CONTINGENT LIABILITIES

Legal claims

The Company, in common with the majority of insurers, is subject to claims and litigation in the normal course of its business. Based on advice from internal claims department and independent legal advice, the management records provision representing best estimate of probable outflow of economic resources

Guarantees

	2020 AED	2019 AED
Bank guarantees	18,550,200	18,706,187

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

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Notes to the financial statements (continued)
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29 Reclassifications

Certain comparative figures have been reclassified, where necessary, to conform to the current year presentation. Management believes that the current year presentation provides more meaningful information to the readers of the financial statements.

These reclassifications did not have any impact on the current or prior year's statement of comprehensive income or retained earnings.

30 Approval of the financial statements

The financial statements were approved and authorized for issue by the Board of Directors on 9 February 2021.

31 Impact of COVID-19 on the Company's operations

The coronavirus ("COVID-19") pandemic has spread rapidly across the globe. The novel coronavirus (COVID-19) outbreak is a serious and unprecedented public health threat. It has interrupted the movement of people and goods/service throughout the world, and many levels of government are instituting restrictions on individuals and businesses. The pandemic has had significant negative effects on the global economy. The resulting impact on financial reporting will be significant.

The Management has determined that the COVID-19 pandemic has not created a material uncertainty that casts doubt on the entity's ability to continue as a going concern.

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home) and ensuring uninterrupted services that are essential to our business.

At this stage, the impact on our business and results has not been significant and based on our experience to date we expect this to remain. As we operate in Insurance Sector, we have found demand for our products/ services and expect this to continue. We will continue to follow the various government policies and advises and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardizing the health of all stakeholders.

We have performed impairment testing on Property, plant and equipment and intangible assets and has identified that no indicators of impairment that exist as a result of the economic conditions caused by the spread of COVID-19.

The negative economic outlook and cash flow difficulties experienced by customers because of COVID-19 and financial instruments and the measurement of expected credit losses - under IFRS 9 based on information about past events, current conditions and forecasts of future economic conditions are also considered for our ECL provision for the year 2020.

Since 31 December 2019, the consequences of the COVID-19 outspread has not materially and adversely affected the supply and demand for the Company's primary products / services and therefore, its operating results have not been significantly affected.