

Al Fujairah National Insurance Company PJSC

Financial Statements

For the year ended 31 December 2022



AL FUJAIRAH NATIONAL INSURANCE CO P.J.S.C

Paid-up Capital Dhhs 133,100,000.
Registered under Insurance Authority
Registration No (11) Dated 25/12/1984

Directors' report for the year ended 31 December 2022

The Board of Directors has the pleasure of submitting their report and the audited financial statements for the year ended 31 December 2022.

Incorporation and registered office

Al Fujairah National Insurance Company P.J.S.C (the "Company") is incorporated as a public shareholding company by Emiri Decree No. 3 issued by His Highness, The Ruler of Fujairah in October 1976. The address of the Company's registered office is P.O. Box 277, Fujairah, United Arab Emirates.

Financial position and results

The Company incurred a net loss of AED 14.43 million for the year ended 31 December 2022 compared to AED 18.68 million profit for the year ended 31 December 2021.

The Company incurred a net technical loss of AED 9.83 million for the year ended 31 December 2022 as compared to a profit of AED 16.96 million of the prior year.

The Company's premium revenue is AED 237.67 million for the year ended 31 December 2022 compared to AED 242.01 million of the previous year.

The Company's investment income is AED 11.20 million for the year ended 31 December 2022, as compared to AED 17.23 million of the last year.

Basic loss per share for the year ended 31 December 2022 is AED 10.84 as compared to Basic earnings per share AED 14.04 of the prior year on a capital base of AED 133.10 million.

The shareholder's equity decreased from AED 339.38 million to AED 294.73 million as at 31 December 2022.

On Behalf of the Board of Directors of Al Fujairah National Insurance Company P.J.S.C I would like to thank all who are working hard in the turnaround journey of the company. Our sincere appreciation to the executive management and to the staff for their dedication and constant hard work.

ABDUL GHAFUOR BEHROOZIAN
Chairman

A blue ink signature of Abdul Ghafoor Behroozian, consisting of stylized initials and a surname.

Fujairah
15 March 2023

A blue ink signature, likely of a representative of the Board of Directors, consisting of stylized initials.

Independent Auditor's Report To the Shareholders of Al Fujairah National Insurance Company PJSC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Al Fujairah National Insurance Company PJSC (the "Company"), which comprise the statement of financial position as at 31 December 2022, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with *International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements of IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Company for the year ended 31 December 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

To the Shareholders of Al Fujairah National Insurance Company PJSC

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

i) Valuation of technical provisions

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

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

- Understood the governance process in place to determine the insurance contract liabilities;
- Tested the underlying Company data to source documentation on sample basis;
- Evaluated the competence, objectivity and independence of the management appointed actuary;
- Using our actuarial specialist team members, we applied our industry knowledge and experience, and compared the methodology, models and assumptions used against recognised actuarial practices; and
- Using our actuarial specialist team members, we checked the mathematical accuracy of the methodology applied on selected classes of business, particularly focusing on the largest and most uncertain reserves.

ii) Valuation of investment properties

Company holds investment properties under the fair value model as at 31 December 2022 amounting to AED 76.9 million (2021: AED 77.2 million), as detailed in note 6. The fair value estimate requires significant judgement and estimates by management and independent external valuers. The Company has involved independent external valuers in order to value the investment properties for the purpose of determining the fair value for inclusion in the financial statements. The existence of significant estimation and judgement coupled with change in valuation assumptions used could result in material change. Therefore, the valuation of these investment properties was significant to our audit.

Our audit procedures, among others, included:

- Assessing the competence, capabilities, and objectivity of external valuers;
- Evaluating the accuracy and completeness of the source data used in the calculation of fair values;
- Assessing the appropriateness of the key assumptions and methodologies used; and
- Performing an independent calculation by carrying out enquiries with management and independent valuer, including performing reasonableness computation by using publicly available sources of information to independently corroborate the valuation performed by management expert.

Independent Auditor's Report
To the Shareholders of Al Fujairah National Insurance Company PJSC
Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

iii) Valuation of financial instruments

The Company has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets including mutual funds, equity securities and structured products. These valuation techniques, particularly those requiring significant unobservable inputs, usually involve subjective judgement and assumptions. As at 31 December 2022, financial instruments measured at fair value through other comprehensive income (FVTOCI) which required significant unobservable inputs in estimating fair value and hence were categorised within level 3 of the fair value hierarchy amounted to AED 140.62 million (2021: AED 168.48 million), as disclosed in note 25 to the financial statements. Due to the significance of financial instruments measured at FVTOCI and the uncertainty in valuation involving significant judgement, valuation of these financial instruments is considered a key audit matter.

Our audit procedures, among others, included:

- Obtained statements from independent investment houses specifying the estimated fair values of unquoted securities at reporting date, including those classified as Level 3 in the fair value hierarchy;
- Evaluated competence, capabilities and objectivity of investment houses;
- Analysed process followed by the management in relation to the latest financial information available; and
- Evaluated the valuation techniques, inputs, and assumptions through comparison with the valuation techniques commonly used in the similar industry.

iv) Impairment losses on insurance receivables including third party recoveries

The Company has insurance receivables and related provisions for impairment as disclosed in note 10 to the financial statements. Management estimates the impairment using the expected credit loss model, which includes determining the probability of default, loss given default, exposure at default, discounting and use of practical expedient. Due to the related uncertainty and significance of judgements used in applying the requirements of IFRS 9, we consider the valuation of receivables as a key audit matter.

The work that we performed to address this key audit matter included the following procedures:

- Obtained an understanding of the Company's process for estimating ECL and assessed the appropriateness of ECL methodology against the requirements of IFRS 9;
- Assessed the reasonableness of managements' key assumptions and judgements made in determining allowance for ECL, segmenting of receivables and macroeconomic factors;
- We traced the outstanding amounts from sample of receivables to underlying supporting documents;
- We verified payments received from receivables post year-end for the sample; and
- We considered the adequacy of provisions for impairment of insurance balances receivable for significant customers, taking into account specific credit risk assessments for each customer based on default, existence of any disputes over the balance outstanding, history of settlement of receivables liabilities with the customers.

Independent Auditor's Report

To the Shareholders of Al Fujairah National Insurance Company PJSC

Report on the Audit of the Financial Statements (continued)

Other Information

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of the UAE Federal Law No. 32 of 2021 and Federal Law No. (6) of 2007 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Independent Auditor's Report

To the Shareholders of Al Fujairah National Insurance Company PJSC

Report on the Audit of the Financial Statements (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

**Independent Auditor's Report
To the Shareholders of Al Fujairah National Insurance Company PJSC**

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 32 of 2021, we report that:

- i) We have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) The financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. 32 of 2021;
- iii) The Company has maintained proper books of account;
- iv) The financial information included in the Directors' Report, in so far as it relates to these financial statements, is consistent with the books of account of the Company;
- v) Note 7 to the financial statements discloses investments made by the Company during the year ended 31 December 2022;
- vi) Note 11 to the financial statements discloses material related party transactions, and the terms under which they were conducted; and
- vii) Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2022 any of the applicable provisions of the Federal Law No. 32 of 2021, or in respect of the Company, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2022.

Further, as required by the UAE Federal Law No. (6) of 2007, as amended, we report that we have obtained all the information and explanation we considered necessary for the purpose of our audit.




GRANT THORNTON

**Dr. Osama El Bakry
Registration No. 935
Dubai, United Arab Emirates**

15 March 2023

Al Fujairah National Insurance Company PJSC
Statement of financial position
As at 31 December 2022

| | Notes | 2022 AED | 2021 AED |
|--|-------|--------------------|--------------------|
| ASSETS | | | |
| Property and equipment | 5 | 30,604,513 | 47,236,708 |
| Investment properties | 6 | 76,894,500 | 77,165,000 |
| Financial assets | 7 | 315,972,029 | 342,827,455 |
| Statutory deposits | 8 | 10,000,000 | 10,000,000 |
| Reinsurance contract assets | 9 | 110,573,190 | 55,247,852 |
| Insurance and other receivables | 10 | 92,964,163 | 65,566,007 |
| Amounts due from related parties | 11 | 449,284 | 2,414,095 |
| Bank balances and cash | 12 | 48,139,409 | 47,293,704 |
| TOTAL ASSETS | | 685,597,088 | 647,750,821 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 13 | 133,100,000 | 133,100,000 |
| Statutory reserve | 14 | 40,963,430 | 40,963,430 |
| General reserve | 14 | 37,118,270 | 37,118,270 |
| Reinsurance reserve | 14 | 1,158,635 | 731,000 |
| Cumulative changes in fair value of financial assets at FVTOCI | | 77,471,992 | 89,864,978 |
| Property revaluation reserve | | 11,205,588 | 11,205,588 |
| (Accumulated losses)/retained earnings | | (6,287,668) | 26,395,670 |
| TOTAL EQUITY | | 294,730,247 | 339,378,936 |
| LIABILITIES | | | |
| Provision for employees' end of service indemnity | 15 | 20,265,551 | 17,292,352 |
| Insurance contract liabilities | 9 | 258,200,756 | 196,990,587 |
| Insurance and other payables | 16 | 100,528,046 | 71,571,312 |
| Lease liabilities | | 11,872,488 | 22,517,634 |
| TOTAL LIABILITIES | | 390,866,841 | 308,371,885 |
| TOTAL EQUITY AND LIABILITIES | | 685,597,088 | 647,750,821 |

These financial statements were approved by the Board of Directors on 15 March 2023 and signed on their behalf by:


Abdul Ghafoor Behroozian
Chairman


Antoine Maalouli
Chief Executive Officer

The notes from 1 to 27 form an integral part of these financial statements.

Al Fujairah National Insurance Company PJSC
Statement of income
For the year ended 31 December 2022

| | Notes | 2022 AED | 2021 AED |
|---|-------|----------------------|---------------|
| Insurance premium revenue | 17 | 237,674,358 | 242,013,102 |
| Insurance premium ceded to reinsurers | 17 | (68,275,341) | (75,359,545) |
| Net insurance premium revenue | 17 | 169,399,017 | 166,653,557 |
| Gross claims incurred | 9 | (201,531,989) | (123,937,139) |
| Insurance claims recovered from reinsurers | 9 | 89,767,942 | 36,449,826 |
| Net claims incurred | | (111,764,047) | (87,487,313) |
| Gross commission earned | | 7,596,241 | 7,918,071 |
| Commission incurred | | (12,205,420) | (12,695,439) |
| Net commission incurred | | (4,609,179) | (4,777,368) |
| Underwriting profit | | 53,025,791 | 74,388,876 |
| General and administrative expenses relating to underwriting activities | 18 | (62,851,094) | (57,427,278) |
| Net underwriting (loss)/profit | | (9,825,303) | 16,961,598 |
| Investments and other income-net | 19 | 11,198,312 | 17,233,282 |
| Finance cost | | (93,629) | (152,508) |
| Unallocated general and administrative expenses | 18 | (15,712,773) | (14,356,820) |
| Charged for expected credit losses | 10 | - | (1,000,000) |
| (Loss)/profit for the year | | (14,433,393) | 18,685,552 |
| | | | |
| (Loss)/earnings per share (AED) - basic and diluted | 20 | (10.84) | 14.04 |

The notes from 1 to 27 form an integral part of these financial statements.

Al Fujairah National Insurance Company PJSC
Statement of comprehensive income
For the year ended 31 December 2022

| | Notes | 2022 AED | 2021 AED |
|---|-------|---------------------|-------------|
| (Loss)/profit for the year | | (14,433,393) | 18,685,552 |
| Other comprehensive income: | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | |
| Net (decrease)/increase in fair value of investments designated at FVTOCI | 7 | (16,272,880) | 16,341,228 |
| (Loss)/gain on sale of investments designated at FVTOCI | | (632,416) | 7,338,651 |
| Other comprehensive (loss)/income for the year | | (16,905,296) | 23,679,879 |
| Total comprehensive (loss)/income for the year | | (31,338,689) | 42,365,431 |

The notes from 1 to 27 form an integral part of these financial statements.

Al Fujairah National Insurance Company PJSC

Statement of changes in equity

For the year ended 31 December 2022

| | Share capital | Statutory reserve | General reserve | Reinsurance reserve | Cumulative changes in fair value of financial assets at FVTOCI | Property revaluation reserve | (Accumulated losses)/ retained earnings | Total equity |
|---|--------------------|-------------------|-------------------|---------------------|--|------------------------------|---|--------------------|
| | AED | AED | AED | AED | AED | AED | AED | AED |
| Balance at 1 January 2021 | 121,000,000 | 39,094,875 | 35,249,715 | 362,898 | 48,766,799 | 11,205,588 | 59,483,630 | 315,163,505 |
| Profit for the year | - | - | - | - | - | - | 18,685,552 | 18,685,552 |
| Other comprehensive income | - | - | - | - | 16,341,228 | - | 7,338,651 | 23,679,879 |
| Total comprehensive income for the year | - | - | - | - | 16,341,228 | - | 26,024,203 | 42,365,431 |
| Transfer to retained earnings on disposal of investment at FVTOCI | - | - | - | - | 24,756,951 | - | (24,756,951) | - |
| Increase in capital through bonus issue | 12,100,000 | - | - | - | - | - | (12,100,000) | - |
| Dividends paid (note 26) | - | - | - | - | - | - | (18,150,000) | (18,150,000) |
| Transfer to reinsurance reserve (note 14) | - | - | - | 368,102 | - | - | (368,102) | - |
| Transfer to statutory reserve (note 14) | - | 1,868,555 | - | - | - | - | (1,868,555) | - |
| Transfer to general reserve (note 14) | - | - | 1,868,555 | - | - | - | (1,868,555) | - |
| Balance as at 31 December 2021 | 12,100,000 | 1,868,555 | 1,868,555 | 368,102 | 24,756,951 | - | (59,112,163) | (18,150,000) |
| | 133,100,000 | 40,963,430 | 37,118,270 | 731,000 | 89,864,978 | 11,205,588 | 26,395,670 | 339,378,936 |
| Balance at 1 January 2022 | 133,100,000 | 40,963,430 | 37,118,270 | 731,000 | 89,864,978 | 11,205,588 | 26,395,670 | 339,378,936 |
| Loss for the year | - | - | - | - | - | - | (14,433,393) | (14,433,393) |
| Other comprehensive loss | - | - | - | - | (16,272,880) | - | (632,416) | (16,905,296) |
| Total comprehensive loss for the year | - | - | - | - | (16,272,880) | - | (15,065,809) | (31,338,689) |
| Transfer to retained earnings on disposal of investment at FVTOCI | - | - | - | - | 3,879,894 | - | (3,879,894) | - |
| Dividends paid (note 26) | - | - | - | - | - | - | (13,310,000) | (13,310,000) |
| Transfer to reinsurance reserve (note 14) | - | - | - | 427,635 | - | - | (427,635) | - |
| Balance as at 31 December 2022 | 133,100,000 | 40,963,430 | 37,118,270 | 1,158,635 | 77,471,992 | 11,205,588 | (17,617,529) | (13,310,000) |
| | | | | | | | (6,287,668) | 294,730,247 |

The notes from 1 to 27 form an integral part of these financial statements.

Al Fujairah National Insurance Company PJSC
Statement of cash flows
For the year ended 31 December 2022

| | Notes | 2022 AED | 2021 AED |
|--|-------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| (Loss)/profit for the year | | (14,433,393) | 18,685,552 |
| <i>Adjustments for:</i> | | | |
| Depreciation of property and equipment | 5 | 18,323,312 | 17,622,244 |
| Gain on disposal of property and equipment | 19 | (13,720) | (219,048) |
| Gain on disposal of investments at FVTPL | 19 | (1,355,873) | (4,839,999) |
| Provision for employees' end of service indemnity | 15 | 5,377,849 | 1,538,043 |
| Loss/(gain) from change in fair value of investments at FVTPL | 7 | 412,714 | (231,727) |
| Loss/(gain) from change in fair value of investment properties | 6 | 270,500 | (1,386,000) |
| Interest on deposits | 19 | (801,321) | (922,815) |
| Dividend income | 19 | (8,191,927) | (8,212,637) |
| Income from investment properties - net | 19 | (1,518,685) | (1,421,056) |
| Finance costs | | 93,629 | 152,508 |
| Operating cash flows before changes in operating assets and liabilities | | (1,836,915) | 20,765,065 |
| <i>Changes in working capital:</i> | | | |
| Reinsurance contract assets | | (55,325,338) | (689,521) |
| Insurance contracts liabilities | | 61,210,169 | (8,535,424) |
| Insurance and other receivables | | (27,398,152) | (8,303,556) |
| Amounts due from related parties | | 1,964,811 | 463,178 |
| Insurance and other payables | | 28,956,694 | 5,314,465 |
| Cash generated from operations | | 7,571,269 | 9,014,207 |
| Employees' end of service benefits paid | 15 | (2,404,650) | (1,355,142) |
| Net cash generated from operating activities | | 5,166,619 | 7,659,065 |
| Cash flows from investing activities | | | |
| Proceeds from disposal of investments | | 133,733,398 | 72,652,534 |
| Dividends received | | 8,191,927 | 8,212,637 |
| (Decrease)/increase in fixed deposits with maturity over 3 months | | (38,503) | 20,387,231 |
| Income from investment properties | | 1,518,685 | 1,421,056 |
| Interest received | | 801,321 | 922,815 |
| Proceeds from disposal of property and equipment | | 13,720 | 219,048 |
| Purchase of financial investments | 7 | (122,831,504) | (72,098,574) |
| Purchase of property and equipment | | (1,029,860) | (2,281,525) |
| Net cash generated from investing activities | | 20,359,184 | 29,435,222 |
| Cash flows from financing activities | | | |
| Payment of lease liabilities | | (11,408,601) | (16,093,897) |
| Dividends paid | | (13,310,000) | (18,150,000) |
| Net cash used in financing activities | | (24,718,601) | (34,243,897) |
| Net increase in cash and cash equivalents | | 807,202 | 2,850,390 |
| Cash and cash equivalents at beginning of the year | | 37,791,176 | 34,940,786 |
| Cash and cash equivalents at end of the year | 12 | 38,598,378 | 37,791,176 |

The notes from 1 to 27 form an integral part of these financial statements.

Al Fujairah National Insurance Company PJSC

Notes to the financial statements

For the year ended 31 December 2022

1 Legal status and activities

Al Fujairah National Insurance Company PJSC, Fujairah (the “Company”) is incorporated as a public shareholding company by Emiri Decree No. 3 issued by His Highness, The Ruler of Fujairah in October 1976. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, concerning Financial Regulations of Insurance Companies issued by the Central Bank of United Arab Emirates (formerly the UAE Insurance Authority) and regulation of its operations and is registered in the Insurance Companies Register of the Central Bank of the United Arab Emirates (formerly, the UAE Insurance Authority), under registration number 11. The address of the Company’s registered office is P.O. Box 277, Fujairah, United Arab Emirates.

The principal activity of the Company is the writing of all classes of general insurance and short-term life insurance. The Company operates through its head office in Fujairah and branch offices in Dubai, Abu Dhabi, Sharjah and Dibba.

The Company’s ordinary shares are listed on Abu Dhabi Securities Exchange, United Arab Emirates.

As of 2 January 2022, the Company is subject to compliance with UAE Federal Law No. 32 of 2021, which replaces UAE Federal Law No. 2 of 2015 (as amended). The financial statements have been prepared in accordance with the requirements of the applicable laws and regulations, including UAE Federal Law No. (32) of 2021. The Shareholders of the Company are currently in the process of amending the statutory documents, to reflect the changes required due to application of the UAE Federal law No. (32) of 2021.

On 31 January 2022, the UAE Ministry of Finance announced the introduction of a 9% Federal Corporate Tax rate effective for fiscal years commencing on or after 1 June 2023. There is no impact of this announcement on the financial statements of the Company for the year ended 31 December 2022. Management will assess the implications of this Federal Corporate Tax in due course.

2 Statement of compliance with IFRS

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) promulgated by International Accounting Standards Board (IASB) and interpretations thereof issued by the International Financial Reporting Interpretation Committee and in compliance with the applicable requirements of U.A.E Federal Law No. 32 of 2021, relating to commercial companies, and of UAE Federal Law No. (6) of 2007, concerning Financial Regulations of Insurance Companies issued by the Central Bank of United Arab Emirates and regulation of its operations. These financial statements are prepared in UAE Dirhams (“AED”).

2.1 Standards, interpretations and amendments effective from 1 January 2022

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

| Standard number | Title | Effective date |
|------------------------------------|---|----------------|
| IFRS 3 | Reference to the Conceptual Framework (Amendments to IFRS 3) | 1 January 2022 |
| IAS 16 | Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16) | 1 January 2022 |
| IAS 37 | Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37) | 1 January 2022 |
| IFRS 1, IFRS 9, IFRS 16 and IAS 41 | Annual Improvements to IFRS Standards 2018–2020 | 1 January 2022 |

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

2.2 Standards issued but not yet effective

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

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

2 Statement of compliance with IFRS (continued)

2.2 Standards issued but not yet effective (continued)

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

IFRS 17, the new accounting standard for insurance contracts, was issued by the International Accounting Standards Board (IASB) in May 2017. Since the standard was first issued, various implementation matters have been raised by stakeholders. Subsequently, the IASB issued further amendments to the standard in June 2020 and December 2021, including delaying its effective date, which for the Company means the standard is applicable to reporting periods from 1 January 2023.

For the Company, IFRS 17 replaces IFRS 4 Insurance Contracts. The first applicable reporting period for the Company is for the year ending 31 December 2023, with a restated comparative period for the year ending 31 December 2022.

The Company continues to assess the impact of the application of IFRS 17, with the relevant key areas of consideration set out below.

Measurement models

IFRS 17 introduces the general measurement model, also known as the building block approach, which consists of fulfilment cash flows and a contractual service margin. The fulfilment cash flows represent the risk adjusted present value of an entity's rights and obligations to the policyholders, comprising estimates of expected cash flows, discounting, and an explicit risk adjustment for non-financial risk. The contractual service margin represents the unearned profit from in-force contracts that an entity will recognise as it provides services over the coverage period. The contractual service margin is earned based on a pattern of coverage units, reflecting the quantity of benefits provided. For contracts measured under the general measurement model, IFRS 17 is expected to have a significant impact on actuarial modelling as more granular cash flow projections and regular updates of assumptions will be required.

The premium allocation approach is a simplified approach an entity may choose to adopt when certain criteria are met, either where the liability for remaining coverage under the premium allocation approach is not expected to differ materially from that under the general measurement model or the coverage period of contracts are less than one year. However, the general measurement model remains applicable for the measurement of the liability for incurred claims, whereby all incurred claims are subject to discounting and risk adjustment. In determining the cash flows used in the measurement of the liability for incurred claims, The Company intends to consistently maintain the reserving approach currently adopted under IFRS 4. The simplification relates to the measurement of the liability for remaining coverage, which is not disaggregated into fulfilment cash flows and a contractual service margin, but rather is largely based on premium received. In this regard, the premium allocation approach has similarities to the current accounting requirements for general insurance contracts under IFRS 4.

The Company plans to apply the premium allocation approach ("PAA") to all the insurance and reinsurance contracts. Groups of contracts with coverage period of one year or less automatically qualify for PAA. For groups of contracts with coverage period greater than one year, we assessed that there is no material difference in the measurement of the liability for remaining coverage between PAA and the general model, therefore, these qualify for PAA.

For groups of contracts that apply the premium allocation approach and have a coverage period of one year or less, IFRS 17 provides an option to recognise any insurance acquisition costs as expenses when incurred. At present the Company does not capitalise insurance acquisition cash flows and intend to allocate the acquisition cash flows to groups of insurance contracts issued or expected to be issued using a systematic and rational basis.

2 Statement of compliance with IFRS (continued)

2.2 Standards issued but not yet effective (continued)

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

Level of aggregation and onerous contract losses (loss component)

Under IFRS 17, measurement is not considered at the individual contract level, but on the basis of portfolios which comprise contracts subject to similar risk and managed together. These portfolios are further subdivided into specified measurement groups based on contracts concluded in annual cohorts and on their profitability. To determine if the contracts are onerous, the standard permits measurement of a group of contracts. All fulfilment cash flows resulting from the rights and obligations under the insurance contracts must be considered and determined on a gross basis, excluding the effect of reinsurance.

Risk adjustment

Under IFRS 17, the measurement of insurance contract liabilities will include a risk adjustment for nonfinancial risk to reflect the compensation that the entity requires for bearing the uncertainty relating to the amount and timing of future cash flows. For insurance contracts, this is the compensation required to be indifferent between either fulfilling a liability that has a range of possible outcomes arising from non-financial risk and fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts. The risk adjustment replaces the concept of a risk margin under IFRS 4, which reflects the inherent uncertainty in the central estimate of the present value of the expected future payments. Similar to the risk margin, the risk adjustment includes the benefit of diversification.

The Standard does not prescribe techniques for estimating the risk adjustment but does offer guidance. The technique used, and the corresponding confidence level associated with the methodology selected, will need to be disclosed. The finalisation of the methodology for determining the risk adjustment, and the corresponding confidence level, is ongoing and subject to further refinement and review.

Discount rates

IFRS 17 requires that the estimates of expected cash flows that are used to measure either the liability for remaining coverage, for contracts measured under the general measure model, or incurred claims are to be discounted to reflect the time value of money and the financial risks related to those cash flows. In addition, the standard also requires the discount rate to reflect the liquidity characters of the underlying insurance contracts. The standard does not prescribe a methodology to determine either the discount rate or illiquidity premium. The bottom-up approach will be used to derive the discount rate. Under this approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium'). The risk-free rate was derived using swap rates available in the market denominated in the same currency as the product being measured. When swap rates are not available, highly liquid sovereign bonds with a AAA credit rating were used. Management uses judgment to assess liquidity characteristics of the liability cash flows. Management is currently assessing illiquidity within discount rates.

The methodology and impact of reflecting illiquidity within discount rates is currently being determined.

Presentation and disclosure

IFRS 17 will impact the Company's financial statements compared with existing reporting requirements, introducing substantial changes in both presentation of the statement of income and statement of financial position, as well as more granular disclosure requirements.

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

2 Statement of compliance with IFRS (continued)

2.2 Standards issued but not yet effective (continued)

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

Presentation and disclosure (continued)

In the statement of income, IFRS 17 will require the presentation of the insurance revenue and insurance service expenses gross of reinsurance. For the Company, insurance revenue replaces gross earned premium and insurance service expenses largely reflects the combination of claims expense, non-reinsurance related recoveries, commission expense and underwriting expenses. Additionally, all changes in value because of either the effect of or change in the time value of money or financial risk, will no longer form part of the insurance service result but will be recognised separately as either insurance finance income or expenses. Income or expenses from reinsurance contracts held need to be presented separately from the expenses or income from insurance contracts issued.

On statement of financial position, as all cash flows resulting from the rights and obligations under insurance and reinsurance contracts must be taken into account under IFRS 17, the related existing statement of financial position items will no longer be presented separately. Alternatively, the standard requires these associated balances to be combined into single line items for portfolios of insurance or reinsurance contracts that are either in an asset or liability position.

IFRS 17 has introduced additional disclosures which would need to be provided. The Company will be required to provide disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts issued and reinsurance contracts held within the scope of IFRS 17;
- Significant judgements, and changes in those judgements, when applying the standard; and
- The nature and extent of the risks from contracts within the scope of the standard.

Transition

On transition, the Company expects to apply the full retrospective approach to all insurance contracts, except to the extent that it is impracticable to do so, in which case either a modified retrospective or fair value approach may be applied under IFRS 17. In practical terms, the Company currently anticipates adopting a full retrospective approach to contracts measured using the premium allocation approach.

The Company has committed appropriate resources and effort into the implementation of IFRS 17 since its issuance. The implementation of the standard involves changes and enhancements in technology, systems, and processes, particularly across IT, finance and actuarial. The requirements of IFRS 17 are complex and the Company's expectations noted above are subject to change as it continues to assess the impact of the standard and interpretation developments. However, ultimately IFRS 17 is not expected to change the underlying economics or cash flows of the Company's business but has the potential to impact profit emergence profiles. Alongside the qualitative effects outlined above, the Company continues to assess the quantitative impact of the application of IFRS 17, with the opening balances at 1 January 2023 currently being compiled in accordance with the standard.

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

2 Statement of compliance with IFRS (continued)

2.2 Standards issued but not yet effective (continued)

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

Impact assessment – Non-Life Insurance

Although the premium allocation approach is similar to the Company's current accounting treatment when measuring liabilities for remaining coverage, the following changes are expected in the accounting for Non-life contracts.

| Changes from IFRS 4 | Impact on equity on transition to IFRS 17 |
|--|--|
| Under IFRS 17, the Company will discount the future cash flows when measuring liabilities for incurred claims, unless they are expected to occur in one year or less from the date on which the claims are incurred. The Company does not currently discount such future cash flows. | Increase |
| IFRS 17 requires the fulfilment cash flows to include a risk adjustment for non-financial risk. This is not explicitly allowed for currently. | Decrease |
| The Company's accounting policy under IFRS 17 to expense eligible insurance acquisition cash flows when they are incurred differs from the current practice under which these amounts are recognised separately as deferred acquisition costs. | Decrease |

The Company is still assessing the estimated impact that the initial application of IFRS 17 will have on its financial statements. Based on assessments undertaken to date, opening equity is expected to move predominantly due to the following:

- impact of risk adjustments.
- accounting for onerous contracts in the business.
- impact of discounting.
- non-performance risk on reinsurance recoverable balances.

The assessment of the impacts on the Company's financial statements is in progress. Although the work is well advanced as of the date of the publication of these financial statements, it is not yet practicable to reliably quantify the transition impact.

3 Summary of significant accounting policies

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the property and equipment.

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate property and equipment and is depreciated in accordance with Company's policy.

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

3 Summary of significant accounting policies (continued)

Property and equipment (continued)

The rates of depreciation used are based on the following estimated useful lives of the assets:

| | Years |
|--------------------------------|--------------|
| Freehold property | 30 |
| Motor vehicles | 5 |
| Furniture and office equipment | 4-5 |
| Scrap yard improvements | 10 |

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in income statement within 'other income'.

Investment properties

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

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

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

The Company determines fair value on the basis of valuation performed by two independent external valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued. The Company takes average of the value from two different valuers as a fair value in its financial statements.

Leases

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

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

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

3 Summary of significant accounting policies (continued)

Leases (continued)

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

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

Revenue recognition

Insurance contract premiums

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences. Gross premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written. Premiums on insurance policies are accounted for on the date of writing of policies.

Commission on reinsurance

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

Interest income

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

Rental income

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

Dividend income

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

Claims and expenses recognition

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

On account of uncertainties involved in non-motor claim recoveries, salvage and subrogation rights are recognised only at the time of actual recovery. For motor claim recoveries, salvage is accounted for at the time of registering the claims. Provision for outstanding claims represents the estimated settlement values of all claims notified, but not settled at the statement of financial position date on the basis of individual case estimates.

Claims and expenses recognition

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. The reinsurers' portion towards the above outstanding claims is classified as reinsurance contract assets and shown as current assets in the statement of financial position.

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

3 Summary of significant accounting policies (continued)

Provision for IBNR

Provision is also made for any claims incurred but not reported (“IBNR”) at the reporting date by the independent actuary approved by the Central Bank of the United Arab Emirates, using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include margin for adverse deviation as required by the new regulation.

Provision for ULAE

Provision for unallocated loss adjustment expenses (ULAE) which cannot be allocated to specific claims, is made at the statement of financial position date based on actuarial estimates obtained from an independent actuary in accordance with the financial regulations for insurance companies issued by the Central Bank of the United Arab Emirates.

Liability adequacy test

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

Unearned premium reserve

Unearned premium reserve (UPR) represents that portion of premiums earned, gross of reinsurance, which relates to the period of insurance subsequent to the statement of financial position date UPR is calculated using the 1/365 method except for marine cargo and engineering. The UPR for marine cargo is recognised as higher of 1/365 method and fixed proportion of the written premiums as required in the financial regulation and UPR for engineering assumes increase in risk with the duration of the project such that the risk faced is 100% at the expiry of the contract. The rate at which the premium is earned is deemed to increase at the same rate at which the risk faced increases over the lifetime of the policy.

Reinsurance premium

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into during the period and are recognised on the date on which the policy incepts. Reinsurance premiums are accounted for in the same accounting periods in which the premiums for the related direct insurance are recorded and the unearned portion is calculated on linear basis in accordance with reinsurance arrangements in place.

Reinsurance assets

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

Financial instruments

Recognition, initial measurement and derecognition

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

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

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

Classification and subsequent measurement of financial assets

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

Financial assets at amortised cost

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

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

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

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

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

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

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

The Company has designated certain financial assets at fair value through profit or loss because designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

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

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

Fair value measurement

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

Gains or losses on subsequent measurement

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

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities includes other payables and lease liabilities. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Impairment and uncollectability of financial assets

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

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

The Company has not recognised any impairment loss against equity instruments.

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

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

Measurement of ECL

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

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

Offsetting financial instruments

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

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

3 Summary of significant accounting policies (continued)

Receivables and payables related to insurance contracts

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

If there is objective evidence that the insurance receivables are impaired, the Company reduces the carrying amount of the insurance receivables accordingly and realises the impairment loss in the income statement.

Employee benefits

Defined Contribution plan

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

Annual leave and leave passage

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

Provision for employees' end of service benefits

A provision for employees' end of service benefits is made for the full amount due to employees for their periods of service up to the reporting date in accordance with the UAE Labour Law and is reported as separate line item under non-current liabilities.

The entitlement to end of service benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period as specified in the UAE Labour Law. The expected costs of these benefits are accrued over the period of employment.

Foreign currency transactions

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

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

Exchange differences are recognised in income statements in the period in which they arise.

Impairment of non-financial assets

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

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

3 Summary of significant accounting policies (continued)

Short term operating leases

The Company has entered into commercial property leases on its investment properties. The Company, as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases. Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and short-term deposits with an original maturity of three months or less in the statement of financial position.

Provisions, contingent liabilities and contingent assets

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

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

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Equity reserves and dividend payments

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

Other details for reserves are mentioned in note 14 to the financial statements.

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

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

Segment reporting

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

For management purposes, the Company is organised into business units based on their products and services and has two reportable operating segments as follows:

Underwriting of general insurance business incorporating all classes of general insurance including fire, marine, motor, medical, general accident and miscellaneous. All underwriting activities are carried out in the UAE except for reinsurance which is done principally with companies outside UAE.

Investment incorporating investments in UAE marketable equity securities, fixed deposits with banks and investment properties.

Related parties

A related party is defined as follows:

- (a) A person or a close member of that person’s family is related to the Company if that person:
 - (i) Has control or joint control over the Company;
 - (ii) Has significant influence over the Company; or
 - (iii) Is a member of the key management personnel of the Company or of a parent of the Company.

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

3 Summary of significant accounting policies (continued)

Related parties (continued)

Transactions with related parties

All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rate.

4 Critical accounting estimates and judgements in applying accounting policies

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

Outstanding claims, IBNR, ULAE and UPR

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

Classification of investment properties and related fair value judgement

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

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

Fair value of unquoted securities

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

Provision for expected credit losses

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

In addition to specific provisions against individually significant insurance receivables, management also makes a collective credit loss provision against insurance receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for insurance receivables within each grade and is adjusted to reflect current economic changes.

Al Fujairah National Insurance Company PJSC

Notes to the financial statements

For the year ended 31 December 2022

5 Property and equipment

| | Right of use assets AED | Freehold property AED | Motor vehicles AED | Furniture and office equipment AED | Scrap yard improvements AED | Capital work in progress AED | Total AED |
|---------------------------------|-------------------------------|-----------------------------|--------------------------|--|-----------------------------------|------------------------------------|--------------------|
| Cost | | | | | | | |
| At 1 January 2022 | 58,140,920 | 7,043,095 | 2,248,941 | 35,678,206 | 1,884,870 | 4,926,834 | 109,922,866 |
| Additions | 2,381,135 | - | 143,193 | 878,127 | 8,540 | - | 3,410,995 |
| Transfer | - | - | - | 2,872,422 | - | (2,872,422) | - |
| Disposals/contract modification | (1,719,878) | - | (55,500) | - | - | - | (1,775,378) |
| At 31 December 2022 | 58,802,177 | 7,043,095 | 2,336,634 | 39,428,755 | 1,893,410 | 2,054,412 | 111,558,483 |
| Accumulated depreciation | | | | | | | |
| At 1 January 2022 | 30,295,390 | 1,486,876 | 1,459,460 | 28,240,827 | 1,203,605 | - | 62,686,158 |
| Charge for the year | 14,364,111 | 234,770 | 334,415 | 3,232,408 | 157,608 | - | 18,323,312 |
| Disposals | - | - | (55,500) | - | - | - | (55,500) |
| At 31 December 2022 | 44,659,501 | 1,721,646 | 1,738,375 | 31,473,235 | 1,361,213 | - | 80,953,970 |
| Net book value | | | | | | | |
| At 31 December 2022 | 14,142,676 | 5,321,449 | 598,259 | 7,955,520 | 532,197 | 2,054,412 | 30,604,513 |
| Cost | | | | | | | |
| At 1 January 2021 | 39,733,317 | 7,043,095 | 2,169,496 | 34,443,341 | 1,884,870 | 4,550,174 | 89,824,293 |
| Additions | 20,502,762 | - | 670,000 | 699,568 | - | 911,957 | 22,784,287 |
| Transfer | - | - | - | 535,297 | - | (535,297) | - |
| Disposals | (2,095,159) | - | (590,555) | - | - | - | (2,685,714) |
| At 31 December 2021 | 58,140,920 | 7,043,095 | 2,248,941 | 35,678,206 | 1,884,870 | 4,926,834 | 109,922,866 |
| Accumulated depreciation | | | | | | | |
| At 1 January 2021 | 16,418,555 | 1,252,106 | 1,726,110 | 25,242,580 | 1,015,118 | - | 45,654,469 |
| Charge for the year | 13,876,835 | 234,770 | 323,905 | 2,998,247 | 188,487 | - | 17,622,244 |
| Disposals | - | - | (590,555) | - | - | - | (590,555) |
| At 31 December 2021 | 30,295,390 | 1,486,876 | 1,459,460 | 28,240,827 | 1,203,605 | - | 62,686,158 |
| Net book value | | | | | | | |
| At 31 December 2021 | 27,845,530 | 5,556,219 | 789,481 | 7,437,379 | 681,265 | 4,926,834 | 47,236,708 |

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
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5 Property and equipment (continued)

- Freehold property comprise apartments purchased in Dubai to be used for Dubai branch operations.
- At 31 December 2022, the cost of fully depreciated property and equipment that was still in use amounted to AED 21.3 million (2021: AED 19.08 million).
- In 2006, the Company transferred its building to investment property at fair value. The difference between the carrying amount of the building and its fair value at the date of transfer is treated as a property revaluation reserve.

6 Investment properties

| | 2022 AED | 2021 AED |
|---|-------------------|-------------------|
| Fair value | | |
| At 1 January | 77,165,000 | 75,779,000 |
| (decrease)/increase in fair value during the year | (270,500) | 1,386,000 |
| Net book value at 31 December | <u>76,894,500</u> | <u>77,165,000</u> |

Investment properties represents fair value of two buildings and a plot of land which are located in Fujairah U.A.E.

The investment properties of the Company were valued by two independent and experienced professional valuers Arab Loss Adjusters L.L.C and DEFT Valuation Services which estimated the fair value of investment properties as at 31 December 2022 at a value of AED 77.19 million and AED 76.60 million respectively (2021:Pioneers Surveyors & Loss Adjusters and Nam Valuers, independent and experienced professional valuers estimated the fair value of investment properties at AED 78.05 million and AED 76.28 million respectively). The Company has opted the average of the two investment properties valuations. The valuers hold relevant professional qualifications and experience. Investment properties are held for capital appreciation and rental purposes. The Company occupies an insignificant area of 10.6% (2021: 10.6%) in the investment properties for use in its own business.

Details of the investment properties and information about the fair value hierarchy as at 31 December 2022 and 31 December 2021 are as follows:

| | 31 December 2022 | | | Fair value as at 31 December 2021 |
|--|------------------|----------------|-------------------|---|
| | Level 1 AED | Level 2 AED | Level 3 AED | Level 3 AED |
| Plot of land | - | - | 9,255,000 | 9,525,000 |
| Buildings and plots of land on which such buildings are constructed | - | - | 67,639,500 | 67,640,000 |
| | - | - | <u>76,894,500</u> | <u>77,165,000</u> |

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

6 Investment properties (continued)

For investment properties categorised into level 3 of the fair value hierarchy, the following information is relevant:

| Valuation techniques | Significant input(s) | Sensitivity |
|--------------------------------|---|---|
| Income capitalisation approach | Capitalisation rate, taking into account the capitalisation of rental income potential, nature of properties, and prevailing market condition. | A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa. |
| | Yearly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the investment properties. | A slight increase in the market rent used would result in a significant increase in fair value, and vice versa. |
| Sales comparison approach | Recent market transactions for similar properties in the same location. | The land is subject to sales value fluctuations of surrounding properties. |

7 Financial assets

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

| | 2022 AED | 2021 AED |
|--|--------------------|--------------------|
| Financial assets measured at fair value through other comprehensive income (FVTOCI) | | |
| Quoted equity securities | 151,155,344 | 140,757,699 |
| Mutual funds | 90,637,338 | 118,042,021 |
| Unquoted equity securities | 49,984,001 | 46,831,844 |
| Quoted debt Securities | 4,972,554 | 5,492,326 |
| Structured products | - | 3,611,300 |
| | 296,749,237 | 314,735,190 |
| Financial assets measured at fair value through profit and loss (FVTPL) | | |
| Quoted equity securities | 19,222,792 | 28,092,265 |
| | 315,972,029 | 342,827,455 |

The movements in the financial investments are as follows:

| | 2022 AED | 2021 AED |
|---|--------------------|--------------------|
| At fair value through other comprehensive income | | |
| Fair value at the beginning of the year | 314,735,190 | 300,376,711 |
| Purchases during the year | 48,757,069 | 23,865,487 |
| Disposals during the year | (50,478,748) | (25,848,236) |
| Net (decrease)/increase in fair value | (16,264,274) | 16,341,228 |
| Fair value at the end of the year | 296,749,237 | 314,735,190 |

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

7 Financial assets (continued)

Investments at FVTOCI comprise the following:

| | 2022 AED | 2021 AED |
|----------------|--------------------|--------------------|
| Within U.A.E. | 187,277,770 | 179,591,216 |
| Outside U.A.E. | 109,471,467 | 135,143,974 |
| | <u>296,749,237</u> | <u>314,735,190</u> |

Mutual funds comprise investment in local and international funds which are administered by financial institutions domiciled in U.A.E.

The cumulative changes in fair value of financial investments carried at FVTOCI amounting to AED 77.5 million (2021: AED 89.9 million) is shown under equity.

| | 2022 AED | 2021 AED |
|---|-------------------|-------------------|
| At fair value through profit or loss | | |
| Fair value at the beginning of the year | 28,092,265 | 14,253,098 |
| Purchases during the year | 74,074,435 | 48,233,087 |
| Disposals during the year | (82,531,194) | (34,625,647) |
| Net (decrease)/increase in fair value (note 19) | (412,714) | 231,727 |
| Fair value at the end of the year | <u>19,222,792</u> | <u>28,092,265</u> |

All financial investments at FVTPL are held in U.A.E.

8 Statutory deposits

| | 2022 AED | 2021 AED |
|---|-------------------|-------------|
| Statutory deposit maintained in accordance with Article 42 of U.A.E., Federal Law No. (6) of 2007 | <u>10,000,000</u> | 10,000,000 |

Statutory deposits held with local banks in UAE represent deposit held under a lien in favour of the Ministry of Economy and Planning in accordance with Article 42 of Federal Law No. (6) of 2007 concerning Financial Regulations of Insurance Companies issued by the Central Bank of United Arab Emirates (formerly the UAE Insurance Authority) and Organisation of its Operations relating to insurance companies and brokers. The deposit cannot be withdrawn without prior approval from the Ministry of Economy and Planning.

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

9 Insurance contract liabilities and reinsurance contract assets

| | 2022 AED | 2021 AED |
|--|----------------------|---------------------|
| Gross | | |
| Insurance contract liabilities: | | |
| Claims reported unsettled | 114,919,839 | 72,446,792 |
| Claims incurred but not reported | 17,280,372 | 22,838,415 |
| Unearned premiums | 126,000,545 | 101,705,380 |
| Total insurance contract liabilities, gross | 258,200,756 | 196,990,587 |
| Recoverable from reinsurers | | |
| Insurance contract assets: | | |
| Claims reported unsettled | (65,453,616) | (25,851,447) |
| Claims incurred but not reported | (6,753,583) | (8,282,083) |
| Unearned premiums | (38,365,991) | (21,114,322) |
| Total reinsurers' share of insurance contract liabilities | (110,573,190) | (55,247,852) |
| Net | | |
| Claims reported unsettled | 49,466,223 | 46,595,345 |
| Claims incurred but not reported | 10,526,789 | 14,556,332 |
| Unearned premiums | 87,634,554 | 80,591,058 |
| | 147,627,566 | 141,742,735 |

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

9 Insurance contract liabilities and reinsurance contract assets (continued)

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

| | 2022 | | 2021 | | Net AED |
|--|--------------------|---------------------|--------------------|---------------------|--------------------|
| | Gross AED | Reinsurance AED | Gross AED | Reinsurance AED | |
| Claims | | | | | |
| Notified claims | 72,446,792 | (25,851,447) | 72,290,425 | (24,888,486) | 47,401,939 |
| Included but not reported | 22,838,416 | (8,282,083) | 26,989,765 | (6,816,410) | 20,173,355 |
| Total at the beginning of the year | 95,285,208 | (34,133,530) | 99,280,190 | (31,704,896) | 67,575,294 |
| Claims settled during the year | (164,616,985) | 51,694,273 | (127,932,121) | 34,021,191 | (93,910,930) |
| Increase in liabilities | 201,531,989 | (89,767,942) | 123,937,139 | (36,449,826) | 87,487,313 |
| Total at the end of the year | 132,200,212 | (72,207,199) | 95,285,208 | (34,133,531) | 61,151,677 |
| Notified claims | | | | | |
| Included but not reported | 114,919,840 | (65,453,616) | 72,446,793 | (25,851,448) | 46,595,345 |
| | 17,280,372 | (6,753,583) | 22,838,415 | (8,282,083) | 14,556,332 |
| Total at the end of the year | 132,200,212 | (72,207,199) | 95,285,208 | (34,133,531) | 61,151,677 |
| Unearned premium | | | | | |
| Total at the beginning of the year | 101,705,380 | (21,114,322) | 106,245,821 | (22,853,435) | 83,392,386 |
| Increase during the year | 33,822,239 | (25,797,512) | 1,813,166 | (399,349) | 1,413,817 |
| Release during the year | (9,527,075) | 8,545,843 | (6,353,607) | 2,138,462 | (4,215,145) |
| Net increase/(decrease) during the year (note 17) | 24,295,164 | (17,251,669) | (4,540,441) | 1,739,113 | (2,801,328) |
| Total at the end of the year | 126,000,544 | (38,365,991) | 101,705,380 | (21,114,322) | 80,591,058 |

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

10 Insurance and other receivables

| | 2022 AED | 2021 AED |
|---|-------------------|-------------------|
| Due from policy holders | | |
| Accounts receivable | 73,678,274 | 44,268,918 |
| Post dated cheques | 3,075,969 | 2,136,993 |
| | <u>76,754,243</u> | <u>46,405,911</u> |
| Charge for expected credit losses | (17,125,921) | (17,125,921) |
| | <u>59,628,322</u> | <u>29,279,990</u> |
| Due from insurance and reinsurance companies and brokers | | |
| Insurance companies | 6,934,223 | 13,286,090 |
| Reinsurance companies | 2,366,265 | 1,729,982 |
| Brokers | 1,376,638 | 1,641,064 |
| | <u>10,677,126</u> | <u>16,657,136</u> |
| Charge for expected credit losses | (1,452,055) | (1,452,055) |
| | <u>9,225,071</u> | <u>15,205,081</u> |
| Other receivables | | |
| Prepayments and others | 25,586,077 | 22,556,243 |
| Charge for expected credit losses | (1,475,307) | (1,475,307) |
| | <u>24,110,770</u> | <u>21,080,936</u> |
| | <u>92,964,163</u> | <u>65,566,007</u> |

The average credit period on insurance receivable is 60 days (2021: 60 days). No interest is charged on overdue balances and no collateral is taken on insurance receivables. Insurance receivables outstanding above 365 days are provided for (other than for government related entities) based on estimated irrecoverable amounts determined by reference to past default experience.

Movement of expected credit losses for insurance and other receivables:

| | 2022 AED | 2021 AED |
|------------------------|-------------------|-------------------|
| Balance at 1 January | 20,053,283 | 19,053,283 |
| Charge for the year | - | 1,000,000 |
| Balance at 31 December | <u>20,053,283</u> | <u>20,053,283</u> |

11 Related parties

Related parties include the Company's major shareholders, directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel. All related party transactions are carried on terms approved by the management.

Details of related parties' balances are as follows:

Amounts due from related parties

| | 2022 AED | 2021 AED |
|---|----------------|------------------|
| <i>Related parties due to common directorship</i> | | |
| Fujairah National Group of Companies | <u>449,284</u> | <u>2,414,095</u> |

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
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11 Related parties (continued)

Details of significant transactions with related parties are shown below:

| | 2022 | 2021 |
|--------------------------------------|------------|------------|
| | AED | AED |
| <i>Entities under common control</i> | | |
| Gross premiums | 18,659,594 | 20,029,461 |
| Claims paid | 6,367,946 | 199,413 |

Key management personnel remuneration:

| | 2022 | 2021 |
|---------------------------------------|-----------|-----------|
| | AED | AED |
| Short term benefits | 9,209,447 | 8,440,394 |
| Board of directors' meeting allowance | - | 1,350,000 |
| Post-employment benefits | 3,433,191 | 425,722 |

12 Bank balances and cash

| | 2022 | 2021 |
|---------------------------|-------------------|-------------------|
| | AED | AED |
| Bank balances: | | |
| Current and call accounts | 27,792,002 | 27,091,289 |
| Fixed deposit | 19,891,000 | 19,843,846 |
| Cash in hand | 456,407 | 358,569 |
| | 48,139,409 | 47,293,704 |

Bank balances are maintained with banks within United Arab Emirates.

Cash and bank includes short term deposits (3-12 months) with local banks carrying interest ranging from 1% to 4% per annum (2021: 1% to 4% per annum).

Fixed deposits amounting to AED 7 million (2021: AED 2 million) is under lien in respect of bank credit facilities granted to the Company.

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

| | 2022 | 2021 |
|--|-------------------|-------------------|
| | AED | AED |
| Bank balances and cash | 48,139,409 | 47,293,704 |
| Deposit under lien | (7,000,000) | (2,000,000) |
| Fixed deposits with maturity over 3 months | (2,541,031) | (7,502,528) |
| | 38,598,378 | 37,791,176 |

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13 Share capital

The authorised and issued share capital comprises 1,331,000 fully paid-up shares of AED 100 each:

| | 2022 No of shares | 2022 AED | 2021 No of shares | 2021 AED |
|------------------------|----------------------|--------------------|----------------------|-------------|
| Balance at 31 December | <u>1,331,000</u> | <u>133,100,000</u> | 1,331,000 | 133,100,000 |

14 Reserve

Statutory reserve

In accordance with the Company's Articles of Association and Article 241 of the Federal Law No. 32 of 2021, a minimum of 10% of the Company's annual net profits must be transferred to a non-distributable statutory reserve. As per the Company's Articles of Association, such transfers are required until the balance in the statutory reserve equals 50% of the Company's paid-up share capital. No transfer to statutory reserve due to net loss during the year. (2021: AED 1.9 million).

General reserve

The Company has established a General reserve by appropriation of 10% of profit for each year. Appropriation to the General reserve may be stopped by the Shareholders' General Assembly based on recommendation from the Board of Directors. This reserve is distributable based on a recommendation by the Board of Directors and Shareholders' approval. No transfer to the general reserve during the year (2021: AED 1.9 million).

Reinsurance reserve

In accordance with Central Bank of the United Arab Emirates Board of Directors' Decision No. 23, Article 34, an amount of AED 0.428 million was transferred from retained earnings to reinsurance reserve (2021: AED 0.368 million). The reserve is not available for distribution, and will not be disposed of without prior approval from Central Bank of the United Arab Emirates.

15 Provision for employees' end of service indemnity

| | 2022 AED | 2021 AED |
|--------------------------|--------------------|--------------------|
| Balance at 1 January | 17,292,352 | 17,109,451 |
| Charge for the year | 5,377,849 | 1,538,043 |
| Payments during the year | <u>(2,404,650)</u> | <u>(1,355,142)</u> |
| Balance at 31 December | <u>20,265,551</u> | <u>17,292,352</u> |

16 Insurance and other payables

| | 2022 AED | 2021 AED |
|---|--------------------|-------------------|
| Due to reinsurance companies | 31,995,660 | 14,029,895 |
| Due to insurance companies | 26,870,568 | 25,895,716 |
| Trade payables | 25,362,551 | 13,033,508 |
| Notes payables | 4,932,245 | 3,469,723 |
| Premium reserve withheld | 4,614,831 | 4,256,213 |
| Accrued expenses and provisions | 4,304,735 | 6,183,042 |
| Other payables | <u>2,447,456</u> | <u>4,703,215</u> |
| Total insurance and other payables | <u>100,528,046</u> | <u>71,571,312</u> |

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

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17 Net insurance premium revenue

| | 2022 AED | 2021 AED |
|--------------------------------------|---------------------|---------------------|
| Gross premium written | | |
| Gross premium written | 261,969,522 | 237,472,661 |
| Change in unearned premium (note 9) | <u>(24,295,164)</u> | <u>4,540,441</u> |
| | <u>237,674,358</u> | <u>242,013,102</u> |
| Reinsurance premium ceded | | |
| Reinsurance premium ceded | (85,527,010) | (73,620,432) |
| Change in unearned premium (note 9) | <u>17,251,669</u> | <u>(1,739,113)</u> |
| | <u>(68,275,341)</u> | <u>(75,359,545)</u> |
| Net insurance premium revenue | <u>169,399,017</u> | <u>166,653,557</u> |

18 General and administrative expenses

| | 2022 AED | 2021 AED |
|---|-------------------|-------------------|
| Staff cost | 39,913,196 | 33,675,715 |
| Depreciation (note 5) | 18,323,312 | 17,622,244 |
| Rent | 8,435,019 | 9,555,501 |
| Office utilities and maintenance | 4,199,644 | 3,883,670 |
| Bank charges | 2,152,673 | 1,501,603 |
| Legal and professional charges | 1,809,535 | 918,596 |
| Policy registration and printing | 1,433,889 | 1,310,103 |
| Business promotion and donations | 1,204,268 | 1,057,013 |
| Insurance | 76,849 | 72,362 |
| Directors' remuneration | - | 1,350,000 |
| Other expenses | 1,015,482 | 837,291 |
| | <u>78,563,867</u> | <u>71,784,098</u> |
| Allocated general and administrative expenses relating to underwriting activities | 62,851,094 | 57,427,278 |
| Unallocated general and administrative expenses | <u>15,712,773</u> | <u>14,356,820</u> |
| | <u>78,563,867</u> | <u>71,784,098</u> |

19 Investments and other income

| | 2022 AED | 2021 AED |
|--|-------------------|-------------------|
| Dividends from financial investments | 8,191,927 | 8,212,637 |
| Net income from investment properties | 1,518,685 | 1,421,056 |
| Gain on disposal of financial investments at FVTPL | 1,355,873 | 4,839,999 |
| Interest on deposits | 801,321 | 922,815 |
| Gain on disposal of property and equipment | 13,720 | 219,048 |
| (Loss)/gain from change in fair value of investment properties (note 6) | (270,500) | 1,386,000 |
| (Loss)/gain from change in fair value of financial investments at FVTPL (note 7) | <u>(412,714)</u> | <u>231,727</u> |
| | <u>11,198,312</u> | <u>17,233,282</u> |

Al Fujairah National Insurance Company PJSC
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20 (Loss) / earnings per share

| | 2022 | 2021 |
|---|---------------------|------------|
| | AED | AED |
| (Loss)/profit for the year (AED) | <u>(14,433,393)</u> | 18,685,552 |
| Weighted average number of shares (note 13) | <u>1,331,000</u> | 1,331,000 |
| (Loss)/earnings per share (AED) - basic and diluted | <u>(10.84)</u> | 14.04 |

21 Segment reporting

The Company is organised into two main business segments:

Underwriting of general insurance business incorporating all classes of general insurance including fire, marine, motor, medical, general accident and miscellaneous. All underwriting activities are carried out in the UAE except for reinsurance which is done principally with companies outside U.A.E.

Investments incorporating investments in U.A.E. marketable equity securities, fixed deposits with banks and investment properties.

Segmental information is presented below:

The following is an analysis of the Company's gross premium written classified by major underwriting departments:

| | 2022 | 2021 |
|---|---------------------------|--------------------|
| Note | AED | AED |
| Motor | 128,730,835 | 117,311,886 |
| Engineering, fire, general accidents and others | 72,362,530 | 44,526,772 |
| Group life and medical insurance | 53,267,206 | 68,245,694 |
| Marine and aviation | 7,608,951 | 7,388,309 |
| 17 | <u>261,969,522</u> | <u>237,472,661</u> |

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21 Segment reporting (continued)

The following is an analysis between the Company's underwriting and investment business segments:

| | 2022 AED | | 2021 AED | | | |
|-----------------------------------|---------------|------------------------------------|---------------|--------------|------------------------------------|--------------|
| | Underwriting | Investments and other income | Total | Underwriting | Investments and other income | Total |
| Net insurance premium revenue | 169,399,017 | - | 169,399,017 | 166,653,557 | - | 166,653,557 |
| Net claims incurred | (111,764,047) | - | (111,764,047) | (87,487,313) | - | (87,487,313) |
| Net commissions incurred | (4,609,179) | - | (4,609,179) | (4,777,368) | - | (4,777,368) |
| Income from investment and others | 11,198,312 | 11,198,312 | 22,396,624 | - | 17,233,282 | 17,233,282 |
| Segment result | (9,825,303) | 11,198,312 | 1,373,009 | 16,961,598 | 17,233,282 | 34,194,880 |
| Unallocated costs: | | | (15,806,402) | | | (15,509,328) |
| Net (loss) / profit for the year | | | (14,433,393) | | | 18,685,552 |

| | 2022 AED | | 2021 AED | | | |
|-------------------------|--------------|------------------------------------|-------------|--------------|------------------------------------|-------------|
| | Underwriting | Investments and other income | Total | Underwriting | Investments and other income | Total |
| Segment assets | 244,591,148 | 412,757,530 | 657,348,678 | 180,464,662 | 439,836,301 | 620,300,963 |
| Unallocated assets | | | 28,248,410 | | | 27,449,858 |
| Total assets | | | 685,597,088 | | | 647,750,821 |
| Segment liabilities | 370,601,290 | - | 370,601,290 | 291,079,533 | - | 291,079,533 |
| Unallocated liabilities | | | 20,265,551 | | | 17,292,352 |
| Total liabilities | | | 390,866,841 | | | 308,371,885 |

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22 Commitments and contingencies

| | 2022 AED | 2021 AED |
|---------------------|-------------|-------------|
| Letter of guarantee | 21,895,574 | 19,578,407 |
| Capital commitments | 430,407 | 430,407 |

23 Risk management

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

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

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

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

Frequency and severity of claims

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

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses above a set limit of AED 0.5 million (2021: 0.5 million) in any one policy. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

23 Risk management (continued)

Sources of uncertainty in the estimation of future claim payments

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

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

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

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

In calculating the estimated cost of unpaid claims (both reported and not), the Company's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formula where greater weight is given to actual claims experience as time passes. The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

| Type of risk | 2022 | 2021 |
|--------------|------|------|
| Motor | 74% | 53% |
| Non-Motor | 96% | 61% |

Process used to decide on assumptions

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

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

23 Risk management (continued)

Process used to decide on assumptions (continued)

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

Concentration of insurance risk

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

The insurance risk before and after reinsurance in relation to the motor and non-motor insurance risk accepted is summarised below:

| | 31 December 2022 | | | 31 December 2021 | | |
|--------------------------|------------------|--------------------|--------------------|------------------|-------------|-------------|
| | Motor | Non-motor | Total | Motor | Non-motor | Total |
| | AED' 000 | AED' 000 | AED' 000 | AED' 000 | AED' 000 | AED' 000 |
| Gross sum insured | 3,038,622 | 139,336,104 | 142,374,726 | 2,225,146 | 154,416,909 | 156,642,055 |
| Net sum insured | 2,917,077 | 31,447,906 | 34,364,983 | 2,091,638 | 50,494,143 | 52,585,781 |

Reinsurance risk

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

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

Sensitivity of underwriting profit and losses

The contribution by the insurance operations in the loss of the Company amounts to AED 9.8 million for the year ended 31 December 2022 (2021: profit of AED 17 million). The Company does not foresee any major impact from insurance operations due to the following reasons:

The Company has an overall risk retention level of 85% (2021: 57%) and the same is mainly contributed by one class of business i.e., Motor line wherein the retention level is 96% (2021: 94%). However, in this class the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Company has net commission incurred of AED 4.6 million (2021: AED 4.8 million). Commissions earned arise primarily from the reinsurance placements and are a consistent and recurring source of income.

Because of low risk retention in non-motor lines of business, being 51% (2021: 53%) of the total volume of business and limited exposure in the high risk retention area of motor business, the Company is comfortable to maintain a net loss ratio of 87% (2021: 55%) and does not see any serious financial impact in the insurance net profit.

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

23 Risk management (continued)

Financial risk

Market risk

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

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk

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

Interest rate risk

The Company's exposure to interest rate risk relates to its bank deposits. At 31 December 2022, bank deposits carried interest rates ranging from 1% to 4% per annum (2021: 1% to 4% per annum).

The Company has no exposure to interest rate risk towards its interest bearing financial assets as they carry fixed interest rate.

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

Credit risk

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

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

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

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

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

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

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

23 Risk management (continued)

Financial risk (continued)

Credit risk (continued)

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

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks registered in the United Arab Emirates.

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

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

| | Neither past due nor impaired AED '000 | Past due | | | Total AED '000 | Past due and impaired AED '000 | Total AED '000 |
|-------------------------|--|-----------------------------|---------------------------------|-----------------------------|----------------------|--|----------------------|
| | | <270 days AED '000 | 271 -365 days AED '000 | >365 days AED '000 | | | |
| 31 December 2022 | 49,758 | 11,640 | 2,440 | 23,593 | 87,431 | (18,578) | 68,853 |
| 31 December 2021 | 23,367 | 14,862 | 1,591 | 20,743 | 63,063 | (18,578) | 44,485 |

Before accepting any new customer, the Company assesses the prospective customers credit quality and defines credit limits of the due from policyholders' balance at the end of year, AED 26.6 million (2021: AED 7.9 million) is due from the Company's largest customer. There is 1 (2021: 2) customer who individually represents more than 35% (2021: 5%) of the total balance of due from policyholders.

Market risk management

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

Sensitivity analysis

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

- (Losses)/profit would have increased/decreased by AED 19.2 million (2021: AED 2.8 million) in the case of financial investments at FVTPL.
- Other comprehensive income would have increased/decreased by AED 29.7 million (2021: AED 31.5 million) in the case of financial investments designated at FVTOCI.

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

23 Risk management (continued)

Market risk management (continued)

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the reporting date.
- As at the reporting date if investments prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and other comprehensive income has been shown on previous page.
- A 10% change in investments prices has been used to give a realistic assessment as a plausible event.

Liquidity risk

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

The following table summarises the maturity profile of the Company's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the end of the reporting period to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

| 31 December 2022 | Less than 90 days AED | 91-270 days AED | 271-365 days AED | Above 365 days AED | Total AED |
|--|-----------------------------|-----------------------|------------------------|--------------------------|--------------------|
| Financial assets | | | | | |
| At fair value through OCI | - | - | - | 296,749,237 | 296,749,237 |
| Statutory deposit | - | - | - | 10,000,000 | 10,000,000 |
| Insurance and other receivables | 49,758,125 | 11,640,224 | 2,440,000 | 23,593,020 | 87,431,369 |
| At fair value through profit or loss | - | - | 19,222,792 | - | 19,222,792 |
| Bank balances and cash - non interest bearing | 28,248,409 | - | - | - | 28,248,409 |
| Bank balances and cash - interest bearing | 362,642 | 9,528,358 | - | 10,000,000 | 19,891,000 |
| | <u>78,369,176</u> | <u>21,168,582</u> | <u>21,662,792</u> | <u>340,342,257</u> | <u>461,542,807</u> |
| Financial liabilities | | | | | |
| Insurance and other payables | 65,870,289 | 19,452,856 | 2,663,054 | 12,541,847 | 100,528,046 |

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
For the year ended 31 December 2022

23 Risk management (continued)

Liquidity risk (continued)

| 31 December 2021 | Less than 90 days AED | 91-270 days AED | 271-365 days AED | Above 365 days AED | Total AED |
|--|-----------------------------|-----------------------|------------------------|--------------------------|--------------------|
| Financial assets | | | | | |
| At fair value through OCI | - | - | - | 314,735,190 | 314,735,190 |
| Statutory deposit | - | - | - | 10,000,000 | 10,000,000 |
| Insurance and other receivables | 26,367,007 | 14,862,011 | 1,591,019 | 20,243,010 | 63,063,047 |
| At fair value through profit or loss | - | - | 28,092,265 | - | 28,092,265 |
| Bank balances and cash - non interest bearing | 27,449,858 | - | - | - | 27,449,858 |
| Bank balances and cash - interest bearing | 341,318 | 9,502,528 | - | 10,000,000 | 19,843,846 |
| | <u>54,158,183</u> | <u>24,364,539</u> | <u>29,683,284</u> | <u>354,978,200</u> | <u>463,184,206</u> |
| Financial liabilities | | | | | |
| Insurance and other payables | <u>24,185,734</u> | <u>26,269,967</u> | <u>4,853,376</u> | <u>16,262,235</u> | <u>71,571,312</u> |

24 Capital risk management

The Company's objective when managing capital risks are:

- to comply with the insurance capital requirements required by UAE Federal Law No. 6 of 2007. The Company manages its capital on a basis of its minimum regulatory capital position presented in the table below:
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

Section 2 of the Financial Regulations for Insurance Companies (the "Regulations") issued by the Central Bank of UAE identifies the required solvency margin to be held in addition to insurance liabilities. The solvency margin must be maintained at all times throughout the year. The Company is subject to the Regulations which has been complied with during the year. The Company has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with these Regulations.

The table on the next page summarises the Minimum Capital Requirement, Minimum Guarantee Fund and Solvency Capital Requirement of the Company and the total capital held to meet these solvency margins as defined in the Regulations. In accordance with Circular No. CBUAE/BSN/2022/923 of CBUAE dated 28 February 2022, the Company has disclosed the solvency position for the immediately preceding period as the current year solvency position is not yet finalised.

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24 Capital risk management (continued)

| | 30 September 2022 (Unaudited) AED'000 |
|------------------------------------|--|
| Minimum Capital Requirement (MCR) | 100,000 |
| Solvency Capital Requirement (SCR) | 124,322 |
| Minimum Guarantee Fund (MGF) | 51,666 |
| Basic Own Funds | 156,333 |
| MCR Solvency Margin - Surplus | 56,333 |
| SCR Solvency Margin - Surplus | 32,010 |
| MGF Solvency Margin – Surplus | 104,666 |

Based on the Central Bank of UAE regulatory requirements, the minimum regulatory capital required is AED 100 million (31 December 2021: AED 100 million) against which the paid up capital of the Company is AED 156.3 million (31 December 2021: AED 139.8 million).

The Company and its individually regulated operations have complied with all externally imposed capital requirements throughout the year. There have been no changes in the Company's management of capital during the year.

25 Fair value measurement

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

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

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

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

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

Al Fujairah National Insurance Company PJSC
Notes to the financial statements
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25 Fair value measurement (continued)

| Financial assets | Fair value as at | | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable input | Relationship of unobservable inputs to fair value |
|--------------------------------------|-------------------------|-------------------------|----------------------|--|--------------------------------|--|
| | 31 December 2022 AED | 31 December 2021 AED | | | | |
| Quoted equity investments – FVTOCI | 151,155,344 | 140,757,699 | Level 1 | Quoted bid prices in an active market. | None. | NA |
| Mutual funds | 90,637,338 | 118,042,021 | Level 3 | Net assets value | Net assets value. | Higher the net assets value of the investees, higher the fair value. |
| Unquoted equity investments – FVTOCI | 49,984,001 | 46,831,844 | Level 3 | Adjusted net assets value | Net assets value. | Higher the net assets value of the investees, higher the fair value. |
| Quoted equity investments – FVTPL | 19,222,792 | 28,092,265 | Level 1 | Quoted bid prices in an active market. | None. | NA |
| Quoted Debt Securities – FVTOCI | 4,972,554 | 5,492,326 | Level 1 | Quoted bid prices in an active market. | None. | NA |
| Structured Products - FVTOCI | - | 3,611,300 | Level 3 | Discounted cashflows | None. | Higher the discounted cash flow, higher the fair value. |

26 Dividends and bonus shares

The shareholders' General Assembly held on 25 April 2022 approved the payment of cash dividends at 10% of share capital for the year 2021. (2021: The shareholders' General Assembly approved the payment of 15% cash dividends and 10% bonus shares for the year 2020).

27 Post-reporting date events

There are no adjusting or significant non-adjusting events which have occurred between the reporting date and the date of authorisation of these financial statements.