

SHARJAH INSURANCE COMPANY P.S.C.

**Independent auditor's report and financial statements
for the year ended 31 December 2021**

SHARJAH INSURANCE COMPANY P.S.C.

	Page
Board of Directors' report	1
Independent Auditor's Report	3
Statement of financial position	8
Statement of income	9
Statement of comprehensive income	10
Statement of changes in equity	11
Statement of cash flows	12
Notes to the financial statements	14

Board of Directors' report

The Board of Directors of Sharjah Insurance Company P.S.C. has the honor to disclose the audited financial statements for the year ended 31 December 2021. The following is a brief summary of the results of the Company's operations for the year ended 31 December 2021:

First: Insurance activity:

Under the guidance of the Board of Directors of the Company to maintain technical profits achieved in the past two years, the Company has continued a conservative underwriting policy to select the business according to the technical results reached as follows:

Operational Results:

- Total written premium for 2021 amounted to AED 25.5 million compared to AED 42.8 million for 2020. The net retained premium for 2021 amounted to AED 10.2 million compared to AED 22.7 million in 2020.
- Net operational profit for the year 2021 was AED 3.5 million compared to AED 7.1 million for the year 2020.

Second: Investment Activity:

- Investment profits for the year 2021 amounted to AED 24.3 million compared to AED 7.8 million in 2020.
- As per the statement of cashflows, The Company acquired financial assets through profit or loss amounted to AED 124.4 millions during the year compared to 27.7 million in 2020, and sold financial assets through other comprehensive income amounted to AED 61.2 million compared to AED 41.9 million in 2020.

The Company's net profit for the year 2021 amounted to AED 27.2 million compared to AED 11.7 million for the year 2020.

The main objective of the Company's Board of Directors and its executive management is to maintain and develop the economic entity to the benefit of the country, the citizens and the investors. Therefore, we are committed to be in the ranks of the competitive company's professionalism and committed to apply the highest standards of quality and management governance to meet the requirements of transparency and disclosure.

- The Company renewed the Reinsurance agreements for 2021 on technical basis to ensure the continuation of the underwriting performance and expansion of its operations.
- As per note 20, the Company paid and incurred during the year social contributions amounted to AED 25 thousand (2020: 105 thousand).

Based on these results, the Board of Directors propose cash dividend distribution at 8% for the year 2021 to shareholders, in addition to bonus shares distribution amounted to AED 12.5 million.

Finally, I would like to thank the Board of Directors and employees for their efforts and hope greater efforts to be done to continue the successful journey.

Yours faithfully,



Ahmed Mohamed Hamad Almidfa
Chairman



**Independent Auditor's Report
To the Shareholders of Sharjah Insurance Company P.S.C.****Report on the audit of the financial statements****Opinion**

We have audited the financial statements of Sharjah Insurance Company P.S.C. (the "Company"), which comprise the statement of financial position as at 31 December 2021, and the 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 2021, 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 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 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 2021. 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.

**Independent Auditor's Report
To the Shareholders of Sharjah Insurance Company P.S.C. (continued)**

Key audit matters (continued)

i) Valuation of insurance contract liabilities and reinsurance contract assets

The estimation of liabilities and assets arising from insurance contracts amounting to AED 44.2 million for insurance contract liabilities and AED 25.7 million for reinsurance contract assets (2020: AED 50.3 million for insurance contract liabilities and AED 23.6 million for reinsurance contract assets) such as outstanding claims, incurred but not reported claims, unallocated loss adjustment expenses and unearned premium reserve, as disclosed in note 10 to the financial statements, involves a significant degree of judgement. These liabilities and assets are based on the best-estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and the pattern of risk distribution over the coverage period. Actuarial computations have been used to determine these provisions. Underlying these computations are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Since the determination of such a provision requires the expertise of an external valuation expert who incorporates significant assumptions, judgements and estimations, the valuation of these liabilities and assets were significant to our audit.

Our audit procedures, among others, included:

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

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

ii) Valuation of investment properties

Company holds investment properties under the fair value method as at 31 December 2021 amounting to AED 51.9 million (2020: AED 53.5 million), as detailed in note 7. The fair value estimate requires significant judgement and estimates by management and independent external valuer. The Company has involved an independent external valuer in order to value the investment properties for the purpose of determining the fair value for inclusion in the financial statements. The existence of significant estimation and judgement coupled with change in valuation assumptions used could result in material change. Therefore, the valuation of these investment properties was significant to our audit.

Our audit procedures, among others, included:

- We assessed the competence, capabilities, and objectivity of external valuers; and
- We understood the basis of valuation for each property and other judgements used in performing the valuation;
- We checked the accuracy and relevance of the input data used for deriving fair values; and

**Independent Auditor's Report
To the Shareholders of Sharjah Insurance Company P.S.C. (continued)**

Key audit matters (continued)

ii) Valuation of investment properties (continued)

- We assessed the appropriateness of the key assumptions and methodologies used.

Other Information

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

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

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, and UAE Federal Law No. 6 of 2007, 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.

**Independent Auditor's Report
To the Shareholders of Sharjah Insurance Company P.S.C. (continued)**

Auditors' 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, 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 omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

**Independent Auditor's Report
To the Shareholders of Sharjah Insurance Company P.S.C. (continued)**

Report on Other Legal and Regulatory Requirements

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

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015; as amended,
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Directors' report is consistent with the books of account of the Company;
- v) as disclosed in Note 8 to the financial statements, the Company has investments in securities as at 31 December 2021;
- vi) Note 23 to the financial statements discloses material related party transactions and balances, and the terms under which they were conducted; and
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has, during the financial year ended 31 December 2021, contravened any of the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, or its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2021.

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


Grant Thornton

Farouk Mohamed

Registration No: 86

08 March 2022

Sharjah, United Arab Emirates



Sharjah Insurance Company P.S.C.
Financial statements

Statement of financial position
As at 31 December 2021

	Notes	2021 AED	2020 AED
ASSETS			
Non-current assets			
Property and equipment	5	2,362,070	2,657,542
Intangible assets	6	180,253	231,688
Investment properties	7	51,949,400	53,450,000
Investments designated at fair value through other comprehensive income (FVOCI)	8.1	50,685,171	86,373,730
Statutory deposit	9	5,000,000	5,000,000
Total non-current assets		110,176,894	147,712,960
Current assets			
Reinsurance contract assets	10	25,740,433	23,629,742
Insurance and other receivables	11	21,355,564	28,228,725
Investments at fair value through profit or loss (FVTPL)	8.2	108,714,402	10,783,755
Bank balances and cash	12	54,131,325	49,882,496
Total current assets		209,941,724	112,524,718
Total assets		320,118,618	260,237,678
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	137,500,000	137,500,000
Statutory reserve	14.1	51,707,121	48,984,513
Voluntary reserve	14.2	30,000,000	30,000,000
Reinsurance reserve	14.3	196,889	106,352
Cumulative change in fair value of financial investments designated at FVOCI		(111,624,590)	(136,632,704)
Retained earnings		122,515,004	107,139,644
Total equity		230,294,424	187,097,805
Non-current liabilities			
Provision for employees' end of service indemnity	15	964,807	1,135,610
Lease liabilities	17	1,410,124	1,784,948
Total Non-current liabilities		2,374,931	2,920,558
Current liabilities			
Insurance contract liabilities	10	44,201,350	50,262,292
Insurance and other payables	16	22,496,734	19,634,838
Lease liabilities	17	874,691	322,185
Bank overdrafts	22	19,876,488	-
Total current liabilities		87,449,263	70,219,315
Total liabilities		89,824,194	73,139,873
Total equity and liabilities		320,118,618	260,237,678


Managing Director


Chairman

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

Sharjah Insurance Company P.S.C.
Financial statements

Statement of income
For the year ended 31 December 2021

	Notes	2021 AED	2020 AED
Insurance premium revenue	18	28,188,571	44,277,371
Insurance premium ceded to reinsurers	18	(17,984,773)	(21,588,651)
Net insurance premium revenue	18	10,203,798	22,688,720
Gross claims incurred	10	(7,619,529)	(8,039,304)
Reinsurance share of claims incurred	10	6,025,611	3,078
Net claims incurred	10	(1,593,918)	(8,036,226)
Commission income		4,979,566	4,327,907
Less: commission incurred		(1,882,624)	(1,538,647)
Other income relating to underwriting activities		1,450,502	761,097
Net commission and other income		4,547,444	3,550,357
Underwriting profit		13,157,324	18,202,851
General and administrative expenses relating to underwriting activities		(9,617,962)	(11,113,260)
Net underwriting profit		3,539,362	7,089,591
Investment and other income, net	19	24,259,571	7,771,998
Change in fair value of investment properties	7	(1,500,600)	(980,000)
Finance costs		(104,998)	(100,561)
Finance cost-lease liability		(99,685)	(139,868)
Reversal of impairment	11, 12	3,878,126	1,082,444
Unallocated general and administrative expenses		(2,745,699)	(2,967,632)
Profit for the year	20	27,226,077	11,755,972
Basic and diluted earnings per share	21	0.20	0.09

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

Sharjah Insurance Company P.S.C.
Financial statements

Statement of comprehensive income
For the year ended 31 December 2021

	2021 AED	2020 AED
Profit for the year	27,226,077	11,755,972
Other comprehensive income/(loss) <i>Items that will not be reclassified subsequently to profit or loss</i>		
Net fair value gain /(loss) on investments designated at FVOCI	25,008,114	(4,500,256)
Gain/(loss) on sale of investments designated at FVOCI	587,428	(3,686,562)
Total other comprehensive income/(loss) for the year	25,595,542	(8,186,818)
Total comprehensive income for the year	52,821,619	3,569,154

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

Sharjah Insurance Company P.S.C.
Financial statements

Statement of changes in equity
For the year ended 31 December 2021

	Share capital AED	Statutory reserve AED	Voluntary reserve AED	Reinsurance reserve AED	Cumulative change in fair value of financial investments designated at FVOCI AED	Retained earnings AED	Total AED
Adjusted balance at 1 January 2020	137,500,000	47,808,916	30,000,000	-	(132,132,448)	110,527,183	193,703,651
Profit for the year	-	-	-	-	-	11,755,972	11,755,972
Other comprehensive loss for the year	-	-	-	-	(8,186,818)	-	(8,186,818)
Total comprehensive (loss)/income for the year	-	-	-	-	(8,186,818)	11,755,972	3,569,154
Transfer to retained earnings on disposal of investments designated at FVOCI	-	-	-	-	3,686,562	(3,686,562)	-
Transfer to statutory reserve	-	1,175,597	-	-	-	(1,175,597)	-
Transfer to reinsurance reserve	-	-	-	106,352	-	(106,352)	-
Board of Directors' remuneration (Note 29)	-	-	-	-	-	(550,000)	(550,000)
Dividend (Note 29)	-	-	-	-	-	(9,625,000)	(9,625,000)
Balance at 31 December 2020	137,500,000	48,984,513	30,000,000	106,352	(136,632,704)	107,139,644	187,097,805
Profit for the year	-	-	-	-	-	27,226,077	27,226,077
Other comprehensive income for the year	-	-	-	-	25,595,542	-	25,595,542
Total comprehensive income for the year	-	-	-	-	25,595,542	27,226,077	52,821,619
Transfer to retained earnings on disposal of investments designated at FVOCI	-	-	-	-	(587,428)	587,428	-
Transfer to statutory reserve	-	2,722,608	-	-	-	(2,722,608)	-
Transfer to reinsurance reserve	-	-	-	90,537	-	(90,537)	-
Dividend (Note 29)	-	-	-	-	-	(9,625,000)	(9,625,000)
Balance at 31 December 2021	137,500,000	51,707,121	30,000,000	196,889	(111,624,590)	122,515,004	230,294,424

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

Sharjah Insurance Company P.S.C.
Financial statements

Statement of cash flows
For the year ended 31 December 2021

	Notes	2021 AED	2020 AED
Cash flows from operating activities			
Profit for the year		27,226,077	11,755,972
Adjustments to reconcile profit for the year to net cash flows:			
Depreciation of property and equipment	5	1,105,802	1,316,291
Amortisation of intangible assets	6	78,114	200,544
Gain on sale of property and equipment		-	(5,225)
Reversal of expected credit losses	11, 12	(3,878,126)	(1,082,444)
Provision for employees' end of service indemnity	15	181,820	171,690
Reversal of employees' end of service indemnity	15	-	(171,373)
Fair value adjustments on investment properties	7	1,500,600	980,000
Directors' remuneration	29	400,000	-
Investment income	19	(24,259,571)	(7,771,998)
Finance costs		204,683	240,429
Operating cash flows before changes in operating assets and liabilities		2,559,399	5,633,886
(Increase)/decrease in reinsurance contract assets		(2,110,691)	12,643,553
Increase in insurance contract liabilities		(6,060,942)	(17,233,524)
Decrease in insurance and other receivables		10,751,287	10,626,784
Increase/(decrease) in insurance and other payables		2,861,896	(7,930,217)
Cash generated from operations		8,000,949	3,740,482
Employees' end of service indemnity paid	15	(352,623)	(636,829)
Directors' remuneration paid	29	(400,000)	(550,000)
Net cash generated from operating activities		7,248,326	2,553,653
Cash flows from investing activities			
Purchase of property and equipment	5	(268,535)	(80,558)
Purchase of intangible assets	6	(26,679)	(150,121)
Proceeds from disposal of property and equipment		-	10,500
Purchase of investments designated at FVOCI	8.2	-	(45,302,862)
Purchase of investments at FVTPL	8.2	(124,457,323)	(27,712,402)
Proceeds from disposal of investments designated at FVOCI		61,284,101	41,876,560
Proceeds from disposal of investments at FVTPL		43,144,741	32,786,665
Decrease in fixed deposits with bank		10,846,938	11,653,062
Interest received		146,669	515,108
Dividend received		4,754,245	4,645,923
Other investment income/(expense)	19	335,182	(107,487)
Income from investment properties – net	7	2,438,314	2,424,640
Net cash (used in)/generated from investing activities		(1,802,347)	20,559,028

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

Sharjah Insurance Company P.S.C.
Financial statements

Statement of cash flows (continued)
For the year ended 31 December 2021

		2021 AED	2020 AED
Cash flows from financing activities			
Interest paid		(104,998)	(100,561)
Lease liability paid		(496,702)	(1,593,559)
Dividend paid	29	(9,625,000)	(9,625,000)
Net cash used in financing activities		(10,226,700)	(11,319,120)
Net (decrease)/increase in cash and cash equivalents			
		(4,780,721)	11,793,561
Cash and cash equivalents at the beginning of the year		34,035,558	22,097,091
Reversal of provision for impairment on cash and cash equivalents		-	144,906
Cash and cash equivalents at the end of the year	22	29,254,837	34,035,558
Non-cash transactions, net			
Rights of use		(541,795)	667,732
Lease liabilities		574,699	(788,231)
Loss/ (gain) on cancellation of lease under IFRS 16		32,904	(120,499)

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements
For the year ended 31 December 2021

1. General information

Sharjah Insurance Company P.S.C. - Sharjah (the "Company") is incorporated as a public shareholding company by an Amiri Decree issued by His Highness, The Ruler of Sharjah on 8 March 1970. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its Operations and is registered in the Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) under registration No.12. The Company operates through its head office in Sharjah and has branches in Dubai and Ajman. The address of the Company's registered office is P.O. Box 792, Sharjah, United Arab Emirates.

The principal activity of the Company is dealing in property and non-property insurance and life insurance. The Company mainly carries out general insurance business.

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

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

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

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

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

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

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

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

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

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

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

2.2 Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

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

Management anticipates that IFRS 17 will be adopted in the Company's financial statements for the annual period beginning 1 January 2023. The application of IFRS 17 may have significant impact on amounts reported and disclosures

made in the Company's financial statements in respect of its insurance contracts. However, it is not practicable to provide a reasonable estimate of the effects of the application of this standard until the Company performs a detailed review. Management is in the process of performing a detailed assessment as required by the Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) on implementation of IFRS 17.

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

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

3. Significant accounting policies

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

3.1 Statement of compliance

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

The financial statements have been prepared in accordance with of the Financial Regulations for Insurance Companies issued by the Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) pertaining to Article (3) of Section 1, relating to asset distribution and allocation of limits.

3.2 Basis of preparation

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.3 Insurance contracts

3.3.1 Definition, recognition and measurement

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

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

3.3.2 Short-term insurance contracts

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

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events.

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

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

For all these insurance contracts, premiums are recognised as revenue (earned premiums) on time-proportion basis wherein revenue from an insurance contract is recognised over the effective period of the policy with the exception of marine, where the unearned premium reserve (UPR) is recognised as fixed proportion of the written premiums and for engineering where UPR is calculated on uniform risk basis. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability.

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct claims settlement costs and arise from events that have occurred up to the reporting date even if even they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.3 Reinsurance contracts

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The Company assesses its reinsurance contract assets for impairment on a regular basis. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

3.3.4 Insurance contract liabilities

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

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

3.3.5 Salvage and subrogation reimbursements

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

3.3.6 Liability adequacy test

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

3.3.7 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortized cost. The impairment loss is also calculated under the same method used for these financial assets.

3.3.8 Commission earned and incurred

Commissions and other acquisition costs that are related to securing new contracts and renewing existing contracts are charged to profit or loss when incurred. The Company recognise commissions received from reinsurance premium ceded as commission income in the period in which premium was ceded to the reinsurers.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.4 Revenue recognition

3.4.1 Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements (Note 3.3).

3.4.2 Interest income

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

3.4.3 Dividend income

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

3.4.4 Rental income

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

3.5 General and administrative expenses

85% of general and administrative expenses for the year are allocated to insurance departments in proportion to each department's share of written premium.

3.6 Foreign currencies

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

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

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.7 Employee benefits

3.7.1 Defined contribution plan

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

3.7.2 Annual leave and leave passage

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

3.7.3 Provision for employees' end of service indemnity

Provision is also made for the full amount of end of service indemnity due to non-U.A.E. national employees in accordance with the U.A.E. Labour Law and is based on current remuneration and their period of service at the end of the reporting period. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service indemnity is disclosed as a non-current liability.

3.8 Property and equipment

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

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

The useful lives considered in the calculation of depreciation for all the assets are 4 - 5 years. Right-of-use assets are depreciated over the lease term of 5 years.

3.9 Intangible assets

Intangible assets are reported at cost less accumulated amortisation and identified impairment losses, if any. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful lives considered in the calculation of amortisation is 4 years.

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.10 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of income in the period in which they arise.

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

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

3.11 Impairment of non-financial assets

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

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

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

3.12 Provisions

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

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.13 Borrowing costs

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

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

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

3.14 Leases

3.14.1 Lessee

The Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract or part of a contract, that conveys the right-to-use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

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

Measurement and recognition of leases as a lessee

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

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

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

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

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

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in statement of income on a straight-line basis over the lease term.

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.14 Leases (continued)

3.14.1 Lessee (continued)

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in as a separate line item as lease liabilities.

3.14.2 Lessor

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

3.15 Financial instruments

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

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

- (i) debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- (ii) debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVOCI);
- (iii) all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Company may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:
 - a. the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and
 - b. the Company may irrevocably designate a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.15 Financial instruments (continued)

Cash and bank and insurance and other receivables

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

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

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

Equity instruments at FVOCI

Investments in equity instruments/funds at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments in equity instruments/funds, but reclassified to retained earnings. The Company has designated all investments in equity instruments that are not held for trading as FVOCI.

Dividends on these investments in equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Debt instruments at amortised cost or at FVOCI

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

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

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

Financial assets at FVTPL

Financial assets at FVTPL are:

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.15 Financial instruments (continued)

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

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

Reclassifications

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

Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an expected credit loss model (ECLs). The Company recognises loss allowances for expected credit losses on bank balances including statutory and fixed deposits and insurance and other receivables that are not measured at FVTPL.

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Company has elected to measure loss allowances for bank balances including statutory and fixed deposits, insurance and other receivables at an amount equal to life time ECLs.

Loss allowance for financial investments measured at amortised costs are deducted from gross carrying amount of assets.

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.15 Financial instruments (continued)

Impairment (continued)

For certain categories of financial assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio as well as observable changes in national or local economic conditions that correlate with default on receivables.

Impairment losses related to bank balances including statutory and fixed deposits and insurance and other receivables are presented in the statement of income.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of the grade of the investment.

Measurement of ECL

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

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk. (Stage 1); and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low. (Stage 2)

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

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

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

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.15 Financial instruments (continued)

Credit-impaired financial assets

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

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes 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 recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

Financial liabilities are classified as 'other financial liabilities'.

Other financial liabilities

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

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

3. Significant accounting policies (continued)

3.15 Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Derecognition of financial liabilities

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

Dividend distribution

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

3.16 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized with in fair value hierarchy, based on the lowest level of input that is significant to the fair value measurement as a whole.

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

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3 to these financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

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

4.1 Critical accounting judgements

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

4.1.1 Classification of investments

Management decides on acquisition of an investment whether it should be classified as FVTPL or FVOCI. The Company classifies investments at FVTPL if they are acquired primarily for the purpose of making a short-term profit by the dealers.

Equity instruments are classified as financial assets measured at FVOCI when they are considered by management to be strategic equity investments that are not held to benefit from changes in their fair value and are not held for trading.

Management is satisfied that the Company's investments in securities are appropriately classified.

4.1.2 Classification of properties

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

4.1.3 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of Note 3.15). The Company determines the business model at a level that reflects how Companies of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the years presented.

4.2 Key sources of estimation uncertainty

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

Notes to the financial statements (continued)
For the year ended 31 December 2021

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

4.2 Key sources of estimation uncertainty (continued)

4.2.1 *The ultimate liability arising from claims made under insurance contracts*

The estimation of ultimate liability arising from the claims made under insurance contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of each reporting period. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on external actuarial assessment, taking into account the historical data of the claims reported and settlement pattern. Such method takes into account the best estimates of the future contractual cash flows estimated based on the historical data. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

4.2.2 *Impairment of financial assets*

The Company reviews its insurance receivables on a regular basis to assess whether an expected credit loss provision should be recorded in the statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cashflows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realization cost.

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

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

4.2.3 *Liability adequacy test*

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The 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. Any deficiency is immediately charged to the profit or loss.

4.2.4 *Valuation of unquoted equity instruments*

Valuation of unquoted equity investments is done by independent external valuer normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, or other valuation models. In the absence of an active market for these investments or any recent transactions that could provide evidence of the current fair value, management estimates the fair value of these instruments using net assets valuation method or other valuation models.

4.2.5 *Depreciation of property and equipment*

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

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

4.2 Key sources of estimation uncertainty (continued)

4.2.6 Impairment of intangible assets

The period of amortisation of the intangible assets is determined based on the pattern in which the asset's future economic benefits are expected to be consumed by the Company and technological obsolescence. Management has concluded that no impairment of intangible assets is required based on impairment test performed by the Company as of the reporting date.

4.2.7 Revaluation of investment properties

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

5. Property and equipment

	Decoration and office improvements AED	Furniture and office equipment AED	Right-of-use assets-building AED	Total AED
Cost				
At 31 December 2019	1,720,475	3,841,019	4,808,292	10,369,786
Additions during the year	-	80,558	-	80,558
Disposals during the year	-	(59,500)	(954,579)	(1,014,079)
31 December 2020	1,720,475	3,862,077	3,853,713	9,436,265
Additions during the year	-	268,535	966,043	1,234,578
Disposals during the year	-	-	(859,859)	(859,859)
At 31 December 2021	1,720,475	4,130,612	3,959,897	9,810,984
Accumulated depreciation				
At 31 December 2019	1,720,475	3,121,371	961,658	5,803,504
Charge for the year	-	435,290	881,001	1,316,291
Relating to disposals	-	(54,225)	(286,847)	(341,072)
At 31 December 2020	1,720,475	3,502,436	1,555,812	6,778,723
Charge for the year	-	299,896	805,906	1,105,802
Relating to disposals	-	-	(435,611)	(435,611)
At 31 December 2021	1,720,475	3,802,332	1,926,107	7,448,914
Carrying amount				
At 31 December 2021	-	328,280	2,033,790	2,362,070
At 31 December 2020	-	359,641	2,297,901	2,657,542

During the prior year, the Company considered the lease contract with Dubai head office as a short-term contract and cancelled the lease contract of Sharjah industrial warehouse with annual lease of AED 130 thousand and AED 95 thousand, respectively.

During the current year, the Company cancelled the lease contract for Ajman branch and Rolla branch with annual lease of AED 92 thousand and 93 thousand, respectively, and obtained new lease contract for Dubai head office and Ajman branch with annual lease of AED 120 thousand and AED 85 thousand, respectively.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

6. Intangible assets

	Computer software AED
Cost	
At 31 December 2019	683,496
Additions during the year	150,121
At 31 December 2020	<u>833,617</u>
Additions during the year	26,679
At 31 December 2021	<u>860,296</u>
Accumulated amortization	
At 31 December 2019	401,385
Charge for the year	200,544
At 31 December 2020	<u>601,929</u>
Charge for the year	78,114
At 31 December 2021	<u>680,043</u>
Carrying amount	
At 31 December 2021	<u>180,253</u>
At 31 December 2020	<u>231,688</u>

7. Investment properties

	2021 AED	2020 AED
Fair value at the beginning of the year	53,450,000	54,430,000
Changes in fair value	<u>(1,500,600)</u>	<u>(980,000)</u>
Fair value at the end of the year	<u>51,949,400</u>	<u>53,450,000</u>

The fair value of the Company's investment properties has been arrived at on the basis of valuations carried by independent external valuers who have appropriate market experience in the valuation of properties in the United Arab Emirates.

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

Investment properties include properties mortgaged to Ministry of Economy and Commerce, U.A.E. amounting to AED 19.1 million (2020: AED 19.9 million) in accordance with the requirements of U.A.E. Federal Law No. 6 of 2007, on Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) (Note 9) and certain investment properties amounting to Nil (2020: AED 17.5 million) mortgaged to a bank against credit facility granted to the Company (Note 22).

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

7. Investment properties (continued)

The property rental income earned by the Company from its investment properties and the direct operating expenses related to the investment properties are as follows:

	2021 AED	2020 AED
Rental income	2,446,499	2,432,440
Direct operating expenses	(8,185)	(7,800)
Income from investment properties (Note 19)	<u>2,438,314</u>	<u>2,424,640</u>

Details of the Company's investment properties and their fair values are as follows:

	2021 AED	2020 AED
Plots of land located in Sharjah, U.A.E	5,980,000	5,650,000
Shops located in Sharjah, U.A.E	41,175,000	43,000,000
Villas located in Sharjah, U.A.E	2,456,900	2,200,000
Building located in Sharjah, U.A.E.	2,337,500	2,600,000
	<u>51,949,400</u>	<u>53,450,000</u>

8. Financial investments

The Company's financial investments at the end of reporting period are detailed below:

8.1 Financial investments designated at FVOCI

	2021 AED	2020 AED
Quoted securities	47,599,464	83,250,366
Unquoted securities	3,085,707	3,123,364
	<u>50,685,171</u>	<u>86,373,730</u>

The geographical classification of the investments is as follows:

	2021 AED	2020 AED
Within U.A.E.	21,523,489	39,945,300
In other GCC countries	29,161,682	46,428,430
	<u>50,685,171</u>	<u>86,373,730</u>

Financial assets at FVOCI with fair value AED Nil (31 December 2020: AED 8.99 million) are pledged to the bank against credit facility granted to the Company (Note 22).

The electronic custody of investments designated at FVOCI with fair value AED 6.11 million are transferred to the bank's appointed broker as security against credit facility granted to the Company (Note 22).

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

8. Financial investments (continued)

8.2 Financial investments at FVTPL

	2021 AED	2020 AED
Quoted securities	108,360,339	10,783,755
Unquoted securities	354,063	-
	<u>108,714,402</u>	<u>10,783,755</u>

The geographical classification of the investments is as follows:

	2021 AED	2020 AED
Within U.A.E.	95,857,509	8,611,074
Other GCC countries	12,856,893	2,172,681
	<u>108,714,402</u>	<u>10,783,755</u>

The electronic custody of investments designated at FVTPL with fair value AED 40.69 million (31 December 2020: AED Nil) are transferred to the bank's appointed broker as security against credit facility granted to the Company (Note 22).

The movements in financial investments are as follows:

	At FVOCI		At FVTPL	
	2021 AED	2020 AED	2021 AED	2020 AED
At 31 December	86,373,730	91,134,246	10,783,755	15,684,703
Purchased during the year	-	45,302,862	124,457,323	27,712,402
Disposals during the year	(61,284,101)	(41,876,560)	(38,555,928)	(30,510,966)
Change in fair value	25,595,542	(8,186,818)	12,029,252	(2,102,384)
At 31 December	<u>50,685,171</u>	<u>86,373,730</u>	<u>108,714,402</u>	<u>10,783,755</u>

Disclosure as required by the circular No. 411/2019 dated 7 July 2019: At reporting date, the Company does not have any investment in securities with Abraaj Group.

9. Statutory deposit

In accordance with the requirements of Federal Law No. 6 of 2007, on Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.), the Company maintains a bank deposit of AED 5,000,000 (31 December 2020: AED 5,000,000) as a statutory deposit. In addition to the statutory deposit, there are investment properties with a fair value amounting to AED 19.1 million (2020: AED 19.9 million) pledged to the Ministry of Economy and Commerce (Note 7).

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

10. Insurance contract liabilities and reinsurance contract assets

	2021 AED	2020 AED
Gross		
Insurance contract liabilities		
Claims reported unsettled	24,841,463	24,610,423
Unallocated loss adjustment exposure reserve	1,374,409	1,614,476
Unexpired risk reserve	3,511,982	2,500,883
Claims incurred but not reported	5,904,722	9,221,129
Unearned premium	8,568,774	12,315,381
Total insurance contract liabilities, gross	44,201,350	50,262,292
Recoverable from reinsurers		
Re-insurance contract assets		
Claims reported unsettled	17,754,866	15,295,374
Unexpired risk reserve	458,646	67,838
Claims incurred but not reported	3,024,851	3,496,259
Unearned premium	4,502,070	4,770,271
Total reinsurers' share of insurance liabilities	25,740,433	23,629,742
Net		
Claims reported unsettled	7,086,597	9,315,049
Unallocated loss adjustment exposure reserve	1,374,409	1,614,476
Unexpired risk reserve	3,053,336	2,433,045
Claims incurred but not reported	2,879,871	5,724,870
Unearned premium	4,066,704	7,545,110
	18,460,917	26,632,550

Notes to the financial statements (continued)
For the year ended 31 December 2021

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

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

	2021			2020		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
Claims reported unsettled	24,610,423	(15,295,374)	9,315,049	36,168,292	(25,816,225)	10,352,067
Unallocated loss adjustment expense reserve	1,614,476	-	1,614,476	2,271,814	-	2,271,814
Incurrd but not reported	9,221,129	(3,496,259)	5,724,870	12,751,000	(5,300,637)	7,450,363
Total at the beginning of the year	35,446,028	(18,791,633)	16,654,395	51,191,106	(31,116,862)	20,074,244
Claims settled in the year	(10,944,963)	4,037,527	(6,907,436)	(23,784,382)	12,328,307	(11,456,075)
Increase in liabilities	7,619,529	(6,025,611)	1,593,918	8,039,304	(3,078)	8,036,226
Total at the end of the year	32,120,594	(20,779,717)	11,340,877	35,446,028	(18,791,633)	16,654,395
Claims reported unsettled	24,841,463	(17,754,866)	7,086,597	24,610,423	(15,295,374)	9,315,049
Unallocated loss adjustment expense reserve	1,374,409	-	1,374,409	1,614,476	-	1,614,476
Incurrd but not reported	5,904,722	(3,024,851)	2,879,871	9,221,129	(3,496,259)	5,724,870
Total at the end of the year	32,120,594	(20,779,717)	11,340,877	35,446,028	(18,791,633)	16,654,395
Unearned premium and unexpired risk reserve						
Total at the beginning of the year	14,816,264	(4,838,109)	9,978,155	16,304,710	(5,156,433)	11,148,277
Increase / (decrease) during the year	12,080,756	(4,960,716)	7,120,040	14,816,264	(4,838,109)	9,978,155
Release during the year	(14,816,264)	4,838,109	(9,978,155)	(16,304,710)	5,156,433	(11,148,277)
Net (decrease)/increase during the year (Note 18)	(2,735,508)	(122,607)	(2,858,115)	(1,488,446)	318,324	(1,170,122)
Total at the end of the year	12,080,756	(4,960,716)	7,120,040	14,816,264	(4,838,109)	9,978,155

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

11. Insurance and other receivables

	2021 AED	2020 AED
Receivables arising from insurance and reinsurance contracts		
Due from policyholders	14,923,237	18,664,683
Due from local insurance companies	18,161,315	24,096,891
Due from foreign insurance companies	12,876,549	14,286,211
Due from brokers	481,043	514,313
Less: Expected credit losses	<u>(28,090,250)</u>	<u>(31,968,376)</u>
	18,351,894	25,593,722
Other receivables		
Prepayments and others	<u>3,003,670</u>	<u>2,635,003</u>
	21,355,564	28,228,725

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

The Company writes off an insurance receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings etc.

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

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

Ageing of insurance receivables:

	2021 AED	2020 AED
0 - 90 days	5,916,953	5,045,065
91 - 180 days	3,305,771	3,366,538
181 - 270 days	3,471,756	2,897,961
Above 271 days	<u>33,747,664</u>	<u>46,252,534</u>
	46,442,144	57,562,098
Less: Expected credit losses	<u>(28,090,250)</u>	<u>(31,968,376)</u>
	18,351,894	25,593,722

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

11. Insurance and other receivables (continued)

Movements in allowance for impairment of financial assets

	2021 AED	2020 AED
Balance at 1 January	31,968,376	32,832,896
Reversal of impairment	(3,878,126)	(864,520)
Balance at the end of the year	28,090,250	31,968,376

12. Bank balances and cash

	2021 AED	2020 AED
Fixed deposits	5,000,000	15,773,920
Cash on hand	25,878	23,411
Portfolio accounts	612,357	612,357
Current and call accounts	48,493,090	33,254,884
	54,131,325	49,664,572
Reversal of provision for impairment	-	217,924
	54,131,325	49,882,496

Fixed deposits amounting to Nil (2020: AED 7,500,000) are under lien against credit facilities granted to the Company (Note 22).

The interest rate on fixed deposits with banks is 0.50% to 0.75% (2020: 0.55% to 2.60%) per annum. All fixed deposits are held in local banks in the United Arab Emirates.

Bank balances and cash are held:

	2021 AED	2020 AED
Within U.A.E.	33,038,286	49,648,495
Outside U.A.E.	21,093,039	234,001
	54,131,325	49,882,496

Details of provision for impairment is mentioned below:

	2021 AED	2020 AED
Balance at beginning of the year	-	217,924
Reversals during the year	-	(217,924)
Balance at the end of the year	-	-

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

12. Bank balances and cash (continued)

Reversal during the year:

	2021 AED	2020 AED
Cash and cash equivalents	-	144,906
Deposits with banks	-	73,018
	<u>-</u>	<u>217,924</u>

13. Share capital

	2021 AED	2020 AED
Authorized, issued and fully paid:		
137.5 million ordinary shares of AED 1 each		
(2020: 137.5 million ordinary shares of AED 1 each)	<u>137,500,000</u>	<u>137,500,000</u>

14. Reserves

14.1 Statutory reserve

In accordance with UAE Federal Law No. (2) of 2015, as amended, the Company has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law.

14.2 Voluntary reserve

As per Articles of association, voluntary reserve can be created upon a recommendation of the Board of Directors and this reserve cannot be utilized for any other purpose unless approved by the Ordinarily General meeting. No transfer to voluntary reserve is made during 2020 and 2021.

14.3 Reinsurance reserve

In accordance with Insurance Authority's Board of Directors' Decision No. 23 Article 34, an amount of AED 90,537 (2020: AED 106,352) 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 Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.).

15. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2021 AED	2020 AED
Balance at the beginning of the year	1,135,610	1,772,122
Amounts charged to income during the year	181,820	171,690
Amounts paid during the year	(352,623)	(636,829)
Reversals during the year	-	(171,373)
	<u>964,807</u>	<u>1,135,610</u>

Reversals relates to employees who left the Company during the year.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

16. Insurance and other payables

	2021 AED	2020 AED
Payables arising from insurance and reinsurance contracts:		
Payables	8,411,452	7,230,079
Due to local insurance companies	891,139	1,594,414
Due to foreign insurance companies	4,444,446	2,411,412
Due to brokers	68,321	67,481
Premium reserve withheld	5,223,390	4,593,292
	<u>19,038,748</u>	<u>15,896,678</u>
Other payables		
Accrued expenses and provisions*	1,076,397	1,356,571
Unclaimed dividend	2,381,589	2,381,589
	<u>22,496,734</u>	<u>19,634,838</u>

17. Leases

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

	2021 AED	2020 AED
Current	874,691	322,185
Non-current	1,410,124	1,784,948
	<u>2,284,815</u>	<u>2,107,133</u>

The Company has a building leases recognised as right-of use assets with lease term of 5 years.

The Company's future minimum operating lease payments are as follows:

	Within 1 year	1-5 years	After 5 years	Total
	AED	AED	AED	AED
December 31, 2021				
Lease payments	949,654	1,456,563	-	2,406,217
Finance charges	(74,963)	(46,439)	-	(121,402)
Net present value	<u>874,691</u>	<u>1,410,124</u>	<u>-</u>	<u>2,284,815</u>
December 31, 2020				
Lease payments	410,239	1,858,840	-	2,269,079
Finance charges	(88,054)	(73,892)	-	(161,946)
Net present value	<u>322,185</u>	<u>1,784,948</u>	<u>-</u>	<u>2,107,133</u>

During the prior year, the carrying amount of lease liabilities relating to lease contract with Dubai head office and cancelled lease contract of Sharjah industrial warehouse amounted to AED 788,231. Gains relating to cancellation of these lease contracts under IFRS 16 amounted to AED 120,499 (Note 19).

During the current year, the loss relating to cancellation of lease contract with Ajman branch and Rolla branch amounted to AED 32,904 (Note 19) relating to disposal of lease contracts with carrying amount of AED 541,795. Incremental borrowing rate used is 4% (2020: 4%)

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

18. Net insurance premium revenue

	2021 AED	2020 AED
Gross premium written		
Gross premium written	25,453,063	42,788,925
Change in unearned premium (Note 10)	2,735,508	1,488,446
	<u>28,188,571</u>	<u>44,277,371</u>
Reinsurance premium ceded		
Reinsurance premium ceded	(18,107,380)	(21,270,327)
Change in unearned premium (Note 10)	122,607	(318,324)
	<u>(17,984,773)</u>	<u>(21,588,651)</u>
Net insurance premium revenue	<u>10,203,798</u>	<u>22,688,720</u>

19. Investment and other income, net

	2021 AED	2020 AED
Gain from disposal of financial investments at FVTPL	4,588,813	2,275,699
Unrealised gain /(loss) on financial investments at FVTPL	12,029,252	(2,102,384)
Dividend from financial investments at FVTPL	2,118,700	1,123,996
Dividend from financial investments at FVOCI	2,635,545	3,521,927
Income from investment properties (Note 7)	2,438,314	2,424,640
Interest on bank deposits	146,669	515,108
(Loss)/gain on cancellation of leases under IFRS 16	(32,904)	120,499
Other investment income /(expenses)	335,182	(107,487)
	<u>24,259,571</u>	<u>7,771,998</u>

20. Profit for the year

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

	2021 AED	2020 AED
Staff costs	6,285,868	6,950,307
Depreciation of property and equipment	1,105,802	1,316,291
Amortisation of intangible assets	78,114	200,544

The Company incurred an expense during the year AED 25 thousand (2020: AED 105 thousand) as a social contribution donation.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

21. Basic and diluted earnings per share

	2021	2020
Profit for the year (in AED)	27,226,077	11,755,972
Weighted average number of shares	137,500,000	137,500,000
Basic and diluted earnings per share (in AED)	0.20	0.09

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

22. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks net of fixed deposits in banks with maturity over three months. Cash and cash equivalents at the end of the year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2021 AED	2020 AED
Bank balances and cash (Note 12)	54,131,325	49,882,496
Fixed deposit with maturity over 3 months (Note 12)	(5,000,000)	(15,773,920)
Reversal of impairment on bank accounts	-	(73,018)
	49,131,325	34,035,558
Less: bank overdrafts	(19,876,488)	-
Cash and cash equivalents	29,254,837	34,035,558

Bank overdrafts facility

The bank overdraft facilities availed in prior year were secured by lien over fixed deposit of AED Nil (31 December 2020: AED 7.5 million), pledge over investments designated at FVOCI having a fair value of AED Nil (2020: AED 8.99 million) and mortgage over certain investment properties amounting to AED Nil (2020: AED 17.5 million). These bank overdraft facilities were not renewed during the year. Bank overdraft carried interest rate at EIBOR plus 1.5% per annum (2020: 1% to 3% per annum)

During the year, the Company availed new bank overdraft facilities and is secured by electronic custody of investments designated at FVOCI and FVTPL having a fair value of AED 6.11 million and AED 40.69 million, respectively, by the bank's appointed broker.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

23. Related party transactions

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

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

	2021	2020
	AED	AED
Due from policyholders	157,291	961,587
Due to policyholders	(30,553)	(28,616)
Outstanding claims	(164,219)	(208,646)
Rights-of-use asset	1,582,055	1,796,312
Lease liability	(1,827,389)	(1,800,417)

The amounts outstanding are unsecured and payable on demand.

Transactions:

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

	2021	2020
	AED	AED
Gross premium written	881,914	1,054,587
Claims paid	(58,200)	(347,772)
Lease liability repayments	(745,000)	(745,000)

The Company has entered into above transactions with related parties which were made on substantially the same terms, as those prevailing at the same time for comparable transactions with third parties.

Compensation of board of directors/key management personnel

	2021	2020
	AED	AED
Short-term benefits	1,030,000	980,000
Director's remuneration	400,000	550,000
Long-term benefits	54,819	41,010

24. Contingent liabilities and capital commitments

	2021	2020
	AED	AED
Letters of guarantee	5,000,000	5,000,000

The Company, in common with the significant majority of insurers, is subject to litigation in the normal course of its business. The Company, based on independent legal advice, does not expect that the outcome of these court cases will have a material impact on the Company's financial performance or financial position.

Notes to the financial statements (continued)
For the year ended 31 December 2021

25. Insurance risk

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

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The 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.

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.

25.1 *Frequency and severity of claims*

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

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 limit of AED 200,000 in any one motor policy. 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.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

25. Insurance risk (continued)

25.2 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. 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. Company has involved external actuarial valuer's as well. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The 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 reporting date.

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 initial estimate of the loss ratios used for the current year (before reinsurance) are analyzed below by type of risk where the insured operates for current and prior year premiums earned.

Type of risk	2021	2020
Motor	45-50%	40-45%
Non-motor	10-15%	10-15%

25.3 Process used to decide on assumptions

The risks associated with these insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the 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 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.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

25. Insurance risk (continued)

25.3 Process used to decide on assumptions (continued)

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

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

25.4 Reinsurance risk

In common with other insurance companies, in order to minimize 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 minimize 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.

25.5 Sensitivity of underwriting profit and losses

The contribution by the insurance operations is a profit of AED 3.5 million for the year ended 31 December 2021 (2020: profit of AED 7 million). The Company does not foresee any major impact from insurance operations to the Company's results and expects to increase the contribution by insurance operations to the profitability due to the following reasons:

The Company has an overall retention level of 37% (2020: 53%) and the decrease is mainly contributed by decline in Motor line of business wherein the retention level is high. However, in this class, the risk is adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Company earns a net commission and other underwriting income of AED 4.5 million (2020: AED 3.6 million). These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

26. Capital risk management

The Company's objectives when managing capital are:

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

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

26. Capital risk management (continued)

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

The table below summarizes the minimum required capital of the Company and the total capital held.

	2021 AED	2020 AED
Total capital held	<u>137,500,000</u>	137,500,000
Minimum regulatory capital	<u>100,000,000</u>	100,000,000

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

Further, as per Article (8) of section (2) of financial regulations issued for insurance companies in U.A.E., the Company shall at all times comply with the requirements of solvency margin. As of 31 December 2021, the Company has complied with the requirements of solvency margin.

26.1 Gearing ratio

The Company reviews the capital structure on a regular basis. As part of this review, the Company considers the cost of capital and the risks associated with capital.

The gearing ratio at the yearend was as follows:

	2021 AED	2020 AED
Debt (Note 22)	19,876,488	-
Bank balances and cash (Note 12)	<u>(54,131,325)</u>	(49,882,496)
Net debt	<u>(34,254,837)</u>	(49,882,496)
Shareholders’ funds (i)	<u>230,294,424</u>	187,097,805
Net debt to equity ratio	<u>Favorable</u>	Favorable

- (i) Shareholders’ funds include share capital, statutory reserve, voluntary reserve, reinsurance reserve, and cumulative changes in fair value of financial investments designated at FVOCI and retained earnings.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

27. Financial risk management

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

27.1 Categories of financial instruments

	2021 AED	2020 AED
Financial assets		
Financial investments designated at FVOCI	50,685,171	86,373,730
Financial investments at FVTPL	108,714,402	10,783,755
Statutory deposit at amortised cost	5,000,000	5,000,000
Insurance and other receivables at amortised cost (excluding prepayments)*	20,389,002	27,735,883
Bank balances and cash – non-interest bearing	49,131,325	34,035,558
Bank balances and cash - interest bearing	5,000,000	15,846,938
Total	238,919,900	179,775,864
Financial liabilities at amortised cost		
Bank overdrafts	19,876,488	-
Lease liabilities	2,284,815	2,107,133
Insurance and other payables	22,496,734	19,634,838
Total	44,658,037	21,741,971

* Insurance and other receivables include prepayments as at 31 December 2021 amounted to AED 966,562 (2020: AED 492,842).

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

27.2 Fair value measurements

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the reporting date.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instrument.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

27. Financial risk management (continued)
27.2 Fair value measurements (continued)

	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31 December 2021 AED	31 December 2020 AED				
Investment designated at FVOCI						
Quoted equity securities	47,599,464	83,250,366	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	3,085,707	3,123,364	Level 3	Net assets valuation method.	Net asset value	Higher the net assets, value of the investees, higher the fair value.
Investment at FVTPL						
Quoted equity Securities	108,360,339	10,783,755	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	354,063	-	Level 3	Net assets valuation method.	Net asset value	Higher the net assets, value of the investees, higher the fair value.
Investment properties	51,949,400	53,450,000	Level 3	Income approach considering projected cashflows and occupancy ratio.	Projected cashflows	Higher the projected cashflows, higher the fair value.
	<u>211,348,973</u>	<u>150,607,485</u>				

Movement in level 3 assets is as follows:

Category	Opening balance AED	Additions/ (Disposals) AED	Revaluation impact AED	Closing balance AED
31 December 2021				
<i>Financial assets:</i>				
Unquoted equity securities	3,123,364	1,104,842	(788,436)	3,439,770
Investment properties	53,450,000	-	(1,500,600)	51,949,400
	<u>56,573,364</u>	<u>1,104,842</u>	<u>(2,289,036)</u>	<u>55,389,170</u>
31 December 2020				
<i>Financial assets:</i>				
Unquoted equity securities	2,418,950	-	704,414	3,123,364
Investment properties	54,430,000	-	(980,000)	53,450,000
	<u>56,848,950</u>	<u>-</u>	<u>(275,586)</u>	<u>56,573,364</u>

There was no transfer between the levels during the current year. There are no financial liabilities which should be measured at fair value and accordingly, no disclosure is made in the above table.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

27. Financial risk management (continued)

27.3 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk comprises three types of risk: foreign currency rates, interest rate risk, and equity price risk.

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

27.3.1 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is not exposed to significant currency risk because the Company's significant transactions, assets and liabilities are dominated in its functional currency. There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams, other G.C.C. currencies or US Dollars to which the Dirham is fixed.

27.3.2 Interest risk

The Company's exposure to interest rate risk relates to its bank deposits and overdrafts. At 31 December 2021, bank deposits carried interest at the range of 0.50% to 0.75% per annum (2020: 0.55% to 2.6% per annum) and bank overdraft carried interest rate at EIBOR plus 1.5% per annum (2020: 1% to 3% per annum).

If interest rates had been 50 basis points higher/lower throughout the year and all other variables were held constant, the Company's profit for the year ended 31 December 2021 and equity as at 31 December 2021 would increase/decrease by approximately AED 99,382 (2020: AED nil).

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

27.3.3 Equity price risk

Market price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices. The financial instruments that expose the Company to market price risk consist primarily of financial assets carried at FVTPL and FVOCI. To manage such risks, the Company diversifies its investments based on advance decision to allocate assets to different classes, and following up with market conditions and trends, in addition to management estimates of short and long term changes in fair value.

27.3.3.1 Sensitivity analysis

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Company's:

- profit for the year would have increased/decreased by AED 10.87 million (2020: AED 1.08 million).
- other comprehensive income/(loss) and equity would have increased/decreased by AED 5.07 million (2020: AED 8.6 million).

27.3.3.2 Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk at the reporting date.
- At the end of the reporting period, if equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.

A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

27. Financial risk management (continued)

27.4 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; and
- amounts due from insurance intermediaries;

The Company has adopted a policy of 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 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 finalization of any contract.

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 collected within the ongoing monitoring of the controls. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the 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.

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

At the end of the reporting period, the Company's maximum exposure to credit risk, from insurance receivables situated outside the U.A.E. were as follows:

	2021	2020
	AED	AED
Europe	2,881,339	3,655,648
Other Arab countries	9,995,210	10,630,564

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

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.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

27. Financial risks management (continued)

27.5 Liquidity risk

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

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

	Less than 30 days AED	31-90 days AED	91-180 days AED	181 - 365 days AED	Above 365 days AED	Total AED
31 December 2021						
Financial assets						
Investments designated at FVOCI	-	-	-	-	50,685,171	50,685,171
Financial investment at FVTPL	108,714,402	-	-	-	-	108,714,402
Statutory deposit	-	-	-	-	5,000,000	5,000,000
Insurance and other receivables - excluding prepayments*	4,732,465	3,221,596	3,305,771	6,453,076	2,676,094	20,389,002
Bank balances and cash – non interest bearing	49,131,325	-	-	-	-	49,131,325
Bank balances and cash – interest bearing	-	-	-	-	5,000,000	5,000,000
	162,578,192	3,221,596	3,305,771	6,453,076	63,361,265	238,919,900
Financial liabilities						
Insurance and other payables	8,624,948	2,101,384	1,611,662	1,552,871	8,605,869	22,496,734
Lease liabilities	56,106	159,353	217,587	441,645	1,410,124	2,284,815
Bank overdrafts	19,876,488	-	-	-	-	19,876,488
	28,557,542	2,260,737	1,829,249	1,994,516	10,015,993	44,658,037
31 December 2020						
Financial assets						
Investments designated at FVOCI	-	-	-	-	86,373,730	86,373,730
Financial investment at FVTPL	10,783,755	-	-	-	-	10,783,755
Statutory deposit	-	-	-	-	5,000,000	5,000,000
Insurance and other receivables - excluding prepayments*	4,693,824	2,253,402	3,366,538	13,585,283	3,836,836	27,735,883
Bank balances and cash – non interest bearing	34,035,558	-	-	-	-	34,035,558
Bank balances and cash – interest bearing	-	-	-	-	15,846,938	15,846,938
	49,513,137	2,253,402	3,366,538	13,585,283	111,057,504	179,775,864
Financial liabilities						
Lease liabilities	38,125	45,579	69,718	168,763	1,784,948	2,107,133
Insurance and other payables	7,794,564	1,580,416	1,238,760	1,820,357	7,200,741	19,634,838
	7,832,689	1,625,995	1,308,478	1,989,120	8,985,689	21,741,971

* Insurance and other receivables include prepayments as at 31 December 2021 amounted to AED 966,562 (2020: AED 492,842).

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

28. Segment information

The Company is organised into two segments: Underwriting and investments. Underwriting segment incorporates accident and liabilities insurance, fire insurance, marine insurance and other classes of insurance. Investments segment includes investments inside and outside U.A.E. marketable equity securities, term deposits with banks and investment properties.

These segments are the basis on which the Company reports its primary segment information to the Managing Director.

Insurance premium represents the total income arising from insurance contracts. The Company does not conduct any business outside U.A.E. There are no transactions between the business segments.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

28. Segment information (continued)

Segmental information is presented below:

31 December 2021	Underwriting (AED)				Investments		Total AED
	Accident and liabilities	Fire	Marine	Others	Total	AED	
Segment revenue – gross	16,551,796	10,141,871	1,105,707	389,197	28,188,571	-	28,188,571
Segment result (net)	2,162,303	1,406,000	141,565	(170,506)	3,539,362	22,758,971	26,298,333
Unallocated costs – net							927,744
Profit for the year							27,226,077
Segment assets					52,095,997	216,348,973	268,444,970
Unallocated assets							51,673,648
Total assets							320,118,618
Segment liabilities					64,316,495	-	64,316,495
Unallocated liabilities							25,507,699
Total liabilities							89,824,194

There are no transactions between the business segments.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

28. Segment information (continued)

31 December 2020	Underwriting (AED)				Investments		Total AED
	Accident and liabilities	Fire	Marine	Others	Total	AED	
Segment revenue – gross	35,028,159	7,950,303	769,549	529,360	44,277,371	-	44,277,371
Segment result (net)	5,439,842	(840,071)	(30,296)	2,520,116	7,089,591	6,791,998	13,881,589
Unallocated costs – net							(2,125,617)
Profit for the year							11,755,972
Segment assets					56,858,467	166,454,423	223,312,890
Unallocated assets							36,924,788
Total assets							260,237,678
Segment liabilities					67,515,541	-	67,515,541
Unallocated liabilities							5,624,332
Total liabilities							73,139,873

There are no transactions between the business segments.

Sharjah Insurance Company P.S.C.
Financial statements

Notes to the financial statements (continued)
For the year ended 31 December 2021

29. Dividend

At the Annual General Meeting held on 18 April 2020, Shareholders approved a cash dividend of AED 9.625 million (AED 0.7 fils per share) for the year ended 31 December 2019.

At the Annual General Meeting held on 17 April 2021, Shareholders approved a cash dividend of AED 9.625 million (AED 0.7 fils per share) for the year ended 31 December 2020. Shareholders also approved Board of Directors remuneration of AED 400,000 for 2020.

The Board of Directors propose that a dividend of AED 8 fils per share amounting to AED 11 million for 2021 to be paid to the shareholders in 2022. Further, the Board of Directors propose, bonus shares distribution of AED 12,500,000 to shareholders (2020: nil), so that capital increase from AED 137,500,000 to be AED 150,000,000, and remuneration for board of directors of AED 750,000 for 2021. These are subject to approval by the shareholders at the Annual General Meeting and have not been included as a liability in these financial statements.

30. Approval of the financial statements

The financial statements were approved by the Board of Directors and authorized for issue on 8 March 2022.

31. Subsequent events

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