

**United Fidelity Insurance Company  
(P.S.C.)**

**Financial Statements  
For the year ended 31 December 2022**

## THE BOARD OF DIRECTORS' REPORT

Year ended December 31, 2022

### Fidelity United Performance

Keeping up the strong business performance, Fidelity United generated gross written premiums of AED 422 million for the year 2022 as compared to AED 384 million in the previous year, this represents a 10% increase. The increase in GWP was achieved despite the 32% reduction in the consumer business, which was intentional and in line with management's decision to safeguard bottom line of company.

We are extremely proud to share that earlier in the year Fidelity United was assigned a Financial Strength Rating of Baa3 with stable outlook by Moody's. Having an investment grade rating is a steppingstone on the remarkable journey of Fidelity United towards becoming a top tier company. The efforts made by the team to create a fundamental sustainable company is visible and now been acknowledged by external stakeholders as well. In addition, the company aggressively worked towards its automation and digitalization journey, where some of the key processes were transformed during the year to bring in efficiencies.

From a financial results perspective year 2022 was a very challenging year attributable to the tough competition in consumer line's pricing and commission, Fujairah floods and some large losses which impact the overall UAE insurance industry in the last quarter of the year. Despite all these conditions, Fidelity United was able to achieve a net profit of AED 683,217 during the year 2022.

### Financial Highlights 2022

Particulars	December 31, 2022	December 31, 2021	Change
	AED '000	AED '000	%
Gross Premium Written	422,075	383,781	10%
Administrative & Other Operating Expenses	(44,560)	(45,318)	-2%
Net Underwriting Income / (Loss)	(22,709)	(5,749)	-295%
Net Investment & Other Income	23,392	13,787	70%
Net Profit / (Loss) for the Period	683	8,038	-91%

Business Mix	December 31, 2022	December 31, 2021	Change
	AED '000	AED '000	%
Commercial	125,119	95,270	31%
Consumer	79,971	118,100	-32%
Medical and Life	216,985	170,411	27%
Total	422,075	383,781	10%



#### **UNITED FIDELITY INSURANCE COMPANY**

In Conformity with the Federal Law No. 6/2007 Reg. No (8) dated 22/12/1984. Authorized paid-up Capital Dh. 160,000,000

Ras Al Khaimah T: +971 7 2351584, F: +971 7 2353213, P.O. Box: 1010 - Sharjah T: +971 6 5682277, F: +971 6 5681586, P.O. Box: 5333

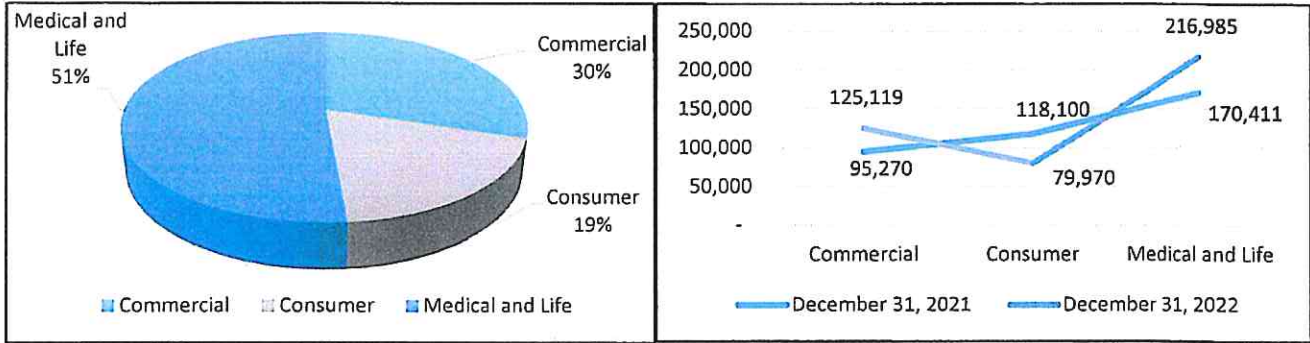
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The pie chart depicts the gross written premium by business segments, Medical and Life representing the highest share at 51% followed by Commercial and Consumer with 30% and 19% respectively.

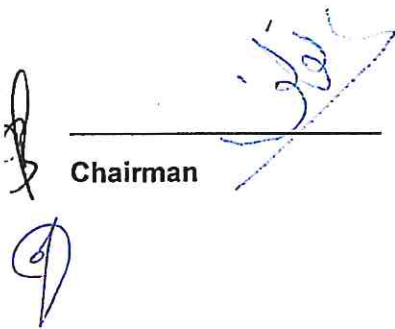
The trend chart on the right side below, shows the yearly growth in gross written premium by business segments. Fidelity United is well placed to benefit from market opportunities and ready to play a more significant role in the UAE Insurance market.



## Future Outlook

Similar to last year, 2023 is also presenting signs of challenging market conditions related to consumer lines affected by tough competition in respect of pricing and commission, however we remain confident that the market correction will happen eventually and expect the market to improve for better results. Fidelity United continues to focus on lines with a better profitability.

In addition to achieving quality financial results, the company will work aggressively on key aspects related to customer services, marketing and branding activities, providing enhanced online portal access to our business partners, introducing new and improved products to cater to ever changing customer needs along with making steady progress towards the automation and digitalization journey. With the projected growth in 2023 we are aiming to be among the top 15 listed Insurance Companies.



Chairman

## **UNITED FIDELITY INSURANCE COMPANY**

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## Independent Auditor's Report To the Shareholders of United Fidelity Insurance Company (P.S.C.)

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of United Fidelity Insurance Company (P.S.C.) (the "Company"), which comprise the statement of financial position as at 31 December 2022, 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 (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the 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. For each matter, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters on the next page, provide the basis for our audit opinion on the accompanying financial statements.



**Independent Auditor's Report**  
**To the Shareholders of United Fidelity Insurance Company (P.S.C.)**  
**Report on the Audit of the Financial Statements (continued)**

**Key Audit Matters (continued)**

**i) Valuation of technical provisions**

The estimation of liabilities arising from insurance contracts such as unearned premium, premium deficiency reserve, claims reported unsettled, claims incurred but not reported reserve and unallocated loss adjustment expenses reserve as disclosed in note 15 to the financial statements, involves a significant degree of judgement. These liabilities are based on the pattern of risk distributions over coverage period, 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. Actuarial computations have been used to determine these provisions. Underlying these computations are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Since the determination of such a provision requires the expertise of an external valuation expert who incorporates significant assumptions, judgements and estimations, the valuation of these liabilities was significant to our audit.

We assessed management's judgements and calculations of the technical reserves by performing the following procedures:

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

**ii) Impairment losses on insurance receivables including third party recoveries**

The Company has insurance receivables that are overdue and not impaired (as disclosed in note 26B to these financial statements). The key associated risk is the recoverability of receivables. Management's related provision is subjective and is influenced by assumptions concerning the probability of default and probable losses in the event of default.

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

- We compared the historical provision for bad debts to the actual amounts written off, to determine whether management's estimation techniques were reasonable;

**Independent Auditor's Report  
To the Shareholders of United Fidelity Insurance Company (P.S.C.)  
Report on the Audit of the Financial Statements (continued)**

**Key Audit Matters (continued)**

**ii) Impairment losses on insurance receivables including third party recoveries (continued)**

- We considered the adequacy of provisions for bad debts for long-outstanding balances taking into account specific credit risk assessments for each customer based on time 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
- We discussed with management and reviewed correspondence, where relevant, to identify any disputes and assessed whether appropriately considered in the bad debt provision.

**iii) Valuation of investment properties**

Company holds investment properties under the fair value model as at 31 December 2022 amounting to AED 46,783,999 (2021: 46,799,999), as detailed in note 4. The fair value estimate requires significant judgement and estimates by management and independent external valuers. The Company has involved independent external valuers in order to value the investment properties for the purpose of determining the fair value for inclusion in the financial statements. The existence of significant estimation and judgement coupled with change in valuation assumptions used could result in material change. Therefore, the valuation of these investment properties was significant to our audit.

Our audit procedures, among others, included:

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

**iv) Valuation of financial instruments**

The Company has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets including mutual funds and equity investments. These valuation techniques, particularly those requiring significant unobservable inputs, usually involve subjective judgement and assumptions. As at 31 December 2022, financial instruments measured at fair value through profit and loss (FVTPL) which required significant unobservable inputs in estimating fair value and hence were categorised within level 3 of the fair value hierarchy amounted to AED 92,955,644 (2021: AED 52,777,926), as disclosed in note 6. Due to the significance of financial instruments measured at FVTPL, and the uncertainty in valuation involving significant judgement, valuation of these financial instruments is considered a key audit matter.



**Independent Auditor's Report  
To the Shareholders of United Fidelity Insurance Company (P.S.C.)  
Report on the Audit of the Financial Statements (continued)**

**Key Audit Matters (continued)**

**iv) Valuation of financial instruments (continued)**

Our audit procedures, among others, included:

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

**Other Information**

Management is responsible for the other information. The other information comprises information included in the Company's 2022 Directors' Report.

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

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

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

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

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

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



## **Independent Auditor's Report**

**To the Shareholders of United Fidelity Insurance Company (P.S.C.)**

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

**Independent Auditor's Report****To the Shareholders of United Fidelity Insurance Company (P.S.C.)****Report on the Audit of the Financial Statements (continued)****Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

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

**Report on Other Legal and Regulatory Requirements**

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

- i) the Company has maintained proper books of account;
- ii) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- iii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Articles of Association of the Company and the UAE Federal Law No. (32) of 2021;
- iv) the financial information included in the Directors' Report, in so far as it relates to these financial statements, is consistent with the books of account of the Company;
- v) note 5 to the financial statements discloses purchase of shares by the Company during the year ended 31 December 2022;
- vi) note 19 to the financial statements discloses material related party transactions, and the terms under which they were conducted; and
- vii) note 24 to the financial statements reflects the social contributions made during the year.
- viii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2022 any of the applicable provisions of the UAE Federal Law No. (32) of 2021 or its Articles of Association which would have a material impact on its activities or its financial position. Further, as required by the UAE Federal Law No. (6) of 2007, we report that we have obtained all the information and explanation we considered necessary for the purpose of our audit.

**GRANT THORNTON**

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

**15 March 2023**



# United Fidelity Insurance Company (P.S.C.)

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 AED	2021 AED
<b>ASSETS</b>			
Property and equipment	3	22,960,860	10,642,875
Investment properties	4	46,783,999	46,799,999
Financial instruments	5	225,428,721	164,611,100
Insurance contract assets	15	281,290,075	145,545,360
Deferred acquisition costs	7	30,092,418	28,852,761
Insurance receivables	8	125,753,620	88,662,920
Prepayments and other receivables	9	3,369,402	2,601,474
Statutory deposits	10	10,000,000	10,000,000
Bank balances and cash	11	58,736,058	70,998,762
<b>TOTAL ASSETS</b>		<b>804,415,153</b>	<b>568,715,251</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	160,000,000	100,000,000
Statutory reserve	13	1,375,495	1,307,173
General reserve	13	447,524	1,119,524
Reinsurance reserve	13	2,989,376	1,740,629
Investment revaluation reserve	13	(6,621,482)	13,867,416
Accumulated losses		(18,075,189)	(17,441,337)
<b>TOTAL EQUITY</b>		<b>140,115,724</b>	<b>100,593,405</b>
<b>Liabilities</b>			
Employees' end of service benefits	14	4,149,775	3,376,247
Insurance contract liabilities	15	423,254,575	298,483,026
Deferred commission income	16	10,865,115	9,033,649
Insurance and other payables	17	208,462,272	150,613,492
Lease liability	18	17,567,692	6,615,432
<b>TOTAL LIABILITIES</b>		<b>664,299,429</b>	<b>468,121,846</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>804,415,153</b>	<b>568,715,251</b>

Chairman

Chief Executive Officer

The attached explanatory notes 1 to 28 form part of these financial statements.



## United Fidelity Insurance Company (P.S.C.)

### STATEMENT OF INCOME

For the year ended 31 December 2022

	Notes	2022 AED	2021 AED
<b>UNDERWRITING INCOME</b>			
Gross premium	20	422,074,503	383,781,368
Movement in provision for unearned premium	20	(26,838,617)	4,077,537
Movement in premium deficiency reserve	20	408,100	(106,514)
Insurance premium revenue	20	395,643,986	387,752,391
Reinsurance share of premium	20	(255,412,338)	(190,521,012)
Movement in provision for reinsurance share of unearned premium	20	30,588,750	13,419,594
Reinsurance share of premium revenue	20	(224,823,588)	(177,101,418)
Net insurance premium revenue	20	170,820,398	210,650,973
Reinsurance commission income	16	23,193,795	16,855,701
Other income		615,839	500
<b>Total underwriting income</b>		<b>194,630,032</b>	<b>227,507,174</b>
<b>UNDERWRITING AND OTHER EXPENSES</b>			
Claims incurred	21	(338,527,875)	(231,857,571)
Reinsurers' share of claims incurred	21	232,249,134	118,553,264
Net claims incurred	21	(106,278,741)	(113,304,307)
Commission expenses including third-party administrators' fees	7	(62,663,512)	(68,803,221)
Other underwriting expenses		(3,836,907)	(5,831,100)
General and administration expenses relating to underwriting activities		(44,559,731)	(45,317,714)
<b>Total underwriting and other expenses</b>		<b>(217,338,891)</b>	<b>(233,256,342)</b>
<b>NET UNDERWRITING LOSS</b>		<b>(22,708,859)</b>	<b>(5,749,168)</b>
Investment income	23	23,916,350	14,217,948
General and administration expenses not allocated to underwriting activities		(524,274)	(430,940)
<b>PROFIT FOR THE YEAR</b>		<b>683,217</b>	<b>8,037,840</b>
Basic and diluted earnings per share	25	0.006	0.065

The attached explanatory notes 1 to 28 form part of these financial statements.

## United Fidelity Insurance Company (P.S.C.)

### STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 AED	2021 AED
Profit for the year		683,217	8,037,840
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Other comprehensive income that would be reclassified to profit or loss in subsequent periods</i>			
Net increase in fair value of available-for-sale investments	5(a)	1,911,188	24,858,774
<i>Other comprehensive income that would not be reclassified to profit or loss in subsequent periods</i>			
Net realised gain on disposal of available-for-sale investments transferred to income statement		(22,400,086)	(7,020,731)
<b>Other comprehensive (loss)/income for the year</b>		<b>(20,488,898)</b>	<b>17,838,043</b>
<b>TOTAL COMPREHENSIVE (LOSS) /INCOME FOR THE YEAR</b>		<b>(19,805,681)</b>	<b>25,875,883</b>

The attached explanatory notes 1 to 28 form part of these financial statements.

## United Fidelity Insurance Company (P.S.C.)

### STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Share capital AED	Statutory reserve AED	General reserve AED	Reinsurance reserve AED	Investment revaluation reserve AED	Accumulated losses AED	Total AED
Balance at 1 January 2022	100,000,000	1,307,173	1,119,524	1,740,629	13,867,416	(17,441,337)	100,593,405
Profit for the year	-	-	-	-	-	683,217	683,217
Other comprehensive loss	-	-	-	-	(20,488,898)	-	(20,488,898)
Total comprehensive loss for the year	-	-	-	-	(20,488,898)	683,217	(19,805,681)
Increase in share capital (note 12)	60,000,000	-	-	-	-	-	60,000,000
Direct expenses related to right issue (note 12)	-	-	(672,000)	-	-	-	(672,000)
Transfer to statutory reserve (note 13)	-	68,322	-	-	-	(68,322)	-
Transfer to reinsurance reserve (note 13)	-	-	-	1,248,747	-	(1,248,747)	-
<b>Balance at 31 December 2022</b>	<b>160,000,000</b>	<b>1,375,495</b>	<b>447,524</b>	<b>2,989,376</b>	<b>(6,621,482)</b>	<b>(18,075,189)</b>	<b>140,115,724</b>
Balance at 1 January 2021	100,000,000	503,389	1,119,524	771,153	(3,970,627)	(23,705,917)	74,717,522
Profit for the year	-	-	-	-	-	8,037,840	8,037,840
Other comprehensive income	-	-	-	-	17,838,043	-	17,838,043
Total comprehensive income for the year	-	-	-	-	17,838,043	8,037,840	25,875,883
Transfer to statutory reserve (note 13)	-	803,784	-	-	-	(803,784)	-
Transfer to reinsurance reserve	-	-	-	969,476	-	(969,476)	-
<b>Balance at 31 December 2021</b>	<b>100,000,000</b>	<b>1,307,173</b>	<b>1,119,524</b>	<b>1,740,629</b>	<b>13,867,416</b>	<b>(17,441,337)</b>	<b>100,593,405</b>

The attached explanatory notes 1 to 28 form part of these financial statements.



## United Fidelity Insurance Company (P.S.C.)

### STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 AED	2021 AED
<b>OPERATING ACTIVITIES</b>			
Profit for the year		683,217	8,037,840
<b>Adjustments for:</b>			
Gain on disposal of available-for-sale investments	23	(20,673,954)	(8,451,233)
Change in fair value of investments at FVTPL	5	8,085,715	(1,760,269)
Gain on disposal of investment at FVTPL	23	(761,169)	(161,138)
Investment income		(10,852,894)	(7,096,967)
Revaluation loss of investment properties	4	16,000	3,000,199
Allowances made for doubtful debts	8	402,716	1,986,700
Depreciation on property and equipment	24	1,120,397	1,059,542
Depreciation on right to use assets	24	3,177,972	844,019
Provision for employees' end of service benefits	14	1,009,197	1,674,139
Interest expense on lease liability		600,588	260,116
		(17,192,215)	(607,052)
<b>Changes in operating assets and liabilities:</b>			
Insurance contract assets		(135,744,715)	(6,080,197)
Deferred acquisition costs		(1,239,657)	3,878,456
Insurance receivables		(37,493,417)	(15,232,339)
Prepayments and other assets		(767,928)	1,779,683
Insurance contract liabilities		124,771,549	5,517,083
Deferred commission income		1,831,466	2,247,277
Insurance and other payables		57,848,768	21,345,419
<b>Cash (used in)/generated from operating activities</b>		(7,986,149)	12,848,330
Employees' end of service benefits paid	14	(235,669)	(446,552)
<b>Net cash (used in)/generated from operating activities</b>		(8,221,818)	12,401,778
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of available-for-sale investments		116,306,592	51,085,526
Purchase of available-for-sale investments	5	(138,353,414)	(67,889,785)
Proceeds from sale of investments at FVTPL		21,972,162	11,442,323
Purchase of investments at FVTPL	5	(67,882,451)	(29,650,760)
Income received from investment properties		1,436,967	1,606,712
Dividend received		7,424,974	4,378,274
Interest received		1,990,966	1,111,981
Net movement in fixed deposits		9,000,000	20,000,000
Additions in the operating assets		(2,153,998)	(1,121,768)
<b>Net cash used in investing activities</b>		(50,258,202)	(9,037,497)
<b>FINANCING ACTIVITIES</b>			
Interest paid on lease liability		(600,588)	(260,116)
Rights share issue		60,000,000	-
Expenses towards right issue		(672,000)	-
Payment of principal against lease liability		(3,510,096)	(729,261)
<b>Net cash generated from/(used in) financing activities</b>		55,217,316	(989,377)
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		(3,262,704)	2,374,904
Cash and cash equivalents at 1 January		38,998,762	36,623,858
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	11	<b>35,736,058</b>	<b>38,998,762</b>
<b>Non-cash transactions not included in the cash flow:</b>			
Addition to right to use assets and lease liabilities		14,462,356	809,534

The attached explanatory notes 1 to 28 form part of these financial statements.

## **United Fidelity Insurance Company (P.S.C.)**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

#### **1 CORPORATE INFORMATION**

United Fidelity Insurance Company (P.S.C.) (the “Company”) is a public shareholding company, and was registered in the Emirate of Ras Al Khaimah by Emiri decree No. 13/76 issued by the ruler of Ras Al Khaimah on 15 June 1976, which was amended by the Emiri decree No. 10/77 issued on 15 December 1977. The Company is subject to the regulations of the UAE Federal Law No. (32) of 2021 and the UAE Federal Law No. (6) of 2007 relating to commercial companies in the UAE, and is registered in the Insurance Companies Register of Central Bank of the United Arab Emirates under registration number 8.

The Company is domiciled in the United Arab Emirates and subsequent to the year end the Company changed its registered address to Abu Dhabi located at Office 407, Bloom Central Building, Airport Road, Al Tibbiya, PO Box no: 721, Abu Dhabi United Arab Emirates. The Company’s ordinary shares are listed on Abu Dhabi Securities Exchange, United Arab Emirates.

The principal activity of the Company is the writing of all classes of general and life insurance. The Company operates through its Head Office in Dubai and branch offices in Abu Dhabi, Ras Al Khaimah, Sharjah and Fujairah.

On 20 September 2021, the UAE Federal Decree Law No. (32) of 2021 was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015 (as amended). The Company is in compliance with applicable provisions of the UAE Federal Decree Law No. (32) of 2021 as at the date of these financial statements.

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

#### **2 SIGNIFICANT ACCOUNTING POLICIES**

##### **2.1 BASIS OF PREPARATION**

###### **Accounting convention**

The financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets and investment properties which are carried at fair value. The financial statements have been presented in UAE Dirhams (AED) except when otherwise indicated.

The Company presents its statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current), presented in the notes.

###### **Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and applicable requirements of United Arab Emirates Laws.

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

###### New standards and interpretations effective after 1 January 2022

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

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

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

###### Standards issued but not yet effective

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

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

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 provided it also issues insurance contracts.

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, of which one, the general measurement model and the premium allocation approach, 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.

## **United Fidelity Insurance Company (P.S.C.)**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

#### **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

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

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.

Under the general measurement 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 simplified 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 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. IFRS 17 aims to 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 (PAA):** 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 intends to apply the PAA to all contracts except for the liability line of business where the General Measurement Model (GMM) will be applied to account for insurance contracts.

**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 Company. 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 issued by the Company. Under IFRS 17 insurance acquisition cash flows are allocated to groups of contracts using systematic and rational methods based on the total premiums for each group.



## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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.

###### 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 under IFRS 4.	Decrease

The Company 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 balance sheet and comparatives required for 2023 reporting.

Management is currently in the process of implementing IFRS 17 and is yet to determine the quantitative impact on these financial statements.

###### IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

On 14 November 2018, the IASB voted to propose deferral of the effective date for IFRS 17, the new insurance contracts Standard, to 2022. Second deferral came on 17 March 2020 and the Board has decided new effective date of IFRS 17 to be 1 January 2023. The Board has also decided, with its first deferral, to propose extending to 2022 the temporary exemption for insurers to apply the financial instruments Standard, IFRS 9.

The Company qualifies for temporary exemption from applying IFRS 9 on the grounds that it has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance with the carrying amounts of its liabilities within the scope of IFRS 4 being greater than 90 percent of the total carrying amount of all its liabilities, as at the date when standard first became effective, with no subsequent change in its activities.

The fair value of the Company's directly held financial assets at 31 December 2022 that will give rise to solely payments of principal and interest ("SPPI") criterion on implementation of IFRS 9, excluding any financial assets that meets the definition of held for trading, are shown in the table in the next page:

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

#### IFRS 9 Financial Instruments (continued)

Assets	Financial assets that pass the SPPI test, excluding any financial asset that meets the definition of held for trading		All other financial assets	
	Fair value at 31 December 2022 AED	Fair value movement during year AED	Fair value at 31 December 2022 AED	Fair value movement during year AED
Available-for-sale investments	-	-	122,132,728	1,911,188
Insurance receivables	125,753,620	-	-	-
Other receivables	2,883,234	-	-	-
Statutory deposit	10,000,000	-	-	-
Bank balances	58,736,058	-	-	-
	<u>197,372,912</u>	<u>-</u>	<u>122,132,728</u>	<u>1,911,188</u>

The credit ratings of deposit and bank balances are as follows:

Assets	AA+ to	A+ to A-	BBB+ to	Below	Total
	AA-		BBB-	BBB- or not rated	
	AED	AED	AED	AED	AED
Statutory deposits	-	10,000,000	-	-	10,000,000
Bank balances	6,501,206	44,662,409	3,987,668	3,584,775	58,736,058
	<u>6,501,206</u>	<u>54,662,409</u>	<u>3,987,668</u>	<u>3,584,775</u>	<u>68,736,058</u>

The significant accounting policies adopted in the preparation of the financial statements are set out below:

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Revenue recognition

##### *Gross premiums*

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

##### *Reinsurance premiums*

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

##### *Other investment income*

- (i) Interest income is recognised on a time proportion basis.
- (ii) Dividend income is accounted for when the right to receive payment is established.
- (iii) Rental income is recognised as income over the period to which it relates.

## **United Fidelity Insurance Company (P.S.C.)**

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### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

#### **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

###### **Claims and expenses recognition**

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to expense as incurred.

The Company generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the underwriting account for that year.

###### **Reinsurance claims**

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

###### **Finance cost**

Interest paid is recognised in the statement of income as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

###### **Liability adequacy test**

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

The Company does not discount its liability for unpaid claims as substantially most of the claims are expected to be paid within one year of the statement of financial position date.

###### **Foreign currency translation**

The presentation currency is UAE Dirhams (AED). This is also the functional currency of the Company. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the statement of income, except when it relates to items when gains or losses are recognised directly in equity, the gain or loss is then recognised net of the exchange component in the statement of comprehensive income.

###### **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 insurance segment comprises of property, marine, motor, medical, general accident, group life and miscellaneous risks.
- b) Investment comprises investment at FVTPL, available-for-sale investments, investment properties and fixed deposits.

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 in 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.

## **United Fidelity Insurance Company (P.S.C.)**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

## **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Product classification**

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, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

#### **Property and equipment**

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of property and equipment. The following estimated useful lives are applied:

- Furniture and equipment 5-10 years
- Computers and office equipment 2-5 years
- Motor vehicles 4 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their value less costs to sell and their value in use.

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 profit or loss as the expense is incurred.

#### **Capital work in progress**

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.

#### **Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of income in the year in which they arise, including the corresponding tax effect. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.



## **United Fidelity Insurance Company (P.S.C.)**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

## **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Investment properties (continued)**

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

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use. (Refer Note 4 for valuation techniques and inputs).

#### **Deferred acquisition costs**

Those direct and indirect costs incurred during the financial period arising from acquiring or renewing of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums from insurance contract. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, deferred acquisition costs are amortised over the period in which the related revenues are earned. The deferred acquisition costs for reinsurers are amortised in the same manner as the underlying asset amortisation and is recorded in the statement of profit or loss.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method and are treated as a change in an accounting estimate. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. Deferred acquisition costs are also considered in the liability adequacy test for each reporting period. Deferred acquisition costs are derecognised when the related contracts are either settled or disposed of.

#### **Deferred commission**

Initial and other front-end commissions relating to insurance contracts and reinsurance arrangements, are deferred and recognised as revenue when the related services are rendered.

#### **Fair value measurement**

The Company measures financial instruments, such as, equity instruments, and non-financial assets such as investment properties (for disclosure purposes), at fair value at each balance sheet date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

## United Fidelity Insurance Company (P.S.C.)

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### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables. This category generally applies to insurance and other receivables.

#### Investments

Investments of the Company are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

#### Financial assets at FVTPL – investments held for trading

Financial assets are classified as at fair value through profit or loss (“FVTPL”) where the financial asset is either held for trading or designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the statement of income.

#### Available-for-sale (“AFS”) investments

AFS investments comprise listed shares held by the Company traded in an active market and are stated at fair value. Gains and losses arising from the changes in the fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve with the exception of impairment losses. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is reclassified to the statement of income.

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Available-for-sale (“AFS”) investments (continued)

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in the statement of income are determined based on the amortised cost of the monetary asset. Dividend on available-for-sale investments are recognised in the statement of income when the Company’s right to receive dividend is established.

#### Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR (effective interest rate), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss as finance costs. The Company does not have any held-to-maturity investments during the years ended 31 December 2022 and 2021.

#### Derecognition of financial instruments

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement
- The Company has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### Impairment and collectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

- (a) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (b) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

#### 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.



## **United Fidelity Insurance Company (P.S.C.)**

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### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

## **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Impairment of non-financial assets (continued)**

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.

#### **Reinsurance contracts held**

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of income. Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance 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 liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured.

#### **Insurance receivables**

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income. Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the statement of financial position which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Company's cash management.

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Insurance contract liabilities

##### (i) *Unearned premium reserve*

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as unearned premium reserve.

##### (ii) *Incurred but not reported reserve*

A provision is made for the estimated excess of potential claims over unearned premiums and for claims incurred but not reported at the financial position date.

The reserves represent the management's best estimates on the basis of:

- a) claims reported during the year
- b) delay in reporting these claims
- c) claim handling provision

##### (iii) *Outstanding claims and IBNR*

Insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the contract expires, is discharged or is cancelled.

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

#### Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### Employees' end of service benefits

The Company provides end of service benefits to its expatriate employees in accordance with the UAE Labour Law. The entitlement to these benefits is based upon the employees' salary and 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.

With respect to its UAE national employees, the Company makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

## **United Fidelity Insurance Company (P.S.C.)**

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### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

#### **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

###### **Offsetting of financial instruments**

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 income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

###### **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.

##### **2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

###### **Judgments**

In the process of applying the accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

###### *Classification of properties*

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

###### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the next page:

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

##### Estimation uncertainty (continued)

###### *Valuation of unquoted equity investments*

Valuation of unquoted equity investments is normally based on recent arm's length market transactions, current fair value of another instrument that is substantially the same, the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or other valuation models.

###### *Provision for outstanding claims, whether reported or not*

Considerable judgment by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claim settlement trends. Claims requiring court or arbitration decisions are estimated individually.

Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

###### *Provision for premium deficiency reserve*

Premium Deficiency Reserve represents the extent to which the unearned premium reserve is insufficient to meet the future claims liabilities and expenses that will be incurred on unexpired business. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty. The amount of the provision is based on a prospective assessment of the profitability associated with the unearned premium reserve.

###### *Impairment losses on insurance receivables*

The Company reviews its insurance receivables on a regular basis to assess whether a provision for impairment should be recorded in the statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs. In addition to specific provisions against individually significant insurance receivables, the Company also makes a collective impairment provision against insurance receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for insurance receivables within each grade and is adjusted to reflect current economic changes.

###### *Fair value of investment properties*

Determining the fair value requires an estimation of future cash flows expected to arise from the investment properties, a suitable growth rate, expected occupancy and a suitable discount rate in order to calculate the present value. It is reasonably possible on the basis of the existing knowledge that outcomes within next financial year that are different from estimates made could require material adjustment to the fair value of the investment properties.



## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 3 PROPERTY AND EQUIPMENT

	2022	2021
	AED	AED
Capital work in progress (Note 3.1)	791,273	810,688
Operating assets (Note 3.2)	22,169,587	9,832,187
	<u>22,960,860</u>	<u>10,642,875</u>

3.1 Capital work in progress includes amount of AED 791,273 (2021: AED 810,688) mainly towards costs incurred on leasehold improvements and software enhancements. Below is the movement of capital work in progress.

	2022	2021
	AED	AED
Opening capital work in progress	810,688	76,886
Add: additions during the year	1,291,569	733,802
Less: capitalised during the year	(1,310,984)	-
Closing capital work in progress	<u>791,273</u>	<u>810,688</u>

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 3 PROPERTY AND EQUIPMENT (continued)

##### 3.2 Operating assets

	Furniture and equipment	Computers and office equipment	Motor vehicles	Right to use assets	Total
	AED	AED	AED	AED	AED
Cost:					
At 1 January 2022	3,978,950	3,884,955	128,977	8,420,294	16,413,176
Additions during the year	408,184	454,245	-	14,462,356	15,324,785
Transferred from capital work in progress (note 3.1)	1,173,894	137,090	-	-	1,310,984
<b>At 31 December 2022</b>	<b>5,561,028</b>	<b>4,476,290</b>	<b>128,977</b>	<b>22,882,650</b>	<b>33,048,945</b>
Depreciation:					
At 1 January 2022	1,109,406	2,841,846	118,469	2,511,268	6,580,989
Charge for the year	603,794	506,095	10,508	3,177,972	4,298,369
<b>At 31 December 2022</b>	<b>1,713,200</b>	<b>3,347,941</b>	<b>128,977</b>	<b>5,689,240</b>	<b>10,879,358</b>
Net carrying amount:					
<b>At 31 December 2022</b>	<b>3,847,828</b>	<b>1,128,349</b>	<b>-</b>	<b>17,193,410</b>	<b>22,169,587</b>

The table below describes nature of the Company's leasing activities by type of right to use asset recognised as per the detailed movement of operating assets:

Right to use asset description	Number of right to use assets leased	Remaining term	Number of leases with extension option	Number of leases with purchase option	Number of leases with variable payments	Number of leases with termination option
Office premises	7	1-7 years	-	-	-	-

**United Fidelity Insurance Company (P.S.C.)****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

**3 PROPERTY AND EQUIPMENT (continued)****3.2 Operating assets (continued)**

	Furniture and equipment AED	Computers and Office equipment AED	Motor vehicles AED	Right to use assets AED	Total AED
Cost:					
At 1 January 2021	3,972,583	3,503,356	128,977	7,610,760	15,215,676
Additions during the year	6,367	381,599	-	809,534	1,197,500
At 31 December 2021	3,978,950	3,884,955	128,977	8,420,294	16,413,176
Depreciation:					
At 1 January 2021	631,568	2,286,498	92,113	1,667,249	4,677,428
Charge for the year	477,838	555,348	26,356	844,019	1,903,561
At 31 December 2021	1,109,406	2,841,846	118,469	2,511,268	6,580,989
Net carrying amount:					
At 31 December 2021	2,869,544	1,043,109	10,508	5,909,026	9,832,187

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 4 INVESTMENT PROPERTIES

	2022 AED	2021 AED
Balance at the beginning of the year	46,799,999	49,800,198
Revaluation loss during the year (note 23)	<u>(16,000)</u>	<u>(3,000,199)</u>
<b>Balance at the end of the year</b>	<b><u>46,783,999</u></b>	<b><u>46,799,999</u></b>

The fair value of the Company's investment properties as at 31 December 2022 has been arrived at on the basis of valuation carried on 31 December 2022 by two independent valuers who have appropriate qualifications and recent market experience in the valuation properties in the United Arab Emirates.

The fair value was determined based on the capitalisation of net income method and comparable method. In capitalisation of net income method, the market rentals of all lettable units are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar property in the area. The capitalisation rate adopted is made by reference to the yield rates observed by the valuers of similar properties in the locality and adjusted based on the valuer's knowledge of the factors specific to respective properties. Comparable method derives values by analysing recent sales transactions of similar properties with similar location whereas adjustments to reflect differences to the specific property's location, age, design and layout are applied.

The fair values of all the investment properties were determined based on unobservable inputs (i.e. level 3).

#### 5 FINANCIAL INSTRUMENTS

	2022 AED	2021 AED
<i>Financial instruments</i>		
Available-for-sale investments (Note 5(a))	122,132,728	99,900,850
Investments at FVTPL (Note 5(b))	<u>103,295,993</u>	<u>64,710,250</u>
	<b><u>225,428,721</u></b>	<b><u>164,611,100</u></b>

##### 5(a) Available-for-sale investments

	2022 AED	2021 AED
Shares – quoted (within UAE)	<u>122,132,728</u>	<u>99,900,850</u>



**United Fidelity Insurance Company (P.S.C.)****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

**5 FINANCIAL INSTRUMENTS (continued)****5(a) Available-for-sale investments (continued)**

Movement during the year was as follows:

	2022	2021
	AED	AED
Fair value at the beginning of the year	99,900,850	56,807,308
Purchased during the year	138,353,414	67,889,785
Disposed during the year	(118,032,724)	(49,655,017)
Change in fair value during the year	1,911,188	24,858,774
<b>Fair value at the end of the year</b>	<b>122,132,728</b>	<b>99,900,850</b>

**5(b) Investments at FVTPL**

	2022	2021
	AED	AED
Unquoted equity securities – outside UAE	2,312,827	2,280,351
Quoted bonds – outside UAE	7,102,307	7,613,867
Quoted structured products – outside UAE	3,238,043	4,318,457
Unquoted mutual fund units – outside UAE	46,065,066	27,245,115
Unquoted investments in real estate fund – outside UAE	44,577,750	23,252,460
	<b>103,295,993</b>	<b>64,710,250</b>

Movement during the year was as follows:

	2022	2021
	AED	AED
Fair value at the beginning of the year	64,710,250	44,580,406
Purchased during the year	67,882,451	29,650,760
Disposed during the year	(21,210,993)	(11,281,185)
Change in fair value during the year (note 23)	(8,085,715)	1,760,269
<b>Fair value at the end of the year</b>	<b>103,295,993</b>	<b>64,710,250</b>

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 6 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the audited annual financial statements for the year ended 31 December 2021.

*Fair value of the Company's financial assets that are measured at fair value on recurring basis.*

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

*Level 1:* Quoted (unadjusted) prices in active markets for identical assets or liabilities.

*Level 2:* Valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly.

*Level 3:* Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

	2022 AED	2021 AED	Fair value hierarchy	Valuation techniques and key inputs
<i>Available-for-sale</i>				
Quoted investments	122,132,728	99,900,850	Level 1	Quoted bid prices in an active market
<i>Investments at FVTPL</i>				
Quoted investments	10,340,349	11,932,324	Level 1	Quoted bid prices in an active market
Unquoted investments	92,955,644	52,777,926	Level 3	Net assets valuation method

There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table.

*Reconciliation of level 3 fair value measurement of financial assets measured at fair value:*

	2022 AED	2021 AED
Opening balance	52,777,926	33,626,701
Purchase during the year	56,555,798	17,773,343
Disposal during the year	(9,903,519)	-
Fair value adjustment	(6,474,561)	1,377,882
Closing balance	<u>92,955,644</u>	<u>52,777,926</u>

**United Fidelity Insurance Company (P.S.C.)****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

**7 DEFERRED ACQUISITION COSTS**

Movements in the provision recognised in the statement of financial position are as follows:

	2022 AED	2021 AED
As at 1 January	28,852,761	32,731,217
Expenses incurred during the year	63,903,169	64,924,765
Less: amortisation	<u>(62,663,512)</u>	<u>(68,803,221)</u>
As at 31 December	<u>30,092,418</u>	<u>28,852,761</u>

**8 INSURANCE RECEIVABLES**

	2022 AED	2021 AED
Due from policyholders and brokers	124,086,291	88,263,733
Due from insurance companies	5,467,891	4,499,893
Due from reinsurance companies	7,901,523	8,158,206
Less: Allowance for doubtful debts	<u>(11,702,085)</u>	<u>(12,258,912)</u>
	<u>125,753,620</u>	<u>88,662,920</u>

Inside UAE:

	2022 AED	2021 AED
Due from policyholders and brokers	124,086,291	88,263,733
Due from insurance companies	5,467,891	4,499,893
Due from reinsurance companies	36,577	195,700
Less: Allowance for doubtful debts	<u>(11,305,209)</u>	<u>(11,814,571)</u>
	<u>118,285,550</u>	<u>81,144,755</u>

Outside UAE:

	2022 AED	2021 AED
Due from reinsurance companies	7,864,946	7,962,506
Less: Allowance for doubtful debts	<u>(396,876)</u>	<u>(444,341)</u>
	<u>7,468,070</u>	<u>7,518,165</u>

The above receivables are standard and unsecured.

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 8 INSURANCE RECEIVABLES (continued)

As at 31 December 2022, premiums and insurance companies' balances receivable at nominal value of AED 11,702,085 (2021: AED 12,258,912) were impaired. Movements in the allowance for impairment of receivables were as follows:

	2022 AED	2021 AED
At 1 January	12,258,912	11,919,555
Provided during the year	402,716	1,986,700
Allowances written back during the year	(920,311)	(1,440,341)
Bad debts written off during the year	(39,232)	(207,002)
At 31 December	<u>11,702,085</u>	<u>12,258,912</u>

#### 9 PREPAYMENTS AND OTHER RECEIVABLES

	2022 AED	2021 AED
Security deposits	464,280	713,367
Advances to employees	707,321	487,153
Prepayments	486,168	536,199
Accrued income	1,266,144	698,833
Others	445,489	165,922
	<u>3,369,402</u>	<u>2,601,474</u>

#### 10 STATUTORY DEPOSIT

	2022 AED	2021 AED
Restricted bank deposit	<u>10,000,000</u>	<u>10,000,000</u>

This represents the amount that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 42 of Federal Law No. (6) of 2007. The bank deposit expires after one year and is renewable every year and earns an interest of 4.23% (2021: 0.5%) per annum.



## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 11 BANK BALANCES AND CASH

Bank balances and cash comprise the following statement of financial position amounts:

	2022	2021
	AED	AED
Current accounts and cash	9,964,531	27,202,460
Call accounts	25,771,527	11,796,302
Bank deposits	23,000,000	32,000,000
	<u>58,736,058</u>	<u>70,998,762</u>

All balances are held in United Arab Emirates. The annual rate of fixed deposits is 2.27% to 4.23% (2021: 0.25% to 4.25%).

Cash and cash equivalents at the end of the year as shown in the statement of cash flows can be reconciled to the related items in the financial items in the statement of financial position as follows:

	2022	2021
	AED	AED
Bank balances and cash	58,736,058	70,998,762
Bank deposits with maturity over 3 months	(23,000,000)	(32,000,000)
Cash and cash equivalents	<u>35,736,058</u>	<u>38,998,762</u>

#### 12 SHARE CAPITAL

	2022	2021
	AED	AED
Authorised share capital - 160,000,000 shares of AED 1 each		
Issued and fully paid 160,000,000 shares of AED 1 each (2021: 100,000,000 shares of AED 1 each)	<u>160,000,000</u>	<u>100,000,000</u>

During the year, the Company issued 60 million shares with a nominal value of AED 1 each. The issued share capital amounting to AED 60 million was paid and subscribed in full on the subscription closure dated 10 January 2022. Transaction costs for the share issue amounted to AED 672 thousand and have been recorded in the general reserve.

#### 13 RESERVES

##### STATUTORY RESERVE

In accordance with the UAE Federal Law No. (32) of 2021 and the Company's Articles of Association, 10% of the net profit of the Company is transferred to a statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid-up share capital. The reserve is not available for distribution, except in the circumstances stipulated by the UAE Commercial Companies Law. During the year, the Board approved the transfer of AED 68,322 (2021: 803,784) from the net profits to statutory reserve.

##### GENERAL RESERVE

The general reserve is established through transfers from profit for the year as recommended by the Board of Directors' and approved by the Shareholders' at the Annual General Meeting. The reserve is distributable based on a recommendation by the Board of Directors', approved by a Shareholders' resolution. During the year, transaction costs for the share issue amounted to AED 672 thousand and have been recorded in the general reserve (2021: Nil).

##### INVESTMENT REVALUATION RESERVE

This reserve records fair value changes on available-for-sale investments.

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 13 RESERVES (continued)

##### REINSURANCE RESERVE

In accordance with Central Bank of the United Arab Emirates' Board of Directors' Decision No. 23, Article 34, an amount of AED 1,248,747 (2021: 969,476) based on the reinsurance share of premium at a rate of 0.5% was transferred from retained earnings to reinsurance reserve. The reserve is not available for distribution, and will not be disposed of without prior approval from Central Bank of the United Arab Emirates.

#### 14 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the statement of financial position are as follows:

	2022	2021
	AED	AED
Provision as at 1 January	3,376,247	2,148,660
Provided during the year	1,009,197	1,674,139
End of service benefits paid	(235,669)	(446,552)
Provision as at 31 December	<u>4,149,775</u>	<u>3,376,247</u>

#### 15 INSURANCE CONTRACT ASSETS AND LIABILITIES

	2022	2021
	AED	AED
<b>Insurance contract liabilities:</b>		
Unearned premiums	185,987,274	159,148,657
Claims reported unsettled	210,062,743	111,501,878
Claims incurred but not reported	25,086,017	25,262,220
Unallocated loss adjustment expenses	1,795,850	1,839,480
Premium deficiency reserve	322,691	730,791
	<u>423,254,575</u>	<u>298,483,026</u>
<b>Insurance contract assets:</b>		
Unearned premiums	108,727,687	78,138,937
Claims reported unsettled	156,878,394	55,414,328
Claims incurred but not reported	15,683,994	11,992,095
	<u>281,290,075</u>	<u>145,545,360</u>
<b>Insurance contract liabilities – net</b>		
Unearned premiums	77,259,587	81,009,720
Premium deficiency reserve	322,691	730,791
Claims reported unsettled	53,184,349	56,087,550
Claims incurred but not reported	9,402,023	13,270,125
Unallocated loss adjustment expenses	1,795,850	1,839,480
	<u>141,964,500</u>	<u>152,937,666</u>

Insurance contract assets include outstanding balances recoverable from insurance companies and third parties.

The technical reserves have been certified by the Company's appointed actuary in accordance with financial regulations issued by the Central Bank of the UAE.

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 15 INSURANCE CONTRACT ASSETS AND LIABILITIES (continued)

##### Claims development table:

The following table reflects the cumulative gross incurred claims for each successive accident year at each statement of financial position date, together with cumulative payments to date:

Year 2022	2016						Total AED	
	Accident year	and before AED	2017 AED	2018 AED	2019 AED	2020 AED		2021 AED
At the end of accident year	1,125,739,864	48,376,125	77,636,145	144,836,697	204,262,714	260,776,188	356,088,934	356,088,934
One year later	1,120,552,943	51,709,949	77,326,008	154,464,687	206,466,191	274,648,378	-	274,648,378
Two years later	1,113,659,813	51,466,701	75,912,527	152,365,806	208,440,354	-	-	208,440,354
Three years later	1,101,552,880	51,796,817	73,770,716	150,175,543	-	-	-	150,175,543
Four years later	1,098,067,943	50,508,329	73,612,526	-	-	-	-	73,612,526
Five years later	1,094,297,543	49,849,182	-	-	-	-	-	49,849,182
Six years later	1,092,417,955	-	-	-	-	-	-	1,092,417,955
<b>Current estimate of cumulative claims</b>	<b>1,092,417,955</b>	<b>49,849,182</b>	<b>73,612,526</b>	<b>150,175,543</b>	<b>208,440,354</b>	<b>274,648,378</b>	<b>356,088,934</b>	<b>356,088,934</b>
At the end of accident year	1,035,906,780	31,862,638	49,425,607	113,544,828	126,682,491	180,047,813	195,491,662	195,491,662
One year later	1,059,128,401	41,641,005	70,135,636	143,513,868	185,446,220	242,145,320	-	242,145,320
Two years later	1,083,274,365	47,470,173	72,908,939	147,505,761	194,620,568	-	-	194,620,568
Three years later	1,089,772,920	48,876,153	72,974,991	148,489,625	-	-	-	148,489,625
Four years later	1,091,577,048	48,994,413	73,277,349	-	-	-	-	73,277,349
Five years later	1,091,713,697	49,137,662	-	-	-	-	-	49,137,662
Six years later	1,092,017,455	-	-	-	-	-	-	1,092,017,455
<b>Cumulative claims paid</b>	<b>1,092,017,455</b>	<b>49,137,662</b>	<b>73,277,349</b>	<b>148,489,625</b>	<b>194,620,568</b>	<b>242,145,320</b>	<b>195,491,662</b>	<b>195,491,662</b>
<b>Total gross outstanding claims</b>	<b>400,500</b>	<b>711,520</b>	<b>335,177</b>	<b>1,685,918</b>	<b>13,819,786</b>	<b>32,503,058</b>	<b>160,606,784</b>	<b>210,062,743</b>

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 16 DEFERRED COMMISSION INCOME

Movements in the deferred commission income recognised in the statement of financial position are as follows:

	2022 AED	2021 AED
As at 1 January	9,033,649	6,786,372
Commission received during the year	25,025,261	19,102,978
Commission income released to the statement of income	(23,193,795)	(16,855,701)
As at 31 December	<u>10,865,115</u>	<u>9,033,649</u>

The closing balance of deferred commission income is recoverable from future premiums of existing insurance contracts.

#### 17 INSURANCE AND OTHER PAYABLES

	2022 AED	2021 AED
Insurance related payables	199,196,445	141,401,827
Accrued expenses	4,918,167	6,472,933
VAT payables	3,866,389	2,384,101
Other payables	481,271	354,631
	<u>208,462,272</u>	<u>150,613,492</u>

Inside UAE:

	2022 AED	2021 AED
Insurance related payables	95,150,919	64,406,953
Accrued expenses	4,918,167	6,472,933
VAT payables	3,866,389	2,384,101
Other payables	481,271	354,631
	<u>104,416,746</u>	<u>73,618,618</u>

Outside UAE:

	2022 AED	2021 AED
Insurance related payables	<u>104,045,526</u>	<u>76,994,874</u>

#### 18 LEASE LIABILITY

The Company has leases for the office premises within UAE as at 31 December 2022. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right to use asset and a lease liability. The Company classifies its right to use assets in a consistent manner to its property and equipment (see note 3). Future minimum lease payments as at 31 December 2022 were as mentioned on the next page:



## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 18 LEASE LIABILITY (continued)

	Within 1 year AED	1-5 years AED	After 5 years AED	Total AED
31 December 2022				
Lease payments	4,650,433	13,839,222	788,966	19,278,621
Finance charges	(656,241)	(1,043,896)	(10,792)	(1,710,929)
Net present values	<u>3,994,192</u>	<u>12,795,326</u>	<u>778,174</u>	<u>17,567,692</u>
31 December 2021				
Lease payments	1,227,441	4,495,323	1,840,921	7,563,685
Finance charges	(284,178)	(601,986)	(62,089)	(948,253)
Net present values	<u>943,263</u>	<u>3,893,337</u>	<u>1,778,832</u>	<u>6,615,432</u>

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right to use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. Operating lease payments represent rentals payable by the Company for its branch offices. At reporting date, the Company has outstanding commitments under non-cancellable operating leases, as mentioned in the note 27.

#### 19 RELATED PARTIES' TRANSACTIONS

Related parties represent, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. The pricing policies and terms of these transactions are approved by the Company's management.

The significant balances outstanding at 31 December in respect of related parties included in the financial statements are as follows:

	2022 AED	2021 AED
<i>Affiliates of major shareholders:</i>		
Due from policyholders	1,843,291	1,742,443
Outstanding claims	<u>380,304</u>	<u>358,187</u>

The income and expenses in respect of related parties included in the financial statements are as follows:

	2022 AED	2021 AED
<i>Affiliates of major shareholders:</i>		
Premiums	9,401,371	12,863,341
Claims	<u>(6,631,889)</u>	<u>(9,576,861)</u>

Compensation of the key management personnel is as follows:

Employee benefits	<u>3,205,720</u>	<u>3,914,584</u>
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Outstanding balances at the year-end arise in the normal course of business. For the years ended 31 December 2022 and 31 December 2021, the Company has not recorded any impairment of amounts owed by related parties.



## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 22 SEGMENTAL INFORMATION

##### Identification of reportable segments

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

- The insurance segment, comprises property, marine, motor, medical, general accident, group life and miscellaneous risks.
- Investment comprises investment at FVTPL, AFS investments, investment properties and fixed deposits.

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

Operating segment information is presented below:

	General Insurance		Medical and Life Insurance		Investment		Total	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
	AED	AED	AED	AED	AED	AED	AED	AED
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Gross premium	205,089,492	213,370,282	216,985,011	170,411,086	-	-	422,074,503	383,781,368
Reinsurance share of gross premium	(119,701,896)	(84,717,662)	(135,710,442)	(105,803,350)	-	-	(255,412,338)	(190,521,012)
Net movement in provision for UPR and PDR	15,580,634	24,429,961	(11,422,401)	(7,039,344)	-	-	4,158,233	17,390,617
Net insurance premium revenue	100,968,230	153,082,581	69,852,168	57,568,392	-	-	170,820,398	210,650,973
Reinsurance commission income	23,193,795	16,855,701	-	-	-	-	23,193,795	16,855,701
Other income	615,839	500	-	-	-	-	615,839	500
Total underwriting income	124,777,864	169,938,782	69,852,168	57,568,392	-	-	194,630,032	227,507,174
Claims incurred	(191,659,134)	(111,030,117)	(146,868,741)	(120,827,454)	-	-	(338,527,875)	(231,857,571)
Reinsurers' share of claims incurred	122,770,465	25,290,068	109,478,669	93,263,196	-	-	232,249,134	118,553,264
Net claims incurred	(68,888,669)	(85,740,049)	(37,390,072)	(27,564,258)	-	-	(106,278,741)	(113,304,307)
Commission expenses including third-party administrator fees	(38,577,213)	(48,954,338)	(24,086,299)	(19,848,883)	-	-	(62,663,512)	(68,803,221)
Other underwriting expenses	(3,079,480)	(5,546,147)	(757,427)	(284,953)	-	-	(3,836,907)	(5,831,100)
General and administration expenses relating to underwriting activities	(30,880,420)	(33,066,678)	(13,679,311)	(12,251,036)	-	-	(44,559,731)	(45,317,714)
Total underwriting expenses	(141,425,782)	(173,307,212)	(75,913,109)	(59,949,130)	-	-	(217,338,891)	(233,256,342)
Net underwriting loss	(16,647,918)	(3,368,430)	(6,060,941)	(2,380,738)	-	-	(22,708,859)	(5,749,168)
Investment income	-	-	-	-	23,916,350	14,217,948	23,916,350	14,217,948
General and administration expenses not allocated to underwriting activities	-	-	-	-	(524,274)	(430,940)	(524,274)	(430,940)
Profit for the year	(16,647,918)	(3,368,430)	(6,060,941)	(2,380,738)	23,392,076	13,787,008	683,217	8,037,840

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 22 SEGMENTAL INFORMATION (continued)

##### Primary segment information

	General Insurance		Medical and Life Insurance		Investment		Total	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
	AED	AED	AED	AED	AED	AED	AED	AED
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment assets	299,524,202	152,453,037	137,611,909	110,608,004	295,212,720	243,411,099	732,348,831	506,472,140
Unallocated assets	-	-	-	-	-	-	72,066,322	62,243,111
Total assets	299,524,202	152,453,037	137,611,909	110,608,004	295,212,720	243,411,099	804,415,153	568,715,251
Segment liabilities	448,256,092	286,876,695	194,325,863	171,253,472	-	-	642,581,955	458,130,167
Unallocated liabilities	-	-	-	-	-	-	21,717,474	9,991,679
Total liabilities	448,256,092	286,876,695	194,325,863	171,253,472	-	-	664,299,429	468,121,846

The Company's operations are primarily conducted in the United Arab Emirates. Insurance figures reported above include certain assets and liabilities that are common for all two reportable segments. These amounts are not significant and are not reported separately to the chief decision maker.



## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 22 SEGMENTAL INFORMATION (continued)

##### Revenue from underwriting departments

The following is an analysis of the Company's revenues classified by major underwriting departments.

	2022	2021
	AED	AED
Medical	211,620,380	167,854,569
Motor	78,756,956	117,712,629
Engineering, general accidents and others	54,091,434	38,446,045
Property	52,611,204	40,952,985
Marine	19,629,900	16,258,616
Group life	5,364,629	2,556,524
	<u>422,074,503</u>	<u>383,781,368</u>

#### 23 INVESTMENT INCOME

	2022	2021
	AED	AED
Rental income from investment properties	2,050,348	2,319,355
Revaluation loss on investment properties (Note 4)	(16,000)	(3,000,199)
Expenses against rental income from investment properties	(613,393)	(712,643)
Net income/(loss) from investment properties	<u>1,420,955</u>	<u>(1,393,487)</u>
Gain on disposal of available-for-sale investments	20,673,954	8,451,233
Dividend income from available-for-sale investment	4,871,085	2,655,949
Fair value (loss)/gain on investments at FVTPL	(8,085,715)	1,760,269
Dividend income from investments at FVTPL	2,553,889	1,722,325
Interest income from bonds at FVTPL	1,124,493	563,519
Gain on disposal of investment at FVTPL	761,169	161,138
Interest income on fixed deposits	866,472	548,462
Other investment expenses	(269,952)	(251,460)
	<u>23,916,350</u>	<u>14,217,948</u>

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 24 GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses allocable to the underwriting and non-underwriting activities include mainly the following:

	2022	2021
	AED	AED
Staff costs	30,276,018	31,293,305
Depreciation of property and equipment (Note 3)	1,120,397	1,059,542
Depreciation of right to use assets (Note 3)	3,177,972	844,019
Attendance fee for Board appointed committee	205,000	380,000
Social contributions	202,031	89,144

#### 25 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding as follows:

	2022	2021
Profit for the year (AED)	683,217	8,037,840
Weighted average number of shares outstanding*	123,076,923	123,076,923
Earnings per share (AED)	0.006	0.065

\*The weighted average number of shares outstanding takes into account the effect of the rights issue during the year (note 12). There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

No figures for diluted earnings per share are presented as the Company has not issued any instruments which would have an impact on profit per share when exercised.

#### 26 RISK MANAGEMENT

##### (a) Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Company's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the Chief Executive Officer and senior managers.

The board of directors meets regularly to approve any commercial, regulatory and organisational decisions. The Chief Executive Officer under the authority delegated from the board of directors defines the Company's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

The Company's current enterprise risk management framework is formally documented and divided into three phases. The Company's enterprise risk management framework is established to identify and analyse the key risks faced by the Company's to set appropriate controls and manage those risks. As part of the risks identification process, the Company uses risk based capital model to assess the capital requirement and uses stress analysis to apply changes to capital. The Company's risk appetite is derived from the changes to capital.

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 26 RISK MANAGEMENT (continued)

##### (b) Capital management framework

The primary objective of the Company's capital management is to comply with the regulatory requirements in the UAE and to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

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

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

	30 September 2022 (Unaudited) AED
Minimum Capital Requirement (MCR)	100,000,000
Solvency Capital Requirement (SCR)	95,320,326
Minimum Guarantee Fund (MGF)	47,900,111
Basic Own Funds	100,821,507
MCR Solvency Margin Surplus	821,507
SCR Solvency Margin Surplus	5,501,180
MGF Solvency margin Surplus	<u>52,921,396</u>

##### (c) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Company are also subject to regulatory requirements within the jurisdiction where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

##### (d) Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Company manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The Company actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts. The Company regularly monitors the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance liabilities.

The risks faced by the Company and the way these risks are mitigated by management are summarised ahead.

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 26 RISK MANAGEMENT (continued)

##### 26A Insurance risk

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.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

##### *Frequency and amounts of claims*

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly medical, property, motor, marine, fire, engineering and general accident risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

##### *Property*

Property insurance is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the loss of earnings caused by the inability to use the insured properties. For property insurance contracts the main risks are fire and business interruption. In recent years the Company has only underwritten policies for properties containing fire detection equipment. These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such damage to limit losses for any individual claim to AED 1,470,000 (2021: AED 1,102,500).

##### *Motor*

Motor insurance is designed to compensate contract holders for damage suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for the fire or theft of their vehicles. For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has reinsurance cover for such claims to limit losses for any individual claim to AED 300,000 (2021: AED 300,000). The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

##### *Marine*

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes. For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes. The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Company has reinsurance to limit losses for any individual claim to AED 1,470,000 (2021: AED 1,102,500).

##### *Medical*

Medical insurance is designed to compensate the contract holders for medical costs. For medical insurance, the main risks are illness and related healthcare costs. The Company generally does not offer medical insurance to walk-in customers. Medical insurance is generally offered to corporate customers with large population to be covered under the policy.

##### *Reinsurance risk*

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Company, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts.



## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 26 RISK MANAGEMENT (continued)

##### 26A Insurance risk(continued)

###### *Reinsurance risk (continued)*

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The Company deals with reinsurers approved by the Board of Directors. Also, 93.5% of the treaty programme is placed with A and above rated companies as at 31 December 2022 (2021: 94.5%).

##### 26B Financial risk

The Company's principal financial instruments include financial assets and financial liabilities which comprise financial investments (at fair value through profit or loss and available-for-sale investments), receivables arising from insurance and reinsurance contracts, statutory deposits, cash and cash equivalents, trade and other payables, and re-insurance balance payables. The Company does not enter into derivative transactions.

The main risks arising from the Company's financial instruments are credit risk, geographical risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk. The board reviews and agrees policies for managing each of these risks and they are summarised below:

###### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- The Company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's investments at fair value through profit or loss or available-for-sale investments are managed by the Investment Committee in accordance with the guidance of the Chairman and the supervision of the Board of Directors.
- The Company's bank balances are maintained with a range of local banks in accordance with limits set by the management.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	Notes	2022 AED	2021 AED
Financial instruments	5	225,428,721	164,611,100
Insurance contract assets	15	281,290,075	145,545,360
Insurance receivables	8	125,753,620	88,662,920
Other receivables (excluding prepayments)	9	2,883,234	2,065,275
Statutory deposits	10	10,000,000	10,000,000
Bank balances	11	58,736,058	70,998,762
<b>Total credit risk exposure</b>		<b>704,091,708</b>	<b>481,883,417</b>

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 26 RISK MANAGEMENT (continued)

##### 26B Financial risk (continued)

###### *Credit risk (continued)*

in value. For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes.

Insurance receivables comprise a large number of customers and insurance companies mainly within the United Arab Emirates. Reinsurance assets are from reinsurance companies based mainly in Europe and the Middle East. The Company's financial position can be analysed by the following geographical regions:

	2022			2021		
	Assets AED	Liabilities and equity AED	Contingent liabilities and commitments AED	Assets AED	Liabilities and equity AED	Contingent liabilities and commitments AED
United Arab Emirates	386,503,233	804,415,153	12,461,014	330,911,973	491,720,377	13,337,953
Europe	127,367,322	-	-	76,723,967	70,037,442	-
Rest of the world	290,544,598	-	-	161,079,311	6,957,432	-
<b>Total</b>	<b>804,415,153</b>	<b>804,415,153</b>	<b>12,461,014</b>	<b>568,715,251</b>	<b>568,715,251</b>	<b>13,337,953</b>

The following table provides an ageing analysis of receivables arising from policyholders and brokers:

	90 days AED	91 to 180 days AED	181 to 365 days AED	> 365 days AED	Total AED
<b>2022</b>	<b>76,784,147</b>	<b>17,485,604</b>	<b>14,114,164</b>	<b>15,702,376</b>	<b>124,086,291</b>
<b>2021</b>	<b>42,632,089</b>	<b>13,079,183</b>	<b>17,888,821</b>	<b>14,663,640</b>	<b>88,263,733</b>

For assets to be classified as 'past due and impaired' the contractual payments in arrears are more than 365 days and an impairment adjustment is recorded in the statement of income for this. When the credit exposure is adequately secured or when management is confident of settlement, arrears more than 365 days might still be classified as 'past due but not impaired', with no impairment adjustment recorded.

###### **Geographical risk**

The Company has geographical risk exposure. Such exposure arises from investments, cash and cash equivalents and insurance contracts concentrated within certain geographical areas. The investments and cash and cash equivalents are primarily with local companies and financial institutions. The risk arising from insurance contracts is concentrated mainly in the United Arab Emirates.

In accordance with the requirement of the Securities and Commodities Authority (Circular dated 12-10-2011) following are the details of the geographical concentration of assets in the Company's financial statements as of 31 December 2022:

###### **(a) Investment property**

Investment property represents the Company's investment in a freehold land and building situated in the Emirate of Dubai, United Arab Emirates and Ras Al Khaimah, UAE.

## **United Fidelity Insurance Company (P.S.C.)**

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### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

#### **26 RISK MANAGEMENT (continued)**

##### **26B Financial risk (continued)**

###### ***Geographical risk (continued)***

###### **(b) Financial instruments – investments**

Investments in financial assets represent investments in quoted and unquoted securities, bonds, structured products and mutual funds of companies incorporated in the United Arab Emirates and outside United Arab Emirates.

###### **(c) Cash and cash equivalents**

Cash and cash equivalents of the Company are with banks registered and operating in the United Arab Emirates.

###### ***Currency risk***

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

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 26 RISK MANAGEMENT (continued)

##### 26B Financial risk (continued)

###### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with insurance contracts and financial liabilities when they fall due. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The table below summarises the maturity of the assets and liabilities of the Company based on remaining contractual settlement dates.

	31 December 2022			31 December 2021			Total AED	Total AED
	Less than one year AED	More than one year AED	No term AED	Less than one year AED	More than one year AED	No term AED		
<b>ASSETS</b>								
Property and equipment	-	17,193,410	5,767,450	-	5,909,026	4,733,849	22,960,860	10,642,875
Investment properties	-	-	46,783,999	-	-	46,799,999	46,783,999	46,799,999
Financial instruments	225,428,721	-	-	164,611,100	-	-	225,428,721	164,611,100
Insurance contract assets	281,290,075	-	-	145,545,360	-	-	281,290,075	145,545,360
Deferred acquisition costs	30,092,418	-	-	28,852,761	-	-	30,092,418	28,852,761
Insurance receivables	125,753,620	-	-	88,662,920	-	-	125,753,620	88,662,920
Prepayments and other receivables	3,369,402	-	-	2,601,474	-	-	3,369,402	2,601,474
Statutory deposits	-	-	10,000,000	-	-	10,000,000	10,000,000	10,000,000
Bank balances and cash	58,736,058	-	-	70,998,762	-	-	58,736,058	70,998,762
<b>TOTAL ASSETS</b>	<b>724,670,294</b>	<b>17,193,410</b>	<b>62,551,449</b>	<b>501,272,377</b>	<b>5,909,026</b>	<b>61,533,848</b>	<b>804,415,153</b>	<b>568,715,251</b>



**United Fidelity Insurance Company (P.S.C.)**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2022

**26 RISK MANAGEMENT (continued)**

**26B Financial risk (continued)**

*Liquidity risk (continued)*

	31 December 2022			31 December 2021			
	Less than one year AED	More than one year AED	No term AED	Total AED	Less than one year AED	More than one year AED	Total AED
<b>Liabilities</b>							
Employees' end of service benefits	-	4,149,775	-	4,149,775	-	3,376,247	3,376,247
Insurance contract liabilities	423,254,575	-	-	423,254,575	298,483,026	-	298,483,026
Deferred commission income	10,865,115	-	-	10,865,115	9,033,649	-	9,033,649
Insurance and other payables	208,462,272	-	-	208,462,272	150,613,492	-	150,613,492
Lease liability	-	17,567,692	-	17,567,692	943,263	5,672,169	6,615,432
<b>Total liabilities</b>	<b>642,581,962</b>	<b>21,717,467</b>	<b>-</b>	<b>664,299,429</b>	<b>459,073,430</b>	<b>9,048,416</b>	<b>468,121,846</b>

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 26 RISK MANAGEMENT (continued)

##### 26B Financial risk (continued)

###### *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. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The Company is exposed to interest rate risk on fixed deposits and bank overdraft. The Company limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and interest bearing investments and borrowings are denominated.

###### *Interest rate sensitivity*

The effective interest rates for all major classes of interest-bearing financial instruments as at 31 December, are as follows:

##### 31 December 2022

	Total AED	Effective interest rate %
Bank deposits (including statutory deposit)	<u>33,000,000</u>	2.27% to 4.23%
	<u>33,000,000</u>	

##### 31 December 2021

	Total AED	Effective interest rate %
Bank deposits (including statutory deposit)	<u>42,000,000</u>	0.25% to 4.25%
	<u>42,000,000</u>	

There is no significant difference between contractual reprising or maturity dates.

The following table demonstrates the sensitivity of statement of income to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the Company's profit for the year, based on the floating rate financial assets and financial liabilities held at 31 December 2022.

	Increase/decrease in basis points (bps)	Effect on profit for the year AED
2022	50 (bps)	165,000
	-50 (bps)	(165,000)
2021	50 (bps)	210,000
	-50 (bps)	(210,000)

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 26 RISK MANAGEMENT (continued)

##### 26B Financial risk (continued)

###### *Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Company's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as financial assets at fair value through other comprehensive income at 31 December 2022) and on statement of income (as a result of changes in value of financial assets through profit or loss) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2022			2021		
	Change in equity price %	Effect on equity AED	Effect on income statement AED	Change in equity price %	Effect on equity AED	Effect on income statement AED
All investments	10%	12,213,273	10,329,599	10%	9,990,085	6,471,025

##### 26C Operational risk

Operational risk is the risk of loss arising from systems 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 lead to financial loss. The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

#### 27 CONTINGENCIES AND COMMITMENTS

###### *Contingent liabilities*

At 31 December 2022 the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 12,461,014 (2021: AED 11,312,676).

###### *Legal claims*

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

## United Fidelity Insurance Company (P.S.C.)

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

#### 27 CONTINGENCIES AND COMMITMENTS (continued)

##### *Capital and lease commitments*

The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) and for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. At 31 December, the Company's capital and short-term lease commitments are payable as follows:

	2022	2021
	AED	AED
Capital commitments - less than one year	-	733,802
Short-term lease commitments - less than one year	-	1,291,475
	<u>-</u>	<u>2,025,277</u>

#### 28 POST REPORTING DATE EVENTS

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation of these financial statements.