

Union Insurance Company P.J.S.C.

**Independent auditor's report and financial statements
For the year ended 31 December 2022**

Union Insurance Company P.J.S.C.

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Board of Directors' Report

Dear Shareholders,

On behalf of the Board of Directors of Union Insurance Company P.J.S.C. we have the pleasure in presenting our Report on the performance of the Company along with the Audited Financial Statements for the year ended 31st December 2022.

Despite the continued challenges faced by local insurers and the global economy, the Company's financial results continued to improve and achieved a steady performance during 2022.

Key performance indicators were as follows:

- In 2022, the company recorded a Gross Premium of AED 868 million, compared to AED 900 million in 2021.
- In accordance with Central Bank regulations, the company continues to maintain technical reserves as recommended by the actuary.
- The Company's Financial Strength Rating of B+ (Good) and Issuer Credit Rating of BBB- (Good) were affirmed by the International Credit Rating Agency A. M. Best. According to AM Best's Press Release on 15 December 2022 – "these ratings reflect Union's Balance Sheet strength, which A.M. Best categorises as strong, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management".

2022 Financial results

- The Underwriting Profit for the year 2022 amounted to AED 17 million (2021: AED 19.5 million).
- The company reported an investment profit of AED 6 million compared to a profit of AED 5.4 million for the year 2021.
- The Net Profit for the year 2022 amounted to AED 18.3 million, compared to AED 13.2 million for the year 2021.
- Total Equity of the Company increased to AED 254 million in 2022 from AED 235 million at the end of the 2021.
- The Company's total assets are AED 1.9 billion at the end of 2022, compared to AED 2 billion at the end of 2021.

The Management take this opportunity to thank all the shareholders and customers for their continued support and also express their sincere appreciation to Company managers and staff for their dedication and hard work.

For and on behalf of Union Insurance Co. P.J.S.C.

Chairman of the Board
Nasser Rashid Abdulaziz Almoalla

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Union Insurance Company P.J.S.C.

Report on the audit of the financial statements

Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with 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 Union Insurance Company P.J.S.C (continued)

Key audit matters (continued)

ii) Valuation of insurance contract liabilities

The estimation of liabilities arising from insurance contracts amounting to AED 1,008,371 thousand (2021: AED 1,105,249 thousand) for insurance contract liabilities such as outstanding claims, incurred but not reported claims, unallocated loss adjustment expenses and unearned premium reserve, as disclosed in note 14 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.

Our audit procedures, among others, included:

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

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

ii) Provision for doubtful debts on insurance and reinsurance receivables

As disclosed in note 16 to the financial statements, the Company's insurance and reinsurance receivables amounted to AED 334.6 million at 31 December 2022 (2021: AED 352.8 million) and the related provision for impairment amounted to AED 64 million (2021: AED 61 million) as at that date.

We consider the calculation of provision for doubtful debts on insurance and reinsurance receivables as a key audit matter because of the significance of the insurance and reinsurance receivables balance (representing 18% of the total assets as at 31 December 2022), the related estimation uncertainty of provision for doubtful debts to the financial statements and the significance of the judgements used in applying the requirements of IAS 39 to the assessment of the adequacy of provision for doubtful debts.

As part of our audit procedures, we:

- obtained and tested the reliability of the aging report for the insurance and reinsurance receivable balances and performed the following:
 - verified the historical provision for bad debts to actual write offs;
 - considered adequacy of doubtful debts provision for significant customers by taking into account specific credit risk assessments for each customer based on days past due, the existence of any disputes over the balance outstanding, the history of settlement of receivables and the existence of any liabilities with the same counterparties which reduce the net exposure; and

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Union Insurance Company P.J.S.C (continued)

Key audit matters (continued)

ii) Provision for doubtful debts on insurance and reinsurance receivables (continued)

- discussed with management and reviewed correspondence, where relevant, to identify any disputes and assess whether the bad debt provisions are appropriately assessed.
- reviewed the Company's provisioning policy and ensured it is consistently applied.
- checked the appropriateness of the disclosures made in relation to the provision for doubtful debts of insurance and reinsurance receivables in the financial statements.

Other matter

The financial statements of the company for the year ended 31 December 2021 were audited by another auditor who expressed unmodified audit opinion on those financial statements on 28 March 2022.

Other information

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

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

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

When we read the Company's Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Union Insurance Company P.J.S.C (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 evidenced 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 disclosure 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 to those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Union Insurance Company P.J.S.C (continued)

Report on other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (32) of 2021, we report that:

- i) We have obtained all the information we considered necessary for the purposes of our audit;
- ii) The financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (32) of 2021;
- iii) The Company has maintained proper books of account;
- iv) the financial information included in the Directors' report is consistent with the books of account of the Company;
- v) Note 6 to the financial statements discloses investment in securities by the Company during the financial year ended 31 December 2022;
- vi) Note 11 to the financial statements discloses material related party transactions and balances, and the terms under which they were conducted; and
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has, during the financial year ended 31 December 2022, contravened any of the applicable provisions of the UAE Federal Law No. (32) of 2021, or, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2022; and
- viii) The Company did not make any social contribution during the year ended 31 December 2022.

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

Grant Thornton

Grant Thornton
Farouk Mohamed
Registration No: 86
Sharjah, 20 March 2023




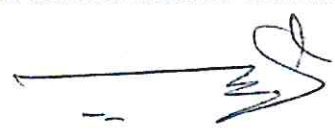
Union Insurance Company P.J.S.C.

Statement of financial position As at 31 December 2022

	Notes	2022 AED'000	2021 AED'000
ASSETS			
Property and equipment	5	66,929	70,446
Intangible assets	17	8,723	14,574
Statutory deposit	7	10,000	10,000
Right-of-use assets	22.1	6,861	637
Unit linked assets	6.3	349,613	368,887
Investment securities	6	76,779	47,888
Reinsurance contract assets	14	753,776	831,514
Bank deposits with original maturities of more than three months	8.2	68,888	205,965
Insurance and other receivables	16	338,607	356,202
Cash and cash equivalents	8.1	205,667	91,881
TOTAL ASSETS		1,885,843	1,997,994
EQUITY AND LIABILITIES			
Equity			
Share capital	9	330,939	330,939
Statutory reserve	10.1	18,020	16,187
Special reserve	10.2	18,020	16,187
Fair value reserve	10.3	166	156
Reinsurance reserve	10.4	7,406	4,885
Accumulated losses		(120,728)	(132,869)
Total Equity		253,823	235,485
Liabilities			
Provision for employees' end of service indemnity	23	14,424	12,873
Insurance contract liabilities	14	1,008,371	1,105,249
Insurance and other payables	18	259,612	275,500
Payables to policyholders of unit-linked products	13	349,613	368,887
Total liabilities		1,632,020	1,762,509
TOTAL EQUITY AND LIABILITIES		1,885,843	1,997,994

These financial statements were approved for issue by the Board of Directors on 20 March 2023 and signed on their behalf by:


Nasser Rashid Abdulaziz Almolla
Chairman


Abdel Mutaleb M H M Aljaede
Chief Executive Officer

The accompanying notes from 1 to 32 form an integral part of these financial statements.

Union Insurance Company P.J.S.C.

Statement of income

For the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Gross written premiums	21	868,317	900,083
Reinsurance premiums ceded	21	(504,146)	(523,839)
Net retained premiums		364,171	376,244
Net change in unearned premiums, mathematical reserve and policyholders' reserve		(46,798)	(76,571)
Net earned premium		317,373	299,673
Gross commission earned		72,406	92,014
Total underwriting income		389,779	391,687
UNDERWRITING EXPENSES			
Gross claims incurred	14.1	(419,777)	(685,140)
Insurance claims recovered from reinsurers	14.1	269,668	533,257
Net claims incurred	14.1	(150,109)	(151,883)
Commission incurred	16.2	(82,706)	(91,062)
Administrative expenses	19	(91,061)	(90,884)
Other operational costs related to underwriting activities	19.3	(48,937)	(38,406)
Total underwriting expenses		(372,813)	(372,235)
UNDERWRITING PROFIT		16,966	19,452
Interest income	20	6,149	6,530
Other investment loss	20	(155)	(1,101)
Net investment income	20	5,994	5,429
Provision for doubtful debts	16.1	(2,977)	(10,062)
Board of directors' fees	11	(1,655)	(1,600)
Profit for the year		18,328	13,219
Basic and diluted earnings per share	24	0.055	0.040

The accompanying notes from 1 to 32 form an integral part of these financial statements.

Union Insurance Company P.J.S.C.

Statement of comprehensive income For the year ended 31 December 2022

	2022 AED'000	2021 AED'000
Profit for the year	<u>18,328</u>	<u>13,219</u>
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Change in fair value of investments held at fair value through other comprehensive income	<u>10</u>	<u>222</u>
Other comprehensive income for the year	<u>10</u>	<u>222</u>
Total comprehensive income for the year	<u><u>18,338</u></u>	<u><u>13,441</u></u>

The accompanying notes from 1 to 32 form an integral part of these financial statements.

Union Insurance Company P.J.S.C.

Statement of changes in equity For the year ended 31 December 2022

	Share capital AED'000	Statutory reserve AED'000	Special reserve AED'000	Fair value reserve AED'000	Reinsurance reserve AED'000	Accumulated losses AED'000	Total AED'000
Balance at 1 January 2022	330,939	16,187	16,187	156	4,885	(132,869)	235,485
Profit for the year	-	-	-	-	-	18,328	18,328
Other comprehensive income for the period	-	-	-	10	-	-	10
Total comprehensive income for the period	-	-	-	10	-	18,328	18,338
Transfer to reinsurance reserve	-	-	-	-	2,521	(2,521)	-
Transfer to statutory reserve	-	1,833	-	-	-	(1,833)	-
Transfer to special reserve	-	-	1,833	-	-	(1,833)	-
Balance at 31 December 2022	330,939	18,020	18,020	166	7,406	(120,728)	253,823
Balance at 1 January 2021	330,939	14,865	14,865	(11,274)	2,266	(129,617)	222,044
Profit for the year	-	-	-	-	-	13,219	13,219
Other comprehensive income for the year	-	-	-	222	-	-	222
Total comprehensive income for the year	-	-	-	222	-	13,219	13,441
Net realised loss on disposal of investments held at fair value through other comprehensive income	-	-	-	11,208	-	(11,208)	-
Transfer to reinsurance reserve	-	-	-	-	2,619	(2,619)	-
Transfer to statutory reserve	-	1,322	-	-	-	(1,322)	-
Transfer to special reserve	-	-	1,322	-	-	(1,322)	-
Balance at 31 December 2021	330,939	16,187	16,187	156	4,885	(132,869)	235,485

The accompanying notes from 1 to 32 form an integral part of these financial statements

Union Insurance Company P.J.S.C.

Statement of cash flows

For the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Cash flows from operating activities			
Profit for the year		18,328	13,219
Adjustments for:			
Depreciation and amortization of property and equipment and intangible assets		8,460	7,906
Depreciation on right-of-use assets	22.1	3,016	2,962
Realised gain on disposal of investments at FVTPL	20	(3,173)	(2,917)
Unrealised loss on investments at FVTPL	20	5,289	978
Provision for doubtful debts	16.1	2,977	10,062
Work in progress written off	5.2	2,134	2,387
Interest income	20	(6,149)	(6,530)
Dividend income	20	(3,018)	(527)
Gain on sale of property and equipment		(1)	(27)
Interest on lease liabilities	22.2	413	110
Provision for employees' end of service benefits	23	2,885	3,081
Operating cash flows before changes in working capital		31,161	30,704
Change in			
Reinsurance contract assets		77,738	(343,249)
Insurance and other receivables		14,618	27,856
Insurance contract liabilities		(96,878)	364,832
Insurance and other payables		(22,711)	(83,317)
Unit linked assets		(19,274)	(82,089)
Unit linked liabilities		19,274	82,089
Cash generated from operating activities		3,928	(3,174)
Employees' end of service indemnity paid	23	(1,334)	(1,170)
Net cash generated from / (used in) operating activities		2,594	(4,344)
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(1,228)	(1,990)
Proceeds from sale of property and equipment		3	27
Purchase of investments held at FVTPL (excluding unit linked assets)	6.5	(67,165)	(8,490)
Proceeds from disposal of investments held at FVTPL (excluding unit linked assets)	6.5	36,168	76,319
Proceeds from disposal of investments held at FVTOCI	6.5	-	7,092
Interest received		6,149	5,701
Dividends received		3,018	527
Maturities of fixed deposits with banks with original maturities greater than three months		137,077	15,207
Net cash generated from investing activities		114,022	94,393
Cash flows from financing activities			
Payment of lease liabilities	22.2	(2,830)	(2,726)
Net cash used in financing activities		(2,830)	(2,726)
Net change in cash and cash equivalents		113,786	87,323
Cash and cash equivalents at the beginning of the year	8.1	91,881	4,558
Cash and cash equivalents at the end of the year	8.1	205,667	91,881
Non cash transactions			
Rights of use asset		9,240	4,066
Lease liability		(9,240)	(4,027)
Transfer from CWIP to property and equipment and intangible assets		1,516	5,032
Transfer to property and equipment and intangible assets from CWIP		(1,516)	(5,032)

The accompanying notes from 1 to 32 form an integral part of these financial statements.

Union Insurance Company P.J.S.C.

Notes to the financial statements For the year ended 31 December 2022

1. General information

Union Insurance Company P.J.S.C. (the "Company") is incorporated as a public shareholding company and operates in the United Arab Emirates ("UAE") under a trade license issued by the Government of Dubai. The Company is registered under the UAE Federal Law No. (32) of 2021, relating to commercial companies. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, as amended, concerning establishment of the Insurance Authority and Organisation of its Operations, and is registered with the Insurance Companies Register of the Central Bank of the UAE ("CBUAE") under registration number 67. The Company's registered corporate office is at Single Business Tower, Sheikh Zayed Road, P.O. Box 119227, Dubai, United Arab Emirates ("UAE"). The Company's ordinary shares are listed on the Abu Dhabi Securities Exchange ("ADX").

The principal activity of the Company is the writing of insurance of all types including life assurance. The Company operates through its Head Office in Dubai and Branch Offices in Abu Dhabi, Dubai, Sharjah, Ajman, and Ras Al Khaimah.

Federal Law No. 32 of 2021 on Commercial Companies (the "New Companies Law") was issued on 20 September 2021 with an effective date of 2 January 2022, and will entirely replace Federal Law No. 2 of 2015, as amended, on Commercial Companies, as amended. The Company has twelve months from the effective date to comply with the provisions of the New Companies Law. The Company is 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 9 December 2022, the UAE Ministry of Finance released the Federal Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime will become effective for accounting periods beginning on or after 1 June 2023. The Company is 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.

A rate of 9% will apply to taxable income exceeding a particular threshold to be prescribed by way of a Cabinet Decision (expected to be AED 375,000 based on information released by the Ministry of Finance), a rate of 0% will apply to taxable income not exceeding this threshold and a rate of 0% on qualifying income of free zone entities.

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

2.1 Standards, interpretations and amendments to existing standards that are effective from 1 January 2022

Following relevant new amendments to existing standards were issued by the IASB, which are effective for the annual period beginning on or after 1 January 2022 do not have a significant impact on the Company's financial results or position include:

- Reference to the Conceptual Framework (Amendments to IFRS 3)
- COVID-19 – Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)
- Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements (2018-2020 Cycle):
 - Subsidiary as a First-time Adopter (Amendments to IFRS 1)
 - Fees in the '10 per cent' Test for Derecognition of Liabilities (Amendments to IFRS 9)
 - Lease Incentives (Amendments to IFRS 16)
 - Taxation in Fair Value Measurements (Amendments to IAS 41).

This amendment did not have a significant impact on these financial statements.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

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

2.2 Standards issued but not yet effective

The IASB has issued the following standards or amended standards and interpretations which apply from the dates shown. The Company has decided not to early adopt any of these standards, amendments or interpretations where this is permitted.

IFRS 9 Financial Instruments (1 January 2023)

Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model will require the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has taken advantage of the temporary exemption granted to insurers in IFRS 4 Insurance Contracts from applying IFRS 9 until 1 January 2023 as a result of meeting the exemption criteria.

IFRS 9 will be implemented at the same time as the new insurance contracts standard (IFRS 17 Insurance Contracts) effective from 1 January 2023. During the year, the Company continued its implementation activities in respect of IFRS 9 and expects to continue to value the majority of its financial assets at fair value through profit or loss on initial recognition, either as a result of these financial assets being managed on a fair value basis or as a result of using the fair value option to irrevocably designate the assets at fair value through profit or loss. A number of additional disclosures will be required by IFRS 7 Financial Instruments: Disclosures as a result of implementing IFRS 9.

IFRS 17 Insurance Contracts (1 January 2023)

Once effective IFRS 17 will replace IFRS 4 the current insurance contracts standard and it is expected to significantly change the way the Company measures and reports its insurance contracts. The overall objective of the new standard is to provide an accounting model for insurance contracts that is more useful and consistent for users. IFRS 17 applies to insurance contracts (including reinsurance contracts) an entity issues, reinsurance contracts an entity holds and investment contracts with discretionary participation features an entity issues.

The scope of IFRS 17 for the Company is materially consistent with that of IFRS 4. Investment contracts will be measured under IFRS 9. IFRS 17 requires that contracts are divided into groups for the purposes of recognition and measurement. Portfolios of contracts are identified by grouping together contracts which have similar risks and are managed together. These groups are then further divided into groups based on their expected profitability.

Contracts which are onerous at inception cannot be grouped with contracts which are profitable at inception. Contracts which are issued more than one year apart are not permitted to be included within the same group, although there is some relief from this requirement for business in-force at the date of transition under the transitional arrangements.

The standard introduces three measurement approaches, the general model measurement ("GMM"), the variable fee approach ("VFA") and the premium allocation approach ("PAA"), all of which are applicable to the Company's business. The main features of these models are the measurement of an insurance contract as the present value of expected future cash flows including acquisition costs, plus an explicit risk adjustment, remeasured at each reporting period using current assumptions, and a contractual service margin ("CSM").

The risk adjustment represents the compensation the Company requires for bearing the uncertainty about the amount and timing of cash flows that arise from non-financial risk as the obligations under the insurance contract are fulfilled.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

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

2.2 Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts (1 January 2023) (continued)

The CSM represents the unearned profit of a group of insurance contracts and is recognised in profit or loss as the insurance service is provided to the customer using coverage units. Coverage units are a measurement of the quantum of service provided across the life of the contract and are used to measure the service provided in the reporting period and release a corresponding amount of profit to the income statement. If a group of contracts becomes loss-making after inception, the loss is recognised immediately in the income statement.

Under the general model the CSM is adjusted for non-economic assumption changes relating to future periods. For certain contracts with participating features the variable fee approach is applied, this allows changes in economic assumptions and experience to adjust the CSM as well as non-economic assumptions, reflecting the variable nature of the entity's earnings driven by investment returns.

IFRS 17 requires the standard to be applied retrospectively. Where this is assessed as impracticable the standard allows the application of a modified retrospective approach or a fair value approach to determine the contractual service margin. The measurement principles set out in IFRS 17 will significantly change the way in which the Company measures its insurance contracts and investment contracts with discretionary participation features ('DPF'), and associated reinsurance contracts.

These changes will impact the pattern in which profit emerges when compared to IFRS 4 and add complexity to valuation processes, data requirements and assumption setting. The introduction of IFRS 17 will simplify the presentation of the statement of financial position. It requires the presentation of groups of insurance (or reinsurance) contracts that are in an asset position separately from those in a liability position. The presentation of the income statement will change more significantly with IFRS 17 setting out how components of the profitability of contracts are disaggregated into an insurance service result and insurance finance income/expenses. IFRS 17 also requires extensive disclosures on the amounts recognised from insurance contracts and the nature and extent of risks arising from them.

Premium allocation approach: The Premium allocation approach is an optional simplified measurement model in IFRS 17 that is available for insurance and reinsurance contracts that meet the eligibility criteria.

The Company expects that it will apply the PAA to most contracts in the Non-life segment because the following criteria are expected to be met at inception.

Insurance contracts and loss-occurring reinsurance contracts: The coverage period of each contract in the group is one year or less.

Risk-attaching reinsurance contracts: The Company reasonably expects that the resulting measurement of the asset for remaining coverage would not differ materially from the result of applying the accounting policies described above.

Under IFRS 17, the measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Compared with the current accounting, the Company expects that for certain contracts the IFRS 17 contract boundary requirements will change the scope of cash flows to be included in the measurement of existing recognised contracts, as opposed to future unrecognised contracts. The period covered by the premiums within the contract boundary is the 'coverage period', which is relevant when applying a number of requirements in IFRS 17.

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Under IFRS 17, for Life contracts, insurance acquisition cash flows are allocated to groups of contracts using systematic and rational methods based on the total premiums for each group.

Under IFRS 17, only insurance acquisition cash flows that arise before the recognition of the related insurance contracts are recognised as separate assets and tested for recoverability, whereas other insurance acquisition cash flows are included in the estimates of the present value of future cash flows as part of the measurement of the related insurance contracts.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

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

2.2 Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts (1 January 2023) (continued)

Impact assessment – Life Insurance

Under IFRS 17, all profits will be recognised in profit or loss over the lifetime of the contracts, and this will primarily be driven by the timing of the recognition in profit or loss of the CSM as services are provided and the risk adjustment for non-financial risk as the related risk expires. The Company expects that, even though the total profit recognised over the lifetime of the contracts will not change, it will emerge more slowly under IFRS 17. This is mainly because, for certain Life contracts, all profits are currently recognised in profit or loss on initial recognition of the contracts. The different timing of profit recognition will result in an increase in liabilities on adoption of IFRS 17 because a portion of profits previously recognised and accumulated in equity under IFRS 4 will be included in the measurement of the liabilities under IFRS 17.

The changes in the liabilities for Life contracts on transition to IFRS 17 can mainly be attributed to the following.

Changes from IFRS 4	Impact on equity on transition to IFRS 17
The estimates of the present value of future cash flows will increase as a result of inclusion of all discretionary benefits in the estimates of the future cash flows in measuring the liabilities for investment contracts with DPf a reduction in the discount rates because of the IFRS 17 requirements to measure future cash flows using current discount rates.	Decrease
The risk adjustment for non-financial risk under IFRS 17 will be lower than the risk margin under IFRS 4 as a result of (a) recalibration of the measurement techniques to conform with the IFRS 17 requirements, (b) exclusion of financial risk and general operational risk from the IFRS 17 risk adjustment for non-financial risk and (c) consideration of diversification benefit between Company entities.	Increase
A CSM, determined using the transition approaches, will be recognised for the unearned profit for these contracts.	Decrease

Impact assessment – Non-Life Insurance

Although the PAA 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

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

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

2.2 Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts (1 January 2023) (continued)

The Company's implementation project continued through 2022 with a focus on finalising methodologies and developing the operational capabilities required to implement the standard including data, systems and business processes. The current focus is on embedding the operational capabilities and determining the transition of financial position and comparatives required for 2023 reporting.

Since the implementation project is currently ongoing, management believes that it is impractical to determine the amount of the effect of IFRS 17 in the current period.

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

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)
- Disclosure of Accounting Policies (Amendments to IAS 1)
- Definition of Accounting Estimates (Amendments to IAS 8)

These standards, amendments and interpretations are not expected to have a significant impact on the financial statements in the period of initial application.

3. Significant accounting policies

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

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Federal Law No. 6 of 2007 (as amended), Concerning the Establishment of the Insurance Authority & Organization of the Insurance Operations, the Federal Law No. (32) of 2021 Concerning commercial companies and Insurance Authority Board Decision No. (23) of 2019 Concerning Instruction Organizing Reinsurance Operations.

3.2 Basis of preparation

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

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.3 Insurance contracts

3.3.1 Product classification

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk of at least 10%, by comparing benefits paid with benefits payable if the insured event did not occur.

Some insurance and investment contracts contain discretionary participating features (DPF) which entitle the contract holder to receive, as a supplement to the standard guaranteed benefits, additional benefits or bonuses:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the insurer; and
- That are contractually based on:
 - (i) the performance of a specified pool of contracts or a specified type of contract;
 - (ii) realised / unrealised investment returns on a specified pool of assets held by the issuer; or,
 - (iii) the profit or loss of the Company, fund or other entity that issues that contract.

Under IFRS 4, DPF can be either treated as an element of equity or as a liability or can be split between the two elements. The Company's policy is to treat all DPF as a liability within insurance or investment contract liabilities.

The policyholder bears the financial risks relating to some insurance contracts or investment contracts. Such products are usually unit-linked contracts.

3.3.2 Recognition and measurement

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

(i) Short-term insurance contracts

These contracts are medical, motor, property, marine, engineering, general accident as well as short-duration life insurance contracts.

Short-duration life insurance contracts protect the Company's customers from the consequences of events such as, but not limited to, death or disability.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.2 Recognition and measurement (continued)

(i) Short-term insurance contracts (continued)

In respect of short term insurance contracts, premium are recognised as revenue (earned premiums) proportionately over the period of coverage with the exception of marine cargo, where it is assumed that each policy is earned fully in the quarter following the quarter in which it was written; hence the unearned premium reserve ("UPR") at the end of a particular quarter will be equal to the written premium in that quarter and engineering where UPR is calculated on increasing risk basis as required in the Financial Regulations issued by the CBUAE (formerly, the IA). The portion of the premium received in respect of in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before deduction of the commission.

Claims and loss adjustment expenses are charged to the statement of income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct claims settlement costs which arise from events that have occurred up to the end of the reporting period even if they have not been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions). Insurance contract liabilities also include reinsurance share of third party recoveries that are outstanding but not yet confirmed for the by the respective insurance companies against the recoveries of claims that were already received by the Company. Once the third party recoveries are confirmed, they are reclassified to "Due to reinsurance companies" within "Insurance and other payables" on the statement of financial position.

Unallocated loss adjustment expense reserves correspond to the provision representing future claim expenses and related handling costs that are not specific to a claim. It represents all other expenses and costs that are related to the adjudication of claims but cannot be assigned to a specific claim.

(ii) Long-term insurance contracts with fixed and guaranteed terms

The Company writes long-term term assurance policies, where a single or regular premium is paid by the policyholder in exchange for a fixed death benefit paid on death before the end of the term of the policy.

The Company also writes long term credit life policies, where a single or monthly premium is paid by the policyholder in exchange for a death benefit, linked to a specified loan or mortgage, paid on death before the end of the term of the policy.

Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. Claims are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is based on assumptions such as mortality and investment performance. A conservative approach is used to determine the assumptions so as to ensure adequate margin in the results.

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid. The liabilities are recalculated at each end of the reporting period using the assumptions established at inception of the contracts.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.2 Recognition and measurement (continued)

(iii) Long-term unit linked insurance contracts

The Company writes long term unit-linked term assurance and whole of life policies, where regular policyholder premiums are invested into funds selected by the policyholder, in return for a death, maturity or surrender benefit payable to the policyholder.

The benefits payable to the policyholder may be a fixed sum assured, or an amount based on the value of the policyholder's unit fund, depending on the product type chosen by them. Liabilities are set equal to the policyholders' account value in addition to liabilities calculated against the insurance risk embedded in the products and recorded as "Payables to policyholders' of unit linked products" in the statement of financial position. These account values are affected by factors including but not limited to: payment of policy premiums, changes in the unit prices, policy administration fees, mortality charges, surrender charges and any withdrawals.

The liability for these contracts includes any amounts necessary to compensate the Company for services to be performed over future periods. This is the case for contracts where the policy administration charges are higher in the initial years than in subsequent years. The mortality charges deducted in each period from the contract holders are considered adequate to cover the expected total death benefit claims in excess of the contract account balances in each period; no additional liability is therefore established for these claims.

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of investments. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

(a) *Deferred policy acquisition costs (DAC)*

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses, when incurred. The DAC is subsequently amortised over the life of the contract.

(b) *Liability adequacy test*

At the end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows, claims handling, administration expenses and other associated expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the statement of income by establishing a provision for losses arising from liability adequacy tests ("the unexpired risk provisions").

(c) *Reinsurance contracts held*

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.3 Insurance contracts (continued)

3.3.2 Recognition and measurement (continued)

(c) Reinsurance contracts held (continued)

These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for insurance receivables. The impairment loss is calculated following the same method used for these financial assets.

The Company also assumes reinsurance risk in the normal course of business for life insurance and general insurance contracts where applicable. Premium and claims on assumed reinsurance contracts are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance assets also include third party recoveries that are outstanding but not yet confirmed by the respective insurance companies against the claims that were already paid by the Company. Once the third party recoveries are confirmed, they are reclassified to "Due from insurance companies" within "Insurance and other receivables" on the statement of financial position.

(d) Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the asset.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

(e) Provision for default claims and refunds

The Company recorded the provision for default claims and refunds relating to credit life insurance policies within Insurance contract liabilities. This provision is for the additional benefits covered in the specific credit life policies towards skip and disappearance of the customers.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.4 Revenue recognition

(a) Interest income

Interest income and expense for all interest-bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount of the financial instrument, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision) and are recognised within 'interest income' in the statement of income.

(b) Dividend income

Dividend income from investments is recognised in the statement of income when the Company's right to receive dividend has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

(c) Reinsurance commission earned

Commissions earned are recognised fully at the time the related insurance contracts are written.

3.5 Foreign currencies

3.5.1 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Company's financial statements are presented in Arab Emirates Dirham ("AED"), which is the Company's functional and presentation currency.

3.5.2 Transactions and balances

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised in statement of other comprehensive income.

3.6 Segment reporting

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

- (a) The general insurance segment comprises of property, fire, marine, motor, medical, general accident and miscellaneous risks.
- (b) The life assurance segment offers short term and long term life insurance. Revenue from this segment is derived primarily from insurance premium, fees and commission income, investment income and fair value gains and losses on investments.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.6 Segment reporting (continued)

No operating segments have been aggregated to form the above reportable operating segments. Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements. No inter-segment transactions occurred during the year ended 31 December 2022 and 2021. If any transaction were to occur, transfer prices between operating segments would be set on an arm's length basis in a manner similar to transactions with third parties.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The two operating segments i.e General Insurance and Life Insurance segments, organised under two Presidents who report into the Chief Executive Officer. The Board and its various committees have oversight on the overall operations of the company.

3.7 Property and equipment

Property and equipment comprises of freehold land, furniture and fixture, office equipment, motor vehicles, computer equipment and capital work in progress.

Property and equipment is carried at historical cost, less accumulated depreciation any recognised impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. These assets are classified to the appropriate categories of property and equipment when completed and ready for their intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of income during the reporting period in which they are incurred.

Freehold land is not depreciated.

Capital work in progress is stated at the lower of cost or net realisable value. The cost includes the cost of construction and other related expenditure which are capitalised as and when activities that are necessary to get the assets ready for use are in progress. Net realisable value represents the estimated recoverable value based on expected future usage. Management reviews the carrying values of the capital work in progress on an annual basis.

Capital work in progress are considered to be completed when all related activities, for the entire assets have been completed. Upon completion, those are transferred to property and equipment.

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 included in the statement of comprehensive income in the year the asset is derecognised.

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

Depreciation is recognised so as to write off the cost of assets, other than capital work in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.7 Property and equipment (continued)

The useful life considered in calculation of depreciation for all the assets is as follows:

- Office Equipment & Computer Equipment - 5 years
- Motor Vehicles - 4 years
- Furniture and Fixtures - 12 years

3.8 Intangible assets

Intangible assets including software and license fee for access to know how.

(a) Software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads.

The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful lives considered in the calculation of amortisation is 5 years.

(b) License know how

Licenses know how is shown at historical cost. It has a definite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost license over their estimated useful lives ie 5 years.

3.9 Leases

The Company leases office premises. Rental contract of the leases range from 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreement does not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability within "Insurance and other payables" at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

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

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.9 Leases (continued)

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

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

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

Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income.

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For buildings, the following factors are normally the most relevant.

- if there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate);
- if any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate); and
- otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Termination option is included in the property lease of the Company. This option held is exercisable by the Company and the lessor.

Payments associated with short-term leases of premises are recognised on a straight-line basis as an expense in statement of income. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

3.10 Dividend distribution

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

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.11 Financial instruments

(a) Investments and other financial assets

(i) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in statement of income or statement of other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. The Company reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

All "regular way" purchases and sales of financial assets are recognised on the "trade date", i.e. the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Company classifies its debt instruments:

- ❖ **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is calculated using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'Net investment income/ (loss)' together with foreign exchange gains and losses. Impairment losses are included within 'Net investment income/(loss)' in the statement of income.
- ❖ **FVTPL:** Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in the income statement and is presented net within 'Net investment income' in the period in which it arises.
- ❖ **FVTOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net investment income'. Interest income from these financial assets is calculated using the effective interest rate method. Foreign exchange gains and losses are presented in 'Net investment income'.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.11 Financial instruments (continued)

(iii) Measurement (continued)

Equity investments

The Company subsequently measures all equity investments at FVTPL, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at FVTOCI. The Company's policy is to designate equity investments at FVTOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as "Net investment income / (loss)" when the Company's right to receive payments is established.

The unit-linked assets include investments held on behalf of policyholders of unit linked products, financial assets from reinsurer towards policyholders of unit linked products contracts and cash held on behalf of policyholders. Investments held on behalf of policyholders of unit linked products and financial assets from reinsurer towards policyholders of unit linked products contracts are accrued to the account of the contract holder at the fair value of the net gains arising from the underlying linked assets. All these contracts are designated as at fair value through profit or loss and were designated in this category upon initial recognition. Cash held on behalf of policyholders are designated as amortised cost investment designated in this category upon initial recognition.

Impairment and uncollectibility of financial assets

The Company assesses the collectability of its financial assets based on its credit policy and default events. Refer to (b) below for impairment of insurance and other receivables.

(b) Insurance and other receivables

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

The carrying amount of the receivable is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of income. When a receivable is uncollectible, it is written off against the allowance account for that receivable. Subsequent recoveries of amounts previously written off are credited in the statement of income.

(c) Financial liabilities

The Company recognises a financial liability when it first becomes a party to the contractual rights and obligations in the contract.

All financial liabilities are initially recognised at fair value, minus (in the case of a financial liability that is not at FVTPL) transaction costs that are directly attributable to issuing the financial liability. Financial liabilities are measured at amortised cost, unless the Company opted to measure a liability at FVTPL.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial liabilities included in insurance and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.11 Financial instruments (continued)

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the statement of income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

(d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value less overdrafts with banks. Bank overdrafts are shown within liabilities in the statement of financial position.

(e) Bank deposits with banks with original maturities of more than three months

Deposits held with banks with original maturities of more than three months are initially measured at fair value and subsequently measured at amortised cost.

3.12 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses are recognised in the statement of income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.13 Provisions

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. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.14 Employees' end of service benefits

Provision for employees' end of service benefits

The Company provides end of service benefits to its expatriate employees in accordance with the UAE Labor Law.

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

Defined contribution plan for UAE national employees

The Company is a member of the pension scheme operated by the Federal Pension General and Social Security Authority. Contributions for eligible UAE National employees are made and charged to the statement of income, in accordance with the provisions of Federal Law No. 7 of 1999 relating to pension and Social Security Law. The employees and the Government contribute 5% and 2.5% of the "contribution calculation salary" respectively, to the scheme. The only obligation of the Company with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to statement of income.

An accrual has been made for the past contributions relating to the services rendered by the eligible UAE National employees up to 31 December 2022. The Company has no further payment obligations once the contributions have been paid.

3.15 Contingencies

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.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Significant accounting policies (continued)

3.16 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.
- (b) An entity is related to the Company if any of the following conditions applies:
 - (i) The entity and the Company are members of the same Company (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Company of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a);
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3.17 Administration expenses

Direct expenses of general insurance business are charged to respective departmental revenue accounts and is charged to statement of income.

3.18 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

4. Critical accounting judgements and key sources of estimation of uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The sensitivities for life insurance contracts are disclosed in note 14.7 and for general insurance contracts are disclosed in note 26.4.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

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

4.1 The ultimate liability arising from claims made under insurance contracts

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the reporting date. The liability for outstanding claims includes the cost of claims reported but yet to be paid, claims incurred but not reported ("IBNR"), and the estimated expenses to be incurred in settling claims.

The process of establishing liability estimates is subject to considerable variability as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors, and may be revised as additional experience becomes available or as regulations change. The liability for outstanding claims is estimated using the input of assessment for individual cases reported to the Company as well as assessments performed by external loss adjustors where deemed necessary. Claims requiring court or arbitration decisions are estimated individually. The Company takes all reasonable steps to ensure that it has appropriate information regarding the risk of major storm, tempest and flood scenarios that exist in the UAE to estimate 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 estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims, where more information about the claim event is available. Classes of business which have a longer reporting tail and where the IBNR proportion of the total reserve is therefore high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty in estimating these liabilities. For the short-tailed classes, claims are typically reported soon after the claim event, and tend to display less variation. In calculating the required levels of provisions, the Company's internal and external independent actuary use a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

In arriving at booked claims provisions, management also make allowance for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in patterns of claim incidence, reporting, processing, finalisation and payment;
- changes in the legal environment;
- the impact of inflation (both economic/wage and superimposed);
- changes in the mix of business;
- the impact of large losses;
- the effects of inflation;
- movements in industry benchmarks;
- medical and technological developments;
- changes in policyholder behaviour.

The methods used to analyse past claim experience and to project future claim experience are largely determined by the available data and the nature of the portfolio. The projections given by the different methodologies assist in setting 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.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Outstanding claims and claims incurred but not reported are calculated gross of reinsurance. A separate estimate is made of the amounts recoverable from reinsurers and third parties under reinsurance contracts based on the gross provisions. Future cash flows are not discounted for time value of money.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

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

4.2 Mathematical reserves

Liabilities pertaining to the long-term insurance contracts are determined based on standard actuarial principles. The liability is determined based on the actuarial present value of future cashflows. These cashflows are based on factors, including but not limited to; claims, expected future mortality and the structure of the product. Additional liabilities are determined for supplementary benefits attached to the base policy.

The Company bases the mortality and morbidity estimates on standard tables that best reflect historical experience, adjusted where appropriate to reflect the Company's own experience. A67 – 70 Ultimate Mortality Table of Assured Lives and a discount rate of 3% are used for the purpose of discounting the liabilities (31 December 2021: 1%).

4.3 Impairment of freehold land

At each reporting date or whenever a change in circumstances occurs, both internal and external sources of information are considered to assess whether there is an indication that freehold land is impaired. If such an indication exists, the recoverable amount of the asset is estimated using fair value less costs of disposal and/or value in use calculations as appropriate. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognised to reduce the asset to its recoverable amount. Such impairment charges are recognised in the statement of income.

4.4 Impairment of insurance receivables

The Company reviews its insurance receivables to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from receivables. A provision for doubtful debts of insurance receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. (Refer to note 3.11(b)) Receivables arising from reinsurance contracts are also reviewed for impairment as part of the impairment review of receivables.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

5. Property and equipment

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Operating assets (Note 5.1)	66,322	67,331
Capital work in progress (CWIP) (Note 5.2)	607	3,115
Property and equipment	66,929	70,446

5.1 Operating assets

	Freehold land AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Motor vehicles AED'000	Computer equipment AED'000	Total AED'000
Cost						
31 December 2021	61,067	16,953	2,806	822	9,881	91,529
Transfer from CWIP	-	12	124	43	366	545
Disposal	-	-	-	-	(3)	(3)
31 December 2022	61,067	16,965	2,930	865	10,244	92,071
Accumulated depreciation						
31 December 2021	-	11,679	2,629	701	9,189	24,198
Charge for the year	-	1,011	95	127	319	1,552
Relating to disposal	-	-	-	-	(1)	(1)
31 December 2022	-	12,690	2,724	828	9,507	25,749
Carrying amount						
31 December 2022	61,067	4,275	206	37	737	66,322

*The Board of Directors of the Company has passed a resolution in prior years to construct the Company's head-office on the freehold land. The freehold land is carried at cost.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)
For the year ended 31 December 2022

5. Property and equipment (continued)

5.1 Operating assets (continued)

	Freehold land AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Motor vehicles AED'000	Computer equipment AED'000	Total AED'000
Cost						
31 December 2020	61,067	16,226	2,725	872	9,698	90,588
Additions	-	158	-	-	-	158
Transfers from CWIP	-	569	81	-	183	833
Disposal	-	-	-	(50)	-	(50)
31 December 2021	61,067	16,953	2,806	822	9,881	91,529
Accumulated depreciation						
31 December 2020	-	10,711	2,546	613	8,858	22,728
Charge for the year	-	968	83	138	331	1,520
Relating to disposal	-	-	-	(50)	-	(50)
31 December 2021	-	11,679	2,629	701	9,189	24,198
Carrying amount						
31 December 2021	61,067	5,274	177	121	692	67,331

5.2 Capital work in progress (CWIP)

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
At 1 January		12,061
Additions	3,115	1,832
Write offs during the year	1,142	(2,387)
Reversals during the year	(2,134)	(3,359)
Transfers to property and equipment and intangible assets during the year	-	(5,032)
At 31 December	(1,516)	3,115
	607	

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

6. Investment securities and unit linked assets

Investment securities comprises the following:

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Financial assets at fair value through profit or loss (6.1)	76,752	47,871
Financial assets at fair value through other comprehensive income (6.2)	27	17
	<u>76,779</u>	<u>47,888</u>
Unit linked assets (6.3)	<u>349,613</u>	<u>368,887</u>

6.1 Financial assets at fair value through profit or loss

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Quoted equity securities in U.A.E.	61,953	19,668
Quoted equity securities outside U.A.E.	464	570
Quoted bonds in U.A.E.	11,971	16,450
Investment in funds outside U.A.E.	-	7,364
Unquoted equity securities outside U.A.E.	327	426
Unquoted equity securities in U.A.E.	2,037	3,393
Fair value at the end of the year	<u>76,752</u>	<u>47,871</u>

Investments classified at fair value through profit or loss are designated in this category upon initial recognition.

The bonds carry interests at the rates of 2.09% to 5.87% (31 December 2021: 2.09% to 5.87%) per annum. The bonds are redeemable at par from 2023 to 2026 (31 December 2021: 2022 to 2026) based on their maturity dates. There are no significant concentrations of credit risk to a single counter party for debt instruments and the carrying amount reflected above represents the Company's maximum exposure to credit risk for such assets.

6.2 Investments at fair value through other comprehensive income

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Quoted equity securities in U.A.E.	27	17
	<u>27</u>	<u>17</u>

Investments classified at fair value through other comprehensive income are designated in this category upon initial recognition.

During the year ended 31 December 2022, the Company did not dispose any equity investments held at fair value through other comprehensive income (31 December 2021: AED 7,092 thousand) in line with the Company's investment strategy. The Company realised loss for the year ended 31 December 2021 is AED 11,208 thousand which was transferred to accumulated losses.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

6. Investment securities and unit linked assets (continued)

6.3 Unit linked assets

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Investments held on behalf of policyholders of unit linked products carried at FVTPL	215,180	231,059
Financial assets due from reinsurer towards policyholders of unit-linked products carried at FVTPL	122,490	124,474
Cash held on behalf of policyholders of unit linked products carried at amortised cost	11,943	13,354
	<u>349,613</u>	<u>368,887</u>

6.4 Investment Concentration

The CBUAE has set a maximum limit for aggregate exposure in various categories of investments. As at 31 December 2022, the Company was in compliance with this requirement. As at 31 December 2021, the Company had investments more than the limits set in some categories, particularly equity instruments within and outside the UAE, and deposits and other debt instruments.

6.5 Movement in the financial investments

	FVTPL AED'000	FVTOCI AED'000	Total AED'000
At 1 January 2021	106,384	6,887	113,271
Purchases	8,490	-	8,490
Transfers	7,364	-	7,364
Disposals	(69,294)	(7,092)	(76,386)
Maturities	(7,025)	-	(7,025)
Movement in accrued interest	13	-	13
Changes in fair value	(978)	(18)	(996)
Realised gain	2,917	240	3,157
As at 31 December 2021	<u>47,871</u>	<u>17</u>	<u>47,888</u>
Purchases	67,165	-	67,165
Disposals	(36,168)	-	(36,168)
Changes in fair value	(5,289)	10	(5,279)
Realised gain	3,173	-	3,173
As at 31 December 2022	<u>76,752</u>	<u>27</u>	<u>76,779</u>

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

7. Statutory deposit

The statutory deposit of AED 10 million (31 December 2021: AED 10 million) is required to be placed by insurance companies operating in the U.A.E. with the designated national banks. This deposit has been pledged to the bank as security against a guarantee issued by the bank in favour of the CBUAE for the same amount.

Statutory deposits, which depend on the nature of insurance activities, cannot be withdrawn except with the prior approval of the CBUAE in accordance with Article 42 of Federal Law No. 6 of 2007, as amended and bear interest rate of 1.5% per annum (31 December 2021: 0.6% and 0.68% per annum).

8. Cash and bank balances

8.1 Cash and cash equivalent

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Cash in hand	50	50
Bank balances:		
Current accounts with banks	30,789	91,831
Bank deposits with original maturities of three months or less	174,828	-
Cash and cash equivalents for the purpose of the statement of cash flows	<u>205,667</u>	<u>91,881</u>
In U.A.E.	203,593	91,302
Outside U.A.E.	<u>2,074</u>	<u>579</u>
	<u>205,667</u>	<u>91,881</u>

Bank deposits with original maturities of three months or less as at 31 December 2022 carried interest rate ranging between 4.05% to 5% per annum (2021: 0.42%)

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

8. Cash and bank balances (continued)

8.2 Bank deposits with original maturities of more than three months

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Deposits with original maturities greater than three months	<u>68,888</u>	<u>205,965</u>
In U.A.E.	45,210	172,760
Outside U.A.E.	<u>23,678</u>	<u>33,205</u>
	<u>68,888</u>	<u>205,965</u>

Bank deposits carried interest rates ranging from 1.5% to 8% per annum (31 December 2021: 0.15% to 8.5% per annum).

Bank deposits of AED 45 million (31 December 2021: AED 46.4 million) have been pledged as security against the credit facility which is to manage the liquidity position.

The Company has obtained overdraft facilities from commercial banks in the UAE amounting to AED 25 million (31 December 2021: AED 28 million) which carry interest rate of 1% per annum above the highest interest rate payable on fixed deposits under lien for the overdraft facility; or as varied by notice in writing received from the bank from time to time. Unused credit facilities amounted to AED 25 million (31 December 2021: AED 28 million).

9. Share capital

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Issued and fully paid 330,939,180 shares of AED 1 each (31 December 2021: 330,939,180 share of AED 1 each)	<u>330,939</u>	<u>330,939</u>

10. Reserves

Nature and purpose of reserves

10.1 Statutory reserve

In accordance with the UAE Commercial Companies Law and the Company's Article of Association, the Company has resolved not to increase the statutory reserve above an amount equal to 50% of its paid up share capital. The Company transfers 10% of the profits for each year to the statutory reserve. The Company transferred AED 1,833 thousand during the year ended (31 December 2021: AED 1,322 thousand). The reserve is not available for distribution except in the circumstances stipulated by the law.

10.2 Special reserve

In accordance with the Company's Articles of Association, the Board of Directors may transfer 10% of annual net profits, if any, to a special reserve until an Ordinary General Meeting upon a proposal suspends it. The special reserve can be utilised for the purposes determined by the Ordinary General Meeting upon recommendations of the Board of Directors. The Company transferred AED 1,833 thousand during the year ended (31 December 2021: AED 1,322 thousand).

10.3 Fair value reserve

The fair value reserve comprises the cumulative net change in fair value of financial assets designated as fair value through other comprehensive income.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

10. Reserves (continued)

10.4 Reinsurance reserve

In accordance with Article 34 of the Insurance Authority's Board of Directors Decision No. (23) of 2019, the Company has transferred AED 2,521 thousand from 'Accumulated losses' to the 'Reinsurance reserve' being 0.5% of the total insurance premium ceded to reinsurers during the year ended 31 December 2022 (year ended 31 December 2021: AED 2,619 thousand). The Company shall accumulate such provision period on period and shall not dispose of the reserve without the written approval of the assistant governor of the banking and insurance supervision department within the CBUAE.

11. Related party balances and transactions

The Company, in the normal course of business, collects premiums, settles claims and enters into transactions with other business enterprises that fall within the definition of a related party as defined by International Accounting Standard 24. 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. The Company's management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

At the end of the reporting year, amounts due from/(to) related parties which are included in the respective account balances are detailed below:

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Balances with entities related to Board members		
Gross outstanding claims (included in claims reported unsettled)	468	444
Fixed deposits	45,256	-
Bank account	3,537	-
Balances with former major shareholder		
Premium receivables (Note 16)	26,603	26,508
Allowance for doubtful receivables (Note 16)	(26,360)	(26,310)
Net premium receivables	243	198
Investment properties reclassified to "Advance paid for purchase of real estate properties"	72,270	72,270
Reversal of net fair value gains recorded in prior years	(35,770)	(35,770)
Advance paid for purchase of real estate properties (Note 16)*	36,500	36,500
Provision on advance paid for purchase of real estate properties (Note 16)	(36,500)	(36,500)
	-	-

The amounts outstanding are unsecured, interest free and repayable on demand. No guarantees have been given to the related parties.

* The amount under the advance paid for real estate properties (AED 36.5 million) was represented as Investment Properties with a carrying value in the books of AED 72.3 million in the audited financial statements for the year ended 31 December 2020. The said asset represents purchased assets from related parties during the years 2013 and 2014. The purchased assets comprise a 60 residential-unit in a single building and a plot of land of 150,000 square feet with integrated infrastructure. For one of the assets, the agreement was entered in 2013 to purchase 150,000 square feet of the land, which was reduced to 56,800 square feet and later amended to 78,900 square feet based on the instruction received from the former Chairman who was also the representative of the related party.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

11. Related party balances and transactions (continued)

Balances with former major shareholder (continued)

The counterparties (related parties) to the above transactions never fulfilled their obligations to the Company (the Buyer), and as a result the Company did not obtain the title deeds nor obtain possession of the said assets. This has resulted in the incorrect recognition of fair value gains of AED 35.8 million on investment properties in respect of which the Company never obtained possession or legal title, and the misappropriation of advances amounting to AED 36.5 million paid to a related party towards the acquisition of the investment properties. Accordingly, the Board of Directors of the Company decided to book a full provision (AED 72.3 million) against the said assets and proceed with legal action against all involved parties, to recover the Company's rights, in accordance with the resolution of Shareholders Assembly Meeting held on 30 September 2021.

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

	For the year ended 31 December	
	2022 AED'000	2021 AED'000
<i>Transactions with entities related to Board members</i>		
Premiums written	1,201	1,299
Claims paid	(2,445)	(897)
FD interest income from Bank of Umm Al-Qaiwan	439	-
Bank charges	108	-
Rental paid	504	525
<i>Compensation of key management personnel</i>		
Short-term benefits	4,440	4,388
Long-term benefits	200	200
Board of Directors' fees	1,655	1,600

12. Contingent liabilities

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Letters of guarantee*	13,186	15,790

*Includes AED 10 million (31 December 2021: AED 10 million) issued in favor of the CBUAE (Note 7).

The Company, in common with the majority of insurers, is subject to litigation in the normal course of its business. Based on independent legal advice, the Company considers that the outcome of the outstanding court cases will not have a material impact on the Company's financial statements.

13. Payables to policyholders of unit linked products

The Company issues unit linked policies which have both insurance risk and investment components. The investment portion is invested on behalf of the policyholders as disclosed in note 6.3 of these financial statements.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

13. Payables to policyholders of unit linked products (continued)

Movement during the year:

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
As at 1 January	368,887	286,798
Purchase	101,398	108,368
Sales	(52,201)	(58,521)
Other charges	(769)	(2,436)
Change in fair value of the unit linked products	(67,702)	34,678
	<u>349,613</u>	<u>368,887</u>

14. Insurance contract liabilities and reinsurance contract assets

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Gross insurance contract liabilities		
Claims reported unsettled	509,981	579,170
Claims incurred but not reported	107,174	100,358
Unallocated loss adjustment expense reserve	5,433	6,974
Unexpired risk reserve	37,492	8,048
Third party recoveries	4,238	3,544
Mathematical reserve	91,323	139,040
Unearned premiums	238,401	253,786
Provision for default claims and refund	14,329	14,329
Gross insurance contract liabilities	<u>1,008,371</u>	<u>1,105,249</u>
Reinsurance contract assets		
Claims reported unsettled	(439,097)	(506,533)
Claims incurred but not reported	(76,159)	(65,379)
Unexpired risk reserve	(31,031)	2,672
Third party recoveries	(8,480)	(8,163)
Mathematical reserve	(65,858)	(119,373)
Unearned premiums	(133,151)	(134,738)
Total reinsurance contract assets	<u>(753,776)</u>	<u>(831,514)</u>
Net		
Claims reported unsettled	70,884	72,637
Claims incurred but not reported	31,015	34,979
Unallocated loss adjustment expense reserve	5,433	6,974
Unexpired risk reserve	6,461	10,720
Third party recoveries	(4,242)	(4,619)
Mathematical reserve	25,465	19,667
Unearned premiums	105,250	119,048
Provision for default claims and refunds	14,329	14,329
Net insurance contract liabilities	<u>254,595</u>	<u>273,735</u>

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

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

The gross and net insurance contract liabilities of AED 989,804 thousand and AED 244,508 thousand respectively as at 31 December 2022 (31 December 2021: AED 1,087,376 thousand and AED 264,025 thousand respectively) were certified by the Company's external appointed actuary. The difference in actuarial certification and the above amounts is on account of provision for default claims and refunds, third party recoveries against outstanding claims and paid claims. The changes in the methodologies and assumptions are detailed in note 26.4 of the financial statements. Actuarial estimation of the insurance liabilities has been performed by an independent actuary in accordance with the requirement of new financial regulations issued under Federal Law No.6 of 2007 as amended, as amended, pertaining to the insurance companies and agents. Estimates are made for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR) using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

	For the year ended 31 December					
	General		Life		Total	
	2022 AED'000	2021 AED'000	2022 AED'000	2021 AED'000	2022 AED'000	2021 AED'000
14. Insurance contract liabilities and reinsurance contract assets (continued)						
14.1 Gross and net claims incurred						
Gross claims incurred						
Claims settled during the year	(368,902)	(271,836)	(84,651)	(88,190)	(453,553)	(360,026)
Movement in claims reported unsettled	80,144	(308,642)	(10,955)	(24,862)	69,189	(333,504)
Movement in claims incurred but not reported	(4,491)	17,904	(2,325)	(844)	(6,816)	17,060
Movement in unallocated loss adjustment expense reserve	1,215	(2,181)	326	(698)	1,541	(2,879)
Movement in unexpired risk reserve	(30,415)	1,405	971	(7,272)	(29,444)	(5,867)
Movement in third party recoveries	(694)	76	-	-	(694)	76
	(323,143)	(563,274)	(96,634)	(121,866)	(419,777)	(685,140)
Insurance claims recovered from reinsurers						
Reinsurance share of claims settled during the year	216,883	143,768	75,421	74,843	292,304	218,611
Movement in reinsurance share of claims reported unsettled	(76,556)	294,310	9,120	23,477	(67,436)	317,787
Movement in reinsurance share of claims incurred but not reported	10,520	(6,950)	260	726	10,780	(6,224)
Movement in reinsurance share of unexpired risk reserve	34,674	(2,140)	(971)	7,272	33,703	5,132
Movement in reinsurance share of third party recoveries	317	(2,049)	-	-	317	(2,049)
	185,838	426,939	83,830	106,318	269,668	533,257
Net claims incurred	(137,305)	(136,335)	(12,804)	(15,548)	(150,109)	(151,883)

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

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

14.2 Development claim tables

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of each table illustrates how the Company's estimate of total claims reported unsettled and claims incurred but not reported for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position. The following tables illustrate the Company's estimate of total claims reported unsettled and claims incurred but not reported for the years from Prior to 2016 to 2022.

Gross incurred claims

Accident year	2016 and prior AED'000	2017 AED'000	2018 AED'000	2019 AED'000	2020 AED'000	2021 AED'000	2022 AED'000	Total AED'000
At the end of each reporting year	465,877	521,591	488,199	452,906	432,109	738,020	465,825	3,564,527
One year later	455,472	525,694	461,093	404,673	392,433	668,293	-	2,907,658
Two years later	449,009	542,901	438,368	391,182	380,835	-	-	2,202,295
Three years later	451,401	525,402	427,437	384,583	-	-	-	1,788,823
Four years later	448,419	526,553	426,932	-	-	-	-	1,401,904
Five years later	444,834	537,970	-	-	-	-	-	982,804
Six years later	445,379	-	-	-	-	-	-	445,379
Seven years later	452,679	-	-	-	-	-	-	452,679
Estimate of cumulative claims	452,679	537,970	426,932	384,583	380,835	668,293	465,825	3,317,117
Cumulative payments to date	(436,947)	(519,733)	(420,815)	(369,684)	(331,750)	(410,452)	(219,061)	(2,708,442)
TP recoveries against paid claims	140	272	74	31	86	662	7,215	8,480
Total gross reserves included in the statement of financial position	15,872	18,509	6,191	14,930	49,171	258,503	253,979	617,155

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

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

14.2 Development claim tables (continued)

Net incurred claims

Accident year	2016 and prior AED'000	2017 AED'000	2018 AED'000	2019 AED'000	2020 AED'000	2021 AED'000	2022 AED'000	Total AED'000
At the end of each reporting year	202,147	242,311	198,735	176,266	145,162	171,164	169,466	1,305,251
One year later	219,345	257,480	192,418	165,556	130,068	161,970	-	1,126,837
Two years later	224,991	259,920	188,247	159,668	130,899	-	-	963,725
Three years later	226,115	256,282	186,144	157,640	-	-	-	826,181
Four years later	225,336	257,054	186,071	-	-	-	-	668,461
Five years later	225,554	256,883	-	-	-	-	-	482,437
Six years later	225,774	-	-	-	-	-	-	225,774
Seven years later	228,429	-	-	-	-	-	-	228,429
Estimate of cumulative claims	228,429	256,883	186,071	157,640	130,899	161,970	169,466	1,291,358
Cumulative payments to date	(222,871)	(251,550)	(183,163)	(154,037)	(122,017)	(148,917)	(111,146)	(1,193,701)
TP recoveries against paid claims	140	270	59	19	45	294	3,415	4,242
Total gross reserves included in the statement of financial position	5,698	5,603	2,967	3,622	8,927	13,347	61,735	101,899

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

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

14.3 Unearned premiums

Movement of unearned premiums during the years ended 31 December 2022 and 2021 was as follows:

	For the year ended 31 December					
	Gross		Reinsurers' share		Net	
	2022	2021	2022	2021	2022	2021
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At the beginning of the year	253,786	245,387	(134,738)	(132,576)	119,048	112,811
Premiums written during the year (Note 21)	868,317	900,083	(504,146)	(523,839)	364,171	376,244
Premiums earned during the year	(883,702)	(891,684)	505,733	521,677	(377,969)	(370,007)
At the end of the year	238,401	253,786	(133,151)	(134,738)	105,250	119,048

14.4 Unexpired risk reserve

Movement of unexpired risk reserve during the year ended 31 December 2022 and 2021 was as follows:

	For the year ended 31 December					
	Gross		Reinsurers' share		Net	
	2022	2021	2022	2021	2022	2021
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At the beginning of the year	8,048	2,181	2,672	7,804	10,720	9,985
Additions during the year	29,444	5,867	-	-	29,444	5,867
Releases during the year	-	-	(33,703)	(5,132)	(33,703)	(5,132)
At the end of the year	37,492	8,048	(31,031)	2,672	6,461	10,720

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

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

14.5 Mathematical reserves

Movement of mathematical reserves during the years ended 31 December 2022 and 2021 was as follows:

	For the year ended 31 December					
	Gross		Reinsurers' share		Net	
	2022	2021	2022	2021	2022	2021
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At the beginning of the year	139,040	107,721	(119,373)	(92,932)	19,667	14,789
New business	34,009	48,351	(25,411)	(41,777)	8,598	6,574
Other increases	1,826	4,514	(1,317)	(3,213)	509	1,301
Deaths/maturities/surrenders	(3,653)	(1,478)	2,634	1,047	(1,019)	(431)
Other releases	(79,899)	(20,068)	77,609	17,502	(2,290)	(2,566)
At the end of the year	91,323	139,040	(65,858)	(119,373)	25,465	19,667

14.6 Third party recoveries

Movement of third party recoveries during the years ended 31 December 2022 and 2021 was as follows:

	For the year ended 31 December					
	Gross		Reinsurers' share		Net	
	2022	2021	2022	2021	2022	2021
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At the beginning of the year	3,544	3,620	(8,163)	(10,212)	(4,619)	(6,592)
Additions during the year	4,036	3,262	(7,703)	(6,131)	(3,667)	(2,869)
Releases during the year	(3,342)	(3,338)	7,386	8,180	4,044	4,842
At the end of the year	4,238	3,544	(8,480)	(8,163)	(4,242)	(4,619)

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

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

14.7 Sensitivity Table

The following table presents the sensitivity of the value of insurance contract liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance contract liabilities. For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No losses arose in either 2022 or 2021, based on the results of the liability adequacy test. The table below indicates the level of the respective variable that will trigger an adjustment and then indicates the liability adjustment required as a result of a further deterioration in the variable.

The below table illustrates sensitivity details for liabilities under life insurance contracts.

Technical provisions category	OVERALL SENSITIVITY OF NET RESULTS			
	AED '000			
	Pessimistic Estimate	Best Estimate	Optimistic Estimate	
Mortality assumption	26,658	25,169	23,648	
Discount rate assumption	26,362	25,169	24,571	
Expense assumption	26,088	25,169	23,699	
Expense inflation assumption	26,400	25,169	23,985	
Sensitivities	Pessimistic Estimate	Best Estimate	Optimistic Estimate	
	increase mortality rates by 10%	BE Mortality	decrease mortality rates by 10%	
Mortality assumption	increase discount rates by 0.5%	BE discount rate	decrease discount rates by 0.5%	
Discount rate assumption	increase expenses by 10%	BE expenses	decrease expenses by 10%	
Expense assumption	increase inflation by 0.5%	BE expense inflation	decrease inflation by 0.5%	
Expense inflation assumption				

There were no changes in the assumptions for mathematical reserves for the years ended 31 December 2022 and 2021.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

15. Segment information

Identification of reportable segments

Primary segment information

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

1. The general insurance segment, comprises motor, medical, marine, fire, property, liability, engineering and general accident.
2. The life segment includes group life, credit life and individual life.

These segments are the basis on which the Company reports its primary segment information to the Chief Operating Decision Maker. There are no transactions between the business segments.

Segment results

	General insurance		Life insurance		Total	
	2022 AED'000	2021 AED'000	2022 AED'000	2021 AED'000	2022 AED'000	2021 AED'000
UNDERWRITING INCOME						
Gross written premium	597,801	655,993	270,516	244,090	868,317	900,083
Reinsurance premiums ceded	(362,722)	(394,091)	(141,424)	(129,748)	(504,146)	(523,839)
Net retained premium	235,079	261,902	129,092	114,342	364,171	376,244
Net change in unearned premium, mathematical reserve and policyholders' reserve	13,724	(6,299)	(60,522)	(70,272)	(46,798)	(76,571)
Net earned premium	248,803	255,603	68,570	44,070	317,373	299,673
Gross commission earned	71,618	74,032	788	17,982	72,406	92,014
Total underwriting income	320,421	329,635	69,358	62,052	389,779	391,687
UNDERWRITING EXPENSES						
Net claims incurred	(137,305)	(136,335)	(12,804)	(15,548)	(150,109)	(151,883)
Commission incurred	(58,679)	(65,803)	(24,027)	(25,259)	(82,706)	(91,062)
Administrative expenses	(61,740)	(61,831)	(29,321)	(29,053)	(91,061)	(90,884)
Other operational costs related to underwriting activities	(27,880)	(30,665)	(21,057)	(7,741)	(48,937)	(38,406)
Total underwriting expenses	(285,604)	(294,634)	(87,209)	(77,601)	(372,813)	(372,235)
Total underwriting income / (loss)	34,817	35,001	(17,851)	(15,549)	16,966	19,452
Net investment loss					5,994	5,429
Provision for doubtful debts					(2,977)	(10,062)
Board of directors' remuneration					(1,655)	(1,600)
Profit for the year					18,328	13,219

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

15. Segment information (continued)

Segment assets and liabilities

	General insurance		Life insurance		Total	
	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
ASSETS						
Property and equipment	50,197	52,835	16,732	17,611	66,929	70,446
Intangible assets	3,676	5,198	5,047	9,376	8,723	14,574
Statutory deposit	6,000	6,000	4,000	4,000	10,000	10,000
Right-of-use assets	5,146	478	1,715	159	6,861	637
Unit linked assets	-	-	349,613	368,887	349,613	368,887
Investments securities	62,292	35,066	14,487	12,822	76,779	47,888
Reinsurance contract assets	597,451	629,558	156,325	201,956	753,776	831,514
Bank deposits with original maturities of more than months	31,952	113,086	36,936	92,879	68,888	205,965
Insurance and other receivables	234,762	277,410	103,845	78,792	338,607	356,202
Cash and cash equivalents	154,250	68,911	51,417	22,970	205,667	91,881
Total assets	1,145,726	1,188,542	740,117	809,452	1,885,843	1,997,994
LIABILITIES						
Provision for employees' end of service benefits	10,818	9,655	3,606	3,218	14,424	12,873
Insurance contract liabilities	797,741	858,287	210,630	246,962	1,008,371	1,105,249
Insurance and other payables	211,750	218,479	47,862	57,021	259,612	275,500
Payables to policyholders of unit linked products	-	-	349,613	368,887	349,613	368,887
Total liabilities	1,020,309	1,086,421	611,711	676,088	1,632,020	1,762,509

The table presents the geographical distribution of gross written premiums

	For the year ended 31 December	
	2022 AED'000	2021 AED'000
United Arab Emirates	684,742	753,672
GCC	182,026	145,038
Others	1,549	1,373
	868,317	900,083

The geographical segment disclosure is not applicable for non-current assets. The Company does not have reliance on any single customer for generating revenue

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

16. Insurance and other receivables

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Due from policyholders and brokers	255,631	280,295
Due from insurance companies	31,446	22,595
Due from reinsurance companies	20,965	23,422
Provision for doubtful debts (due from policyholders, brokers, insurance and reinsurance companies)	(37,409)	(34,499)
Due from related parties (Note 11)	26,603	26,508
Provision for doubtful debts – (Due from related parties) (Note 16.1)	(26,360)	(26,310)
	<u>270,876</u>	<u>292,011</u>
Other receivables	40,687	38,946
Provision for doubtful debts (Note 16.1)	(271)	(271)
	<u>40,416</u>	<u>38,675</u>
Advance paid for purchase of real estate properties (Note 11)	36,500	36,500
Provision on advance paid for purchase of real estate properties (Note 11)*	(36,500)	(36,500)
	<u>-</u>	<u>-</u>
Deferred acquisition cost (Note 16.2)	20,871	19,061
Prepaid expenses	6,444	6,455
	<u>338,607</u>	<u>356,202</u>
	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
<u>Inside UAE</u>		
Due from policyholders and brokers	190,958	224,634
Due from insurance companies	31,446	22,595
Due from reinsurance companies	3,949	2,802
Provision for doubtful debts (due from policyholders, brokers, insurance and reinsurance companies)	(24,570)	(22,578)
Due from related parties (Note 11)	26,603	26,508
Provision for doubtful debts – (Due from related parties) (Note 11)	(26,360)	(26,310)
	<u>202,026</u>	<u>227,651</u>
Other receivables	40,687	38,946
Allowance for doubtful receivables (Note 16.1)	(271)	(271)
Advance paid for purchase of real estate properties (Note 11)*	36,500	36,500
Provision on advance paid for purchase of real estate properties (Note 11)*	(36,500)	(36,500)
Deferred acquisition cost (Note 16.2)	20,871	19,061
Prepaid expenses	6,444	6,455
	<u>269,757</u>	<u>291,842</u>

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

16. Insurance and other receivables (continued)

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
<u>Outside UAE</u>		
Due from policyholders and brokers	64,673	55,661
Due from reinsurance companies	17,016	20,620
Provision for doubtful debts (due from policyholders, brokers, insurance and reinsurance companies)	(12,839)	(11,921)
	<u>68,850</u>	<u>64,360</u>

* The amount under the advance paid for real estate properties (AED 36.5 million) was represented as Investment Properties with a carrying value in the books of AED 72.3 million in the audited financials for the year ended 31 December 2020. The said asset represent a purchased assets from related parties during the years 2013 and 2014. The purchased assets comprise a 60 residential-unit in a single building and a plot of land of 150,000 square feet with integrated infrastructure. For one of the assets, the agreement was entered in 2013 to purchase 150,000 square feet of the land, which was reduced to 56,800 square feet and later amended to 78,900 square feet based on the instruction from the former Chairman who was also the representative of the related party. The counterparties (related parties) to the above transactions never fulfilled their obligations to the Company (the Buyer), and as a result the Company did not obtain the title deeds nor obtain possession of the said asset. This has resulted in the incorrect recognition of fair value gains of AED 35.8 million on investment properties in respect of which the Company never obtained possession or legal title, and the misappropriation of advances amounting to AED 36.5 million paid to a related party towards the acquisition of the investment properties. Accordingly, the Board of the Company decided to book a full provision (AED 72.3 million) against the said assets and proceed with legal action against all involved parties, to recover Company's rights, in accordance with the resolution of Shareholders Assembly Meeting held on 30 September 2021.

16.1 Provision for doubtful debts

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Provision for doubtful debts (due from policyholders, brokers, insurance and reinsurance companies)	34,499	24,849
Provision for doubtful debts – (Due from related parties) (Note 16.1)	26,310	26,173
Allowance for doubtful receivables (Note 16.1)	<u>271</u>	<u>-</u>
Balance at the beginning of the year	61,080	51,022
Provision during the year	2,977	10,062
Write off during the year	(17)	(4)
Balance at the end of the year	<u>64,040</u>	<u>61,080</u>

16.2 Deferred acquisition costs

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Balance at the beginning of the year	19,061	20,829
Commission paid during the year	84,516	89,294
Commission incurred during the year	(82,706)	(91,062)
Balance at the end of the year	<u>20,871</u>	<u>19,061</u>

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

16. Insurance and other receivables (continued)

16.3 Aging of total insurance and reinsurance receivables

16.3.1 Aging of insurance and reinsurance receivables – Total

As at 31 December 2022

	Not Yet Due AED'000	Past Due by Number of Days					Total AED'000
		< 30 days AED'000	30 -90 days AED'000	91 -180 days AED'000	181-365 days AED'000	> 365 days AED'000	
Due from policyholders and brokers	89,600	18,470	50,881	21,796	30,908	43,976	255,631
Due from insurance companies	2,609	1,771	8,999	962	2,611	14,494	31,446
Due from reinsurance companies	2,250	571	2,712	170	395	14,867	20,965
Total	94,459	20,812	62,592	22,928	33,914	73,337	308,042
Provision for doubtful debts (due from policyholders, brokers, insurance and reinsurance companies)	-	-	-	-	-	(37,409)	(37,409)
Due from related parties (Note 11)	15	85	4	29	66	26,404	26,603
Provision for due from related parties	-	-	-	-	-	(26,360)	(26,360)
TOTAL	94,474	20,897	62,596	22,957	33,980	35,972	270,876

As at 31 December 2021

	Not Yet Due AED'000	Past Due by Number of Days					Total AED'000
		< 30 days AED'000	30 -90 days AED'000	91 -180 days AED'000	181-365 days AED'000	> 365 days AED'000	
Due from policyholders and brokers	90,611	29,589	51,805	46,116	18,306	43,868	280,295
Due from insurance companies	1,382	1,128	1,015	1,739	2,756	14,575	22,595
Due from reinsurance companies	4,308	911	319	2,309	1,625	13,950	23,422
Total	96,301	31,628	53,139	50,164	22,687	72,393	326,312
Provision for doubtful debts (due from policyholders, brokers, insurance and reinsurance companies)	(114)	(57)	(193)	(55)	(215)	(33,865)	(34,499)
Due from related parties (Note 11)	3	82	-	36	70	26,317	26,508
Provision for due from related parties	-	-	-	-	-	(26,310)	(26,310)
TOTAL	96,190	31,653	52,946	50,145	22,542	38,535	292,011

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

16. Insurance and other receivables (continued)
16.3 Aging of total insurance and reinsurance receivables (continued)
16.3.2 Aging of insurance and reinsurance receivables – Inside UAE
As at 31 December 2022

	Not Yet Due AED'000	Past Due by Number of Days						Total AED'000
		< 30 days AED'000	30 -90 days AED'000	91 -180 days AED'000	181-365 days AED'000	> 365 days AED'000		
Due from policyholders and brokers	73,025	12,146	39,961	12,604	16,409	36,813		190,958
Due from insurance companies	2,609	1,771	8,999	962	2,611	14,494		31,446
Due from reinsurance companies	774	-	302	59	215	2,599		3,949
Total	76,408	13,917	49,262	13,625	19,235	53,906		226,353
Provision for doubtful debts (due from policyholders, brokers, insurance and reinsurance companies)	-	-	-	-	-	(24,570)		(24,570)
Due from related parties (Note 11)	15	85	4	29	66	26,404		26,603
Provision for due from related parties	-	-	-	-	-	(26,360)		(26,360)
TOTAL	76,423	14,002	49,266	13,654	19,301	29,380		202,026

As at 31 December 2021

	Not Yet Due AED'000	Past Due by Number of Days						Total AED'000
		< 30 days AED'000	30 -90 days AED'000	91 -180 days AED'000	181-365 days AED'000	> 365 days AED'000		
Due from policyholders and brokers	86,022	13,697	36,686	31,888	14,365	41,976		224,634
Due from insurance companies	1,382	1,128	1,015	1,739	2,756	14,575		22,595
Due from reinsurance companies	50	50	11	-	441	2,250		2,802
Total	87,454	14,875	37,712	33,627	17,562	58,801		250,031
Provision for doubtful debts (due from policyholders, brokers, insurance and reinsurance companies)	(70)	(38)	(150)	(17)	(148)	(22,155)		(22,578)
Due from related parties (Note 11)	3	82	-	36	70	26,317		26,508
Provision for due from related parties	-	-	-	-	-	(26,310)		(26,310)
TOTAL	87,387	14,919	37,562	33,646	17,484	36,653		227,651

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

16. Insurance and other receivables (continued)
16.3 Aging of total insurance and reinsurance receivables (continued)
16.3.2 Aging of insurance and reinsurance receivables – Outside UAE

As at 31 December 2022

	Not Yet Due AED'000	Past Due by Number of Days					Total AED'000
		< 30 days AED'000	30 -90 days AED'000	91 -180 days AED'000	181-365 days AED'000	> 365 days AED'000	
Due from policyholders and brokers	16,574	6,324	10,920	9,192	14,500	7,163	64,673
Due from reinsurance companies	1,476	570	2,411	111	180	12,268	17,016
Total	18,050	6,894	13,331	9,303	14,680	19,431	81,689
Provision for doubtful debts (due from policyholders, brokers, insurance and reinsurance companies)	-	-	-	-	-	(12,839)	(12,839)
TOTAL	18,050	6,894	13,331	9,303	14,680	6,592	68,850

As at 31 December 2021

	Not Yet Due AED'000	Past Due by Number of Days					Total AED'000
		< 30 days AED'000	30 -90 days AED'000	91 -180 days AED'000	181-365 days AED'000	> 365 days AED'000	
Due from policyholders and brokers	4,589	15,892	15,118	14,229	3,941	1,892	55,661
Due from reinsurance companies	4,258	861	308	2,309	1,184	11,700	20,620
Total	8,847	16,753	15,426	16,538	5,125	13,592	76,281
Provision for doubtful debts (due from policyholders, brokers, insurance and reinsurance companies)	(43)	(19)	(43)	(38)	(68)	(11,710)	(11,921)
TOTAL	8,804	16,734	15,383	16,500	5,057	1,882	64,360

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

16. Insurance and other receivables (continued)

Insurance receivables and due from reinsurance companies are summarised as follows.

As at 31 December 2022

	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
	AED'000	AED'000	AED'000	AED'000
Due from policyholders and brokers	89,600	139,693	26,338	255,631
Due from insurance companies	2,609	28,837	-	31,446
Due from reinsurance companies	2,250	7,644	11,071	20,965
Due from related parties (Note 11)	15	228	26,360	26,603
Total	94,474	176,402	63,769	334,645

As at 31 December 2021

	Neither past due nor impaired	Past due but not impaired	Past due and impaired	Total
	AED'000	AED'000	AED'000	AED'000
Due from policyholders and brokers	90,611	165,012	24,672	280,295
Due from insurance companies	1,382	21,213	-	22,595
Due from reinsurance companies	4,308	9,287	9,827	23,422
Due from related parties (Note 11)	3	195	26,310	26,508
Total	96,304	195,707	60,809	352,820

17. Intangible assets

	Licensed know-how fee AED'000	Software AED'000	Total AED'000
Cost:			
At 1 January 2021	19,108	16,959	36,067
Transfers from CWIP	-	4,199	4,199
At 31 December 2021	19,108	21,158	40,266
Additions	-	86	86
Transfers from CWIP	-	971	971
At 31 December 2022	19,108	22,215	41,323
Accumulated Amortisation:			
At 1 January 2021	8,000	11,306	19,306
Charge for the year	3,464	2,922	6,386
At 31 December 2021	11,464	14,228	25,692
Charge for the year	3,822	3,086	6,908
At 31 December 2022	15,286	17,314	32,600
Carrying amounts:			
At 31 December 2021	7,644	6,930	14,574
At 31 December 2022	3,822	4,901	8,723

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

17. Intangible assets (continued)

The Company had paid non-refundable license fee in the year 2018 to utilise and access to know how of the customers of a bank.

Intangible assets include internally generated software amounting to AED 11,143 thousand (31 December 2021 : AED 11,143 thousand) and accumulated amortisation of AED 10,170 thousand (31 December 2021: AED 8,500 thousand). During the years ended 31 December 2022 and 2021, there were no additions or deletions to the internally generated software.

18. Insurance and other payables

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Trade payables	66,450	76,039
Due to insurance and reinsurance companies	102,701	121,457
Reinsurance premium reserve held	27,344	28,906
	<u>196,495</u>	<u>226,402</u>
Other payables:		
Unclaimed dividends	1,980	1,998
Accrued expenses and other payables	54,282	47,068
Lease liabilities (Note 22)	6,855	32
	<u>259,612</u>	<u>275,500</u>

19. Administrative expenses

	For the year ended 31 December	
	2022 AED'000	2021 AED'000
Staff costs (Note 19.1)	58,005	61,310
Depreciation and amortization	11,476	10,868
Legal & professional Fees	4,505	4,461
Maintenance charges	5,020	5,262
Telephone and communications	3,447	3,098
Governmental and regulatory fees	1,968	-
Rent on short term leases	1,918	2,002
Others	4,722	3,883
	<u>91,061</u>	<u>90,884</u>

19.1 Staff costs

	For the year ended 31 December	
	2022 AED'000	2021 AED'000
Salaries and allowances	47,331	47,825
Employees' end of service benefits (Note 23)	2,885	3,081
Staff insurance	3,881	3,229
Other staff benefits	3,908	7,175
	<u>58,005</u>	<u>61,310</u>

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

19. Administrative expenses (continued)

19.2 The commitment of short term leases

The commitment for short term leases amounting to AED 1,353 thousand for the year ended 31 December 2022 (31 December 2021: AED 1,611 thousand).

19.3 Other operational expenses related to underwriting activities

	For the year ended 31 December	
	2022 AED'000	2021 AED'000
Producer salaries and incentive	21,075	26,924
Marketing expenses	17,292	1,392
Third party administration fees	8,457	9,186
Other expenses	2,113	904
	<u>48,937</u>	<u>38,406</u>

20. Net investment income/(loss)

	For the year ended 31 December	
	2022 AED'000	2021 AED'000
Interest income	6,149	6,530
Other investment income/(loss):		
Dividend income	3,018	527
Realised gains on sale of investments at FVTPL	3,173	2,917
Unrealised loss on investments at FVTPL	(5,289)	(978)
Investment management expenses	(1,004)	(3,394)
Others	(53)	(173)
Other investment loss	(155)	(1,101)
Net investment income	<u>5,994</u>	<u>5,429</u>

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

21. Net insurance premium revenue

	General		Life		Total	
	2022	2021	2022	2021	2022	2021
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Gross written premiums						
Gross written premiums	597,801	655,993	270,516	244,090	868,317	900,083
Change in unearned premiums (Note 14)	14,788	(8,324)	597	(75)	15,385	(8,399)
Change in mathematical reserve (Note 14)	-	-	47,717	(31,319)	47,717	(31,319)
Amount invested by policyholders	-	-	(101,541)	(107,928)	(101,541)	(107,928)
	612,589	647,669	217,289	104,768	829,878	752,437
Reinsurance premiums ceded						
Reinsurance premiums ceded	(362,722)	(394,091)	(141,424)	(129,748)	(504,146)	(523,839)
Change in unearned premiums (Note 14)	(1,064)	2,024	(523)	138	(1,587)	2,162
Change in mathematical reserve (Note 14)	-	-	(53,515)	26,441	(53,515)	26,441
Reinsurance share of amount invested by policyholders	-	-	46,743	42,472	46,743	42,472
	(363,786)	(392,067)	(148,719)	(60,697)	(512,505)	(452,764)
Net insurance premium revenue	248,803	255,602	68,570	44,071	317,373	299,673

Insurance contracts premium includes AED 35,932 thousand (31 December 2021: AED 23,279 thousand) of reinsurance premium accepted.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

22. Leases

(i) Amounts recognised in the statement of financial position

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

22.1 Right-of-use assets – office premises

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Balance at the beginning of the year	637	3,599
Addition during the year	9,240	-
Depreciation expense for the year	<u>(3,016)</u>	<u>(2,962)</u>
Balance at the end of the year	<u>6,861</u>	<u>637</u>

22.2 Lease liabilities

Movement of lease liabilities during the year was as follows:

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
At 1 January	32	2,648
Additions during the year	9,240	-
Accrued interest	413	110
Payments during the year	<u>(2,830)</u>	<u>(2,726)</u>
At 31 December	<u>6,855</u>	<u>32</u>

The incremental borrowing rate used for calculation of lease liabilities is 6.7% for the year ended 31 December 2022 (31 December 2021: 6.7 %)

Current and non-current portions of lease liabilities are as follows:

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Non-current portion	3,821	-
Current portion	<u>3,034</u>	<u>32</u>
	<u>6,855</u>	<u>32</u>

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

22. Leases (continued)

(ii) Amounts recognised in the statement of income

	<u>For the year ended 31 December</u>	
	2022	2021
	AED'000	AED'000
Depreciation charged to general and administration expenses	3,016	2,962
Interest expense on lease liabilities	413	110

23. Provision for employees' end of service benefits

	As at 31 December 2022 AED'000	As at 31 December 2021 AED'000
Balance at the beginning of the year	12,873	10,962
Charge for the year (19.1)	2,885	3,081
Payments during the year	(1,334)	(1,170)
Balance at the end of the year	14,424	12,873

24. Basic and diluted earnings per share

	2022	2021
Profit for the year (in 000)	18,328	13,219
Number of outstanding shares	330,939	330,939
Basic earnings per share (in AED)	0.055	0.040

No figures for diluted earnings per share are presented as the Company has not issued any instruments which would have an impact on earnings per share when exercised, as such diluted earnings per share is equivalent to basic earnings per share.

25. Social contributions

The Company did not make any social contributions during the year ended 31 December 2022 (2021: Nil).

26. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The Company writes general, medical and life insurance contracts. General insurance contracts of the Company include Liability, Property, Motor, Fire, Marine, General accident and Engineering insurance contracts. Medical insurance contracts include both individual and group medical insurance contracts. Life insurance contracts include group, Individual Life and credit life insurance contracts.

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

26. Insurance risk (continued)

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit and Risk Management Committee, which is responsible for developing and monitoring the Company's risk management framework. The Committee reports regularly to the Board of Directors on its activities related to Risk Management framework and further developments. The primary purpose of Risk Management framework is to protect the shareholders from events that deter the sustainable achievement of the set financial/performance objective.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Risk Management principles are embedded in Company's operational and financial processes and further mitigation/controls are implemented for effective Internal Risk Management framework in the functional processes.

The Company's Audit and Risk Management Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit and Risk Management Committee is assisted in its oversight role by Internal Audit and Risk functions.

The Company does not foresee any material impact to its business and operations due to possible climate change effect in the near future. The Company will, however, be collating necessary data to monitor the possible effect on a periodic basis going forward.

Two key elements of the Company's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

Underwriting strategy

The Company's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolio's outcome.

The underwriting strategy is set out by the Company that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Company is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio.

Business selection is part of Company's underwriting procedures/guidelines whereby premiums are charged based on the assessment and type of the risks. Other factors such as risk inspections, mortality, persistency and current market trends are also considered in the risk underwriting and premium calculation.

Reinsurance strategy

The Company's reinsurance arrangements include proportional, non-proportional, excess of loss and catastrophe coverage. The Company reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

The Company has a Reinsurance department that is responsible to arrange reinsurance arrangement as per the annual business plans and also for setting the minimum-security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy. As a proactive measure and part of Risk Management framework, the reinsurers securities rating is monitored for any downgrade from credit risk perspective. The reinsurance regulations issued by the CBUAE are also incorporated in the Reinsurance strategy.

The Company enters into a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Company. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

26. Insurance risk (Continued)

26.1 Frequency and severity of claims

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.

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set minimum limit of AED 1,000 thousand (31 December 2021: 1,000 thousand) in any one event. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are frequently reviewed individually 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.

26.2 Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, certain 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. In estimating the liability for claims incurred but not reported, the Company involves an independent external appointed actuary.

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 possible that the final outcome will prove to be different from the original liability established. The amount of insurance claims is in certain cases sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.

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

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

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

26. Insurance risk (continued)

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

The loss ratios for the current and prior year, before and after reinsurance are summarised below by type of risk:

Type of risk	31 December 2022		31 December 2021	
	Gross loss ratio	Net loss ratio	Gross loss ratio	Net loss ratio
General insurance	53%	55%	87%	53%
Life insurance	44%	19%	116%	35%

Based on the simulations performed, the impact on profit of a change of 1% in the loss ratio for both gross and net of reinsurance recoveries would be as follows:

	2022		2021	
	Gross AED'000	Net AED'000	Gross AED'000	Net AED'000
Impact of an increase of 1% in loss ratio	8,299	3,174	7,524	2,997
Impact of a decrease of 1% in loss ratio	(8,299)	(3,174)	(7,524)	(2,997)

26.3 Process used to determine the assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out quarterly. The assumptions are checked to ensure that they are consistent with observable market practices or other published information.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims.

Case estimates are reviewed regularly and are updated as and when new information arises.

The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate.

The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The method used by the Company for calculating the provision of IBNR takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries. The methods more commonly used are the chain-ladder ("CL"), expected loss ratios ("ELR") and the Bornhuetter-Ferguson ("BF") methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (for example, paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

26. Insurance risk (continued)

26.3 Process used to determine the assumptions (continued)

Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

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 a weighted average of different techniques have been selected for individual accident years or groups of accident years within the same class of business. The Company has an internal actuary and independent external actuaries are also involved in the valuation of technical reserves of the Company and has used historical data for the past 9 years.

The assumptions used for the life insurance contracts disclosed in this note are as follows:

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract. An investigation into Company's experience over the most recent three years is performed, and statistical methods are used to adjust the rates reflected in the table to a best estimate of mortality for that year. Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table. For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

Morbidity

The rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the Company's own experience.

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process. The Company believes that the liability for claims reported in the statement of financial position is adequate.

However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims are finally settled.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

26. Insurance risk (continued)

26.4 Changes in assumptions and sensitivity analysis

This table illustrates assumptions used for IBNR calculation

The loss origin is the accident quarter in which the loss is reported.

Year	2022				2021			
IBNR Assumption	Weighting		Loss origins	Loss Ratios	Weighting		Loss origins	Loss Ratios
Line of Business	CL/ELR	BF			CL/ELR	BF		
Aviation	100%	50%	2	30%	50%	50%	2	30%
Engineering	50%	25%	2	75%	75%	25%	2	75%
Fire	75%	50%	2	60%	50%	50%	2	60%
General Accident	50%	100%	-	25%	0%	100%	-	25%
Liability	0%	25%	2	30%	75%	25%	2	30%
Marine Cargo	75%	100%	-	100%	0%	100%	-	100%
Marine Hull	0%	50%	2	100%	50%	50%	2	115%
Group Life	50%	100%	-	50%	0%	100%	-	50%
Credit Life	0%	25%	2	25%	50%	50%	2	30%
Medical Others	75%	0%	2	50%	100%	0%	2	60%
Medical Pentacare	100%	0%	2	65%	100%	0%	2	65%
Medical Nextcare	100%	50%	2	68%	50%	50%	2	68%
Medical NAS	50%	100%	-	65%	0%	100%	-	65%
Motor TPL	0%	0%	3	45%	100%	0%	3	45%
Motor Comprehensive	100%	0%	3	60%	100%	0%	3	60%
Motor Comprehensive Cat	100%	0%	2	1%	100%	0%	2	1%

This table illustrates the assumptions used for mathematical reserve and non-unit reserve calculation

Assumption	Individual Life	Term Assurance	Credit Life	Unit-Linked
Mortality	140% RI rates	140% AMC00	125% AMC00	100% RI rates
Interest Rate	3% pa	3% pa	3% pa	3% pa
Renewal Expenses	AED 35	AED 35	AED 45	AED 230
Inflation	5% pa	5% pa	5% pa	5% pa
Unit Fund Growth	-	-	-	3% pa

The following changes in IBNR assumptions have been made between the years ended 31 December 2021 and 31 December 2022.

- Adding one year of data
- Changing the loss ratio
- Changing the number of origins used for the ELR method
- Changing the weights applied to each tail method
- Changing the outlier percentage
- Changing the development factor

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

26. Insurance risk (continued)

26.4 Changes in assumptions and sensitivity analysis (continued)

The following table shows the impact of Changes in IBNR assumptions relating to major lines of business:

2022	Motor AED'000	Medical AED'000	Credit Life AED'000	Fire AED'000	General Accident AED'000
IBNR at the beginning of the year	17,298	7,123	1,789	2,596	2,522
Change in data	(5,517)	(354)	2,647	(1,454)	(315)
Loss ratio	-	(2,047)	(856)	-	-
Expected loss ratio origins	-	-	-	-	-
Method weights	-	-	(33)	-	-
Large claims IBNR	-	-	-	22	-
Selected development	395	2,319	121	822	1,250
IBNR at the end of the year	12,176	7,041	3,668	1,986	3,457

2021	Motor AED'000	Medical AED'000	Credit Life AED'000	Fire AED'000	General Accident AED'000
IBNR at the beginning of the year	26,937	9,635	1,719	3,336	1,623
Change in data	(7,792)	(4,451)	(1,960)	529	2,105
Loss ratio	(1,164)	656	2,348	(1,269)	(688)
Expected loss ratio origins	1,071	-	-	-	-
Method weights	2,263	1,989	(53)	-	(246)
Selected development	(4,017)	(706)	(265)	-	(272)
IBNR at the end of the year	17,298	7,123	1,789	2,596	2,522

The following table shows sensitivity impact on general insurance contracts:

Overall sensitivity of net results			
Technical provisions category	AED '000		
	Pessimistic	Best	Optimistic
	Estimate	Estimate	Estimate
IBNR and IBNER	52,306	31,016	27,425
ULAE	6,584	5,433	5,195
AURR	12,768	6,460	3,641
Subtotal	71,658	42,910	36,261
Other technical provisions	149,061	149,061	149,061
Grand total	220,719	191,971	185,322

Sensitivities	Pessimistic	Best	Optimistic
	Estimate	Estimate	Estimate
IBNR and IBNER	increase NLR by 5%	Best estimate NLR	decrease NLR by 5%
ULAE	increase NLR by 5%	Best estimate NLR	decrease NLR by 5%
AURR	increase NLR by 5%	Best estimate NLR	decrease NLR by 5%
	increase AER by 2%	Best estimate AER	decrease AER by 2%

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

27. Capital risk management

The Company's objectives when managing capital are:

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

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

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

	As at 31 December 2022 AED'000 (Unaudited)	As at 31 December 2021 AED'000 (Unaudited)
Minimum Capital Requirement (MCR)	100,000	100,000
Solvency Capital Requirement (SCR)	142,766	138,697
Minimum Guarantee Fund (MGF)	90,252	90,379
Own Funds:		
Basic own funds	162,889	136,399
Ancillary own funds		
MCR Solvency Margin-Surplus/(Deficit)	62,889	36,399
SCR Solvency Margin-Surplus/(Deficit)	20,123	(2,298)
MGF Solvency Margin-Surplus/(Deficit)	72,637	46,020

The Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") has issued resolution No. 42 for 2009 setting the minimum subscribed or paid-up capital of AED 100 million for establishing insurance firms and AED 250 million for reinsurance firms. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies. The Company is in compliance with the minimum capital requirements.

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

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

28 Fair value measurements

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

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

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

28.1 Fair value of financial instruments carried at amortized cost

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

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

The fair values of financial and non-financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the annual financial statements for the year ended 31 December 2022.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

28. Fair value measurements (continued)

28.3 Fair value measurements recognised in the statement of financial position

Some of the Company's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined;

	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	31 December 2021				
	AED'000	AED'000				
FVTPL investments						
Quoted equity securities	62,417	20,238	Level 1	Quoted bid prices in an active market.	None	Not Applicable
Quoted bonds	11,971	16,450	Level 2	Quoted prices in secondary market	None	Not Applicable
Unquoted equity securities	2,364	3,819	Level 3	Net assets valuation method	Net asset value	Higher the net assets, value of the investees, higher the fair value.
Investment in mutual funds	-	7,364	Level 2	Quoted prices in secondary market	None	Not Applicable
Investment held on behalf of Policy holder of Unit linked products	215,180	231,059	Level 2	Quoted prices in secondary market	None	Not Applicable
Due from reinsurers towards policyholders of unit linked products	122,490	124,474	Level 2	Quoted prices in secondary market	None	Not Applicable
FVTOCI investments						
Quoted equity securities	27	17	Level 1	Quoted bid prices in an active market.	None	Not Applicable
Financial liabilities measured at FVTPL						
Unit linked liabilities (excluding cash held withing the related unit linked assets)	337,670	355,533	Level 1	Quoted bid prices in an active market.	None	Not Applicable

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

28. Fair value measurements (continued)

28.3 Fair value measurements recognised in the statement of financial position (continued)

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTOCI and FVTPL.

	FVTPL AED'000	FVTOCI AED'000	Total AED'000
At 1 January 2021	7,396	300	7,696
Disposals	(754)	-	(754)
Provision for doubtful debts	-	(300)	(300)
Changes in fair value	(2,823)	-	(2,823)
As at 31 December 2021	3,819	-	3,819
Disposals	(1,243)	-	(1,243)
Changes in fair value	(212)	-	(212)
As at 31 December 2022	2,364	-	2,364

There were no transfers between the levels during the year.

29. Financial Risk Management

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

29.1 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:

- insurance receivables;
- other receivables;
- investment securities - debt;
- bank deposits with original maturities of more than three months;
- statutory deposit; and
- cash and cash equivalents

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

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

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

29. Financial Risk Management (continued)

29.1 Credit risk (continued)

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are 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.

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

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

29.2 Liquidity risk

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

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

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

29. Financial Risk Management (continued)

29.2 Liquidity risk (continued)

As at 31 December 2022

	Carrying amount AED'000	Less than 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	No maturity date AED'000	Total AED'000
Assets						
Statutory deposit	10,000	-	-	-	10,000	10,000
<u>Investment securities</u>						
Financial assets at fair value through profit or loss	76,752	5,830	5,443	-	65,479	76,752
Financial assets at fair value through other comprehensive income	27	-	-	-	27	27
Unit linked assets	349,613	-	87,403	262,210	-	349,613
Reinsurance contract assets	753,776	431,749	206,983	102,325	12,719	753,776
Bank deposits with original maturities of more than three months	68,888	52,605	16,283	-	-	68,888
Deferred acquisition costs	20,871	20,871	-	-	-	20,871
Insurance and other receivables (excluding prepayments and deferred acquisition costs)	311,292	311,292	-	-	-	311,292
Cash and cash equivalents	205,667	205,667	-	-	-	205,667
Total	1,796,886	1,028,014	316,112	364,535	88,225	1,796,886
Liabilities						
Insurance contract liabilities	1,008,371	581,681	265,991	133,652	27,047	1,008,371
Payable to policyholders of unit-linked products	349,613	-	87,403	262,210	-	349,613
Insurance and other payables (excluding lease liabilities)	252,757	252,757	-	-	-	252,757
Lease liabilities	6,855	3,034	3,821	-	-	6,855
Total	1,617,596	837,472	357,215	395,862	27,047	1,617,596

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

29. Financial Risk Management (continued)

29.2 Liquidity risk (continued)

As at 31 December 2021

	Carrying amount AED'000	Less than 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	No maturity date AED'000	Total AED'000
Assets						
Statutory deposit	10,000	-	-	-	10,000	10,000
<u>Investment securities</u>						
Financial assets at fair value through profit or loss	47,871	11,102	11,956	-	24,813	47,871
Financial assets at fair value through other comprehensive income	17	-	-	-	17	17
Unit linked assets	368,887	-	57,247	311,640	-	368,887
Reinsurance contract assets	831,514	454,251	203,254	174,009	-	831,514
Bank deposits with original maturities of more than three months	205,965	189,204	16,761	-	-	205,965
Deferred acquisition costs	19,061	19,061	-	-	-	19,061
Insurance and other receivables (excluding prepayments and deferred acquisition costs)	330,686	330,686	-	-	-	330,686
Cash and cash equivalents	91,881	91,881	-	-	-	91,881
Total	1,905,882	1,096,185	289,218	485,649	34,830	1,905,882
Liabilities						
Insurance contract liabilities	1,105,249	623,339	267,890	214,020	-	1,105,249
Payable to policyholders of unit-linked products	368,887	-	57,247	311,640	-	368,887
Insurance and other payables (excluding lease liabilities)	275,468	275,468	-	-	-	275,468
Lease liabilities	32	32	-	-	-	32
Total	1,749,636	898,839	325,137	525,660	-	1,749,636

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

29. Financial Risk Management (continued)

29.3 Market risk

Market risk is the risk that the fair value or the future cashflows 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's market risks arise from open positions in (a) foreign currencies (b) interest bearing and (c) price risk assets and liabilities, to the extent they are exposed to general and specific market movements. Management sets limits on the exposure to currency and interest rate risk that may be acceptable, which are monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The unit linked contracts have not been considered for sensitivity of market risk and as these are merely passed through contracts.

Sensitivities to market risks included below are based on a change in one factor while holding all other factors constant. In practice, this is unlikely to occur, and changes in some of the factors may be correlated - for example, credit spreads, changes in interest rate and changes in foreign currency rates.

Market risk drivers include equity prices, credit spreads, foreign exchange rates and interest rates. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in local equity and bond markets. In addition, the Company actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees.

29.3.1 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Company's functional currency is the UAE Dirham.

The Company has also exposures in USD, to which the AED is pegged and the Company's exposure to currency risk is limited to that extent.

29.3.2 Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to interest rate risk relates to its bank deposits. At 31 December 2022, bank deposits carry fixed interest rates ranging from 1.5% to 8% per annum (31 December 2021: 0.15% to 8.5% per annum) and therefore not exposed to cashflow interest rate risk.

29.3.3 Price risk

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

The Company's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices. The Company's equity price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, sector and market. The fair values of financial assets are not different from their carrying values.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

29. Financial Risk Management (continued)

29.3 Market risk (continued)

29.3.3 Price risk (continued)

Sensitivities

The table below shows the results of sensitivity testing on the Company's profit or loss and other comprehensive income by type of business. The sensitivity analysis indicates the effect of changes in price risk factors arising from the impact of the changes in these factors on the Company's investments:

	10% increase in price		10% decrease in price	
	FVTPL AED'000	FVTOCI AED'000	FVTPL AED'000	FVTOCI AED'000
2022				
Quoted debt investments	1,197	-	(1,197)	-
Quoted equity investments	6,242	3	(6,242)	(3)
Investment in funds	-	-	-	-
Unquoted equity investments	236	-	(236)	-
2021				
Quoted debt investments	1,645	-	(1,645)	-
Quoted equity investments	2,024	2	(2,024)	(2)
Investment in funds	736	-	(736)	-
Unquoted equity investments	382	-	(382)	-

29.4 Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks.

The Company has detailed systems and procedures manuals with effective segregation of duties, access controls, authorisation and reconciliation procedures, staff training and assessment processes etc. with a focus on compliance and internal audit framework. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued)

For the year ended 31 December 2022

29. Financial Risk Management (continued)

29.5 Classification of financial assets and liabilities

- (a) The table below sets out the Company's classification of each class of financial asset and liability and their carrying amounts as at 31 December 2022:

	FVTPL	FVTOCI	Amortised cost	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets:				
Cash and cash equivalents	-	-	205,667	205,667
Bank deposits with original maturities of more than three months	-	-	68,888	68,888
Statutory deposit	-	-	10,000	10,000
Investment securities	76,752	27	-	76,779
Insurance and other receivables	-	-	338,607	338,607
Unit linked assets	337,670	-	11,943	349,613
Total	414,422	27	635,105	1,049,554
Financial liabilities:				
Insurance and other payables	-	-	259,612	259,612
Payables to policyholders of unit linked products	337,670	-	11,943	349,613
Total	337,670	-	271,555	609,225

- (b) The table below sets out the Company's classification of each class of financial asset and liability and their carrying amounts as at 31 December 2021:

	FVTPL	FVTOCI	Amortised cost	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets:				
Cash and cash equivalents	-	-	91,881	91,881
Bank deposits with original maturities of more than three months	-	-	205,965	205,965
Statutory deposit	-	-	10,000	10,000
Investment securities	47,871	17	-	47,888
Insurance and other receivables	-	-	356,202	356,202
Unit linked assets	355,533	-	13,354	368,887
Total	403,404	17	677,402	1,080,823
Financial liabilities:				
Insurance and other payables	-	-	275,500	275,500
Payables to policyholders of unit linked products	355,533	-	13,354	368,887
Total	355,533	-	288,854	644,387

Union Insurance Company P.J.S.C.

Notes to the financial statements (continued) For the year ended 31 December 2022

30. Approval of the financial statements

The financial statements were approved by the Board of Directors and authorized for issue on 20 March 2023.

31. Comparative figures

Certain comparative figures were reclassified to match the current year's classification. This re-classification has no impact in the total assets, liabilities and accumulated losses of the prior year except as follow:

	31 December 2021 - as previously reported AED	Reclassification AED	31 December 2021 - as currently reported AED
Net change in unearned premiums, mathematical reserve and policyholders' reserve	(111,249)	34,678	(76,571)
Net earned premium	<u>264,995</u>	<u>34,678</u>	<u>299,673</u>
Total underwriting income	<u>357,009</u>	<u>34,678</u>	<u>391,687</u>
Net movement in reserve of unit linked products	34,678	(34,678)	-
Total underwriting expenses	<u>(337,557)</u>	<u>(34,678)</u>	<u>(372,235)</u>

32. Subsequent events

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