# Zurich International Life Limited
# - UAE Branch

## FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2022

**ZURICH INTERNATIONAL LIFE LIMITED – UAE BRANCH**

**Financial statements for the year ended 31 December 2022**


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# INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF ZURICH INTERNATIONAL LIFE LIMITED IN RESPECT OF ITS UNITED ARAB EMIRATES BRANCH

## Report on the Audit of Financial Statements

***Opinion***

We have audited the financial statements of Zurich International Life Limited - UAE Branch (the "Branch"), which comprise the statement of financial position as at 31 December 2022, the statement of comprehensive income and the 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 present fairly, in all material respects, the financial position of the Branch as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

***Basis for opinion***

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

***Responsibilities of management and those charged with governance for the financial statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and in compliance with the applicable provisions of the Head Office's Articles of Association, and the UAE Federal Decree Law No. (32) of 2021 and UAE Federal Law No. (6) of 2007 (as amended), 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 Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

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

**INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF ZURICH INTERNATIONAL LIFE LIMITED OF ITS UNITED ARAB EMIRATES BRANCH (continued)**

**Report on the audit of Financial Statements (continued)**

***Auditors' responsibilities for the audit of the financial statements***

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those 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 Branch'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 Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 Branch 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, 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.

**INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF ZURICH INTERNATIONAL LIFE LIMITED OF ITS UNITED ARAB EMIRATES BRANCH (continued)**

**Report on Legal and other Regulatory Requirements**

Further, as required by the UAE Federal Decree Law No. (32) of 2021, we report that for the year ended 31 December 2022:

i) the Branch has maintained proper books of accounts;

ii) we have obtained all the information we considered necessary for the purposes of our audit.

Further, as required by the UAE Federal Law No. 14 of 2018 and the related Financial Regulations for Insurance Companies, we report that we have obtained all the information and explanation we considered necessary for the purpose of our audit. For further disclosure on solvency ratios, refer to Note 4.

For Ernst & Young

TS Hari Gopal

Signed by:
Thodla Hari Gopal
Partner
Registration No.: 689

19 April 2023

Dubai, United Arab Emirates

## STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

| | *Notes* | ***2022*** ***AED'000*** | *2021* *AED'000* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 9 | **149,181** | 89,903 |
| Investments for policyholders | 5 | **12,130,168** | 14,028,901 |
| Premium debtors and other receivables | 8 | **97,353** | 101,915 |
| Available-for-sale financial assets | 21 | **191,134** | 198,862 |
| Reinsurers' share of reserves for insurance contracts | 10 | **169,299** | 134,044 |
| Deferred origination costs | 6 | **24,388** | 41,592 |
| Deferred acquisition costs | 7 | **3,395,873** | 3,799,872 |
| Right-of-use assets | 19 | **22,947** | 25,820 |
| Restricted deposit | 9 | **4,000** | 4,000 |
| **TOTAL ASSETS** | | **16,184,343** | 18,424,909 |
| **LIABILITIES** | | | |
| Liabilities for investment contracts | 11 | **2,861,181** | 3,384,304 |
| Other liabilities | 14 | **113,475** | 162,906 |
| Reserves for unit-linked insurance contracts | 10 | **9,193,335** | 10,569,704 |
| Reserves for non-unit linked insurance contracts | 10 | **547,289** | 443,263 |
| Deferred origination fees | 12 | **10,971** | 6,248 |
| Deferred front end fees | 13 | **2,931,762** | 3,240,468 |
| Lease liabilities | 19 | **27,278** | 30,554 |
| **Total liabilities** | | **15,685,291** | 17,837,447 |
| **NET RESIDUAL ATTRIBUTABLE TO HEAD OFFICE** | 15 | **499,052** | 587,462 |

These financial statements were approved for issue by the management on 18 April 2023 and were signed on their behalf by:

……………………………
Wilson Varghese
General Manager

The attached notes 1 to 24 form part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

| | Notes | *2022* *AED'000* | *2021* *AED'000* *(Restated*)* |
|---|---|---|---|
| Insurance premiums and fees | 16 | **752,565** | 736,506 |
| Insurance premium ceded to reinsurers | 15 | **(207,024)** | (178,593) |
| Change in reserve for unearned premium | 10 | **(3,648)** | 784 |
| Change in reinsurers' share of unearned premium | 10 | **2,528** | 179 |
| **Net insurance premium revenue** | | **544,421** | 558,876 |
| Policy fees | | **14,063** | 11,367 |
| Fund management and other income | 15 | **123,794** | 132,486 |
| Policy acquisition costs | 17 | **(224,337)** | (205,613) |
| Policy acquisition costs ceded | 15 | **2,358** | 6,471 |
| Fair value loss/gain on investments for policyholders | 5 | **(2,527,258)** | 1,148,377 |
| **Net income** | | **(2,066,959)** | 1,651,964 |
| Insurance claims and loss adjustment expenses | 18 | **(252,138)** | (235,148) |
| Reinsurers' share of insurance claims and loss adjustment expenses | 18 | **109,921** | 67,031 |
| Change in fair value of reserves for unit-linked contracts | 10 | **2,054,491** | (889,820) |
| Change in fair value of liabilities for investment contracts | 11 | **472,769** | (258,557) |
| **Net insurance claims and benefits** | | **2,385,043** | (1,316,494) |
| **Operating expenses** | | | |
| Expenses recharged by Head Office | 15 | **(159,392)** | (186,184) |
| **Net profit for the year** | | **158,692** | 149,286 |
| Other comprehensive income | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Net (loss)/ gain on remeasurement of available-for-sale financial assets | | | |
| Other comprehensive income during the year | | **(24,062)** | 558 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **134,630** | 149,844 |

*Restated as explained in Note 24.

# STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

| | Notes | *2022* *AED'000* | *2021* *AED'000* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net profit for the year | | **158,692** | 149,286 |
| Adjustments for: | | | |
| Depreciation charge on right of use assets | | **2,873** | 3,951 |
| Impairment of right of use assets and lease liabilities | | | 137 |
| Interest expense on lease liabilities | | **172** | 180 |
| Fair value gain on investments for policyholders | 5 | **2,527,258** | (1,148,377) |
| Change in fair value of reserves for unit-linked insurance contracts | 10 | **(2,054,491)** | 889,820 |
| Change in fair value of liabilities for investment contracts | 11 | **(472,769)** | 258,557 |
| Operating cash flow before changes in operating assets and liabilities | | **161,735** | 153,554 |
| **CHANGES IN OPERATING ASSETS AND LIABILITIES** | | | |
| Net movement in investments for policyholders | | **(628,525)** | (828,429) |
| Changes in reinsurer's share of reserves | | **(35,255)** | 9,553 |
| Movement in deferred origination costs | | **17,204** | (15,720) |
| Movement in deferred acquisition costs | | **403,999** | 39,340 |
| Premium debtors and other receivables | | **4,562** | 5,100 |
| Changes in reserves for insurance contracts | | **782,148** | 338,654 |
| Changes in liabilities for investment contracts | | **(50,354)** | 516,244 |
| Movement in deferred origination fees | | **4,723** | (5,643) |
| Movement in deferred front end fees | | **(308,706)** | 90,776 |
| Other liabilities | | **(49,431)** | (8,895) |
| Net cash generated from operating activities | | **302,100** | 294,534 |
| **INVESTING ACTIVITY** | | | |
| Payments for available-for-sale financial assets | | **(16,334)** | 9,888 |
| Net cash (used in) / generated from investing activities | | **(16,334)** | 9,888 |
| **FINANCING ACTIVITIES** | | | |
| Principal elements of lease payments | | **(3,448)** | (4,212) |
| Net movement in Net residual attributable to Head Office | 15 | **(223,040)** | (277,367) |
| Net cash used in financing activities | | **(226,488)** | (281,579) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **59,278** | 22,843 |
| Cash and cash equivalents at the beginning of the year | | **89,903** | 67,060 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 9 | **149,181** | 89,903 |

The attached notes 1 to 24 form part of these financial statements.

## 1 ESTABLISHMENT AND PRINCIPAL ACTIVITIES

Zurich International Life Limited ("Head Office" or "the Company") is incorporated in the Isle of Man and has a registered Branch ("the Branch") in the United Arab Emirates ("UAE"). The ultimate holding company is Zurich Insurance Group ("the Group") registered in Zurich, Switzerland.

The Branch is licensed by the UAE Insurance Authority ("the Authority"), now merged into the Central Bank of the UAE in line with the Decretal Federal Law No. (25) of 2021, and operates under commercial registration number 63. The address of the registered office is Emaar Square, Building 3, Level 4, P.O. Box 50389, Dubai, UAE. The principal licensed activity of the Branch is selling life insurance (including Group Life) and savings and accumulation insurance and investment products.

UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the Branch has come into effect from 1 July 2015. The Branch is in compliance with the provisions of the Companies Law.

In December 2014, the UAE Insurance Authority issued the Board of Directors' decision number (25) of 2014 pertinent to financial regulations for Insurance Companies. The Branch has complied with applicable sections of the financial regulations issued by the Insurance Authority, except for single counter-party exposure limits specified in Article 3 of Section 1 of the Financial Regulations where the Branch had more than 25% exposure to a single counter-party in terms of government securities issued by the UAE.

Federal Decree Law No. (24) of 2020 which amends certain provisions of the UAE Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. Effective 2 January 2021, the Insurance Sector including third party administrators became under the supervision and authority of the UAE Central Bank ("CBUAE").

Federal Decree Law No. 32 of 2021 ("Companies Law") which repeals and replaces Federal Law No. 2 of 2015 (as amended) on Commercial Companies was issued on 20 September 2021 and is effective from 2 January 2022. The Branch has complied with the new provisions and requirements of the UAE Federal Decree Law No. 32 of 2021.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

These financial statements have been prepared in accordance with IFRS as issued by International Accounting Standards Board ("IASB").

These financial statements have been prepared on a historical cost basis, except for investments for policyholders, reserves for unit-linked insurance contracts and liabilities for investments contracts which are measured at fair value.

The financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands AED, except where otherwise indicated.

Since the Branch has not issued any equity instruments, statement of changes in equity has not been presented for the years ended 31 December 2022 and 31 December 2021.

The Branch's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as current: cash and cash equivalents, premium debtors, investments for policyholders, liabilities for investment contracts, other receivables and other liabilities.

The following balances are of mixed nature (including both current and non-current portions): available-for-sale financial assets, reinsurers' share of reserves for insurance contracts, deferred acquisition cost, deferred origination cost, right-of-use assets, reserves for insurance contracts, deferred front-end fees, deferred origination fees, lease liabilities and Net residual attributable to Head Office.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

Restricted deposit is classified as non-current financial asset (Refer note 9).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch’s accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3 to these financial statements. The Branch’s management has made an assessment of the Branch’s ability to continue as a going concern and is satisfied that the Branch has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Branch’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

### 2.2 Implementation of new accounting standards

***(a) New standards, amendments to published standards and interpretations effective for the Branch’s accounting period beginning on 1 January 2022***

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2022, have been adopted in these financial statements. The application of these revised IFRSs have not had any material impact on the amounts reported for the current and prior years.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to 'Interest Rate Benchmark Reform - Phase 2, that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates.
- Amendments relating to IAS 16, IAS 37, IFRS 3 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16
- Amendment to IFRS 16 ‘Leases’ to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022

***(b) New standards and amendments to published standards and interpretations issued but not effective for the financial year beginning 1 January 2022 and not early adopted by the Branch***

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

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current (effective for annual reporting periods beginning on or after 1 January 2023)
- Amendments to IAS 8 – Definition of Accounting Estimates (effective for annual reporting periods beginning on or after 1 January 2023)
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual reporting periods beginning on or after 1 January 2023)
- IFRS 17 Insurance Contracts (effective for reporting periods beginning on or after 1 January 2023)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Implementation of new accounting standards (continued)

***(b) New standards and amendments to published standards and interpretations issued but not effective for the financial year beginning 1 January 2022 and not early adopted by the Branch (continued)***

**IFRS 17 ‘INSURANCE CONTRACTS’ AND IFRS 9 ‘FINANCIAL INSTRUMENTS’**

IFRS 17 ‘Insurance Contracts’ provides a comprehensive guidance on accounting for (re-)insurance contracts and investment contracts with discretionary participation features and has a significant impact on accounting for (re) insurance contracts, including changes to the presentation of the insurance revenue and insurance service result. For long-duration life insurance contracts, IFRS 17 requires a significant change to actuarial modeling as granular cash flow projections, and regular updates of all assumptions will be required resulting in either profit or loss volatility or affecting ‘contractual service margin (CSM)’. CSM is presented as a separate component of the insurance liability representing unearned profits from in-force contracts. IFRS 17 further introduces a risk adjustment for non-financial risk, a separate component of the insurance liability covering uncertainty in the amount and timing of future cash flows. Thus, the insurance liabilities will be composed of the current best estimate present value of future cash flows (PVFCF), risk adjustment and CSM.

IFRS 17 introduces different measurement models in calculating (re-)insurance contract liabilities reflecting the different extents of policyholder participation in investment or insurance entity performance: non-participating or indirect participating (general model or the building block approach (BBA)) and direct participating (variable fee approach (VFA)). For short-duration contracts, IFRS 17 permits a simplified approach (premium allocation approach (PAA)), which can be applied to contracts that have a coverage period of 12 months or less or for which such simplification would produce a measurement of the liability for remaining coverage that would not differ materially from the one that would be produced applying the BBA. The simplification allows the liability for remaining coverage to be measured primarily based on premium received, less earned premium and unamortized acquisition cash flows, rather than to be disaggregated into PVFCF, risk adjustment and CSM. The liability for incurred claims is measured consistently with the BBA, whereby all the incurred claims are subject to discounting and risk adjustment.

IFRS 17 will also affect the presentation of the revenue from insurance contracts, which will no longer include gross written premium or investment components. Furthermore, the insurance revenue and insurance service expenses will be presented gross of reinsurance, with the reinsurance result included in the net expenses from reinsurance contracts held. The (re-)insurance contract liabilities are subject to discounting; the unwind of the discount will be part of the (re-)insurance finance income or expenses, rather than insurance service result. For the majority of its in-force (re-)insurance contracts, except for unit-linked insurance contracts, the Company will apply the option in IFRS 17 to disaggregate the (re-)insurance finance income or expense between profit or loss and other comprehensive income (OCI). Under this option, the unwind of discount in profit or loss is based on locked-in discount rates and the difference in valuation due to changes in discount rates is presented in OCI.

The Company will apply bottom-up discount rates for (re-)insurance contracts. Bottom-up discount rates are constructed using risk-free rates, plus an illiquidity premium, where applicable. Risk-free rates are determined by reference to the market interest rates (either swap rates or yields of highly liquid sovereign securities) in the currency of the respective (re-)insurance contract liabilities. Whenever the duration of the liabilities exceeds the liquid part of the yield curve in the respective currency (the last liquid point), the risk-free interest rate is extrapolated to converge towards a long-term rate (the ultimate forward rate) using widely accepted extrapolation techniques (Smith-Wilson algorithm). The illiquidity premium is determined by reference to observable market spreads for illiquid instruments (e.g., corporate debt, etc.) adequately corrected to remove credit risk.

The Company will estimate the risk adjustment using a confidence level approach taking into account the Company’s internal view of the level of capital required in order to continue operating on a going concern basis based on the ultimate parent undertaking’s target Swiss Solvency Test (SST) ratio. The risk adjustment is calibrated as the value at risk (VaR) at the defined target confidence level minus the expected value of the future cash flows using the simulations of the distribution of the future cash flows. This distribution is based on the SST framework and model, with a few modifications considering the different purpose of the IFRS 17 risk adjustment. Separate target confidence levels will apply to the distribution of cash flows of long-duration (predominantly life) and short-duration (predominantly non-life) (re-)insurance contracts. We expect the confidence levels to fall within the following ranges: 74 – 79% for short-duration and 90 – 95% for long duration (re-)insurance contracts. The Company will disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and (re-)insurance finance income or expenses, and the latter between profit or loss and OCI, so that the movement in risk adjustment resulting from changes in discount rates is presented in OCI.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Implementation of new accounting standards (continued)**

***(b) New standards and amendments to published standards and interpretations issued but not effective for the financial year beginning 1 January 2022 and not early adopted by the Branch (continued)***

**IFRS 17 'INSURANCE CONTRACTS' AND IFRS 9 'FINANCIAL INSTRUMENTS' (continued)**

The Company will allocate the CSM at the end of the reporting period based on the underlying coverage units. The coverage units represent the quantity of (re-)insurance contract services provided by the contracts in the Company, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period. The sum assured (or annuity) in force is considered as the main driver for determining coverage units for insurance service under BBA. Whenever the Company provides both insurance service and investment-related or investment-return service to the policyholders, the coverage units are appropriately weighted to reflect both services to allocate the CSM over the current and remaining coverage period, whereby the assets under management (or equivalent) are considered as the main driver for determining coverage units for investment-related or investment-return service. The CSM allocated to coverage units provided in the period will be recognized in profit or loss.

As IFRS 17 is applied retrospectively, the Company determined the transition approach at a group of insurance contracts level, depending on availability of reasonable and supportable historic information. The selected transition approach affected the measurement of the CSM on initial adoption of IFRS 17:

- Fully retrospective approach – the CSM is based on initial assumptions when groups of contracts were incepted and rolled forward to the date of transition as if IFRS 17 had always been applied;
- Modified retrospective approach – the CSM is calculated using modifications allowed by IFRS 17 taking into account the actual pre-transition fulfilment cash flows; and
- Fair value approach – the CSM at transition is calculated as the difference between the fair value of a group of contracts, without the consideration of the demand deposit floor requirement, and the respective fulfilment cash flows measured at the transition date.

When a fully retrospective approach was considered impracticable due to lack of historical data or application of hindsight, the Company chose between a modified retrospective approach or a fair value approach. The Company applied a retrospective transition approach whenever practical, with more than 95 percent of CSM of Companies of (re-)insurance contracts following either a full retrospective or modified retrospective approach.

In applying the modified retrospective and fair value approach for certain Companies of non-life and life (re-)insurance contracts prior to the transition date, the Company used the modifications allowed under IFRS 17, such as grouping contracts issued more than 1 year apart into a single group for measurement purposes or applying interest rates as at transition date and setting the cumulative amount of (re-)insurance finance income or expenses recognized in other comprehensive income to nil.

IFRS 9 'Financial Instruments' introduces a classification and measurement concept for financial assets that is based on the contractual cash flow characteristics and the holding intent. Under IFRS 9, all equity securities and fund investments, and some debt instruments will be measured at fair value through profit or loss when the characteristics of the contractual cash flows from such instruments are not solely payments of principal and interest (SPPI) on the principal amount outstanding. Though IFRS 9 introduces an option to account for some equity securities at fair value through other comprehensive income (OCI) with no recycling of gains or losses through profit or loss, the Company does not intend to make material use of this option. The debt instruments that are not measured at fair value through profit or loss will be measured at fair value with changes in fair value recorded in OCI, if held under the standard business model to collect contractual cash flows and for sale, or at amortized cost, if part of selected portfolios that are held to collect contractual cash flows. Furthermore, IFRS 9 introduces a requirement to recognize expected credit losses for financial assets carried at amortized cost or at fair value, with changes in fair value recognized in OCI.

Based on an analysis performed in 2015, the Company decided to defer the implementation of IFRS 9 until IFRS 17 becomes effective to better align the measurement approaches for the financial assets held and the (re-)insurance contract liabilities where appropriate. The Company was eligible to apply the temporary exemption from the adoption of IFRS 9 for reporting entities that have not previously applied any version of IFRS 9 and whose activities are predominantly related to insurance, as the predominance ratio reflecting the share of liabilities connected with insurance to total liabilities exceeded 90 percent. No reassessment of eligibility was required during subsequent annual periods up to and including 2022 as there was no significant change in the activities performed by the Company.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Implementation of new accounting standards (continued)

***(b) New standards and amendments to published standards and interpretations issued but not effective for the financial year beginning 1 January 2022 and not early adopted by the Branch (continued)***

**IFRS 17 'INSURANCE CONTRACTS' AND IFRS 9 'FINANCIAL INSTRUMENTS' (continued)**

**Impact of the transition to IFRS17**
On 24 October 2022, the IFRS Interpretation Committee ("IFRS IC") published an Addendum to the IFRIC Update September 2022. Whilst the Company had calculated an expected impact of implementing IFRS17, as a result of the IFRS IC publication the Company is reviewing and updating its assessment of the impact of IFRS17 and does not have a reliable estimate of the impact of implementation at this time.

### 2.3 Premiums and fees

Premiums from traditional life insurance contracts are recognised as revenue when due from the policyholder.

Amounts collected as premiums from unit-linked insurance contracts are generally unbundled in the statement of comprehensive income by recognising the premium relating to the insurance component as cost of insurance and recognising the deposit directly in the statement of financial position as an adjustment to unit-linked insurance liabilities and investments for policyholders. Revenue from these contracts consists of fees and charges for the cost of insurance, fund based fees and surrender penalties during the period.

Amounts collected as premiums from unit-linked investment contracts are generally reported as deposits and are recognised directly in the statement of financial position as an adjustment to liabilities for investment contracts and investments for policyholders. Revenue from these contracts consists of policy fees for fund based fees and surrender penalties.

Regular fees charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds are billed in advance and recognised on a straight-line basis over the period in which the service is rendered.

Front-end fees and origination fees charged to the customer at inception, particularly for single premium contracts, are deferred and recognised over the term of the contracts as disclosed in note 2.6 and note 2.7.

### 2.4 Claims

Claims include death and benefit claims only. These claims are accounted for during the financial year in which these are notified. Reinsurance recoveries are accounted for in the same period as the related claim and are based on the reinsurance agreement entered into by Head Office. Surrenders and maturities are recognised directly in the statement of financial position as an adjustment to unit-linked liabilities and investments for policyholders.

### 2.5 Deferred acquisition costs ("DAC")

Acquisition costs are those costs that are primarily related to the acquisition of insurance contracts. These costs comprise of commissions and certain policy issuance expenses. These costs are initially recognised as an asset in the statement of financial position and are subsequently recognised in the statement of comprehensive income through amortisation. DAC for traditional life insurance contracts is amortised over the life of the contracts, based on expected premiums. DAC for unit-linked insurance contracts is amortised based on estimated gross profits expected to be realised over the life of the contract. Estimated gross profits are updated for actual and anticipated future experience.

### 2.6 Deferred front end fees ("FEF")

The Branch charges its customers for the initial set-up of the unit-linked insurance contract and the on-going management services. Front end fees are initially recognised as a liability in the statement of financial position and are subsequently recognised in the statement of comprehensive income through amortisation over the estimated life of the contracts following the same pattern that is applied to deferred acquisition costs disclosed in note 2.5.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Deferred origination fees ("DOF")

The Branch charges its customers for the initial set-up of the investment contract and the on-going management services. Origination fees charged to customers at inception, particularly for single premium contracts, are initially recognised as a liability in the statement of financial position and are subsequently recognised in the statement of comprehensive income through amortisation on a straight-line basis over the term of the contract, or over 20 years where there is no contract term, in either case from the contract commencement date.

### 2.8 Deferred origination costs ("DOC")

Origination costs are those costs that are primarily related to the acquisition of new investment contracts with investment management services. These costs comprise of commissions and other incremental expenses directly related to the issuance of each new contract. These costs are initially recognised as an asset in the statement of financial position and are subsequently recognised in the statement of comprehensive income through amortisation on a straight-line basis over the term of the contract, or over 20 years where there is no contract term, in either case from the contract commencement date. An impairment review is performed at each reporting date, or more frequently, when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of comprehensive income.

### 2.9 Foreign currency translation

The functional currency of the primary economic environment in which the Branch operates is United States Dollars ("USD"), but the presentation currency is United Arab Emirates dirham ("AED"). Since the UAE dirham Dinar is pegged to the USD, there are no exchange differences arising on the translation of functional currency balances to the presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in the statement of comprehensive income.

DAC, FEF, DOC and DOF are determined at the Head Office level in British Pounds ("GBP") which are allocated to the Branch based on insurance and investment contracts issued by the Branch. These balances are translated to AED at the pegged rates. Any resultant foreign exchange gain / loss is charged directly to net residual attributable to Head Office.

### 2.10 Investments for policyholders

Investments backing investment contracts and unit-linked insurance contracts are held as financial assets at fair value through profit or loss. Reserves relating to unit-linked insurance contracts and liabilities for unit-linked investment contracts are carried at fair value, which is determined by reference to these assets with changes in the fair value of both the asset and liability recognised in the statement of comprehensive income. The designation of these assets at fair value through profit or loss eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or from recognising the resultants gains and losses on them on a different basis to the liability. The fair value designation, once made, is irrevocable.

### 2.11 Premium debtors and other receivables

Premium debtors and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, if any. A provision for impairment of receivables is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'operating expenses'.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Premium debtors and other receivables (continued)

When an account receivable is uncollectible, it is written off against the allowance account for accounts receivables. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income as ‘other income’.

### 2.12 Policy loans

Policy loans are carried at the outstanding principal amount including interest. No provision is made against policy loans as the balances are effectively collateralised by the cash surrender value of the policy.

### 2.13 Financial instruments

*(a) Financial assets*

<u>*Classification*</u>

The Branch determines the appropriate classification of its financial assets at the time of purchase of financial assets and re-evaluates this classification on a regular basis. The classification depends upon the purpose for which the financial assets are acquired. The financial assets of the Branch are categorised as follows:

(i) Financial assets at fair value through profit or loss:

The classification of financial assets at fair value through profit or loss has been summarised in note 2.10.

(ii) Loans and receivables:

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The financial assets of the Branch that are classified as loans and receivables include cash and cash equivalents, premium debtors and other receivables (excluding prepayments), and restricted deposit.

(iii) Available-for-sale financial asset

Financial assets that are not classified into any of the other categories (at fair value through profit or loss, loans and receivables or held-to-maturity investments) are included in the available-for-sale category.

<u>Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI)</u>

As mentioned in Note 2.1 (b), in the context of IFRS 9 implementation, the Branch has determined that it is eligible for the temporary exemption option, introduced by the amendment to IFRS 4 Insurance contracts, until the earlier of annual reporting periods beginning on or after 1 January 2023. During this deferral period, additional disclosures related to SPPI criterion and to credit risk exposure are required. To determine the appropriate classification of financial assets under IFRS 9, an entity would need to assess the contractual cash flows characteristics of any financial asset.

Indeed, the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding i.e. cash flows that are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest.

IFRS 9 defines the terms “principal” as being the fair value of the financial asset at initial recognition, and the “interest” as being compensation for (i) the time value of money, and (ii) the credit risk associated with the principal amount outstanding during a particular period of time. All the Branch’s financial assets (available-for-sale financial assets, cash and cash equivalents, premium debtors and other receivables (excluding prepayments), and restricted deposit) pass the SPPI test.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.13 Financial instruments (continued)**

*(a) Financial assets* (continued)

Initial recognition and measurement
The Branch recognises a financial asset when, and only when, the Branch becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Branch commits to purchase or sell the asset. At initial recognition, financial assets and financial liabilities are measured at fair value plus (minus), in the case of financial asset or financial liability that are not accounted for at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs associated with these financial assets are taken directly to the statement of comprehensive income. Generally, the transaction price is the best evidence of the fair value of the financial instrument at initial recognition.

Subsequent measurement
Subsequent to initial recognition, financial assets are measured as follows:

(i) Financial assets at fair value through profit or loss:

'Financial assets at fair value through profit or loss' are revalued using valuation methods and fair value inputs as disclosed in note 5 to the financial statements and are carried on the statement of financial position at fair values.

Net gains and losses arising on changes in the fair value of 'financial assets carried at fair value through profit or loss' are taken to the statement of comprehensive income.

(ii) Loans and receivables:

These financial assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Branch's statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iii) Available-for-sale financial asset

Available-for-sale financial assets are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised in other comprehensive income (OCI). Upon disposal of these investments, any balance within the OCI reserve for these investments is reclassified to profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of profit or loss.

Impairment of financial assets
The Branch assesses at each reporting date whether there is an objective indication that a financial asset may be impaired. If any such indication exists, the asset is written down to its recoverable amount. For assets carried at amortised cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the financial asset's original effective interest rate.

Available-for-sale financial assets:
If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

*(b) Financial liabilities*

Financial liabilities are recognised at the time when the Branch becomes a party to the contractual provisions of the instrument. All financial liabilities, except for liabilities for investment contracts disclosed in note 2.14, are initially recognised at fair value and subsequently stated at amortised cost.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.13 Financial instruments (continued)

*(c) Derecognition*

The Branch derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire; or it transfers the financial asset, and the transfer qualifies for derecognition as per approved policies. A financial liability is extinguished when the Branch as a debtor either discharges the liability by paying the creditor; or is legally released from the primary responsibility for the liability (or part of it) either by process of law or by the creditor.

*(d) Offsetting financial instruments*

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

### 2.14 Insurance and investment contracts

*(a) Classification*

The Branch issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Branch defines significant insurance risk as the risk where the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur at the time of initial recognition.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contract can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

*(b) Recognition and measurement*

The Branch continues to apply the same accounting policies for the recognition and measurement of insurance contracts which in the absence of a specific standard for insurance contracts it adopted prior to IFRS 4 becoming effective. Management used judgement in developing a set of accounting policies for the recognition and measurement of rights and obligations arising from insurance contracts issued and reinsurance contracts held that it believed provides useful information to users of the Branch's financial statements.

*(c) Reserves for insurance contracts*

This represents the estimated future benefit liability for traditional life insurance policies and for certain unit-linked insurance contracts. Future policyholder's benefits for traditional life insurance policies are calculated using a net premium method based on actuarial assumptions such as mortality, persistency, expenses and investment return.

Reserves for unit-linked insurance contracts represent portfolios maintained to meet specific investment objectives of policyholders who bear the market risk. The liabilities are carried at fair value with changes recognised in statement of comprehensive income. The related assets held under unit-linked investment contracts are classified as "investments for policyholders" that are designated at fair value through profit or loss in order to reduce measurement inconsistencies as disclosed in note 2.10 to these financial statements. Adequate reserves are kept for guaranteed returns as per actuarial calculations.

Reserves for losses and loss adjustment expenses for ZIGRS business are charged to the statement of comprehensive income as incurred. Reserves for losses and loss adjustment expenses represent the accumulation of estimates for ultimate losses and include provisions for losses incurred but not yet reported (IBNR). The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred on or prior to the date of the financial statements. Reserves for losses and loss adjustment expenses are not discounted. Any changes in estimates are reflected in the period in which estimates are changed.

For ZIGRS business, unearned premium reserves are tested to determine whether they are sufficient to cover related expected losses.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.14 Insurance and investment contracts (continued)

*(d) Liabilities for investment contracts*

These represent portfolios maintained to meet specific investment objectives of the policyholders who bear the market risk except for investments which carry guaranteed returns. The liabilities are carried at fair value based on the fair value of the underlying assets with changes recognised in statement of comprehensive income. Adequate reserves are kept for guaranteed returns as per actuarial calculations. The related assets are classified as "investment for policyholders" and are designated at fair value through profit or loss in order to reduce measurement inconsistencies as disclosed in note 2.10 to these financial statements

### 2.15 Employee benefits

The Head Office has a defined contribution plan. All employees of the Branch who have completed one year of service as at the statement of financial position date are included under the defined contribution plan. A defined contribution plan is a pension plan under which the Branch pays fixed contributions to a self-administered pension insurance plan. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Under local employment law there is a defined end of service benefit that is dependent on factors such as length of service and current salary. The defined contribution plan typically provides a higher benefit to the employee, however a review of the benefits accrued is undertaken at the end of each year and a provision for any shortfall against the defined benefit is made.

### 2.16 Net residual attributable to Head Office

The Branch is not a separate legal entity and hence it did not issue own equity instruments. The 'Net residual attributable to Head Office' represents an excess or deficit arising from operations of the Branch which is attributable to the Head Office. Therefore, as a practical expedient, the Branch measures the 'Net residual attributable to Head Office' at the carrying value of the Branch's net assets. The 'Net residual attributable to Head Office' does not meet definitions of financial assets, liabilities or equity instruments and is presented as a separate line item outside of assets and liabilities

### 2.17 Liability adequacy test

At each statement of financial position date, liability adequacy test is performed to ensure the adequacy of insurance liabilities (including life insurance actuarial reserves) using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claim handling and administration expenses are used. Any deficiency is immediately charged to the statement of comprehensive income. For ZIGRS business, unearned premium reserves are tested to determine whether they are sufficient to cover related expected losses. Any deficiency is immediately charged to the statement of comprehensive income. Liability adequacy tests are performed at a product level based on product groupings in line with IFRS.

### 2.18 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise unrestricted bank deposits with original maturity of three months or less.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Reinsurance

Contracts entered into by the Branch with reinsurers under which the Branch is compensated for losses on one or more contracts issued by the Branch and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the Branch is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurance companies (classified within insurance and other receivables), as well as the reinsurance portion of unearned premiums and gross claims outstanding including IBNR that are dependent on the expected claims and benefits arising under the related reinsured contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense proportionally over the period of coverage. Reinsurance liabilities are presented net of commission and claims recoverable from reinsurance companies, in respect of claims paid, in the statement of financial position.

The Branch assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Branch reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the general and administration expenses in the statement of profit or loss and other comprehensive income. Objective evidence that a reinsurance asset is impaired includes observable data that comes to the attention of the Branch about events such as significant financial difficulty of the debtor, breach of contract and probability that the debtor will enter bankruptcy or other financial reorganisation.

### 2.20 Provisions

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

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

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

### 2.21 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Branch.

Assets and liabilities arising from a lease are initially measured on a resent value basis.

Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable; variable lease payment that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.21 Leases (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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 interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

## 3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Branch makes estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

### 3.1 Reserves for insurance contracts and liabilities for investment contracts

The reserves for insurance contracts at 31 December 2022 include reserves for unit-linked insurance contracts and non unit-linked insurance contracts. Unit-linked insurance contracts which account for 96% (2021: 96%) of the reserves for insurance contracts can be matched against the investments for policyholders. As policyholder bear the market risks on these investments, any change in fair value of the reserves for unit-linked insurance contracts is offset by a corresponding change in the investments for policyholders and there is no net impact on the Branch's profit as disclosed in note 4.3 (a).

Reserves for non-unit linked contracts mainly contain a number of assumptions regarding factors such as mortality, morbidity, lapses, surrenders, persistency, expenses and discount rate. These assumptions are determined with reference to past experience adjusted for trends, current market conditions and future expectations. As such, the reported liabilities for future policyholders' insurance and investment contracts may not represent the ultimate amounts paid out to policyholders.

The estimation of the liability arising from future policyholders' insurance and investment contracts is the Branch's most critical accounting estimate. To estimate this liability the Branch relies on the calculations provided by the Company's actuaries. The Branch's insurance risk and how it is managed is disclosed in note 4.1.

### 3.2 Deferred acquisition cost ("DAC") and deferred front end fees ("FEF")

DAC for traditional life insurance contracts is amortised over the life of the contracts, based on expected premiums. DAC and FEF on unit-linked insurance contracts are amortised based on estimated gross profits expected to be realised over the life of the contract determined by the Company's actuaries based on historical and anticipated future experience that consider assumptions such as mortality, persistency, expenses and discount rate, and are updated at the end of each accounting period. Changes in these assumptions may result in a change in the amortisation pattern of DAC and FEF in future periods.

The changes in assumption have not had a material impact on the financial statements during the year (note 7 and note 13).

## 3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

### 3.3 Deferred origination cost ("DOC") and deferred origination fees ("DOF")

DOC and DOF on investment contracts are amortised on a straight-line basis over the term of the contract, or over 20 years where there is no contract term, in either case from the contract commencement date. An impairment review is performed for DOC at each reporting date, or more frequently, when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of comprehensive income.

### 3.4 Recognition of bank balances and investments for policyholders

The Branch recognises bank balances and investments for policyholders on the statement of financial position although these are held in the name of the Head Office. In deciding the appropriateness of whether the Branch should recognise the assets, the Branch has considered the following:

- the Branch has control over the assets;
- the Branch obtains direct economic benefit from the assets (i.e. income earned from these assets is recognised in the statement of comprehensive income of the Branch);
- the assets are used solely for the operations of the Branch and any use of these assets is authorised by the Branch's management;
- the assets are held for the beneficial interest of the Branch. The bank balances are part of the assets that are required to be maintained at the Branch level to meet local regulatory requirements. Investments for policyholders are required to be maintained at the Branch level to settle the related unit-linked liabilities payable to the policyholders of the Branch; and
- on liquidation or sale of the Branch, the assets would form part of the Branch's assets and not assets of the Head Office.

## 4 INSURANCE AND FINANCIAL RISK MANAGEMENT

The Branch issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Branch manages them.

### 4.1 Insurance risk

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

Life insurance risk includes the reasonable possibility of significant loss due to the uncertainty of deaths among policyholders, rates of disability among policyholders, investment returns and surrenders or lapses. For insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Branch faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques.

The Branch manages these risks through its underwriting strategy, adequate reinsurance arrangements, diversified investment strategies 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. Underwriting limits are in place to enforce appropriate risk selection criteria.

The reserves for insurance contracts at 31 December 2022 include reserves for unit-linked insurance contracts and non unit-linked insurance contracts. Unit-linked insurance contracts which account for 96% (2021: 96%) of the reserves for insurance contracts can be matched against the investments for policyholders. As policyholder bear the market risks on these investments, any change in fair value of the reserves for unit-linked insurance contracts is offset by a corresponding change in the investments for policyholders and there is no net impact on the Branch's profit as disclosed in note 4.3 (a).

## 4 INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

### 4.1 Insurance risk (continued)

For reserves for non-unit linked insurance contracts, the risks that the Branch can be exposed to are as follows:

- Mortality risk - risk of loss arising due to policyholder death experience being different than expected;
- Morbidity risk - risk of loss arising due to policyholder health experience being different than expected;
- Longevity risk - risk of loss arising due to the annuitant living longer than expected;
- Investment return risk - risk of loss arising from actual returns being different than expected;
- Expense risk - risk of loss arising from expense experience being different than expected;
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected; and
- Market risk - risk associated with the Branch's balance sheet positions where the value or cash flow depends on financial markets. Fluctuating risk drivers resulting in market risks include equity market prices, property market prices, interest rates and currency exchange rates. These are highlighted under "Market Risk" section.

Out of the above risks, the most significant risks that the Branch is exposed to are mortality, and morbidity, lapses, surrenders, persistency, expenses and discount rate.

The most significant factors that could increase the frequency of mortality claims are epidemics, such as strains of influenza, or lifestyle changes such as eating, drinking and exercise habits, resulting in earlier or more claims than expected. Morbidity claims for critical illness plans would also be subject to the same factors.

In order to reduce cross-subsidies in the pricing basis, premiums are differentiated, where permitted, for example by product, age, gender and smoker status. The policy terms and conditions and the disclosure requirements contained in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that may result in severe financial loss.

In addition to the specific risks listed above, the Branch is exposed to policyholder behaviour and expense risks. Policyholder behaviour risk is mitigated by product designs that match revenue and expenses associated with the contract as closely as possible. Expense risk is mitigated by careful control of expenses and by regular expense analyses and allocation exercises.

*(a) Concentration of insurance risk*

The following table shows the concentration of reserves for insurance contracts by type of contract.

| *31 December 2022* | ***Gross reserves for insurance contracts AED 000*** | ***Reinsurers' share of reserves for insurance contracts AED 000*** | ***Net reserves for insurance contracts AED 000*** |
|---|---|---|---|
| Endowment | **3,470,899** | **(7,632)** | **3,463,267** |
| International Group Protection | **128,701** | **(119,621)** | **9,080** |
| Term Assurance | **284,594** | **(37,772)** | **246,822** |
| Whole of Life | **5,856,430** | **(4,274)** | **5,852,156** |
| Total | **9,740,624** | **(169,299)** | **9,571,325** |

## 4 INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

### 4.1 Insurance risk (continued)

*Concentration of insurance risk (continued)*

| *31 December 2021* | *Gross reserves for insurance contracts AED 000* | *Reinsurers' share of reserves for insurance contracts AED 000* | *Net reserves for insurance contracts AED 000* |
|---|---|---|---|
| Endowment | 4,065,400 | - | 4,065,400 |
| International Group Protection | 115,439 | (108,370) | 7,069 |
| Term Assurance | 246,292 | (19,655) | 226,637 |
| Whole of Life | 6,585,836 | (6,019) | 6,579,817 |
| Total | 11,012,967 | (134,044) | 10,878,923 |

*(b) Key assumptions*

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

*Mortality and morbidity rates*
Assumptions are based on standard industry and national tables, according to the type of contract written and the territory in which the insured person resides. They reflect recent historical experience and are adjusted when appropriate to reflect the Company's own experiences. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profit.

*Longevity*
Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the Branch's own risk experience. Assumptions are differentiated by sex, underwriting class and contract type. An increase in longevity rates will lead to an increase in the number of annuity payments made, which will increase the expenditure and reduce profit.

*Investment return*
The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the current asset allocation. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to an increase in profit.

*Expenses*
Operating expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.

An increase in the level of expenses would reduce profit.

*Persistency - Lapse and surrender rates*
Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Branch's experience and vary by product type, policy duration and sales channel.

An increase in lapse rates early in the life of the policy would tend to reduce profit, but later increases are broadly neutral in effect.

## 4 INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

### 4.1 Insurance risk (continued)

*(b) Key assumptions (continued)*

*Discount rate*
Mathematical reserves are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected future premiums. Discount rates are based on current industry risk rates, adjusted for the Branch's own risk exposure.

The assumptions that have the greatest effect on the statement of financial position and statement of comprehensive income of the Branch are listed below in the valuation basis table, for the purposes of the table these are average rates:

| ***Valuation basis: Portfolio assumptions*** | ***Mortality and morbidity rates*** | | ***Investment returns*** | | ***Discount rates*** | |
|---|---|---|---|---|---|---|
| | ***2022*** | *2021* | ***2022*** | *2021* | ***2022*** | *2021* |
| *Term assurance* Lives classified as smokers | **55% TMS00/TFS00 Select** | 55% TMS00/TFS00 Select | **Not applicable** | Not applicable | **2.30%** | 2.30% |
| Lives not classified as smokers (including unknown smoker status) | **55% TMC00/TFC00 Select** | 55% TMC00/TFC00 Select | **Not applicable** | Not applicable | **2.30%** | 2.30% |

The assumptions that have the greatest effect on the statement of financial position and statement of comprehensive income of the Branch are listed below in the valuation basis table, for the purposes of the table these are average rates: (continued)

| ***Valuation basis: Portfolio assumptions*** | ***Mortality and morbidity rates*** | | ***Investment returns*** | | ***Discount rates*** | |
|---|---|---|---|---|---|---|
| | ***2022*** | *2021* | ***2022*** | *2021* | ***2022*** | *2021* |
| *Other products* Lives classified as smokers | **50% AMS00/AFS00 Select/ Ultimate** | 50% AMS00/AFS00 Select/ Ultimate | **Bonds: 4% Cash: 2% Equity: 12.5% for 1st 5 yrs Equity: 7% 6yrs+ Property: n/a** | Bonds: 4% Cash: 2% Equity: 13% for 1st 5 yrs Equity: 7% 6yrs+ Property: n/a | **Products that can invest only in external funds: 5.08% Other products: 4.53%** | Products that can invest only in external funds: 5.45% Other products: 4.91% |
| Lives not classified as smokers (including unknown smoker status) | **50% AMC00/AFC00 Select/ Ultimate** | 50% AMC00/AFC00 Select/ Ultimate | **Bonds: 4% Cash: 2% Equity: 12.5% for 1st 5 yrs Equity: 7% 6yrs+ Property: n/a** | Bonds: 4% Cash: 2% Equity: 13% for 1st 5 yrs Equity: 7% 6yrs+ Property: n/a | **Products that can invest only in external funds: 5.08% Other products: 4.53%** | Products that can invest only in external funds: 5.45% Other products: 4.91% |

**4 INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

**4.1 Insurance risk (continued)**

*(b) Key assumptions (continued)*

The assumptions that have the greatest effect on Best Estimate Liabilities ("BEL") used to measure sensitivities are presented in the experience basis table.

| ***Experience basis: Experience assumptions*** | ***Mortality and morbidity rates*** | | ***Investment returns*** | | ***Discount rates*** | |
|---|---|---|---|---|---|---|
| | ***2022*** | *2021* | ***2022*** | *2021* | ***2022*** | *2021* |
| *Term assurance* Lives classified as smokers | **50% TMS00/TFS00 Select** | 50% TMS00/TFS00 Select | **Q42022 GBP SII Yield Curve** | Q42021 GBP SII Yield Curve | **Q42022 GBP SII Yield Curve** | Q42021 GBP SII Yield Curve |
| Lives not classified as smokers (including unknown smoker status) | **50% TMC00/TFC00 Select** | 50% TMC00/TFC00 Select | **Q42022 GBP SII Yield Curve** | Q42021 GBP SII Yield Curve | **Q42022 GBP SII Yield Curve** | Q42021 GBP SII Yield Curve |
| *Other products* Lives classified as smokers | **50% AMS00/AFS00 Select/Ultimate** | 50% AMS00/AFS00 Select/Ultimate | **Q42022 GBP SII Yield Curve** | Q42021 GBP SII Yield Curve | **Q42022 GBP SII Yield Curve** | Q42021 GBP SII Yield Curve |
| Lives not classified as smokers (including unknown smoker status) | **50% AMC00/AFC00 Select/Ultimate** | 50% AMC00/AFC00 Select/Ultimate | **Q42022 GBP SII Yield Curve** | Q42021 GBP SII Yield Curve | **Q42022 GBP SII Yield Curve** | Q42021 GBP SII Yield Curve |

*(c) Sensitivities*

The Branch prepares, under it's regulatory reporting in the Isle of Man, a risk-based economic balance sheet, which allows the Branch to increase its understanding, and report on, the risk profile of its life products, and how the risks would change under different market conditions. The change to this method of reporting sensitivities from Market-Consistent Embedded Value (MCEV) risk based capital reporting is to align to the way in which insurance and market risks sensitivities are managed by the Branch.

The analysis which follows is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on the Own Funds. The correlation of assumptions will have a significant effect in determining the ultimate liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. However, the discount rate and unit growth rate assumptions used in the calculation of the insurance contract liabilities are defined as functions of the risk-free rate of return, so under the interest rate sensitivities, the risk-free yield curve, discount rate and unit growth rate are all assumed to move consistently. It should be noted that movements in these assumptions can be non-linear. Sensitivity information will also vary according to the current economic assumptions.

| **31 December 2022 Operating Sensitivities** | ***Change in BEL AED '000*** |
|---|---|
| 10% decrease in maintenance expenses | **78,038** |
| 10% increase in voluntary discontinuance rates | **62,209** |
| 10% decrease in voluntary discontinuance rates | **68,446** |
| 5% worsening in mortality and morbidity for assurance | **49,375** |
| 50bps increase in interest rate yield curves | **1,535** |
| 50bps decrease in interest rate yield curves | **860** |

**4 INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

**4.1 Insurance risk (continued)**

*(c) Sensitivities (continued)*

31 December 2021

| Operating Sensitivities | *Change in BEL AED '000* |
|---|---|
| 10% decrease in maintenance expenses | 112,794 |
| 10% increase in voluntary discontinuance rates | (54,245) |
| 10% decrease in voluntary discontinuance rates | 59,308 |
| 5% worsening in mortality and morbidity for assurance | (148,850) |
| 50bps increase in interest rate yield curves | 6,346 |
| 50bps decrease in interest rate yield curves | (7,733) |

The above analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated, for example, change in lapses and future mortality and morbidity or expenses.

The Branch has not disclosed information relating to actual claims compared with previous estimates. For the Branch’s group life business, actual claims include outstanding claims and claims incurred but not reported and these claims were not material, individually or in aggregate, at the reporting date. For the Branch’s individual life business, there is no uncertainty about the amount and timing of claims payments relating to death benefits once the claim is notified as the amounts are specified in the policy.

Management believes that since the underlying assumptions used in the amortisation of both deferred acquisition costs and front end fees are consistent with each other, the net impact from any changes in the sensitivity of the underlying assumptions will have an insignificant impact on the results of the Branch.

**4.2 Operational risk**

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Branch cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Branch is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Branch’s strategic planning and budgeting process.

**4.3 Financial risk**

The Branch’s activities are exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Branch’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Branch. Risk management is carried out by the management of the Branch under approved policies.

*(a) Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Investment for policyholders consists mainly of equity and debt securities funds. Market risk is mitigated as the investment portfolio is maintained to meet the specific investment objectives of the policyholders, who therefore bear the full risk of return on these investments except for guaranteed return contracts for which the Branch maintains adequate reserves.

**4 INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

**4.3 Financial risk (continued)**

*(a) Market risk (continued)*

At 31 December 2022 and 31 December 2021, the Branch, excluding the unit-linked investment portfolio, was not directly exposed to any significant foreign currency risk as the majority of its transactions are in the Branch's functional currency or in currencies that are pegged to the Branch's functional currency.

Cash flow and fair value interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Branch to cash flow interest risk, whereas fixed interest rate instruments expose the Branch to fair value interest rate risk. The Branch's available-for-sale financial assets and term deposits carry a fixed rate of interest and therefore are not exposed to cash flow interest rate risk. The Branch did not have any other interest bearing financial assets or financial liabilities. Management believes the fair value interest rate risk for available-for-sale financial assets and term deposits is minimal.

*Equity price risk*
Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Branch's investments for policyholders represent portfolios maintained to meet specific investment objectives of policyholders who bear the market risks, including any concentration risk by geography, product or currency. Therefore, the Branch is not exposed to any risk arising from concentration in the underlying investments for policyholders.

The Branch's investments for policyholders consists of funds which invest in debt securities and equity securities. The table below summarises the impact on the Branch's fair value gain on investments for policyholders and change in fair value of reserves for unit-linked contracts for the year, if the fair value of these funds are 1% higher / lower and all the other variables were held constant.

| ***Scenario*** | ***Change in assumption*** | ***Impact on 'fair value gain on investments for policyholders' and 'change in fair value of reserves for unit-linked contracts' for the year ended 31 December*** | |
|---|---|---|---|
| | | ***2022 AED 000*** | *2021 AED 000* |
| Change in fair value | +1% | **121,302** | 140,289 |
| Change in fair value | -1% | **(121,302)** | (140,289) |

The above analysis is based on the assumption that all other variables are held constant. In practice, this is unlikely to occur, as the Branch's investments for policyholders represent portfolios maintained to meet specific investment objectives of policyholders who bear the market risks. Therefore, there will be no net impact on the Branch's increase in net residual attributable to Head Office from operations of any changes in fair value as the impact will be offset by a corresponding movement in reserves for unit-linked insurance contracts and liabilities for investment contracts.

However, there will be an impact on future charge income of the Branch which is based on the fair value of the investments. The impact on BEL of a -10% market movement is set out in the table below:

| ***Operating factor/variable*** | ***Changes in variable*** | ***31 December 2022 Impact on BEL*** | *31 December 2021 Impact on BEL* |
|---|---|---|---|
| | | ***AED 000*** | *AED 000* |
| Fall in equity markets | -10% | **(73,502)** | (90,601) |

## 4 INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

### 4.3 Financial risk (continued)

*(b) Credit risk*

The Branch is exposed to credit risk, which is the risk that counterparty will cause a financial loss to the Branch by failing to discharge an obligation. Financial assets which potentially subject the Branch to concentrations of credit risk consist principally of:

- Premiums debtors;
- Policy loans;
- Reinsurer's share of reserves for insurance contracts (excluding unearned premiums);
- Cash and cash equivalents;
- Restricted deposit; and
- Available-for-sale financial assets.

The Branch's maximum exposure to credit risk is limited to the carrying amount of these assets. The Branch's exposure to credit risk is concentrated by geographic region in UAE as premium debtors, policy loans, cash and cash equivalents, restricted deposit, and available-for-sale financial assets are from counterparties in UAE.

The Branch's objective in managing credit risk exposures is to maintain them within parameters that reflect the Branch's risk tolerance.

(i) Premiums debtors

Premiums debtors mainly relate to unit-linked insurance contracts, group life business and investment contracts.

Credit risk on premiums receivable which are neither past due nor impaired is limited to their carrying values.

Management believes that the Branch is not exposed to any significant credit risk in respect of the premiums receivable as the balances are usually settled within a short period of time.

(ii) Policy loans

Policy loans are granted by Head Office through the Branch. These are granted up to a maximum of 85% to 90% of the surrender value of the underlying policy. The loans are collateralised against the surrender values of the respective policies and therefore the Branch is not exposed to significant credit risk for policy loans.

(iii) Reinsurer's share of reserves for insurance contracts (excluding unearned premiums and IBNR)

The Branch is supported predominantly by reinsurers within the Zurich Group. As the reinsurance is concentrated within the Zurich Group, the exposure to reinsurance risk is considered minimal.

(iv) Cash and cash equivalents and restricted deposit

Although the Branch has significant bank balances management believes that the risk arising out of bank balances is minimal as these are with reputable local and foreign banks with good financial standing. The credit quality of bank balances can be assessed by reference to external credit ratings set out below:

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| **Fitch rating** | | |
| F1+ | **62,704** | 31,541 |
| F1 | **90,477** | 62,362 |
| | **153,181** | 93,903 |

**4 INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

**4.3 Financial risk (continued)**

*(b) Credit risk (continued)*

(v) Available-for-sale financial assets

The Branch is exposed to credit risk on its available-for-sale financial assets. Investments are made in debt securities issued by counterparties with an acceptable rating provided by reputable rating agencies. The external credit rating for available-for-sale financial assets is as follows:

| | ***2022*** ***AED'000*** | *2021* *AED'000* |
|---|---|---|
| **Government securities** | | |
| AA | **119,920** | 101,049 |
| AA- | **16,619** | 50,940 |
| A | **12,062** | 2,933 |
| | **148,601** | 154,922 |
| **Corporate securities** | | |
| AA | **16,223** | 13,032 |
| AA- | **9,828** | 6,057 |
| A+ | **7,525** | - |
| A | **8,957** | 24,851 |
| | **42,533** | 43,940 |
| | **191,134** | 198,862 |

*(c) Liquidity risk*

Liquidity risk is the risk that the Branch is unable to meet its payment obligations associated with its financial liabilities when they fall due. The consequence may be the failure to meet obligations and fulfil commitments.

Liquidity risk arises primarily through policy switches where the settlement date of the switched-out fund falls after the settlement date of the switched in fund. This creates a strain on operational cash. In the event of bulk switching activity, the strain can be large.

The Branch monitors liquidity risk on an ongoing basis. The liquidity risk management process carried out by the Branch and monitored by management includes the following:

- The main part of the Branch insurance liabilities are for unit-linked contracts. Liquidity risk is minimised as the insurance liability can be settled by selling the units held under the policyholders' account; and

- The Head Office actively manages centralised treasury function and maintains sufficient funds to meet any obligations of the Branch as and when needed.

(i) Maturity profiles

The table below summarises the maturity profile of the Branch's financial assets including investments for policyholders, reinsurers' share of reserves for insurance contracts and premium debtors and other receivables, financial liabilities including other liabilities, and reserves for insurance contracts and liabilities for investment contracts.

For non-unit linked reserves for insurance contracts and reinsurers' share of insurance liabilities, maturity profiles are determined based on the expected timing of net cash outflows from the recognised insurance liabilities. Unearned premiums, reinsurers' share of unearned premiums, deferred acquisition cost, deferred origination cost, deferred front end fees and deferred origination fees have been excluded from the analysis as they are not contractual obligations. Investments for policyholders and related unit-linked reserves for insurance and investment contracts are repayable or transferable on demand and are included in the up to a year column. Repayments which are subject to notice are treated as if notice were to be given immediately.

**4 INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

**4.3 Financial risk (continued)**

*(c) Liquidity risk* (continued)

(i) Maturity profiles (continued)

For all other items presented in the table below, maturity profiles are determined based on remaining undiscounted contractual obligations.

| | ***Unit-linked*** | ***Non Unit-linked*** | | | |
|---|---|---|---|---|---|
| **At 31 December 2022** | ***Less than 1 year*** | ***Less than 1 year*** | ***1 to 5 years*** | ***Over 5 years*** | ***Total*** |
| | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** |
| | | | | | |
| Investments for policyholders | **12,130,168** | **-** | **-** | **-** | **12,130,168** |
| Cash and cash equivalents | **149,181** | **-** | **-** | **-** | **149,181** |
| Premium debtors and other receivables (excluding prepayments) | **97,353** | **-** | **-** | **-** | **97,353** |
| Reinsurers' share of reserves for insurance contracts | **11,906** | **46,892** | **93,647** | **16,854** | **169,299** |
| Restricted deposit | **-** | **-** | **-** | **4,000** | **4,000** |
| Available-for-sale financial assets | **-** | **-** | **41,422** | **149,712** | **191,134** |
| **Total** | **12,388,608** | **46,892** | **135,069** | **170,566** | **12,741,135** |
| | | | | | |
| Reserves for insurance contracts | **9,193,335** | **186,117** | **97,527** | **263,645** | **9,740,624** |
| Liabilities for investment contracts | **2,861,181** | **-** | **-** | **-** | **2,861,181** |
| Lease liabilities | **-** | **4,998** | **22,280** | **-** | **27,278** |
| Other liabilities | **113,475** | **-** | **-** | **-** | **113,475** |
| **Total** | **12,167,991** | **191,115** | **119,807** | **263,645** | **12,742,558** |

| | *Unit-linked* | *Non Unit-linked* | | | |
|---|---|---|---|---|---|
| At 31 December 2021 | *Less than 1 year* | *Less than 1 year* | *1 to 5 years* | *Over 5 years* | *Total* |
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| | | | | | |
| Investments for policyholders | 14,028,901 | - | - | - | 14,028,901 |
| Cash and cash equivalents | 89,903 | - | - | - | 89,903 |
| Premium debtors and other receivables (excluding prepayments) | 97,546 | - | - | - | 97,546 |
| Reinsurers' share of reserves for insurance contracts | - | 25,468 | 83,450 | 25,126 | 134,044 |
| Restricted deposit | - | - | - | 4,000 | 4,000 |
| Available-for-sale financial assets | - | 5,486 | 47,809 | 145,567 | 198,862 |
| Total | 14,216,350 | 30,954 | 131,259 | 174,693 | 14,553,256 |
| | | | | | |
| Reserves for insurance contracts | 10,569,704 | 97,538 | 85,054 | 260,670 | 11,012,966 |
| Liabilities for investment contracts | 3,384,304 | - | - | - | 3,384,304 |
| Lease liabilities | - | 4,263 | 24,074 | 2,709 | 31,046 |
| Other liabilities | 162,906 | - | - | - | 162,906 |
| Total | 14,116,914 | 101,801 | 109,128 | 263,379 | 14,591,222 |

## 4 INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

### 4.4 Fair value estimation

Fair value is a market-based measurement. Specifically, fair value is an exit 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 under current market conditions whereby the transaction would generally take place in the principal market for the asset / liability. The carrying amount of the Branch's financial assets and liabilities measured at amortised cost as disclosed in these financial statements approximate their fair value.

The Branch's financial assets which have contractual terms which are solely payments of principal and interest (SPPI) on the principal amount outstanding include available-for-sale financial assets, cash and cash equivalents, premium debtors and other receivables (excluding prepayments), and restricted deposit. Except for available-for-sale financial assets, the carrying amounts of these financial assets at 31 December 2022 and 31 December 2021 as disclosed in these financial statements approximate their fair value. The fair value of the Branch's investments for policyholders and available-for-sale financial assets is disclosed in note 21.

### 4.5 Financial instruments by category

Financial assets include investments for policyholders, premium debtors and other receivables (excluding prepayments), reinsurer's share of reserves for insurance contracts, cash and cash equivalents, restricted deposit and available-for-sale financial assets. All financial assets held by the Branch are classified as loans and receivables, except for available-for-sale financial assets and investments for policyholders which are classified as financial assets at fair value through profit or loss.

Financial liabilities include liabilities for unit linked insurance contracts and investment contracts that are classified as financial liabilities at fair value through profit or loss and other payables and lease liabilities which are classified as other liabilities.

### 4.6 Capital management

The objectives of the Branch when managing capital are to safeguard the Branch's ability to continue as a going concern.

The Insurance regulator specifies the minimum amount and type of capital that must be held by the Branch. The required minimum capital which is equivalent to higher of the solvency margin and AED 100 million. The Branch was in compliance with the minimum regulatory capital as at statement of financial position date.

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| Minimum Capital Requirement (MCR) | **100,000** | 100,000 |
| Solvency Capital Requirement (SCR) | **334,038** | 357,086 |
| Minimum Guarantee Fund (MGF) | **130,286** | 121,364 |
| Own Funds | **418,126** | 517,029 |
| MCR Solvency Margin Surplus | **318,126** | 417,029 |
| SCR Solvency Margin Surplus/(Deficit) | **84,088** | 159,943 |
| MGF Solvency Margin Surplus/(Deficit) | **287,840** | 395,665 |

## 5 INVESTMENTS FOR POLICYHOLDERS

Investments for policyholders represent investments in funds. These investments are held by the Head Office for the benefit of the policyholders of the Branch. The investment activities are performed by the Head Office based on instructions given by the policyholders and are governed by the terms and conditions of the contracts issued by the Branch. The break-up of underlying securities in equity securities funds, debt securities funds and others is as follows:

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| **Investments for policyholders in:** | | |
| - Equity securities funds | **9,791,442** | 11,852,325 |
| - Debt securities funds | **2,230,431** | 2,064,782 |
| - Others | **108,295** | 111,794 |
| | **12,130,168** | 14,028,901 |

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| **Movement during the year:** | | |
| Balance as at 1 January | **14,028,901** | 12,052,095 |
| Investments purchased | **2,337,992** | 2,933,622 |
| Investments redeemed | **(1,342,727)** | (1,725,027) |
| Fees and charges deducted | **(384,571)** | (398,483) |
| Other movements | **17,831** | 18,317 |
| Net fair value change | **(2,527,258)** | 1,148,377 |
| Balance as at 31 December | **12,130,168** | 14,028,901 |

## 6 DEFERRED ORIGINATION COSTS

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Balance as at 1 January | **41,592** | 25,872 |
| Origination costs during the year | **16,019** | 44,714 |
| Amortisation during the year (Note 17) | **(2,440)** | (2,928) |
| Effect of change in assumptions in amortisation (Note 17) | **(26,545)** | (25,583) |
| Foreign exchange translation effects | **(4,238)** | (483) |
| Balance as at 31 December | **24,388** | 41,592 |

## 7 DEFERRED ACQUISITION COSTS

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Balance as at 1 January | **3,799,872** | 3,839,212 |
| Acquisition costs during the year | **195,081** | 177,728 |
| Amortisation during the year (Note 17) | **(174,104)** | (205,327) |
| Effect of change in assumptions on amortisation (Note 17) | **(6,412)** | 21,310 |
| Foreign exchange translation effects | **(418,564)** | (33,051) |
| Balance as at 31 December | **3,395,873** | 3,799,872 |

## 8 PREMIUM DEBTORS AND OTHER RECEIVABLES

| | ***2022*** ***AED'000*** | *2021* *AED'000* |
|---|---|---|
| Premium debtors | **82,379** | 87,873 |
| Policy loans receivable | **6,344** | 6,947 |
| Prepayments and deposits | **6,817** | 4,369 |
| Accrued interest of AFS financial assets | **1,548** | 1,613 |
| Receivables from Agents | **265** | 1,113 |
| | **97,353** | 101,915 |

## 8 PREMIUM DEBTORS AND OTHER RECEIVABLES (continued)

As at year end the details of gross exposure and ageing analysis of premium debtors and policy loans receivable are set out below:

| | *Neither past due nor impaired* | | | *Past due but not impaired* | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Less than 30 days AED'000* | *30 - 90 days AED'000* | *Subtotal AED'000* | *91 - 180 days AED'000* | *181 - 270 days AED'000* | *271 - 360 days AED'000* | *More than 360 days AED'000* | *Subtotal AED'000* | *Total AED'000* |
| **As at 31 December 2022** | | | | | | | | | |
| Inside UAE: | | | | | | | | | |
| Premium debtors | **10,642** | **61,031** | **71,673** | **2,364** | **5,208** | **715** | **2,419** | **10,706** | **82,379** |
| Policy loans receivable | **55** | **153** | **208** | **301** | **145** | **339** | **5,351** | **6,136** | **6,344** |
| | **10,697** | **61,184** | **71,881** | **2,665** | **5,353** | **1,054** | **7,770** | **16,842** | **88,723** |
| As at 31 December 2021 | | | | | | | | | |
| Inside UAE: | | | | | | | | | |
| Premium debtors | 4,870 | 55,491 | 60,361 | 22,236 | 4,292 | 492 | 492 | 27,512 | 87,873 |
| Policy loans receivable | 59 | 22 | 81 | - | 11 | 473 | 6,382 | 6,866 | 6,947 |
| | 4,929 | 55,513 | 60,442 | 22,236 | 4,303 | 965 | 6,874 | 34,378 | 94,820 |

Normal credit period allowed to policyholders is 90 days, after which amounts are considered past due. Management believes that the Branch is not exposed to significant credit risk in respect of the premiums receivable. The other classes of receivables do not contain any impaired balances. As described in note 4.3 (b), the Branch is not exposed to significant credit risk relating to policy loans. The Branch does not hold any collateral for other receivables.

## 9 CASH AND CASH EQUIVALENTS

| | **2022 AED'000** | 2021 AED'000 |
|---|---|---|
| Cash with custodian | **16,028** | 27,565 |
| Term deposits with banks | **137,153** | 66,338 |
| Deposit with original maturity of more than three months (restricted deposit) (Note 18) | **(4,000)** | (4,000) |
| Cash and cash equivalents | **149,181** | 89,903 |

Term deposits are in the name of the Head Office but held for the beneficial interest of the Branch. Term deposits carry interest rates that range from 0.03% to 3.30% per annum (2021: 0.03% to 0.50% per annum).

## 10 RESERVES FOR INSURANCE CONTRACTS

| | **2022 AED'000** | 2021 AED'000 |
|---|---|---|
| **Unit linked insurance contracts** (Note 10.1) | **9,193,335** | 10,569,704 |
| **Gross Non unit-linked insurance contracts** | | |
| - Mathematical reserves | **252,433** | 246,292 |
| - Claims incurred but not reported | **44,959** | 16,260 |
| - Unearned premiums | **36,185** | 32,537 |
| - Claims reported and loss adjustment expenses | **128,937** | 66,642 |
| - Other reserves | **84,775** | 81,532 |
| **Reserves for non-unit linked insurance contracts** | **547,289** | 443,263 |
| **Reinsurers' share of reserves for insurance contracts** | | |
| - Mathematical reserves | **(17,096)** | (19,655) |
| - Claims incurred but not reported | **(26,599)** | (16,260) |
| - Unearned premiums | **(27,996)** | (25,468) |
| - Claims reported and loss adjustment expenses | **(93,334)** | (66,642) |
| - Other reserves | **(4,274)** | (6,019) |
| Reinsurers' share of reserves for insurance contracts | **(169,299)** | (134,044) |
| **Reserves for insurance contracts – net** | **9,571,325** | 10,878,923 |

### 10.1 Movement in reserves for unit-linked insurance contracts

The movements in reserves for unit-linked insurance contracts are summarised below:

| | **2022 AED'000** | 2021 AED'000 |
|---|---|---|
| Balance as at 1 January | **10,569,704** | 9,344,499 |
| Deposits received | **1,781,061** | 2,003,483 |
| Surrenders and maturity payments | **(1,056,467)** | (1,303,597) |
| Policy fees and charges deducted | **(369,186)** | (382,138) |
| Other movements | **322,714** | 17,637 |
| Net change in fair value of reserves | **(2,054,491)** | 889,820 |
| Balance as at 31 December | **9,193,335** | 10,569,704 |

## 10 RESERVES FOR INSURANCE CONTRACTS (continued)

### 10.2 Summary of actuary's report on technical provision and valuation methods used

The methodology used for measuring technical provisions follows generally accepted actuarial practices. All new products are reviewed both internally within the Company and by product approval committees at a Regional & Group Head Office level in line with the Group's Risk and Controls framework. In addition, all in-force products are reviewed for the on-going suitability of their pricing and profitability every six months by a Product Review Committee. It is the Group's policy that the Branch's experience is reviewed at least annually, and that this analysis is used to set its valuation assumptions each year. The assumptions used in the valuation of the Branch's liabilities for solvency assessment are listed in the Actuary Report.

The valuation basis described in the actuarial report follows generally accepted actuarial practice. The actuary has reviewed the liability adequacy testing results and has certified that the reserves thus calculated contain sufficient margins of prudence to ensure that the Branch will be able to meet its obligations at all times in the future under all reasonably foreseeable adverse scenarios.

## 10 RESERVES FOR INSURANCE CONTRACTS (continued)

### 10.3 Movement in reserves for non unit-linked insurance contracts

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | ***Gross AED*** | ***Reinsurance AED*** | ***Net AED*** | *Gross AED* | *Reinsurance AED* | *Net AED* |
| Opening balance: | | | | | | |
| Mathematical reserves | **246,292** | **(19,655)** | **226,637** | 216,423 | (19,568) | 196,855 |
| Claims incurred but not reported | **16,260** | **(16,260)** | **-** | 21,965 | (21,965) | - |
| Unearned premiums | **32,537** | **(25,468)** | **7,069** | 33,321 | (25,289) | 8,032 |
| Claims reported and loss adjustment expenses | **66,642** | **(66,642)** | **-** | 76,775 | (76,775) | - |
| Other reserves | **81,532** | **(6,019)** | **75,513** | 91,510 | - | 91,510 |
| | **443,263** | **(134,044)** | **309,219** | 439,994 | (143,597) | 296,397 |
| Movement: | | | | | | |
| Mathematical reserves | **6,141** | **2,559** | **8,700** | 29,869 | (87) | 29,782 |
| Claims incurred but not reported | **28,699** | **(10,339)** | **18,360** | (5,705) | 5,705 | - |
| Unearned premiums | **3,648** | **(2,528)** | **1,120** | (784) | (179) | (963) |
| Claims reported and loss adjustment expenses | **62,295** | **(26,692)** | **35,603** | (10,133) | 10,133 | - |
| Other reserves | **3,243** | **1,745** | **4,988** | (9,978) | (6,019) | (15,997) |
| | **104,026** | **(35,255)** | **68,771** | 3,269 | 9,553 | 12,822 |
| Closing balance: | | | | | | |
| Mathematical reserves | **252,433** | **(17,096)** | **235,337** | 246,292 | (19,655) | 226,637 |
| Claims incurred but not reported | **44,959** | **(26,599)** | **18,360** | 16,260 | (16,260) | - |
| Unearned premiums | **36,185** | **(27,996)** | **8,189** | 32,537 | (25,468) | 7,069 |
| Claims reported and loss adjustment expenses | **128,937** | **(93,334)** | **35,603** | 66,642 | (66,642) | - |
| Other reserves | **84,775** | **(4,274)** | **80,501** | 81,532 | (6,019) | 75,513 |
| | **547,289** | **(169,299)** | **377,990** | 443,263 | (134,044) | 309,219 |

## 11 LIABILITIES FOR INVESTMENT CONTRACTS

The movements in the liabilities arising from investment contracts are summarised below:

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| Balance as at 1 January | **3,384,304** | 2,609,503 |
| Deposits received | **556,930** | 930,140 |
| Surrenders and maturity payments | **(287,450)** | (417,863) |
| Policy fees and charges deducted | **(15,385)** | (16,345) |
| Other movements | **(304,449)** | 20,312 |
| Net change in fair value of reserves | **(472,769)** | 258,557 |
| Balance as at 31 December | **2,861,181** | 3,384,304 |

## 12 DEFERRED ORIGINATION FEES

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| Balance as at 1 January | **6,248** | 11,891 |
| Origination fees deferred during the year | **11,834** | (3,041) |
| Amortisation during the year | **1,288** | (1,703) |
| Effect of change in assumptions on amortisation | **(7,566)** | (886) |
| Foreign exchange translation effects | **(833)** | (13) |
| Balance as at 31 December | **10,971** | 6,248 |

## 13 DEFERRED FRONT END FEES

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| Balance as at 1 January | **3,240,468** | 3,149,692 |
| Front end fees deferred during the year | **184,251** | 260,942 |
| Amortisation during the year (Note 16) | **(118,890)** | (137,033) |
| Effect of change in assumption on amortisation (Note 16) | **(16,161)** | (4,018) |
| Foreign exchange translation effects | **(357,906)** | (29,115) |
| Balance as at 31 December | **2,931,762** | 3,240,468 |

## 14 OTHER LIABILITIES

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| ***Inside UAE:*** | | |
| Premiums received in advance | **-** | 5,007 |
| Claims payable | **-** | 42,241 |
| Post maturity reserves | **99,226** | 103,129 |
| Others | **12,133** | 9,747 |
| Provisions | **2,574** | 2,747 |
| Payable to Agents and Brokers | **(458)** | 35 |
| | **113,475** | 162,906 |

When a unit-linked contract reaches maturity date, the underlying funds are held by the Branch until instructions are received from the policyholder regarding reinvestment or withdrawal. These funds are presented as post maturity reserves in other liabilities in the statement of financial position.

## 15 RELATED PARTIES

Related parties comprise Head Office and its subsidiaries and branches and key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Branch and Head Office, directly or indirectly, including any director (whether executive or otherwise) of the Branch and Head Office. Transactions with related parties are at mutually agreed terms. Following are the transactions and balances with related parties.

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Reinsurers' share of reserves for insurance contracts – Head Office (Note 10) | **169,299** | 134,044 |
| Net residual attributable to Head Office | **499,052** | 587,462 |

| | ***2022 AED'000*** | *2021 AED'000 (Restated*)* |
|---|---|---|
| **Movements in Net residual attributable to Head Office** | | |
| Balance as at 1 January | **587,462** | 714,985 |
| Increase in net residual from operations | **158,692** | 149,286 |
| Increase in net residual due to other comprehensive income | **(24,062)** | 558 |
| Other movements | **(223,040)** | (277,367) |
| Balance as at 31 December | **499,052** | 587,462 |

Other movements primarily consist of cash payments and receipts made by the Head Office on behalf of the Branch.

The following transactions were carried out with related parties:

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| **Transactions** | | |
| Insurance premium ceded to Head Office | **(207,024)** | (178,593) |
| Fund management and other income allocated by the Head Office | **123,794** | 132,486* |
| Expenses recharged by Head Office | **(159,392)** | (186,184) |
| Policy acquisition costs ceded to Head Office | **2,358** | 6,471 |
| Policy fees received from Head Office | **7,785** | 8,778 |
| Insurance claims and loss adjustment expenses recovered from Head Office | **(106,630)** | (82,782) |
| Key management remuneration | **10,410** | 9,200 |

The Branch sells Zurich International Group Risk Solutions ("ZIGRS"), which is mainly a group life and disability insurance product and are fully reinsured.

Investment management activities are centralised in Head Office and therefore investment management income earned relating to investment and insurance contracts issued by the Branch is allocated to the Branch.

*Restated as explained in Note 24.

## 15 RELATED PARTIES (continued)

The Branch incurs expenses for its own operations and to provide services to the Head Office. The Head Office also provides policy servicing, claims handling, marketing and IT support to the Branch. All these expenses (incurred by the Branch and the Head Office) are allocated to the Branch based on annualised premium and head count of the Branch. These expenses which are recharged by the Head Office for the year ended 31 December represent:

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| **Expenses recharged by Head Office** | | |
| Staff costs | **54,553** | 67,310 |
| Premises expenses | **13,034** | 18,297 |
| Insurance levies | **8,359** | 10,186 |
| Professional fees | **30,956** | 36,602 |
| Others | **52,490** | 53,789 |
| | **159,392** | 186,184 |

The expense recognised in the current year in relation to contributions to the defined contribution plan was AED 5.4 million (2021: AED 5 million).

The Head Office makes all cash payments and receipts on behalf of the Branch.

## 16 INSURANCE PREMIUMS AND FEES

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| | | *(Restated)* |
| Insurance premiums | **294,128** | 272,744 |
| Cost of insurance | **232,071** | 221,140 |
| Surrender penalties | **30,121** | 39,166 |
| Fund based fees | **61,195** | 62,405 |
| | **617,515** | 595,455 |
| Amortisation of deferred FEF (Note 13) | **135,050** | 141,051 |
| Insurance premium and fees | **752,565** | 736,506 |

## 17 POLICY ACQUISITION COSTS

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| | | *(Restated)* |
| Amortisation of deferred origination costs (Note 6) | **2,440** | 2,928 |
| Amortisation of deferred acquisition costs (Note 7) | **174,104** | 205,327 |
| Effect of change in assumptions in amortisation for deferred origination cost (Note 6) | **26,545** | 25,583 |
| Effect of change in assumptions in amortisation of deferred acquisition costs (Note 7) | **6,412** | (21,310) |
| Renewal Commissions | **605** | (20,344) |
| Commission expense on Group Life business | **10,538** | 9,736 |
| Brokers Placement Fee | **3,693** | 3,693 |
| | **224,337** | 205,613 |

## 18 INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

| | *2022* *AED'000* | *2021* *AED'000* |
|---|---|---|
| **Gross:** | | |
| Insurance claims and loss adjustment expenses paid | **230,407** | 221,117 |
| Increase in claims reported and loss adjustment expenses | **20,054** | (10,133) |
| Decrease in reserves for claims incurred but not reported | **(4,464)** | (5,705) |
| Increase in mathematical reserves (Note 10) | **6,141** | 29,869 |
| | **252,138** | 235,148 |
| **Less:** | | |
| Insurance claims and loss adjustment expenses recovered from reinsurers (Note 15) | **(106,630)** | (82,782) |
| Change in reinsurers share of claims reported and Loss adjustment expenses | **(8,734)** | 10,133 |
| Change in reinsurers' share of reserves for insurance contracts – claims incurred but not reported | **2,884** | 5,705 |
| Change in reinsurers' share of mathematical reserves (Note 10) | **2,559** | (87) |
| | **(109,921)** | (67,031) |
| | **142,217** | 168,117 |

In accordance with the law governing the operation of insurance companies within the United Arab Emirates, an irrevocable bank guarantee of AED 4,000,000 (2021: AED 4,000,000) has been issued in favour of the Insurance Authority. The Branch has maintained a fixed deposit with the bank as security against this guarantee (Note 9) and can only transfer these assets with prior approval of the Insurance regulator.

## 19 LEASES

(i) The statement of financial position shows the following amounts relating to leases:

**Right-of-use assets**

| | *2022* *AED'000* | *2021* *AED'000* |
|---|---|---|
| Balance as at 1 January | **25,820** | 30,398 |
| Additions | **2,118** | - |
| Depreciation charge for the year | **(4,991)** | (3,951) |
| Impairment of right of use assets | **-** | (627) |
| Balance as at 31 December | **22,947** | 25,820 |

**Lease liabilities**

| | *2022* *AED'000* | *2021* *AED'000* |
|---|---|---|
| Balance as at 1 January | **30,554** | 35,076 |
| Additions | **2,118** | - |
| Payments made during the year | **(5,566)** | (4,212) |
| Interest expense | **172** | 180 |
| Cancellation in lease liability | **-** | (490) |
| Balance as at 31 December | **27,278** | 30,554 |

## 19 LEASES (continued)

(i) The statement of financial position shows the following amounts relating to leases: (continued)

*Maturity Profile of lease liability:*

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Current | **4,998** | 4,021 |
| Non – current | **22,280** | 26,533 |
| | **27,278** | 30,554 |

(ii) The statement of comprehensive income shows the following amounts relating to leases.

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| **Depreciation charge of right-of-use assets** | | |
| Office premises | **4,579** | 3,951 |
| **Lease liabilities** | | |
| Interest expense on lease liabilities | **172** | 180 |

The amounts are included in 'Expenses recharged by Head Office' in the statement of comprehensive income (Note 15). As the Branch provides services to the Head Office, the related expenses are recognised by the Head Office and charged to the Branch using an allocation model.

## 20 FAIR VALUE MEASUREMENT

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Branch's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on stock exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Branch considers relevant and observable market prices in its valuations where possible.

At 31 December 2022 and 31 December 2021, the carrying values of the Branch's financial assets and financial liabilities measured at amortised cost were not significantly different from their respective fair values. There has been a transfer of AED 53.6 million from level 2 to level 1 during the period.

## 20 FAIR VALUE MEASUREMENT (continued)

The following table presents the fair value hierarchy of financial assets that are measured at fair value:

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| **Investment for policyholders** | | |
| Level 1 | **4,697,406** | 5,713,287 |
| Level 2 | **7,430,877** | 8,315,614 |
| Level 3 | **1,885** | - |
| | **12,130,168** | 14,028,901 |
| **Available-for-sale financial assets** | | |
| Level 2 | **191,134** | 198,862 |

The fair value of reserves for unit-linked insurance and investment contracts is determined by reference to underlying investments held for policyholders.

## 21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| **Debt securities** | | |
| Government bonds | **148,601** | 154,922 |
| Corporate bonds | **42,533** | 43,940 |
| | **191,134** | 198,862 |

Available-for-sale financial assets carry interest rates that range from 0.80% to 4.16% per annum (2021: 0.80% to 4.16% per annum). Revaluation loss on available-for-sale financial assets included in Net residual attributable to Head Office amounted to AED 24 million at 31 December 2022 (2021: AED 0.56 million).

## 22 CONTINGENT LIABILITIES

At 31 December 2022, the Branch had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 5.4 million (2021: 5.4 million).

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

## 23 SUBSEQUENT EVENTS

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the financial statements as at and for the year ended 31 December 2022.

## 24 COMPARATIVE FIGURES

The following comparative figures have been restated in the statement of comprehensive income to rectify an error after an internal review conducted by the Branch. These changes have had no impact on the financial position of the Branch, although the income position has been affected for the year ended 31 December 2021:

| *As at 31 December 2021* | *Previously reported AED'000* | *Restatement AED'000* | *After restatement AED'000* |
|---|---|---|---|
| Insurance premiums and fees (Note 16) | 869,394 | (132,888) | 736,506 |
| Policy fees | 21,259 | (9,892) | 11,367 |
| Fund management and other income (Note 15) | 63,410 | 69,076 | 132,486 |
| Policy acquisition costs (Note 17) | (222,264) | 16,651 | (205,613) |

The above restatement had an impact of AED (57,053) thousand on the 'increase in net residual attributable to Head Office from operations' reported in the statement of statement of comprehensive income for the year ended 31 December 2021. This is offset by an equal and opposite restatement of 'Other movements' which are recorded in the Head Office account.

| *As at 31 December 2021* | *Before restatement AED'000* | *After restatement AED'000* |
|---|---|---|
| Increase in net residual attributable to Head Office from operations | 206,339 | 149,286 |
| Other movements | (334,420) | (277,367) |

Total net assets attributable to the Head Office and Balance sheets at 31 December 2021 and 31 December 2020 were unaffected by this error and remain unchanged.

Solvency position as of 31 December 2021 changes from 145% to 144% after correction of the Operational Risk in the SCR.

Gross Written Premium at the effect of the Supervision and Training fees do not change.

Actual commissions paid are not impacted by these changes.