

**Arabian Scandinavian Insurance Company
(PLC) - Takaful - ASCANA Insurance**

Financial statements for the year ended
31 December 2020

Directors' report

The directors submit their report for the year ended 31 December 2020.

Incorporation and registered offices

Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance - Dubai (the "Company") is a public shareholding company and was registered in 1992 under U.A.E. Federal Law No. (2) of 2015 relating to commercial companies in U.A.E. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its Operations and is registered in the Insurance Companies Register of Insurance Authority of U.A.E under registration number 6. The address of the Company's registered office is P.O. Box 1993, Dubai, United Arab Emirates.

Principal activities

The Company started issuing short term takaful contracts from 1 February 2015 in connection with non-life takaful such as motor, marine, fire, engineering, medical and general accident risks (collectively known as general takaful) and the name of the Company was changed to Arabian Scandinavian Insurance Company (PLC) - Takaful ASCANA Insurance. The Company only operates in U.A.E., through its Dubai and Abu Dhabi office.

Financial position and results

The financial position and results of the Company for the year ended 31 December 2020 are set out in the accompanying financial statements.

Directors

The following were the Directors of the Company for the year ended 31 December 2020:

- H.H. Sheikh Butti Bin Maktoum Bin Juma Al Maktoum
- Mr. Khaled Habib Mohammed Al Redha
- Mr. Majid Mohammed Amin Al Kazim
- Mr. Faisal Aqeel Mohammed Al Bastaki
- Mr. Mahmoud Mohammed Hadi Hassan
- Dr. Mohammad Salim Ahmad Al Olama

Auditors

Grant Thornton were appointed as auditors of the Company for the year ended 31 December 2020 and being eligible, have offered themselves for re-appointment. The Directors have proposed their appointment as auditors of the Company for the year ending 31 December 2021.

These financial statements for the year ended 31 December 2020 (including comparatives) were approved by the Board of Directors on 2 March 2021 and were signed on their behalf by:



Mr. Khalid Ahmad Al Kazim
CEO

Dubai, United Arab Emirates



Grant Thornton

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Independent auditor's report

**To the shareholder of Arabian Scandinavian Insurance Company (PLC) – Takaful –
ASCANA Insurance**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance (the "Company"), Dubai, United Arab Emirates which comprise the statement of financial position as at 31 December 2020, 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountant's 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 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

i) Valuation of takaful contract liabilities and retakaful contract assets

The estimation of liabilities arising from takaful contracts such as outstanding claims, incurred but not reported claims, unallocated loss adjustment expenses and unearned premium reserve,

Independent auditor's report

To the shareholder of Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

i) Valuation of takaful contract liabilities and retakaful contract assets (continued)

as disclosed in note 7 to the financial statements, involves a significant degree of judgement. These liabilities are based on the best-estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and the pattern of risk distribution over the coverage period. Actuarial computations have been used to determine these provisions. Underlying these computations are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Since the determination of such a provision requires the expertise of an external valuation expert who incorporates significant assumptions, judgements and estimations, the valuation of these liabilities was significant to our audit.

We assessed management's calculations of the takaful contract liabilities and retakaful 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;
- Understood and tested the governance process in place to determine the takaful contract liabilities and retakaful contract assets, including testing the associated financial reporting control framework;
- We performed independent re-computations on selected classes of business, particularly focusing on the largest and most uncertain reserves. For these classes we 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.

ii) Valuation of investment properties

The Company holds investment properties under the fair value model as at 31 December 2020 amounting to AED 155 million (2019: AED 166 million), as detailed in note 13. The fair value estimate requires significant judgement and estimates by management and independent external valuers. The Company has involved independent external valuers 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.

Independent auditor's report

To the shareholder of Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

ii) Valuation of investment properties (continued)

Our audit procedures, among others, included:

- Discussion with the independent valuer to understand the basis of valuation for each property and other judgements used in performing the valuation;
- Assessing the competence, capabilities, and objectivity of external valuers; and
- Assessing the appropriateness of the key assumptions and methodologies used.

Other information

Management is responsible for the other information. The other information comprises the information included in the Directors' Report, but does not include the financial statements and our auditors' report thereon.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015 and 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 shareholder of Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance (continued)

Report on the audit of the financial statements (continued)

Auditor's Responsibilities for the audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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



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Independent auditor's report

To the shareholder of Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance (continued)

Report on other Legal and Regulatory Requirements

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

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations and UAE Federal Law No. (2) of 2015;
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Directors' Report, in so far as it relates to these financial statements, is consistent with the books of account of the Company;
- v) note 10 to the financial statements discloses purchase of shares by the Company during the year ended 31 December 2020;
- vi) note 9 to the financial statements discloses material related party transactions, and the terms under which they were conducted; and
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2020 any of the applicable provisions of the Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations and UAE Federal Law No.(2) of 2015 or of its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2020.

Grant Thornton

GRANT THORNTON
Farouk Mohamed
Registered Auditor Number 86



Dubai, 2 March 2021


Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of financial position
As at 31 December 2020

	Notes	2020 AED'000	2019 AED'000
ASSETS			
Takaful operations' assets			
Cash and bank balances	5	47,404	72,121
Takaful and retakaful receivables	6	23,132	24,451
Retakaful contract assets:			
Unearned contribution	7	8,120	8,807
Claims reported unsettled	7	21,719	8,187
Claims incurred but not reported	7	3,779	4,616
Prepayments and other receivables	8	1,532	1,115
Due from related parties	9	6,294	5,897
Other financial assets measured at fair value through other comprehensive income (FVTOCI)	10	3,774	-
Deferred policy acquisition cost		5,618	8,161
Total takaful operations' assets		121,372	133,355
Shareholders' assets			
Cash and bank balances	5	141,734	151,458
Statutory deposits	11	10,000	10,000
Prepayments and other receivables	8	7,774	2,049
Due from policyholders	12	23,845	33,336
Other financial assets measured at fair value through other comprehensive income (FVTOCI)	10	22,731	1,939
Other financial assets measured at fair value through profit and loss (FVTPL)	10	4,417	515
Investment properties	13	154,538	165,994
Property and equipment	14	1,351	1,974
Intangible assets	15	486	330
Total shareholders' assets		366,876	367,595
Total assets		488,248	500,950

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of financial position (continued)
As at 31 December 2020

	Notes	2020 AED'000	2019 AED'000
LIABILITIES, POLICYHOLDERS' FUND AND EQUITY			
Takaful operations' liabilities and policyholders' fund			
Takaful operations' liabilities			
Takaful and retakaful payables	16	34,481	44,404
Takaful contract liabilities:			
Unearned contribution	7	49,434	68,032
Claims reported unsettled	7	29,972	18,324
Claims incurred but not reported	7	11,382	21,429
Unallocated loss adjustments expense reserve	7	1,565	2,261
Additional unexpired risk reserve	7	2,041	6,335
Other liabilities	17	5,240	5,023
Due to related parties	9	6	6
Due to shareholders	12	23,845	33,336
Deferred discount		1,806	1,963
Total takaful operations' liabilities		159,772	201,113
Policyholders' fund			
Deficit in policyholders' fund	18	(38,400)	(67,758)
Qard Hassan from shareholders	18	38,400	67,758
Total policyholders' fund		-	-
Liabilities and policyholders' fund		159,772	201,113
Shareholders' liabilities and equity			
Shareholders' liabilities			
Provision for employees' end of service indemnity	19	2,484	2,473
Other liabilities	17	6,947	8,219
Due to related parties	9	13	37
Total shareholders' liabilities		9,444	10,729
Shareholders' equity			
Share capital	20	154,000	154,000
Statutory reserve	21	66,509	63,572
Voluntary reserve	22	50,064	50,064
Reinsurance reserve	23	154	-
Investments revaluation reserve - FVTOCI	24	68	(484)
Retained earnings		48,237	21,956
Total shareholders' equity		319,032	289,108
Total shareholders' liabilities and equity		328,476	299,837
Total liabilities, policyholders' fund and equity		488,248	500,950

These financial statements were approved by the Board of Directors on 2 March 2021 and were signed on their behalf by:


Mr. Khalid Ahmad Al Kazim
CEO

The accompanying notes 1 to 43 form an integral part of these financial statements.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of income
For the year ended 31 December 2020

	Notes	2020 AED'000	2019 AED'000
Attributable to policyholders			
Takaful income			
Gross takaful contribution	25	109,037	141,431
Retakaful share of accepted business		(108)	(111)
Retakaful share of ceded business		(30,673)	(26,743)
Net takaful contribution	25	78,256	114,577
Net transfer to unearned contribution reserves and additional unexpired risk reserves	25	22,205	300
Net takaful contribution earned	25	100,461	114,877
Discount received on retakaful contributions		5,131	5,263
Policy fees		-	17
Total takaful income		105,592	120,157
Takaful expenses			
Gross claims incurred	26	(92,368)	(117,289)
Retakaful share of accepted business claims		93	785
Retakaful share of ceded business claims		35,559	33,668
Net claims incurred	26	(56,716)	(82,836)
Provision for takaful contract liabilities	26	(11,648)	5,996
Retakaful share of claims reported unsettled	26	13,531	(6,104)
Increase in claims incurred but not reported – net	26	9,210	7,125
Increase /(decrease) in unallocated loss adjustments expenses – net	26	696	(590)
Net takaful claims incurred	26	(44,927)	(76,409)
Net takaful income		60,665	43,748
Investment income	27	1,258	2,443
Other income		523	333
Wakala fees	28	(32,711)	(42,429)
Mudarib's fee	28	(377)	(733)
Surplus for the year attributable to policyholders		29,358	3,362

The accompanying notes 1 to 43 form an integral part of these financial statements.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of income (continued)
For the year ended 31 December 2020

	Notes	2020 AED'000	2019 AED'000
Attributable to shareholders			
Investment income/(loss) - net	27	164	(3,906)
Other income		4,581	4,297
Wakala fees from policyholders	28	32,711	42,429
Mudarib's fees	28	377	733
Policy acquisition cost		(15,927)	(18,472)
General and administrative expenses	29	(21,892)	(33,846)
Profit/(loss) for the year before Qard Hassan and Zakat		14	(8,765)
Recovery against Qard Hassan to policyholders		29,358	3,362
Profit / (loss) for the year before Zakat		29,372	(5,403)
Zakat	30	-	(966)
Profit/(loss) for the year attributable to shareholders		29,372	(6,369)
Earnings/(loss) per share	31	0.19	(0.04)

The accompanying notes 1 to 43 form an integral part of these financial statements.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of comprehensive income
For the year ended 31 December 2020

	2020 AED'000	2019 AED'000
Attributable to shareholders		
Profit/(loss) for the year	<u>29,372</u>	<u>(6,369)</u>
Other comprehensive income		
<i>Items that maybe reclassified subsequently to profit or loss</i>		
Unrealised gain on investments at FVTOCI	552	-
Total comprehensive income/(loss) for the year attributable to shareholders	<u>29,924</u>	<u>(6,369)</u>

The accompanying notes 1 to 43 form an integral part of these financial statements.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of changes in equity
For the year ended 31 December 2020

	Share capital AED'000	Statutory reserve AED'000	Voluntary reserve AED'000	Investments revaluation		Retained earnings AED'000	Total AED'000
				FVTOCI AED'000	Reinsurance reserves AED'000		
Balance at 1 January 2019	154,000	63,572	50,064	(484)	-	43,725	310,877
Loss for the year	-	-	-	-	-	(6,369)	(6,369)
Total comprehensive loss for the year	-	-	-	-	-	(6,369)	(6,369)
Dividend paid (note 41)	-	-	-	-	-	(15,400)	(15,400)
Balance at 31 December 2019	154,000	63,572	50,064	(484)	-	21,956	289,108
Profit for the year	-	-	-	-	-	29,372	29,372
Other comprehensive income for the year	-	-	-	552	-	-	552
Total comprehensive income for the year	-	-	-	552	-	29,372	29,924
Transfer to statutory reserve	-	2,937	-	-	-	(2,937)	-
Transfer to reinsurance reserve (note 23)	-	-	-	-	154	(154)	-
Balance at 31 December 2020	154,000	66,509	50,064	68	154	48,237	319,032

The accompanying notes 1 to 43 form an integral part of these financial statements.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of cash flows
For the year ended 31 December 2020

	Notes	2020 AED'000	2019 AED'000
Cash flows from operating activities			
Profit/(loss) for the year		29,372	(6,369)
Adjustments for:			
Depreciation of property and equipment	14	942	881
Amortisation of intangible assets	15	123	23
Fair value loss on investment properties	13	11,456	13,112
Unrealised gain on other financial assets at FVTPL	10	(246)	-
Gain on sale of property and equipment	27	-	(41)
Realised (gain)/loss on sale of other financial assets at FVTPL	27	(386)	27
Realised loss on sale of investment property	27	-	4,700
Dividend income from Financial investment at FVTPL and FVTOCI	27	(249)	(551)
(Reversal)/provision for expected credit losses	29	(4,578)	5,291
Provision for employees' end of service benefits	19	382	239
Other investment income	13	(8,755)	(14,004)
Funding cost on lease liability		39	57
Profit on wakala deposits	27	(4,061)	(3,251)
Operating cash flows before changes in operating assets and liabilities		24,039	114
Change in retakaful contract assets		(12,008)	11,059
Change in takaful and retakaful receivables		1,319	3,128
Change in due from related parties		4,181	66
Change in prepayments and other receivables		(6,142)	8,496
Change in deferred policy acquisition costs		2,543	(318)
Change in takaful contract liabilities		(21,987)	(17,785)
Change in takaful and retakaful payables		(9,923)	(10,712)
Change in other liabilities		537	538
Change in deferred discount		(157)	(304)
Change in due to related parties		(24)	42
Cash used in operations		(17,622)	(5,676)
Employee's end of service benefits paid	18	(371)	(119)
Zakat paid		(966)	(1,114)
Net cash used in operating activities		(18,959)	(6,909)
Cash flows from investing activities			
Purchase of property and equipment	14	(319)	(664)
Purchase of intangible assets	15	(279)	(353)
Proceeds from sale of property and equipment		-	242
Purchase of other financial assets	10	(40,422)	(3,853)
Proceeds from sale of other financial assets		13,039	31,249
Proceeds from sale of investment property		-	85,550
Rental income received		8,755	14,004
Profit received on wakala deposit		4,061	3,251
Dividend received		249	551
Decrease/(increase) in wakala deposits with maturity over 3 months		102,000	(62,000)
Net cash generated from investing activities		87,084	67,977

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Statement of cash flows (continued)
For the year ended 31 December 2020

	Notes	2020 AED'000	2019 AED'000
Cash flows from financing activities			
Payment of lease liability		(566)	(566)
Dividend paid	41	-	(15,400)
		<u>(566)</u>	<u>(15,966)</u>
Cash used in financing activities			
Net increase in cash and cash equivalents		67,559	45,102
Cash and cash equivalents at the beginning of the year		<u>81,579</u>	<u>36,477</u>
Cash and cash equivalents at the end of the year	32	<u>149,138</u>	<u>81,579</u>

The accompanying notes 1 to 43 form an integral part of these financial statements.

Arabian Scandinavian Takaful Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2020

1 Legal status and activities

Arabian Scandinavian Insurance Company (PLC) - Takaful - ASCANA Insurance - Dubai (the "Company") is a public shareholding company and was registered in 1992 under U.A.E. Federal Law No. (2) of 2015 relating to commercial companies in U.A.E. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its Operations and is registered in the Insurance Companies Register of Insurance Authority of U.A.E under registration number 6. The address of the Company's registered office is P.O. Box 1993, Dubai, United Arab Emirates.

The Shareholders Extraordinary General Assembly Meeting held on 19 March 2014 approved conversion of the Company's business from conventional insurance to Takaful insurance. The Board of Directors appointed a Fatwa and Sharia'a Supervisory Board for overseeing the compliance with Sharia'a.

The Company started issuing short term takaful contracts from 1 February 2015 in connection with life and non-life takaful such as motor, marine, fire, engineering, medical and general accident risks (collectively known as general takaful) and the name of the Company was changed to Arabian Scandinavian Insurance Company P.L.C. - Takaful ASCANA Insurance. The Company only operates in U.A.E., through its Dubai and Abu Dhabi offices.

2 Statement of compliance with IFRS

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by International Accounting Standards Board (IASB) and interpretations thereof issued by the International Financial Reporting Interpretation Committee and in compliance with the applicable requirements of UAE Federal Law No. (2) of 2015 relating to commercial companies, and of UAE Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organisation of the Insurance Operations, concerning takaful companies and agents. These financial statements are prepared in UAE Dirhams ("AED"), rounded to the nearest thousand.

New standards and interpretations effective after 1 January 2020

The following relevant standards, interpretations and amendments to existing standards were issued by the IASB:

Standard number	Title	Effective date
IAS 1	Definition of Material — Amendments to IAS 1 Presentation of Financial Statements	1 January 2020
IFRS 3	Definition of Material — Amendments to IFRS 3	1 January 2020
IAS 8	Definition of Material — Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
IAS 39 and IFRS 7	Interest Rate Benchmark Reform (Amendments to IAS 39 and IFRS 7)"	1 January 2020
IFRS 16	COVID-19 Rent Related Concessions (Amendments to IFRS 16)	1 January 2020
Various standards	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020

These standards have been adopted by the Company and did not have a material impact on these financial statements.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2020

2 Statement of compliance with IFRS (continued)

Standards issued but not yet effective

The impact of the new standards, interpretations and amendments that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts (effective for accounting period beginning on or after 1 January 2023 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied)

IFRS 17 Insurance contracts combine features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period. To provide useful information about these features, IFRS 17:

- combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract;
- presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
- requires an entity to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income.

The key principles in IFRS 17 are that an entity:

- identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- divides the contracts into groups that it will recognise and measure;
- recognises and measures groups of insurance contracts at:
 - i. a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)
 - ii. an amount representing the unearned profit in the group of contracts (the contractual service margin);
- recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately;
- presents separately insurance revenue (that excludes the receipt of any investment component), insurance service expenses (that excludes the repayment of any investment components) and insurance finance income or expenses; and
- discloses information to enable users of financial statements to assess the effect that that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

IFRS 17 includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts. Group is currently evaluating the expected impact.

3 Summary of significant accounting policies

Accounting convention

These financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement bases are described in more detail in the accounting policies.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

Product classification

Takaful contracts are those contracts where a group of policyholders (the policyholders) mutually guarantee one another against prescribed uncertain future events of loss or damage, where the Company acts as a Wakil (agent) on their behalf in managing the Islamic Takaful insurance operations in consideration for a Wakala fee. The Takaful amounts (contributions) paid net of the Wakala fee are considered as funds available for Mudarba, where the Company acts as Mudarib, investing some of these funds in consideration of a pre-agreed share of the realised profit or loss, (Mudarib fee) if any. The policyholders further donate their contribution to those other policyholders who suffer a prescribed event of loss or damage, payable per the policies of the Company, in its capacity as an agent.

In case of deficit in policyholders operation, such deficit is funded by the shareholders as a Qard Hasan (profit free loan).

Surplus/deficit in policyholders' fund

If the surplus in the policyholders' fund at the end of a year is sufficiently large, a percentage of the surplus shall be distributed between policyholders that have not made a claim, in proportion to their risk contributions to the fund after accounting for reserves. The distributions will be approved by the Company's Fatwa and Shari'a Supervisory Board. Any remaining surplus after the distribution will remain in the policyholders' fund.

A deficiency in policyholders' fund is made good by a profit free loan (Qard Hasan) from the shareholders' fund. This Qard Hasan is to be repaid from future surpluses arising from takaful operations on a priority basis. This Qard Hasan is tested for impairment annually and the portion of the Qard Hasan that is considered impaired is charged to the statement of income.

On liquidation of the fund, the accumulated surplus in the policyholders' fund, if any, after meeting all obligations (including repayment of the outstanding amount of Qard Hasan), will be dealt with after consulting with the Company's Fatwa and Shari'a Supervisory Board. In case of an accumulated deficit, any Qard Hasan outstanding at the time of liquidation will not be repayable by the policyholders' fund and the shareholders' fund will forego such outstanding amount.

Any deficit in the policyholders' fund, except for deficits arising from a decline in the fair value of securities, is financed by the shareholders through a Qard Hasan (loan without any profit). The Company maintains a full provision against the Qard Hasan.

Property and equipment

Property and equipment are carried at cost less any accumulated depreciation and any identified 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.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on 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 statement of income.

The useful life considered in the calculation of depreciation of all the assets is 4 years.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

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.

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

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

Leases

The Company has adopted IFRS 16 – Leases on its effective date of 1 January 2019 using the modified retrospective transition approach. IFRS 16 replaces IAS 17 ‘Leases’. Leases are recorded in the statement of financial position in the form of a right-to-use asset and a lease liability.

Subsequent to implementation of IFRS 16, the Company recognises a right-to-use asset and a lease liability at the lease commencement date.

The right-to-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus as initial direct costs incurred. The right-to-use is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-to-use or the end of the lease term. The estimated useful life of the right-to-use asset is determined on the same basis as those of property and equipment. In addition, the right-to-use is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the profit rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental funding rate. Generally, the Company uses its incremental funding rates as the discount rate.

The lease liability is measured at amortised cost using the effective funding cost method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-to-use asset, or is recorded in the profit or loss if the carrying amount of the right-to-use asset has been reduced to zero.

The Company presents right-to-use assets that do not meet the definition of investment property in ‘Property and equipment’ and the lease liabilities as a separate item in the statement of financial position.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

Leases (continued)

The Company has adopted IFRS 16 using the modified retrospective transition approach as of 1 January 2019 and therefore the comparative information has not been restated. All rights-to-use assets were measured at their carrying amounts as if the standard had been applied since the commencement date but discounted using the lessee's incremental funding rate at the date of initial application. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of funding cost on the remaining balance of the liability for each period.

Revenue recognition

The Company has adopted IFRS 15 Revenue from Contracts with Customers with effect from 1 January 2018. IFRS 15 establishes a single comprehensive five-step model for entities to use in accounting for revenue arising from contracts with customers. It has superseded the following revenue Standards and Interpretations upon its effective date:

- IAS 18, Revenue;
- IAS 11, Construction Contracts;
- IFRIC 13, Customer Loyalty Programmes;
- IFRIC 15, Agreements for the Construction of Real Estate;
- IFRIC 18, Transfers of Assets from Customers; and
- SIC 31, Revenue-Barter Transactions Involving Advertising Services.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The Company assessed the impact of IFRS 15 which is not material to the financial statements as at the reporting date and as at the date of the initial application, 1 January 2018, since significant portion of its revenue is in accordance with IFRS 4, Insurance Contracts.

Gross Takaful contributions

Gross takaful contributions comprise the total contributions receivable for the whole period of cover provided by Takaful contracts entered into during the accounting period and are recognised on the date on which the Takaful policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of Takaful contracts executed in prior accounting periods. Contributions collected by intermediaries but not yet received, are assessed based on estimates from Takaful operations or past experience and are included in Takaful contributions.

Unearned contributions are those proportions of contributions written in a year that relate to period of risk after the reporting date. Unearned contribution is calculated in accordance with Federal Law No.6 of 2007. The proportion attributable to subsequent year is deferred as a provision for unearned contributions.

Discounts earned

Discounts earned are recognised at the time policies are written. Discount earned on outwards retakaful contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

Wakala fees

The Company manages the takaful operations on behalf of the policyholders for a wakala fee which is recognised on an accrual basis. A similar amount is shown as expense statement of income attributable to policyholders.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

Profit income

Profit income is recognised on an accrual basis taking into account effective funding cost rates on the instrument, on a time proportionate basis when it becomes receivable.

Rental income

Rental income from investment property is recognised on a straight-line basis over the term of the lease.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Retakaful contribution

Gross retakaful contribution written comprise the total contribution payable for the whole cover provided by contracts entered into during the period and are recognised on the inception date of the policy. Contributions include any adjustments arising in the accounting period in respect of retakaful contracts incepting in prior accounting periods. Unearned retakaful contributions are those proportions of contribution written in a year that relate to periods of risk after the reporting date. Unearned retakaful contributions are deferred over the term of the underlying direct Takaful policies for risks-attaching contracts and over the term of the retakaful contract for losses occurring contracts.

Gross retakaful contribution on life are recognised as an expense on the earlier of the date when contribution are payable or when the policy becomes effective.

The Company cedes Takaful risk in the normal course of business for all of its businesses. Retakaful assets represent balances due from retakaful companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the retakaful contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the retakaful can be measured reliably. The impairment loss is recorded in the statement of income.

Ceded retakaful arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes retakaful risk in the normal course of business for takaful contracts where applicable. Contributions and claims on assumed retakaful are recognised as income and expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the reinsured business. Retakaful liabilities represent balances due to retakaful companies. Amounts payable are estimated in a manner consistent with the associated retakaful contract. Contributions and claims are presented on a gross basis for both ceded and assumed retakaful.

Retakaful assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Claims

Claims incurred comprise actual claims and other related costs paid and incurred in the year, and movement in outstanding claims. Claim handling costs are recognised at the time of registering the claims.

On account of uncertainties involved in non-motor claim recoveries, salvage and subrogation rights are recognised only at the time of actual recovery. For motor claim recoveries, salvage is accounted for at the time of registering the claims.

Provision for outstanding claims represents the estimated settlement values of all claims notified, but not settled at the statement of financial position date on the basis of individual case estimates.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

Claims (continued)

The reinsurers' portion towards the above outstanding claims is classified as retakaful contract assets and shown as current assets in the statement of financial position.

Provision for IBNR

Provision for Incurred But Not Reported ("IBNR") claims is made at the statement of financial position date based on an actuarial estimate obtained from an independent actuary in accordance with the financial regulations for takaful companies issued by the Insurance Authority UAE.

Provision for ULAE

Provision for Unallocated Loss Adjustment Expenses (ULAE) which cannot be allocated to specific claims, is made at the statement of financial position date based on actuarial estimates obtained from an independent actuary in accordance with the financial regulations for insurance companies issued by the Insurance Authority, UAE.

Liability adequacy test

All recognised takaful contract liabilities including provision for outstanding claims are subject to liability adequacy test at each reporting date. This involves comparison of current estimates of all contractual cash flows attached to these liabilities with their carrying amounts. Estimates of contractual cash flows include expected claim handling costs and recoveries from third parties. Any deficiency in carrying amounts is charged to the income statement by establishing a provision for losses arising from liability adequacy test.

Unearned premium reserve

Unearned Premium Reserve (UPR) represents that portion of premiums earned, gross of retakaful, which relates to the period of takaful subsequent to the statement of financial position date and is mainly computed on linear method based on the outstanding period from the date of statement of financial position up to the date of the maturity of the policy based on actuarial estimates obtained from an independent actuary in accordance with the financial regulations for insurance companies issued by the Insurance Authority, UAE.

Retakaful premium

Ceded retakaful premiums are accounted for in the same accounting periods in which the premiums for the related direct takaful are recorded and the unearned portion is calculated on linear basis in accordance with retakaful arrangements in place.

Retakaful assets

Amounts recoverable under retakaful contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs. Regular way purchases and sales of financial assets are recognised on the date on which the Company commits to

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2020

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Recognition, initial measurement and derecognition (continued)

purchase or sell the asset i.e. the trade date. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished.

Classification and subsequent measurement of financial assets

For the purposes of subsequent measurement, the Company classifies its financial assets into the following categories:

i) Financial assets at amortised cost

Financial assets at amortised cost are those financial assets for which:

- the Company's business model is to hold them in order to collect contractual cash flows; and
- the contractual terms give rise on specific dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

After initial recognition these are measured at amortised cost using the effective funding cost method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

i) Financial assets at amortised cost (continued)

These are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Financial assets at amortised cost comprise statutory deposits, cash and cash equivalents, due from related parties and most other receivables.

ii) Financial assets at fair value through other comprehensive income ('FVTOCI')

Investments in equity securities are classified as FVTOCI. At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity investments at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

iii) Financial assets at fair value through profit and loss ('FVTPL')

Investments in equity instruments are classified as at FVTPL, unless the Company designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in statement of income.

Dividend income on investments in equity instruments at FVTPL is recognised in statement of income when the Company's right to receive the dividends is established.

Fair value measurement

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted prices at the close of business on the statement of financial position date. Investments in unquoted securities are measured at fair value, considering observable market inputs and unobservable financial data of investees.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
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3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Gains or losses on subsequent measurement

Gain or loss arising from change in fair value of investments at FVTOCI is recognised in other comprehensive income and reported within the fair value reserve for investments at FVTOCI within equity. When the asset is disposed of, the cumulative gain or loss recognised in other comprehensive income is not reclassified from the equity reserve to income statement, but is reclassified to retained earnings.

Classification and subsequent measurement of financial liabilities

Financial liabilities comprise amounts due to related parties and most other payables. Financial liabilities are measured subsequently at amortised cost using the effective funding cost method.

Impairment and uncollectability of financial assets

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- financing commitments issued.

The Company measures loss allowances at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL are measured.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

ECL are probability-weighted estimates of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn financing commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Receivables and payables related to takaful contracts

Receivables and payables are recognised when due. These include amounts due to and from takaful brokers, re-insurers and takaful contract holders. If there is objective evidence that the takaful receivables are

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
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3 Summary of significant accounting policies (continued)

Receivables and payables related to takaful contracts (continued)

impaired, the Company reduces the carrying amount of the takaful receivables accordingly and realises the impairment loss in the income statement.

Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered such as paid vacation leave and bonuses) is recognised in the period in which the service is rendered.

Provision for employees' end of service benefits

A provision for employees' end of service benefits is made for the full amount due to employees for their periods of service up to the reporting date in accordance with the UAE Labour Law and is reported as separate line item under non-current liabilities. The entitlement to end of service benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period as specified in the UAE Labour Law. The expected costs of these benefits are accrued over the period of employment.

Foreign currency transactions

Transactions in foreign currencies are translated to AED at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to AED at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each statement of financial position date or whenever there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment losses are recognised in the income statement. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Short term operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, current accounts and fixed deposits which have original maturities of less than 3 months and are free from lien.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
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3 Summary of significant accounting policies (continued)

Provisions, contingent liabilities and contingent assets (continued)

Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued.

Other details for reserves are mentioned in notes 21, 22, 23 and 24 to the financial statements.

Retained earnings include all current and prior period retained profits or losses.

Dividend payable to equity shareholders is included in other liabilities only when the dividend has been approved in a general assembly meeting prior to the reporting date.

Segment reporting

Under IFRS 8 “Operating Segments”, reported segments’ profits are based on internal management reporting information that is regularly reviewed by the chief operating decision maker. The measurement policies used by the Company for segment reporting under IFRS 8 are the same as those used in its financial statements.

4 Critical accounting estimates and judgements in applying accounting policies

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Outstanding claims, IBNR, ULAE and UPR

The estimation of the ultimate liability (outstanding claims, IBNR and ULAE) arising from claims and UPR made under takaful contracts is the Company’s most critical accounting estimate. These estimates are continually reviewed and updated, and adjustments resulting from this review are reflected in the income statement. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends (including actuarial calculations), is an appropriate basis for predicting future events.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
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4 Critical accounting estimates and judgements in applying accounting policies

Classification of investment property and related fair value judgement

The Company makes judgement to determine whether a property qualifies as investment property and follows the guidance of IAS 40 'Investment Property' to consider whether any owner-occupied property is not significant and is classified accordingly as investment property.

Fair value of investment property is estimated by an independent professional valuer for disclosure purposes only, considering the rental yield (income approach). This estimate was made considering market rent and average rental yield. Fair value was dependent on market factors and availability of information.

Fair value of unquoted securities

Fair value of unquoted securities has been determined by the management based on Earnings Multiple and Net Assets Value Techniques using observable market data of comparable public entities, certain discount factors and unobservable financial data of respective non-public investees. Actual results may substantially be different.

Impairment losses on insurance receivables

Management reviews the provision for impairment at each reporting date by assessing the recoverability of takaful and retakaful receivables. For non-takaful receivables the recoverability is assessed, and provisions are created in compliance with the simplified approach under the IFRS 9 methodology.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
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5 Cash and bank balances

	2020 AED'000	2019 AED'000
Cash on hand	32	70
Bank balances:		
Wakala deposits	161,766	142,000
Current accounts	27,340	81,509
	<u>189,138</u>	<u>223,579</u>
Attributable to:		
Policyholders	47,404	72,121
Shareholders	141,734	151,458
	<u>189,138</u>	<u>223,579</u>

The profit rates on the Wakala deposits with banks range from 2.00 % to 2.15% (2019: 2.50% to 3.50%).

Wakala deposits amounting to AED 40 million (2019: AED 142 million) have maturity more than three months.

All cash and bank balances are maintained within U.A.E.

6 Takaful and retakaful receivables

	2020 AED'000	2019 AED'000
Takaful receivable	20,907	24,796
Receivables from takaful companies	3,306	4,109
Receivables from retakaful companies	1,663	1,811
	<u>25,876</u>	<u>30,716</u>
Less: Expected credit losses	(2,744)	(6,265)
	<u>23,132</u>	<u>24,451</u>
Inside UAE:		
Takaful receivables	20,907	24,796
Receivables from takaful companies	3,306	4,109
Receivables from retakaful companies	90	169
	<u>24,303</u>	<u>29,074</u>
Less: Expected credit losses	(2,744)	(6,265)
	<u>21,559</u>	<u>22,809</u>
Outside UAE:		
Receivables from retakaful companies	<u>1,573</u>	<u>1,642</u>

The Company has adopted a policy of dealing with credit worthy counter parties. Adequate credit assessment is made before accepting a takaful contract from any counter party. The average credit period on takaful receivable is 90 days. The takaful receivables outstanding between 90 days and 180 days are monitored by the Company for recoverability. The takaful receivables outstanding greater than 180 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience in addition to specific provision made on identified customers.

Arabian Scandinavian Insurance Company (PLC) – Takaful – ASCANA Insurance
Notes to the financial statements
For the year ended 31 December 2020

6 Takaful and retakaful receivables (continued)

Movement in the expected credit losses	2020 AED'000	2019 AED'000
Balance at the beginning of the year	6,265	5,732
Recognised during the year	-	533
Write-off during the year	(3,521)	-
Balance at the end of the year	<u>2,744</u>	<u>6,265</u>

7 Takaful contract liabilities and retakaful contract assets

	2020 AED'000	2019 AED'000
Gross		
Takaful contract liabilities:		
Unearned contribution	49,434	68,032
Claims reported unsettled	29,972	18,324
Claims incurred but not reported	11,382	21,429
Unallocated loss adjustments expense reserve	1,565	2,261
Additional unexpired risk reserve	2,041	6,335
Total takaful contract liabilities, gross	<u>94,394</u>	<u>116,381</u>
Recoverable from retakaful		
Retakaful contract assets:		
Unearned contribution	8,120	8,807
Claims reported unsettled	21,719	8,187
Claims incurred but not reported	3,779	4,616
Total retakaful share of takaful contract liabilities	<u>33,618</u>	<u>21,610</u>
Net		
Unearned contribution	41,314	59,225
Claims reported unsettled	8,253	10,137
Claims incurred but not reported	7,603	16,813
Unallocated loss adjustments expense reserve	1,565	2,261
Additional unexpired risk reserve	2,041	6,335
	<u>60,776</u>	<u>94,771</u>

8 Prepayments and other receivables

	2020 AED'000	2019 AED'000
Amounts due from broker	5,402	-
Prepaid expenses	2,002	620
Rent receivable	692	523
Accrued profit	601	1,348
Advances and deposits	165	145
Receivable from policyholders	8	8
Other receivables	436	520
	<u>9,306</u>	<u>3,164</u>
Attributable to:		
Policyholders	1,532	1,115
Shareholders	7,774	2,049
	<u>9,306</u>	<u>3,164</u>

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9 Related parties

At the reporting date, amounts due from/to related parties were as follows:

	2020 AED'000	2019 AED'000
Amounts due from related parties:		
<i>Related parties due to common directorship</i>		
Al Redha Insurance Brokers (LLC), Dubai	6,387	10,536
Others	87	119
	<u>6,474</u>	<u>10,655</u>
Less: Expected credit losses	(180)	(4,758)
	<u>6,294</u>	<u>5,897</u>
Amounts due to related parties:		
<i>Related parties due to common ownership</i>		
Others	19	43
	<u>19</u>	<u>43</u>

All amounts due from related parties are attributable to policy holders.

	2020 AED'000	2019 AED'000
Movement in the expected credit losses		
Balance at the beginning of the year	4,758	-
(Reversed)/recognised during the year	(4,578)	4,758
Balance at the end of the year	<u>180</u>	<u>4,758</u>
	2020 AED'000	2019 AED'000
Amounts due to related parties attributable to:		
Shareholders	13	37
Policyholders	6	6
	<u>19</u>	<u>43</u>

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

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

	2020 AED'000	2019 AED'000
Transactions with related parties:		
Contribution written for related parties	1,412	1,438
Management expenses (net)	994	999
Contribution written through a related party broker	7,538	12,161
Policy acquisition cost paid	1,016	1,567
Claims paid	211	569
Claims paid through related party broker	126	54

Key management personnel remuneration:

	2020 AED'000	2019 AED'000
Short-term benefits	592	2,303
Long-term benefits	414	320
Board of directors' remuneration	-	1,050

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10 Other financial assets

The Company's other financial assets at the end of reporting year are detailed below:

	2020 AED'000	2019 AED'000
Other financial assets measured at fair value through other comprehensive income (FVTOCI)		-
Unquoted U.A.E. equity securities (a)	1,939	1,939
Quoted U.A.E. Sukuk (b)	24,566	-
	<u>26,505</u>	<u>1,939</u>
Attributable to:		
Policyholders	3,774	-
Shareholders	22,731	1,939
	<u>26,505</u>	<u>1,939</u>
Other financial assets measured at fair value through profit and loss (FVTPL)		
Quoted U.A.E. equity securities (c)	3,902	-
Unquoted U.A.E. equity securities (a)	515	515
	<u>4,417</u>	<u>515</u>

(a) The Company holds investments in unquoted equity securities of three entities as at 31 December 2020 (2019: three entities). Unobservable financial data used in determining the fair values of these unquoted securities has been extracted from their latest available audited financial statements for the year ended 31 December 2019 (2019: financial statements for the year ended 31 December 2018).

(b) Fair values have been determined by reference to quoted prices at the reporting date. During the year, the Company purchased quoted sukuk amounting to AED 24 million (2019: Nil).

(c) Fair values have been determined by reference to quoted prices at the reporting date. During the year, the Company purchased quoted equity securities amounting to AED 16.40 million (2019: AED 3.8 million) while sold quoted securities amounting to AED 12.61 million (2019: AED 31.27 million).

All other financial assets measured at fair value through profit and loss (FVTPL) are attributable to Shareholders.

The movement in other financial assets are as follows:

	Fair value through other comprehensive income		Fair value through profit or loss	
	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000
Fair value, at the beginning of the year	1,939	1,939	515	27,938
Purchased during the year	24,014	-	16,408	3,853
Sold during the year	-	-	(12,653)	(31,276)
Change in fair value	552	-	147	-
Fair value, at the end of the year	<u>26,505</u>	<u>1,939</u>	<u>4,417</u>	<u>515</u>

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11 Statutory deposits

	2020 AED'000	2019 AED'000
Held with a local bank in Dubai, UAE	<u>10,000</u>	<u>10,000</u>

Statutory deposit represents a Wakala deposit under lien against the guarantees issued in favour of Insurance Authority of U.A.E. in accordance with Article 42 of United Arab Emirates (U.A.E.) Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its Operations.

12 Due from policyholders/due to shareholders

The balance consists of the net of Wakala fees balances that are due to the shareholders from the policyholders amounting to AED 23.84 million (2019: AED 33.33 million).

13 Investment properties

	Land AED'000	Other real estate AED'000	Total AED'000
Balance at 1 January 2020	10,193	155,801	165,994
Change in fair value during the year (note 27)	(720)	(10,736)	(11,456)
Balance at 31 December 2020	<u>9,473</u>	<u>145,065</u>	<u>154,538</u>
Balance at 1 January 2019	11,179	258,177	269,356
Change in fair value during the year (note 27)	(986)	(12,126)	(13,112)
Sold during the year	-	(90,250)	(90,250)
Balance at 31 December 2019	<u>10,193</u>	<u>155,801</u>	<u>165,994</u>

On 31 December 2020, Gulf Trust Management Services and Land Sterling Property Consultants, independent and experienced professional valuers estimated the fair value of investment property at AED 159.50 million and AED 149.50 million respectively (2019: Pioneer Surveyors & Loss Adjusters and The Technical and Loss Adjusting Services Company LLC, independent and experienced professional valuers estimated the fair value of investment property at AED 164.5 million and AED 167.5 million respectively). Company recognises the average of fair value from both valuers. The valuers hold relevant professional qualifications and experience. Investment property is held for capital appreciation and rental purposes.

Investment property amounting to AED 6.3 million (2019: AED 6.1 million) is registered in the name of related parties in trust and for the benefit of the Company.

All investment properties are located in U.A.E.

The property rental income earned by the Company from its investment properties, which are leased under operating leases on an annual basis and the direct operating expenses arising in the management of the investment properties are as follows:

	2020 AED'000	2019 AED'000
Rental income	10,060	18,310
Direct operating expenses	(1,306)	(4,306)
Income from investment properties (note 27)	<u>8,754</u>	<u>14,004</u>

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14 Property and equipment

	Furniture and fixtures AED'000	Motor vehicles AED'000	Right-to- use assets AED'000	Total AED'000
<i>Cost</i>				
At 1 January 2020	4,795	22	1,583	6,400
Additions during the year	69	250	-	319
At 31 December 2020	4,864	272	1,583	6,719
<i>Accumulated depreciation</i>				
At 1 January 2020	3,876	22	528	4,426
Charge for the year	378	35	529	942
At 31 December 2020	4,254	57	1,057	5,368
<i>Carrying value</i>				
At 31 December 2020	610	215	526	1,351
<i>Cost</i>				
At 1 January 2019	4,131	352	-	4,483
Additions during the year	664	-	1,583	2,247
Disposal during the year	-	(330)	-	(330)
At 31 December 2019	4,795	22	1,583	6,400
<i>Accumulated depreciation</i>				
At 1 January 2019	3,589	85	-	3,674
Charge for the year	287	66	528	881
Disposal during the year	-	(129)	-	(129)
At 31 December 2019	3,876	22	528	4,426
<i>Carrying value</i>				
At 31 December 2019	919	-	1,055	1,974

At 31 December 2020, the cost of fully depreciated property and equipment that was still in use amounted to AED 3.783 million (2019: AED 3.174 million).

15 Intangible assets

	2020 AED'000	2019 AED'000
<i>Software:</i>		
<i>Cost</i>		
At 1 January	353	-
Additions during the year	279	353
At 31 December	632	353
<i>Accumulated amortisation</i>		
At 1 January	23	-
Charge for the year	123	23
At 31 December	146	23
Carrying value at 31 December	486	330

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16 Takaful and retakaful payables

	2020 AED'000	2019 AED'000
Payable arising from takaful activities	10,021	12,340
Due to takaful companies	10,405	14,989
Due to retakaful companies	14,055	17,075
	<u>34,481</u>	<u>44,404</u>

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

17 Other liabilities

	2020 AED'000	2019 AED'000
Premium reserve withheld	3,823	4,181
Accrued expenses	2,970	1,954
Deferred rental income	980	1,281
Lease liability	547	1,074
Zakat payable	-	966
Other	3,867	3,786
	<u>12,187</u>	<u>13,242</u>
Attributable to:		
Policyholders	5,240	5,023
Shareholders	6,947	8,219
	<u>12,187</u>	<u>13,242</u>

18 Qard Hasan

	2020 AED'000	2019 AED'000
(i) Deficit in policyholders' fund:		
As at 1 January	(67,758)	(71,120)
Surplus during the year	29,358	3,362
As at 31 December	<u>(38,400)</u>	<u>(67,758)</u>
(ii) Qard Hasan from shareholders		
As at 1 January	67,758	71,120
Reversal during the year	(29,358)	(3,362)
As at 31 December	<u>38,400</u>	<u>67,758</u>

The shareholders have funded the deficit in the policyholders' fund in accordance with the Company's policy through a Qard Hasan (profit free loan with no repayment terms). During the current year the policyholders fund reported a surplus amounting to AED 29.4 million (2019: Surplus of AED 3.4 million).

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19 Provision for employees' end of service indemnity

	2020 AED'000	2019 AED'000
Balance at the beginning of the year	2,473	2,353
Charged during the year	382	239
Paid during the year	(371)	(119)
Balance at the end of the year	<u>2,484</u>	<u>2,473</u>

20 Share capital

	2020 AED'000	2019 AED'000
Authorised and issued and fully paid: 154,000,000 ordinary shares of AED 1 each (2019: 154,000,000)	<u>154,000</u>	<u>154,000</u>

21 Statutory reserve

In accordance with U.A.E. Law No. (2) of 2015, 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. For the year ended 31 December 2020, AED 2.94 million was transferred to the statutory reserve (2019: no transfer was made).

22 Voluntary reserve

The Company had set up the voluntary reserve by transferring 10% of annual profit as per the clause in the earlier Articles of Association which required at least 10% of the Company's annual profit to be transferred to voluntary reserve until it is suspended by an Ordinary General Meeting upon recommendations of the Board of Directors or when the reserve reaches 50% of the paid up capital of Company and this reserve can be utilised for purposes determined by the General meeting up on recommendation of the Board of Directors.

During 2016, the Company had amended its Articles of Association and the clause related to voluntary reserve states that a voluntary purpose reserve can be created upon a recommendation of the Board of Directors and this reserve cannot be utilised for any other purpose unless approved by the General meeting.

As per the above amendment, no transfer to voluntary reserve was made during 2020.

23 Reinsurance reserve

In accordance with Insurance Authority's Board of Directors' Decision No. 23, Article 34, an amount of AED 154,000 was transferred from retained earnings to reinsurance reserve. The reserve is not available for distribution and will not be disposed of without prior approval from Insurance Authority.

24 Investments revaluation reserve - FVTOCI

This reserve records gains and losses arising from changes in fair value of other financial assets measured at fair value through other comprehensive income (FVTOCI).

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25 Net takaful contributions

	Gross AED'000	Retakaful share AED'000	Net AED'000
2020			
Takaful contracts: Gross contributions written	109,037	(30,781)	78,256
Movement in unearned contributions and additional unexpired risk reserves	22,892	(687)	22,205
Takaful contributions revenue	131,929	(31,468)	100,461
2019			
Takaful contracts: Gross contributions written	141,431	(26,854)	114,577
Movement in unearned contributions and additional unexpired risk reserves	4,186	(3,886)	300
Takaful contributions revenue	145,617	(30,740)	114,877

26 Claims incurred

	Gross AED'000	Retakaful share AED'000	Net AED'000
2020			
Takaful claims paid	92,368	(35,652)	56,716
Movement in provision for claims reported unsettled	11,648	(13,531)	(1,883)
Movement in provision for claims incurred but not reported	(10,047)	837	(9,210)
Movement in provision for unallocated loss adjustment expense	(696)	-	(696)
Claims recorded in the statement of income	93,273	(48,346)	44,927
2019			
Takaful claims paid	117,289	(34,453)	82,836
Movement in provision for claims reported unsettled	(5,996)	6,104	108
Movement in provision for claims incurred but not reported	(8,193)	1,068	(7,125)
Movement in provision for unallocated loss adjustment expense	590	-	590
Claims recorded in the statement of income	103,690	(27,281)	76,409

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27 Investment income / (loss)

	2020 AED'000	2019 AED'000
Gain/(loss) on disposal of other financial assets at FVTPL	386	(27)
Unrealised gain on other financial assets at FVTPL	246	-
Profit on wakala deposit	4,061	3,251
Dividends from other financial assets at FVTPL	249	551
Fair value loss on investment properties (note 13)	(11,456)	(13,112)
Loss on sale of investment property	-	(4,700)
Gain on sale of property and equipment	-	41
Income from investment properties (note 13)	8,754	14,004
Expenses allocated to investment	(818)	(1,471)
	<u>1,422</u>	<u>(1,463)</u>
Attributable to:		
Policyholders	1,258	2,443
Shareholders	164	(3906)
	<u>1,422</u>	<u>(1,463)</u>

28 Wakala and Mudarib's fees

Wakala fees

Wakala fee for the year ended 31 December 2020 amounted to AED 32.71 million (2019: AED 42.4 million) the fee is calculated at maximum of 30% of gross contribution of AED 109.04 million (2019: AED 141.4 million) without any deduction of policy acquisition cost. Wakala fee is charged to the statement of income when incurred.

Mudarib's fee

The shareholders also manage the policyholders' investment funds and charge Mudarib's fee. Mudarib's fee is charged at 30% of realised investment income.

29 General and administrative expenses

	2020 AED'000	2019 AED'000
Staff cost	12,835	16,390
Administrative expenses	3,249	4,025
Depreciation and amortization	1,065	904
Policy registration fees	1,050	2,218
Legal and professional fees	880	978
Insurance	579	588
End of service benefits and pension	383	416
Rent	339	304
Bank charges	270	300
Marketing expenses	206	290
Expected credit losses	-	5,291
Board of directors' remuneration (note 9)	-	1,050
Other expenses	1,036	1092
	<u>21,892</u>	<u>33,846</u>

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30 Zakat

For the year ended 31 December 2020, Zakat amounting AED 0.0258 per share will not be borne by the Company on behalf of shareholders. (For the year ended 2019, Zakat borne by the Company on behalf of shareholders amounted to AED 0.966 million).

31 Earnings per share

Earnings per share are calculated by dividing the profit for the year by the number of ordinary shares outstanding as of the end of the year as follows:

	2020	2019
Profit/(loss) for the year (in AED'000)	<u>29,372</u>	<u>(6,369)</u>
Number of ordinary shares outstanding	<u>154,000,000</u>	<u>154,000,000</u>
Basic and diluted earnings/(loss) per share (in AED)	<u>0.19</u>	<u>(0.04)</u>

Diluted earnings per share as of 31 December 2020 and 31 December 2019 are equivalent to basic earnings per share as the Company did not issue any new instrument that would impact earnings per share when executed.

32 Cash and cash equivalents

For the purposes of statement of cash flows, cash and cash equivalents include cash and bank balances net of wakala 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:

	2020 AED'000	2019 AED'000
Cash and bank balances (note 5)	189,138	223,579
Wakala deposits with maturity over 3 months	<u>(40,000)</u>	<u>(142,000)</u>
	<u>149,138</u>	<u>81,579</u>

33 Segmental information

For management purposes the Company is organised into two business segments; general takaful management and investment. The general takaful segment comprises the takaful business undertaken by the Company on behalf of Policyholders. Investment comprises investment and cash management for the Company's own account. No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on profit or loss which in certain respects is measured differently from profit or loss in the financial statements.

Except for Wakala fees, and Qard Hassan, no other inter-segment transactions occurred during the year. If any other transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties.

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33 Segmental information (continued)

The following table presents segment information for the years ended 31 December 2020 and 31 December 2019.

	2020		2019			
	Attributable to policyholders AED'000	Attributable to shareholders AED'000	Total AED'000	Attributable to policyholders AED'000	Attributable to shareholders AED'000	Total AED'000
Takaful						
Total takaful income	105,592	-	105,592	120,157	-	120,157
Total takaful expenses	(44,927)	-	(44,927)	(76,409)	-	(76,409)
Net takaful income	60,665	-	60,665	43,748	-	43,748
Wakala fees	(32,711)	32,711	-	(42,429)	42,429	-
Mudarib's fee	(377)	377	-	(733)	733	-
Investment income	1,258	-	1,258	2,443	-	2,443
Other income	523	-	523	333	-	333
	29,358	33,088	62,446	3,362	43,162	46,524
Investment						
Investment income/(loss)	-	164	164	-	(3,906)	(3,906)
Other income	-	4,581	4,581	-	4,297	4,297
Policy acquisition cost	-	(15,927)	(15,927)	-	(18,472)	(18,472)
Unallocated other income and expenses	-	(21,892)	(21,892)	-	(33,846)	(33,846)
Profit/(loss) for the year before Zakat	29,358	14	29,372	3,362	(8,765)	(5,403)

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33 Segmental information (continued)

Other information

	Takaful		Investment		Total	
	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000	2020 AED'000	2019 AED'000
Segment assets	121,372	133,355	366,876	367,595	488,248	500,950
Segment liabilities	159,772	201,113	9,444	10,729	169,216	211,842
Capital expenditure	-	-	598	1,017	598	1,017
Depreciation and amortisation	-	-	1,065	904	1,065	904

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34 Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organisation of its operations. The Company manages its capital on a basis of its minimum regulatory capital position presented in the table below:
- 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.

In U.A.E., the local insurance regulator 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 summarises the minimum required capital of the Company and the total capital held.

	2020 AED	2019 AED
Minimum regulatory capital	<u>100,000,000</u>	<u>100,000,000</u>
Share capital held	<u>154,000,000</u>	<u>154,000,000</u>

The UAE Insurance Authority has issued Resolution No. 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing insurance firms and AED 250 million for re-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.

35 Financial instruments

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

These risks arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and financial liabilities are profit rate risk and equity price risk.

Significant accounting policies

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

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35 Financial instruments (continued)

Categories of financial instruments

	2020 AED'000	2019 AED'000
Financial assets		
Other financial assets measured at FVTOCI	26,505	1,939
Other financial assets measured at FVTPL	4,417	515
Statutory deposits	10,000	10,000
Takaful and retakaful receivables	30,436	35,378
Amounts due from related parties	6,294	5,897
Cash and bank balances	189,138	223,579
Total financial assets	266,790	277,308
Financial liabilities		
Takaful and retakaful payables	41,318	51,110
Due to related parties	19	43
Total financial liabilities	41,337	51,153

Management considers that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

36 Risk management

Takaful risk

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

For a portfolio of takaful contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its takaful contracts is that the actual claims and benefit payments exceed the carrying amount of the takaful liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insured 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 takaful 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 takaful underwriting strategy to diversify the type of takaful 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 retakaful arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

Frequency and severity of claims

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

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36 Risk management (continued)

Takaful risk (continued)

Frequency and severity of claims (continued)

Property takaful 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 takaful contracts are subdivided into four risk categories: fire, business interruption, weather damage and theft. The takaful 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 retakaful arrangements include excess and catastrophe coverage. The effect of such retakaful arrangements is that the Company should not suffer net takaful losses of a set limit of AED 200,000, AED 20,000 and AED 400,000 in any one policy for motor, medical and other non-motor respectively. 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 every year and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments

Claims on takaful 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 compared to 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 takaful company until many years after the event that gave rise to the claims. For some takaful 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. 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 takaful claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Takaful contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of reporting period.

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

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36 Risk management (continued)

Takaful risk (continued)

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

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 retakaful) are analysed below by type of risk where the insured operates for current and prior year contribution earned.

Type of risk

	2020	2019
Motor	31%	54%
Non-motor	65%	98%

Process used to decide on assumptions

The risks associated with these takaful 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 takaful contracts carried out at the reporting date 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.

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.

Concentration of risks

The Takaful risk arising from takaful contracts is concentrated mainly in the United Arab Emirates.

The table below sets out the concentration of contract liabilities by type of contract:

	Gross liabilities AED'000	Retakaful share of liabilities AED'000	Net liabilities AED'000
2020			
Motor	8,557	(4,994)	3,563
Non-motor	21,415	(16,725)	4,690
Total	29,972	(21,719)	8,253

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36 Risk management (continued)

Takaful risk (continued)

Concentration of risks (continued)

	Gross liabilities AED'000	Reinsurance share of liabilities AED'000	Net liabilities AED'000
2019			
Motor	10,318	(3,156)	7,162
Non-motor	8,006	(5,031)	2,975
Total	18,324	(8,187)	10,137

Retakaful risk

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

To minimise its exposure to significant losses from retakaful insolvencies, the Company evaluates the financial condition of its retakaful companies and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the retakaful. Retakaful 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 retakaful agreements.

Financial risk

Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, profit rates and equity price risk.

Foreign currency risk

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

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:

- retakaful' share of takaful liabilities;
- amounts due from retakaful in respect of claims already paid;
- amounts due from takaful contract holders; and
- amounts due from takaful 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 the management annually.

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36 Risk management (continued)

Financial risk (continued)

Credit risk (continued)

Retakaful is used to manage takaful risk. This does not, however, discharge the Company's liability as primary policyholder. If a retakaful fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of retakaful company is considered on an annual basis by reviewing their financial strength prior to finalisation 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 management includes details of provisions for impairment on takaful 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 retakaful is carried out by the Company.

Takaful 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 takaful receivable.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristic, other than takaful receivables at the end of reporting period. The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 10% of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks registered in the United Arab Emirates.

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.

The following table provides an age analysis of receivables arising from insurance.

	Neither past due nor impaired AED'000	Past due			Total AED'000	Past due and impaired AED'000	Total AED'000
		<120 days AED'000	120 -180 days AED'000	>180 days AED'000			
31 December 2020	6,285	8,685	1,860	9,046	25,876	(2,744)	23,132
31 December 2019	5,983	8,312	2,157	14,264	30,716	(6,265)	24,451

Liquidity risk

Ultimate responsibility for liquidity risk management rests with management, 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.

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36 Risk management (continued)

Financial risk (continued)

Liquidity risk (continued)

The table below summarises 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 end of the reporting period 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 is given below:

2020	Less than 90 days AED'000	91-180 days AED'000	181-365 days AED'000	Above 365 days AED'000	Total AED'000
Financial assets					
At FVTOCI	-	-	24,566	1,939	26,505
At fair value through profit or loss	3,902	-	-	515	4,417
Statutory deposits	-	-	-	10,000	10,000
Takaful and retakaful receivables	6,534	13,404	3,676	6,822	30,436
Due from related parties	2,094	1,793	2,407	-	6,294
Cash and bank balances - profit bearing	121,766	40,000	-	-	161,766
Cash and bank balances - non-profit bearing	27,372	-	-	-	27,372
	161,668	55,197	30,649	19,276	266,790
Financial liabilities					
Takaful and retakaful payables	14,260	7,782	4,620	14,656	41,318
Due to related parties	19	-	-	-	19
	14,279	7,782	4,620	14,656	41,337

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36 Risk management (continued)

Financial risk (continued)

Liquidity risk (continued)

2019	Less than 90 days AED'000	91-180 days AED'000	181-365 days AED'000	Above 365 days AED'000	Total AED'000
Financial assets					
At FVTOCI	-	-	-	1,939	1,939
At fair value through profit or loss	-	-	-	515	515
Statutory deposits	-	-	-	10,000	10,000
Takaful and retakaful receivables	10,459	10,554	5,040	9,325	35,378
Due from related parties	3,121	1,535	960	281	5,897
Cash and bank balances - profit bearing	-	35,000	107,000	-	142,000
Cash and bank balances - non-profit bearing	81,579	-	-	-	81,579
	95,159	47,089	113,000	22,060	277,308
Financial liabilities					
Takaful and retakaful payables	21,392	7,356	16,189	6,173	51,110
Due to related parties	43	-	-	-	43
	21,435	7,356	16,189	6,173	51,153

Equity price risk

Sensitivity analysis

At the reporting date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Company's statement of income/comprehensive income would have increased/decreased by AED 0.63 million (2019: AED 0.3 million).

Method and assumptions for sensitivity analysis

The sensitivity analysis has been done based on the exposure to equity price risk as at the end of the reporting period.

- As at the reporting date 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 statement of income and other comprehensive income has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

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37 Fair value measurements

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

Fair value of financial instruments carried at amortised cost

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

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the audited annual financial statements for the year ended 31 December 2019.

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31 December 2020 AED'000	31 December 2019 AED'000				
Financial assets at FVTOCI						
Unquoted equity securities	1,939	1,939	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of investees, higher the fair value.
Quoted debt securities	16,965	-	Level 1	Quoted bid prices in an active market.	None	N/A
Quoted equity securities	7,601	-	Level 1	Quoted bid prices in an active market.	None	N/A
Financial assets at FVTPL						
Quoted equity securities	3,902	-	Level 1	Quoted bid prices in an active market.	None	N/A

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37 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 2020 AED'000	31 December 2019 AED'000				
Financial assets at FVTPL (continued)						
Unquoted equity securities	515	515	Level 3	Net assets valuation method.	Net assets value	Higher the net assets value of the investees, higher the fair value.

There were no transfers between each of level during the year. There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table.

The movement in level 3 financial assets were due to change in fair value of investments classified as FVOCI.

38 Contingent liabilities

	2020 AED'000	2019 AED'000
Letters of guarantees	10,349	10,347

39 Fatwa and Shari'a Supervisory Board

The Company's business activities are subject to the supervision of its Fatwa and Shari'a Supervisory Board (FSSB) consisting of three members appointed by the shareholders. FSSB performs a supervisory role in order to determine whether the operations of the Company are conducted in accordance with Shari'a rules and principles.

According to the Company's Fatwa and Shari'a Supervisory Board, the Company is required to identify any income deemed to be derived from transactions not acceptable under Islamic Shari'a rules and principles, as interpreted by Fatwa and Shari'a Supervisory Board, and to set aside such amount in a separate account for Shareholders who may resolve to pay the same for local charitable causes and activities.

40 Directors' remuneration

For the year ended 31 December 2020, the Board of Directors proposed AED 0.2 million remuneration for each member. The proposal is subject to approval by the Shareholders at the Annual General Meeting. (For the year ended 31 December 2019, no remuneration was approved).

41 Paid and proposed dividends

No dividends were approved at the Annual General Meeting held on 12 April 2020 for the year 2019 (2019: cash dividend of AED 15.4 million for the year 2018).

The Board of Directors has proposed 10% cash dividend at their meeting held on 2 March 2021. The proposals are subject to approval by the Shareholders at the Annual General Meeting.

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42 Reclassifications

Certain figures of 2019 have been reclassified in order to conform with current financial information's presentation and improve the quality of information presented. However, there is no effect on previously reported total equity, total liabilities, total assets and profit for the year.

A reconciliation of previously reported amounts and restated amounts is provided below:

Reclassified from Statement of financial position item	AED'000	Reclassified to Statement of financial position item	AED'000
Prepayments and other receivables	8,383	Takaful and retakaful receivables	8,383
Lease Liability	1,074	Other liabilities	1,074
Property and equipment	330	Intangible assets	330
Total	<u>9,787</u>	Total	<u>9,787</u>

43 Post-reporting date events

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by UAE government to contain the virus have affected economic activity. Accordingly, management has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for the Company's people (such as social distancing and working from home) and securing the data workflow that is essential to underwriting process. Also, the Company is continuing to monitor the impact of COVID-19 on its financial performance. To date, no significant impact on the credit risk or instances of default has been noted by the management.