CONSOLIDATED FINANCIAL STATEMENT

AS AT 31 DECEMBER 2022

(US$ '000)

	Note	2022	2021
ASSETS			
Cash and bank balances	5	215,141	59,055
Investments	6	175,097	424,970
Accrued income	8	3,446	2,148
Insurance receivables	9	7,077	29,141
Insurance deposits	10	19,159	21,728
Deferred policy acquisition costs	17	25	365
Reinsurers' share of technical provisions	11	8,559	38,516
Other assets	12	8,826	21,422
Investment property	13	4,754	4,622
Property and equipment	14	10,269	11,725
TOTAL ASSETS		**452,353**	**613,692**
LIABILITIES AND EQUITY			
LIABILITIES			
Technical provisions	15	133,830	255,778
Insurance payables	18	23,878	49,863
Other liabilities	19	17,281	29,093
TOTAL LIABILITIES		**174,989**	**334,734**
EQUITY			
Attributable to shareholders of parent company	20		
Share capital		220,000	220,000
Treasury stock		(14,793)	(14,793)
Reserves		40,705	55,198
Retained earnings		18,676	5,738
		264,588	266,143
Non-controlling interests	21	**12,776**	**12,815**
TOTAL EQUITY		**277,364**	**278,958**
TOTAL LIABILITIES AND EQUITY		**452,353**	**613,692**

These consolidated financial statements were approved by the Board of Directors on 27 February 2023 and signed on its behalf by:

Saeed Mohammed AlBahhar
Chairman

Mohamed Ahmed Alkarbi
Director

Samuel Verghese
Acting Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2022

(US$ '000)

	Note		2022	2021
Earned premiums	22		1,299	13,800
Claims and related provisions	22		22,106	14,961
Policy acquisition costs	22		235	(2,468)
Investment income attributable to insurance funds	23		354	4,269
Operating expenses	24		(5,560)	(6,845)
Underwriting result	22		**18,434**	**23,717**
Investment income attributable to shareholders' funds	23		1,223	5,339
Operating expenses - non underwriting activities	24		(3,442)	(4,148)
Other income	25		6,774	3,467
Other expenses and provisions	26		(3,075)	(3,964)
Profit for the year			**19,914**	**24,411**
Attributable to:				
Non-controlling interests			282	346
Shareholders of parent company			**19,632**	**24,065**
			19,914	**24,411**
Earnings per share attributable to shareholders (basic and diluted):	27	(US Cents)	**9.9**	**12.1**

Saeed Mohammed AlBahhar
Chairman

Mohamed Ahmed Alkarbi
Director

Samuel Verghese
Acting Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2022

(US$ '000)

	Note	2022	2021
Profit for the year		19,914	24,411
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Changes on fair value of available for sale investments		(16,114)	(1,627)
Transfers for recognition of gains on disposal of available for sale investments	23	(1,776)	(2,515)
Transfers for impairment loss recognised on available for sale investments	23	2,779	862
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property	14	(1,444)	-
Other comprehensive income for the year		**(16,555)**	**(3,280)**
Total comprehensive income for the year		**3,359**	**21,131**
Attributable to:			
Non-controlling interests		(39)	349
Shareholders of parent company		3,398	20,782
		3,359	**21,131**

Saeed Mohammed AlBahhar
Chairman

Mohamed Ahmed Alkarbi
Director

Samuel Verghese
Acting Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

(US$ ‘000)

	Share capital	Treasury Stock	Reserves				Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total equity
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2021	**220,000**	**(14,793)**	**40,332**	**10,527**	**4,339**	**55,198**	**5,738**	**266,143**	**12,815**	**278,958**
Net profit for the year	-	-	-	-	-	-	19,632	19,632	282	19,914
Changes on fair value of available for sale investments	-	-	-	(15,839)	-	(15,839)	-	(15,839)	(275)	(16,114)
Transfers for recognition of gains on disposal of available for sale investments	-	-	-	(1,724)	-	(1,724)	-	(1,724)	(52)	(1,776)
Transfers for impairment loss recognised on available for sale investments	-	-	-	2,773	-	2,773	-	2,773	6	2,779
Revaluation of property	-	-	-	-	(1,444)	(1,444)	-	(1,444)	-	(1,444)
Total comprehensive income for the year	**-**	**-**	**-**	**(14,790)**	**(1,444)**	**(16,234)**	**19,632**	**3,398**	**(39)**	**3,359**
Dividends declared	-	-	-	-	-	-	(4,953)	(4,953)	-	(4,953)
Transfer of net depreciation on revalued property	-	-	-	-	(222)	(222)	222	-	-	-
Transfer to (from) non-distributable reserves	-	-	1,963	-	-	1,963	(1,963)	-	-	-
Balances at 31 December 2022	**220,000**	**(14,793)**	**42,295**	**(4,263)**	**2,673**	**40,705**	**18,676**	**264,588**	**12,776**	**277,364**
Parent company balances at 31 December 2022	220,000	(14,793)	42,158	(3,959)	2,673	40,872	18,509	264,588	-	264,588

	Share capital	Treasury Stock	Reserves				Retained earnings (accumulated losses)	Attributable to shareholders of parent company	Non-controlling interests	Total equity
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2020	**220,000**	**(14,793)**	**37,925**	**13,810**	**4,561**	**56,296**	**(16,142)**	**245,361**	**17,066**	**262,427**
Net profit for the year	-	-	-	-	-	-	24,065	24,065	346	24,411
Changes on fair value of available for sale investments	-	-	-	(1,614)	-	(1,614)	-	(1,614)	(13)	(1,627)
Transfers for recognition of (gains) losses on disposal of available for sale investments	-	-	-	(2,521)	-	(2,521)	-	(2,521)	6	(2,515)
Transfers for impairment loss recognised on available for sale investments	-	-	-	852	-	852	-	852	10	862
Total comprehensive income for the year	**-**	**-**	**-**	**(3,283)**	**-**	**(3,283)**	**24,065**	**20,782**	**349**	**21,131**
Transfer of net depreciation on revalued property	-	-	-	-	(222)	(222)	222	-	-	-
Transfer to (from) non-distributable reserves	-	-	2,407	-	-	2,407	(2,407)	-	-	-
Subsidiary’s capital reduction	-	-	-	-	-	-	-	-	(4,600)	(4,600)
Balances at 31 December 2021	**220,000**	**(14,793)**	**40,332**	**10,527**	**4,339**	**55,198**	**5,738**	**266,143**	**12,815**	**278,958**
Parent company balances at 31 December 2021	220,000	(14,793)	40,195	10,454	4,339	54,988	5,948	266,143	-	266,143

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

(US$ '000)

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		17,633	28,613
Reinsurance premiums paid		(64,699)	(21,947)
Claims and acquisition costs paid		(49,662)	(147,660)
Reinsurance receipts in respect of claims		27,552	72,762
Investment income		5,396	43
Interest received		1,702	1,872
Operating expenses paid		(9,729)	(11,716)
Other (expenses) income, net		(2,980)	(3,319)
Insurance deposits received (paid), net		2,542	102
Sale of trading investments		48,255	-
Net cash used in operating activities	30	**(23,990)**	**(81,250)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity/sale of investments		209,728	115,744
Purchase of investments		(38,880)	(92,173)
Term deposits with bank		(134,306)	18,473
Interest received		6,277	7,398
Investment income		1,053	2,572
Collateralised cash deposits		6,850	10,790
Purchase of property and equipment		(33)	(5)
Purchase of intangible assets		(17)	-
Sale of associate		-	90
Net cash provided by investing activities		**50,672**	**62,889**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(4,953)	-
Dividend received from associate		49	-
Subsidiary's capital reduction - non controlling interest		-	(4,600)
Net cash used in financing activities		**(4,904)**	**(4,600)**
Net increase (decrease) in cash and cash equivalents		**21,778**	**(22,961)**
Effect of exchange rates on cash and cash equivalents		2	(11)
Cash and cash equivalents, beginning of year		40,464	63,436
Cash and cash equivalents, end of year	5	**62,244**	**40,464**
Term deposits with bank		152,897	18,591
Cash and bank balances, end of year	5	**215,141**	**59,055**

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2022

1. INCORPORATION AND PRINCIPAL ACTIVITY

Arab Insurance Group (B.S.C.) (the “Company”, “parent company”) is an international insurance company registered as a Bahraini Shareholding Company having its registered office at Arig House, Manama, Kingdom of Bahrain. The parent company and its subsidiaries (the “Group”) are involved in provision of general (non-life) and life reinsurance and related service activities.

The Board in its meeting held on 13th May 2019 resolved to recommend to the shareholders the cessation of the Company’s underwriting activities. In an Extraordinary General Meeting held on 13 August 2020 the shareholders approved the Board’s recommendation and placed the insurance portfolio in run-off. The Company has sought the approval of CBB to implement the resolution of the shareholders.

The board of directors expects the proposed run-off of the existing insurance portfolio to take more than 12 months and have assessed that the Company will continue to operate as a going concern for at least 12 months from the date of these consolidated financial statements. Therefore, these consolidated financial statements have been prepared on going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and are consistent with prevailing practice within the insurance industry.

The Group’s financial statements are presented in U.S. Dollars, which is its functional currency as its share capital and a significant proportion of its business, assets and liabilities are denominated in that currency.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of land and building, derivative financial instruments and certain investment assets at fair value.

Comparative figures have been regrouped where necessary, to conform to the current year’s presentation.

On 11 March 2020, the Coronavirus (COVID 19) outbreak was declared a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. COVID 19 has also brought about significant uncertainties in the global economic environment. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures.

The Group has been closely monitoring the impact of the COVID 19 developments on the Group’s operations and financial position; including possible loss of revenue, impact on asset valuations, impairment etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans.

RUSSIA – UKRAINE CONFLICT

The current ongoing conflict between Russia - Ukraine has triggered a global economic disruption and has, amongst other impacts, led to increased volatility in financial markets and commodity prices due to disruption of supply chain which may affect a broad range of entities across different jurisdictions and industries.

The management has carried out an assessment of its portfolio and has concluded that it does not have any material exposures to / from the impacted countries. However, potential for indirect exposures continue to exist. At this stage it is difficult to quantify the full impact of this conflict since it depends largely on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The management will continue to closely monitor impact of this evolving situation on its portfolio to assess indirect impact, if any.

In preparing the consolidated financial statements, judgements made by Board of Directors and management in applying the Group’s accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management’s best assessment based on available or observable information.

New standards, amendments and interpretations issued but not yet effective

The following standards, amendments and interpretations have been issued but are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. However, the Group has not early applied the new standards in the preparation of these consolidated financial statements.

I. IFRS 17 INSURANCE CONTRACTS AND IFRS 9 FINANCIAL INSTRUMENTS

The Group will apply IFRS 17 and IFRS 9 for the first time on 1 January 2023. These standards will bring significant changes to the accounting for insurance

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

and reinsurance contracts and financial instruments and are expected to have a material impact on the Group's consolidated financial statements in the period of initial application. The Group has an implementation program underway to implement IFRS 17 and IFRS 9. The program is responsible for setting accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing appropriate data and implementing actuarial and finance system changes.

The Group remains on track to start providing IFRS 17 and IFRS 9 consolidated financial statements in line with the requirements for interim reporting at its effective date from 1 January 2023. The Group has also prepared a semi-annual financial statement in accordance with IFRS 17 for the six-month period ending 30 June 2022 as per CBB requirements primarily based on the non-life data with necessary assumptions. The impact assessment for the Life portfolio is currently ongoing. Based on initial analysis, the Group estimates that, on adoption of IFRS 17, the impact of these changes in the Group's total equity as of 1 January 2022 (transition date) was positive US$ 334,000 on the non-life book.

The assessment above is preliminary because not all of the transition work has been finalised. The actual impact of adopting IFRS 17 and IFRS 9 on 1 January 2023 and 2022 may change because:

- the assessment made by the entity is preliminary and incomplete as only non-life segment has produced a complete analysis of the impact of the new requirements. The results therefore should not be extrapolated and are subject to changes and amendments. Upon completion of this work, the quantum of impact may change and the position at 1 January 2022 may require adjustment by the date of initial application.

- the Group is continuing to refine the new accounting processes and internal controls required for applying IFRS 17 and IFRS 9;

- although parallel runs were carried out in the second half of 2022, the Group has certain transition processes that are under review and update, including data review as well as the new systems and associated controls are still under process and have not been operational;

- the Group has not finalised the testing and assessment of controls over its governance framework; and

- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first consolidated financial statements that include the date of initial application.

A. IFRS 9 Financial Instrument

IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. However, the Group has met the relevant criteria for exemption and has applied the temporary exemption from IFRS 9 for annual periods before 1 January 2023. Consequently, the Group will apply IFRS 9 for the first time on 1 January 2023.

i. Financial assets - Classification

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 includes three principal measurement categories for financial assets - measured at amortised cost, FVOCI (fair value through other comprehensive income) and FVTPL (fair value through profit and loss account) and eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Nevertheless, on initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. The election is made on an instrument-by-instrument basis.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impact assessment
IFRS 9 will affect the classification and measurement of financial assets held at 1 January 2023 as follows.

- Derivative assets, which are generally classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- Debt investments that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.
- The majority of equity investments that are classified as available-for-sale under IAS 39 will be measured at FVTPL under IFRS 9.
- Held-to-maturity investments and loans and receivables measured at amortised cost under IAS 39 will generally also be measured at amortised cost under IFRS 9.

Because a majority of the Group's financial assets are measured at fair value both before and after transition to IFRS 9, the new classification requirements are not expected to have a material impact on the Group's total equity at 1 January 2023 or 2022. The Group does not hold any derivative instruments as at 31st Dec 2022.

ii. Financial assets - Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss (ECL)' model. This will require considerable judgement about how changes in economic factors affect ECL, which will be determined on a probability-weighted basis.

The new impairment model will apply to the Group's financial assets measured at amortised cost, debt investments at FVOCI and lease receivables.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECL or lifetime ECL. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument; 12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Group will measure loss allowances at an amount equal to lifetime ECL, except in the following cases, for which the amount recognised will be 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date, which the Group considers to be the case when the security's credit risk rating is equivalent to the globally understood definition of 'investment grade'; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The Group has evaluated the impact of ECL provisioning on the bond portfolio. The credit rating of the bonds were identified and cross referenced with the S&P's 1-year probability of default. Loss Given Default (LGD) is assumed as 50%, which is based on a Moody Study for B-rated securities. Based on such evaluation, minor negative impact of ECL amounting to US$ 265,114 was arrived as at 31st Dec 2021. Currently, ARIG has used this assumption for the purpose of this exercise. Going forward the Group will review the appropriateness and adequacy of this assumption on a regular basis.

When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort. This will include both qualitative and quantitative information and analysis based on the Group's experience, expert credit assessment and forward-looking information. As a backstop, the Group will

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

iii. Financial liabilities

IFRS 9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows.

- The amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI.
- The remaining amount of the change in the fair value will be presented in profit or loss.

The Group expects an immaterial impact from adopting the requirements above.

iv. Hedge accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group will adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedging relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group does not have any hedging instruments as at 31st Dec 2022 that meets the requirements of IFRS 9.

v. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will be applied retrospectively, except as described below.

- The comparative period will be restated. In accordance with IFRS 9's transition requirements, IFRS 9 does not apply to financial assets that had already been derecognised at 1 January 2023; however, the Group will elect to apply the classification overlay in IFRS 17 to financial assets derecognised in 2022 to present comparative information as if the classification and measurement (including impairment) requirements of IFRS 9 had been applied to such financial assets, by using reasonable and supportable information to determine how they would be classified and measured on initial application of IFRS 9.
- The following assessments have to be made on the basis of the facts and circumstances that exist at 1 January 2023:
  - the determination of the business model within which a financial asset is held;
  - the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
  - the designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a financial asset has low credit risk at 1 January 2023, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

B. IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4, Insurance Contracts and is effective for annual periods beginning on or after 1 January 2023, with early adoption permitted.

i. Identifying contracts in the scope of IFRS 17

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features ("DPF").

When identifying contracts in the scope of IFRS 17, in some cases the Group assessed whether a set or series of contracts needs to be treated as a single contract and whether embedded derivatives, investment components and goods and services components have to be separated and accounted for under another standard. For reinsurance contracts, the Group does not expect significant changes arising from the application of these requirements.

Based on the assessment carried out on the portfolio, All contracts that were in the scope of IFRS 4 have been assessed to be in the scope of IFRS 17.

ii. Level of aggregation

Under IFRS 17, insurance contracts and investment contracts with DPF are aggregated into groups for measurement purposes. Groups of contracts are determined by first identifying portfolios of contracts, each comprising contracts subject to similar risks and managed together. Contracts in

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

different product lines or issued by different Group entities are expected to be in different portfolios. Each portfolio is then divided into annual cohorts (i .e. by year of issue) and each annual cohort into three groups:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

Contracts within a portfolio that would fall into different groups only because law or regulation specifically constrains the Group's practical ability to set a different price or level of benefits for policyholders with different characteristics are included in the same group.

When a contract is recognized, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts may be added. Groups of reinsurance contracts are established such that each group comprises a single contract.

The level of aggregation requirements of IFRS 17 limit the offsetting of gains on groups of profitable contracts, which are generally deferred as a Contractual Service Margin (CSM), against losses on groups of onerous contracts, which are recognised immediately. Compared with the level at which the liability adequacy test is performed under IFRS 4 (i.e. portfolio of contracts level), the level of aggregation under IFRS 17 is more granular and is expected to result in more contracts being identified as onerous and losses on onerous contracts being recognised sooner.

The Group has used judgement in assessing contracts that carry similar risk while determining portfolio level. Further, the Group does not write contracts that meet the criteria for combination under IFRS 17.

iii. Contract boundaries

Under IFRS 17, the measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Compared with the current accounting, the Group 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 unrecognized 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 contracts

For insurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and investment services). A substantive obligation to provide services ends when:

- the Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

The Group has treaty and facultative (FAC) arrangements that cover mortality and morbidity risks without any guarantees. Therefore, the contract boundary will not be affected by guarantees.

Reinsurance contracts

For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

Some of the Group's contracts (both inward reinsurance and outward retrocession) cover

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

underlying contracts issued within the annual term on a risk-attaching basis. Currently, the measurement of these reinsurance contracts generally aligns with that of the underlying contracts. However, under IFRS 17, the contractual term of these contract will be treated longer than underlying contracts, hence, triggering the need to assess the measurement models applicable for these contracts.

The Group has XOL inward and outward contracts as well. The arrangement is annual on a loss occurring basis and therefore, the contract term will be for the period of arrangement, that is, one year.

iv. Measurement overview

IFRS 17 introduces a measurement model based on the estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a CSM.

Premium Allocation Approach (PAA)

The PAA is an optional simplified measurement model in IFRS 17 that is available for insurance and reinsurance contracts that meet the eligibility criteria. The Group expects that it will apply the PAA to all contracts in the non-life segment because the following criteria are expected to be met at inception. Either:

- The coverage period of each contract in the group is one year or less. OR
- The Group 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.

v. Measurement - Life contracts

Insurance contracts and investment contracts with DPF

On initial recognition, the Group will measure a group of contracts as the total of (a) the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and (b) the CSM. The fulfilment cash flows of a group of contracts do not reflect the Group's non-performance risk.

- There are no contracts with direct participation features that may lead to application of VFA. Hence, GMM will be applied throughout for the long-term business.
- All cash flows will be discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity characteristics of the contracts.
- The risk adjustment for non-financial risk for a group of contracts, determined separately from the other estimates, is the compensation that the Group would require for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.
- The CSM of a group of contracts represents the unearned profit that the Group will recognize as it provides services under those contracts. On initial recognition of a group of contracts, the group is not onerous if the total of the following is a net inflow:
  (a) the fulfilment cash flows;
  (b) any cash flows arising at that date; and
  (c) any amount arising from the derecognition of any assets or liabilities previously recognized for cash flows related to the group (including assets for insurance acquisition cash flows; see below).

  In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition. If the total is a net outflow, then the group is onerous and the net outflow is generally recognized as a loss in profit or loss; a loss component is created to depict the amount of the net cash outflow, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue.

Subsequently, the carrying amount of a group of contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date.

The liability for incurred claims includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

- The fulfilment cash flows of groups of contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

adjustment for non-financial risk. Changes in fulfilment cash flows are recognized as follows.

Changes relating to future services	Adjusted against the CSM (or recognized in the insurance service result in profit or loss if the group is onerous)
Changes relating to current or past services	Recognized in the insurance service result in profit or loss
Effects of the time value of money, financial risk and changes therein on estimated future cash flows	Recognized as insurance finance income or expenses

- The CSM is adjusted subsequently only for changes in fulfilment cash flows that relate to future services and other specified amounts and is recognized in profit or loss as services are provided. The CSM at each reporting date represents the profit in the group of contracts that has not yet been recognized in profit or loss because it relates to future service.

Reinsurance contracts

The Group will apply the same accounting policies to measure a group of reinsurance contracts, with the following modifications.

The carrying amount of a group of reinsurance contracts at each reporting date is the sum of the asset for remaining coverage and the asset for incurred claims. The asset for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be received under the contracts in future periods and (b) any remaining CSM at that date.

The Group will measure the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognized in the insurance service result in profit or loss.

The risk adjustment for non-financial risk will represent the amount of risk being transferred by the Group to the reinsurer.

The CSM of a group of reinsurance contracts represents a net cost or net gain on purchasing reinsurance. It is measured such that no income or expense arises on initial recognition, except that the Group will:

- recognize any net cost on purchasing reinsurance coverage immediately in profit or loss as an expense if it relates to insured events that occurred before the purchase of the group; and
- recognize income when it recognizes a loss on initial recognition of onerous underlying contracts if the reinsurance contract is entered into before or at the same time as the onerous underlying contracts are recognized. A loss-recovery component is created, which determines the amounts that are subsequently disclosed as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premiums paid.

The CSM is adjusted subsequently only for specified amounts and is recognized in profit or loss as services are received.

Insurance acquisition cash flows

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs.

Insurance acquisition cash flows that are directly attributable to a group of contracts (e.g. nonrefundable commissions paid on issuance of a contract) are allocated only to that group and to the groups that will include renewals of those contracts.

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. The Group does not have material pre-recognition acquisition costs. Therefore, this does not apply to the Group's IFRS-17 implementation

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

process.

vi. Measurement - Non-life contracts

On initial recognition of each group of Non-life insurance contracts, the carrying amount of the liability for remaining coverage is measured at the premiums received on initial recognition.

For acquisition expenses identified before 2018 (before the group ceased writing new business), the Group has decided to amortise insurance acquisition cash flows over the duration of the contract for all non-life contracts.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any further premiums received and decreased by the amount recognised as insurance revenue for services provided.

Similarly, the carrying amount of the liability for remaining coverage is decreased by any further acquisition cash flows paid and increased by the amount recognised as amortised acquisition expense under insurance revenue.

The Group expects that the time between providing each part of the services and the related premium due date will be no more than a year. Accordingly, as permitted under IFRS 17, the Group will not adjust the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

If at any time before and during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Group will recognize a loss in profit or loss and increase the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage.

The fulfilment cash flows will be discounted (at current rates) if the liability for incurred claims is also discounted (see below).

The Group will recognise the liability for incurred claims of a group of contracts at the amount of the fulfilment cash flows relating to incurred claims. The future cash flows will be discounted (at current rates).

The Group will apply the same accounting policies to measure a group of reinsurance contracts, adapted where necessary to reflect features that differ from those of insurance contracts.

vii. Measurement - Significant judgements and estimates

Estimates of future cash flows

In estimating future cash flows, the Group will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows will reflect the Group's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

When estimating future cash flows, the Group will take into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts will not be taken into account until the change in legislation is substantively enacted.

Cash flows within the boundary of a contract are those that relate directly to the fulfilment of the contract, including those for which the Group has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts. Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Cash flows will be attributed to acquisition activities, other fulfilment activities and other activities at local entity level using activity-based costing techniques. Cash flows attributable to acquisition and other fulfilment activities will be allocated to groups of contracts using methods that are systematic and rational and will be consistently applied to all costs that have similar characteristics. The Group will generally allocate insurance acquisition cash flows to groups of contracts based on the total premiums for each group, claims handling costs based on the number of claims for each group, and maintenance

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

and administration costs based on the number of in-force contracts in each group.

Discount rates
The risk-free base curve will be chosen with consideration to a range of potential curves available both locally and internationally (USD denominated). No illiquidity premium will be charged on top of the risk free curve unless the impact is considered material.

Risk adjustments for non-financial risk
Risk adjustments for non-financial risk will be determined to reflect the compensation that the Group would require for bearing non-financial risk and its degree of risk aversion. They will be determined separately for the Life and Non-life contracts and allocated to groups of contracts based on an analysis of the risk profiles of the groups. They reflect the effects of the diversification benefits between Group entities, which will be determined using a correlation matrix technique.

The Group is currently finalizing the approach to be used for risk adjustment. For non-life contracts, the Group will be using a stochastic approach with Value At Risk measure. For long term life, the Group will use the stress testing approach.

viii. Presentation and disclosure
IFRS 17 will significantly change how insurance contracts, reinsurance contracts and investment contracts with DPF are presented and disclosed in the Group's consolidated financial statements.

Under IFRS 17, portfolios of insurance contracts and investment contracts with DPF that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. Balances such as insurance receivables and payables will no longer be presented separately.

Under IFRS 17, amounts recognized in the statement of profit or loss and OCI are disaggregated into (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses. Amounts from reinsurance contracts will be presented separately.

The separate presentation of underwriting and financial results under IFRS 17 and IFRS 9 will provide added transparency about the sources of profits and quality of earnings.

Insurance service result
For contracts not measured using the PAA, insurance revenue for each year represents the changes in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. For contracts measured using the PAA, insurance revenue is recognized based on an allocation of expected premium receipts to each period of coverage, which is based on the expected timing of incurred insurance service expenses for certain property contracts and the passage of time for other contracts. The requirements in IFRS 17 to recognize insurance rsevenue over the coverage period will result in slower revenue recognition compared with the Group's current practice of recognizing revenue when the related premiums are written.

Expenses that relate directly to the fulfilment of contracts will be recognized in profit or loss as insurance service expenses, generally when they are incurred. Expenses that do not relate directly to the fulfilment of contracts will be presented outside the insurance service result.

The Group will disclose the income from reinsurance contracts held and the expenses for reinsurance contracts held separately in two lines.

The Group will choose not to disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk recognized in profit or loss will be included in the insurance service result.

Insurance finance income and expenses
Under IFRS 17, changes in the carrying amounts of groups of contracts arising from the effects of the time value of money, financial risk and changes therein are generally presented as insurance finance income or expenses. They include changes in the measurement of groups of contracts caused by changes in the value of underlying items (excluding additions and withdrawals). The Group opted to include insurance finance income or expenses for the period in profit or loss only.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

ix. Transition

Changes in accounting policies resulting from the adoption of IFRS 17 will be applied using a full retrospective approach to the extent practicable, except as described below. Under the full retrospective approach, at 1 January 2022 the Group will:

- identify, recognise and measure each group of insurance contracts, reinsurance contracts and investment contracts with DPF as if IFRS 17 had always been applied;
- identify, recognise and measure any assets for insurance acquisition cash flows as if IFRS 17 had always been applied, except that they will not be tested for recoverability before 1 January 2022;
- derecognise previously reported balances that would not have existed if IFRS 17 had always been applied (including some deferred acquisition costs, provisions for levies attributable to existing insurance contracts and customer-related intangible assets related to acquired insurance contracts);
- measure owner-occupied properties, own financial liabilities and own shares held that are underlying items of direct participating contracts at fair value; and
- recognise any resulting net difference in equity. The carrying amount of goodwill from previous business combinations will not be adjusted.

If it is impracticable to apply a full retrospective approach to a group of contracts or to an asset for insurance acquisition cash flows, then the Group will choose between the modified retrospective approach and the fair value approach. However, if the Group cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it will apply the fair value approach.

Insurance contracts, reinsurance contracts and investment contracts with DPF

The Group is looking to apply the fair value approach to its Long term life contracts. For the non-life and short term life contracts, the Group is aiming to apply a full retrospective approach with possible work arounds, where ever the Group faces operational challenges.

The Group considers the full retrospective approach impracticable under any of the following circumstances.

- The effects of retrospective application are not determinable because the information required has not been collected (or has not been collected with sufficient granularity) or is unavailable because of system migrations, data retention requirements or other reasons.
- The full retrospective approach requires assumptions about what Group management's intentions would have been in previous periods or significant accounting estimates that cannot be made without the use of hindsight.
- The retrospective application requires the use of significant estimates of amounts and it is not possible to determine whether such estimates are based on data available at that retrospective/historical date.

The Group has assessed the availability of data for the long-term life portfolio and found it to fit all three circumstances mentioned above. Hence, fair value approach to transition was decided for that business.

II. OTHER STANDARDS, AMENDMENTS AND INTERPRETATION TO STANDARDS

The following new standards, amendments and interpretations to standards that are relevant to the Group are not expected to have a significant impact on the Group's consolidated financial statements:

– Classification of liabilities as current or non-current (amendements to IAS 1)
– Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
– Definition of Accounting Estimates (Amendments to IAS 8)

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the parent company and all of its subsidiaries made up to 31 December 2022.

Subsidiaries are defined as entities that are controlled by the Group, on the basis of

i) power over the entity;
ii) the exposure to variable returns from the entity; and
iii) the ability to use its power to affect the amount of returns.

The purchase method is used to account for acquisitions.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

All intra-group transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated on consolidation. Where necessary, the accounts of subsidiaries have been restated to ensure consistency with the accounting policies adopted by the Group.

Non controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

A listing of the principal subsidiaries is set out in note 34. In the parent company, these investments are accounted using the equity method under IAS 27, Separate Financial Statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, bank balances and short-term highly liquid assets (placements with financial institutions) with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day to day operations of the Group are not included in cash and cash equivalents.

INVESTMENTS

Investment securities are classified as 'at fair value through profit or loss', which includes financial assets held for trading and those designated at fair value on initial recognition, 'available for sale', 'held to maturity' or 'loans and receivables'. Management determines the appropriate classification of investments at the time of purchase.

Securities are classified as at fair value through profit or loss if they are acquired for the purpose of generating a profit from short-term fluctuations in price or if so designated by management. Derivative financial instruments that are not designated as accounting hedge are classified as at fair value through profit or loss. Investments with fixed or determinable payments and fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity. Financial instruments with fixed or determinable payments and that are not quoted in an active market are categorised as loans and receivables.

Securities intended to be held for an indefinite period of time and those that are not classified as at fair value through profit or loss, held to maturity or loans and receivables, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale.

All purchases and sales of investments are recognised at the settlement date. All investment assets are recognised initially at cost. After initial recognition, investments are valued using principles described below.

Investments at fair value through profit or loss and investments available for sale are carried at fair value. Held to maturity investments and loans and receivables are carried at amortised cost, less any adjustment necessary for impairment.

Fair values are measured using market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in valuation (see note 32).

INVESTMENT PROPERTY

Property held to earn rentals which can be leased out separately are accounted for as investment property. Investment property initially is measured at cost and subsequently cost less accumulated depreciation and any impairment loss. Any gain or loss on disposal of investment property is recognised in profit or loss.

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

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

A provision is made in respect of a financial asset for which there is an objective evidence of impairment if its carrying amount is greater than its estimated recoverable amount.

Provisions for assets carried at amortised cost are calculated as the difference between the carrying amount of the assets and the present value of expected future cash flows discounted at their original effective interest rate. By comparison, the recoverable amount of an instrument carried at cost is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

In the case of available for sale financial assets, the Group assesses at each statement of financial

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

position date whether there is an objective evidence of impairment of such assets. If any such evidence exists, the impairment measured as the difference between acquisition cost and recoverable amount less any impairment previously recognised in the statement of profit or loss is recognised in consolidated statement of profit or loss. Evidence of impairment considers among other factors significant or prolonged decline in market values and financial difficulties of the issuer. Impairment recognised is not reversed subsequently except in case of debt instruments.

INVESTMENT IN ASSOCIATED COMPANIES

Investments in associated companies are accounted for using the equity method, less any adjustment necessary for impairment. Associated companies are defined as those companies over which the Group is able to exercise significant influence but not control or joint control over the financial and operating policy decisions.

INSURANCE RECEIVABLES

Insurance receivables are carried at anticipated realisable values after provision for impairment. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the receivables. In case of receivables not specifically impaired, a collective evaluation of impairment is carried out based on historical loss experience. Bad debts are written off during the year in which they are identified. The identification of bad debts is based on an analysis of the financial position of the counter party.

INSURANCE DEPOSITS

Insurance deposits comprise premium and claim deposits with cedants in accordance with policy terms and are carried at anticipated realisable values after provision for impairment. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the deposits. In case of deposits not specifically impaired, a collective evaluation of impairment is carried out based on historical loss experience. Irrecoverable deposits are written off during the year in which they are identified. Irrecoverable deposits are identified on an analysis of the financial position of the counter party.

INTANGIBLE ASSETS

Expenditure on software, patents, present value of future profits on acquisition of portfolio and licenses are capitalised and amortised using the straight line basis over their expected useful lives, not exceeding a period of 5 years.

Costs associated with developing computer software programmes are recognised as an expense when incurred. However, costs that are clearly associated with an identifiable and unique product, which will be controlled by the Group and has a probable benefit exceeding the costs beyond one year, are recognised as intangible assets. Costs include staff costs of the development team and an appropriate portion of relevant overheads.

Expenditure, which enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. The carrying amount of intangible assets is reviewed annually and adjusted for impairment where it is considered necessary.

PROPERTY & EQUIPMENT

Property & equipment are stated at cost less accumulated depreciation except for land and building which are carried at their revalued amount being fair value on date of valuation on a rolling basis by independent external valuers, less accumulated depreciation. On revaluation, any increase in the carrying amount of the asset is carried in the shareholders' equity as Property Revaluation Reserve and any decrease is recognised as an expense, except to the extent that it reverses decreases or increases previously recognised through income or shareholders' equity. The balance in the Property Revaluation Reserve is transferred directly to Retained Earnings on sale of property and realization of surplus. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from Property Revaluation Reserve to Retained Earnings.

The cost of additions and major improvements are capitalised; maintenance and repairs are charged to expense as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on straight-line basis over the expected useful lives of the assets, which are as follows:

Building	40 years
Electrical and mechanical	20 years
Information systems, furniture, equipment and others	3-5 years

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Useful lives and residual values are reassessed at each reporting period and adjusted accordingly. At each reporting date, the Group reviews the carrying amounts to determine whether there is any indication of impairment.

If any such indication exists, then the assets recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGU).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Employee entitlements are recognised when they accrue to employees, with a provision being carried for the estimated liability as a result of services rendered upto the statement of financial position date.

POST EMPLOYMENT OBLIGATIONS

The Group operates a defined benefit plan for its employees.

For defined benefit plans, the accounting cost is charged to the consolidated statement of profit or loss so as to spread it over the expected service lives of employees. The accounting costs under these plans are measured as the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability.

TREASURY STOCK

Treasury stock representing shares purchased by the parent company or its consolidated subsidiaries are carried at cost with the exception of holdings as on the date of capital reduction, 4 July 2002, which are carried at nominal value. All treasury stock is presented as a deduction from shareholders' equity and gains and losses from sale of these shares are presented as a change in shareholders' equity.

RECOGNITION OF UNDERWRITING RESULT

Insurance business is accounted for in a manner consistent with prevailing practice within the insurance industry, more specifically, on an annual accounting basis. Specific accounting policies relating to individual items of insurance revenues and costs and technical provisions are explained below for each relevant item.

PREMIUMS

Gross premiums written comprise the total premiums in relation to contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years. It includes an estimate of pipeline premiums, being those premiums written but not reported to the Group at the statement of financial position date. Pipeline premiums net of related pipeline acquisition costs are reported as accrued insurance premiums.

Premiums, net of reinsurance, are taken to income over the terms of the related contracts or policies. Unearned premiums are those proportions of the premiums accounted for, which relate to periods of risk that extend beyond the end of the financial year; they are calculated based on a time apportionment basis. A provision for unexpired risks is made for estimated amounts required over and above provisions for unearned premiums to meet future claims and related expenses on business in force at the statement of financial position date. Such provision, where necessary, is made on the basis of an assessment of segments in which policies with similar risk profile are grouped together.

CLAIMS AND RELATED EXPENSES

Claims and related expenses are accounted for based on reports received and subsequent review on an individual case basis. Provision is made to cover the estimated ultimate cost of settling claims arising out of events, which have occurred by the end of the

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial year, including unreported losses, and claims handling expenses. Provision for unreported claims is established based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business.

POLICY ACQUISITION COSTS

Commissions, taxes, brokerages and other variable underwriting costs directly associated with acquiring business are amortised over the period in which the related premiums are earned. Policy acquisition costs that relate to periods of risk that extend beyond the end of the financial year are reported as deferred policy acquisition costs.

REINSURANCE ARRANGEMENTS

As part of managing its insurance risks, the Group enters into contracts with other reinsurers for compensation of losses on insurance contracts issued by the Group.

Compensations receivable from reinsurers are estimated in a manner consistent with the corresponding claim liability. The benefits and obligations arising under reinsurance contracts are recognised in income and the related assets and liabilities are recognised as accounts receivable, reinsurers' share of technical reserves and accounts payable.

LIABILITY ADEQUACY TEST

At each statement of financial position date, liability adequacy tests are performed to ensure adequacy of the contractual liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual undiscounted cash flows and claims handling and administrative expenses are considered. The tests are performed on a portfolio basis where policies with similar risk profile are grouped together as a portfolio.

INVESTMENT INCOME

Investment income comprises interest and dividend receivable for the financial year. Interest is recognised on the effective interest rate method and dividends are recognised when declared. Gains and losses arising from changes in the fair value of investments at fair value through profit or loss are included in the statement of profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale investments are recognised in other comprehensive income and carried in investment revaluation income as part of equity. When available for sale investments are disposed or are impaired, the related fair value adjustments are included in the statement of profit or loss.

Investment income arising from insurance business investment assets are allocated to the underwriting results of insurance businesses based on the proportion of their respective insurance funds to shareholders' funds during the financial year.

FOREIGN CURRENCY TRANSLATION

Transactions denominated in currencies other than U.S. Dollars are recorded at the rates ruling at the date of the transaction. All monetary and non-monetary assets carried at fair value denominated in currencies other than U.S. Dollars are translated at year-end exchange rates.

Unrealised gains or losses on translation are taken to income except in respect of non-monetary available for sale investments, which are taken to other comprehensive income until they are disposed.

Unrealised gains and losses on translation of financial statements of subsidiaries are included in equity. Other foreign currency gains and losses are taken to income.

DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of its business, the Group uses forward foreign exchange contracts as fair value hedges to protect its exposures in respect of foreign currency denominated investments and insurance liabilities and these contracts are carried at fair value.

Where a fair value hedge meets the conditions prescribed by International Financial Reporting Standards for qualifying as an effective hedge, gains or losses from remeasuring forward foreign exchange contracts and gains or losses on hedged assets attributable to the hedged risk are recognised in income.

Where the hedge is not effective, gains or losses from remeasuring forward foreign exchange contracts are recognised in income. Gains or losses on hedged assets are recognised in income except in respect of non-monetary available for sale investments, which are taken to equity until they are disposed.

The gain or losses from remeasuring insurance liabilities and related foreign exchange contracts are recognised in income.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying its accounting policies, the Group makes estimates and judgements that have an impact on the amounts recognised and reported in the financial statements. These estimates and judgements are based on historical experience, observable market data, published information and other information including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant impact on the recognised amounts in the financial statements and the processes used to determine these estimates and judgements are described below:

i) Critical accounting estimates and judgement:

a) Claims and related expenses

The estimate of ultimate losses arising from existing insurance contracts includes unreported claims. Provisions for unreported claims are estimated based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business. The ultimate insurance liability also includes the costs to administer the claims. See note 4 (v).

b) Ultimate premiums and related expenses

The estimate of ultimate premiums is based on premium income estimates provided by cedants which is then adjusted to reflect underwriters' judgement taking into account market conditions and historical data. This estimate is subject to review by underwriters and actuaries.

ii) Significant accounting estimates and judgements:

a) Investments measured at fair value

Fair values of investments measured at fair value are determined using market observable data as far as possible. The Group assesses at each statement of financial position date whether there is an objective evidence of impairment of such assets. If any such evidence exists, the impairment measured as the difference between acquisition cost and recoverable amount less any impairment previously recognised in the statement of profit or loss is recognised in consolidated statement of profit or loss. Evidence of impairment considers among other factors significant or prolonged decline in market values and financial difficulties of the issuer.

b) Insurance receivables

In assessing anticipated realisable value of receivables, a provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the receivables. In case of receivables not specifically impaired, a collective evaluation of impairment is carried out based on historical loss experience. Bad debts are written off during the year in which they are identified. The identification of bad debts is based on an analysis of the financial position of the counter party.

iii) Going concern

At the Extraordinary General Meeting (EGM) on 13 August 2020, the Shareholders had decided to cease writing business and place the insurance portfolio in runoff. The Shareholders also authorised the Board of Directors to look for potential buyers to divest their shares in the company or sale of re-insurance portfolio of the Company. This decision to cease writing business had a significant impact on the strategic direction and future of the Company. The company has sought the approval of CBB to implement the resolution of the shareholders.

As there are risks relating to contracts from both life & non-life book have not yet expired and will only expire after considerable time, Management expect that the proposed run-off of the existing insurance portfolio will take more than 12 months. The company is highly liquid with cash and short-term deposits (less than 3 months) of US$ 62.2 million as on 1 Jan 2023 and has surplus capital as compared to its book of business.

The Company is continuing with its other activities including that of managing investments representing the Shareholders and Policyholders funds.

Considering the above, it is expected that the Company would be a going concern in the next 12 months. Therefore, the consolidated financial statements have been prepared on going concern basis.

4. MANAGEMENT OF INSURANCE RISKS

The Group's activities expose it to a variety of financial and other risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk, underwriting risk and liquidity risk.

The following is a summary of policies adopted to mitigate the key insurance risks facing the Group:

FOR THE YEAR ENDED 31 DECEMBER 2022

4. MANAGEMENT OF INSURANCE RISKS (Continued)

i) Underwriting risks:

The Group manages its underwriting risks principally through policies and guidelines for accepting risks and reinsurance arrangements.

Risks are accepted based on an evaluation of pricing and prior underwriting experience in accordance with underwriting guidelines that have been laid out for each line of business. Underwriting guidelines are constantly reviewed and updated to take account of market developments, performance and opportunities. Accumulation limits are set to control exposures to natural hazards and catastrophes. Various underwriting and approval limits are specified for accepting risks.

Acceptance of risks that do not meet specified minimum criteria are subject to agreement of an Underwriting Review Committee comprising representatives from the Marketing, Underwriting and Actuarial functions.

The reinsurance strategy of the Group is designed to protect exposures to individual and event risks based on current risk exposures through cost effective reinsurance arrangements.

Reserving risks are addressed by ensuring prudent and appropriate reserving for business written by the Group, thus ensuring that sufficient funds are available to cover future claims. Reserving practices involve the use of actuarial analysis and application of underwriting judgement. These are supplemented by periodical independent actuarial reviews for determining the adequacy of reserves.

ii) Credit risks:

Credit risk under insurance contracts is the risk that a counterparty will be unable to pay amounts in full when due.

Credit risk is controlled through terms of trade for receipt of premium and in certain cases enforcement of premium warranty conditions. Most of the counterparties are insurance companies that are generally not rated. However, there are no significant exposures from any one counterparty.

Reinsurance arrangements are effected with reinsurers whose creditworthiness is assessed on the basis of satisfying minimum rating and financial strength criteria. Exposure to any single reinsurer generally does not exceed a maximum of 25% of total exposure and risks are generally placed with counterparties with minimum investment grade rating except for proportional treaty arrangements placed on reciprocal basis.

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4. MANAGEMENT OF INSURANCE RISKS (Continued)

Credit risks relating to reinsurance arrangements are analysed as follows:

(US$ '000)

2022	Receivables	Share of claims outstanding	Total
Balance relating to reinsurers:			
- With investment grade rating	1,344	6,400	7,744
- Other	2,812	1,449	4,261
	4,156	**7,849**	**12,005**

2021	Receivables	Share of claims outstanding	Total
Balance relating to reinsurers:			
- With investment grade rating	14,633	18,904	33,537
- Other	1,465	2,118	3,583
	16,098	**21,022**	**37,120**

iii) Currency risks:

As the Company writes business in various currencies, it is exposed to currency risk. Foreign exchange currency risks are hedged where exposures are significant and facility to hedge is available.

(US$ '000)

2022	Euro	Pound Sterling	Indian Rupee	Kuwaiti Dinar	Other
Reinsurance assets (liabilities), net	(291)	(1,076)	(3,812)	(8,718)	(12,773)

2021	Euro	Pound Sterling	Indian Rupee	Kuwaiti Dinar	Other
Reinsurance assets (liabilities), net	(528)	(1,252)	(6,185)	(10,786)	(15,332)

iv) Liquidity risks:

Liquidity risk is the risk that cash may not be available to pay obligations when due. Limits have been specified in the investment policy and guidelines that requires a significant portion of investment funds representing insurance liabilities to be held in cash or readily marketable debt securities.

v) Sensitivity analysis:

The sensitivity of the Group's income to market risks is as follows:

(US$ '000)

	2022	2021
5% increase in loss ratio	(65)	(690)
5% decrease in loss ratio	65	690
10% increase in US Dollar exchange rate	4,858	5,945
10% decrease in US Dollar exchange rate	(5,938)	(7,266)

FOR THE YEAR ENDED 31 DECEMBER 2022

5. CASH AND BANK BALANCES

(US$ '000)

	2022	2021
Cash and bank balances	31,244	40,464
Cash and cash equivalents	31,244	40,464
Deposits with maturity less than 3 months	31,000	-
Deposits with maturity over 3 months	152,897	18,591
	215,141	**59,055**

Details of significant terms and conditions, exposures to credit, interest rate and currency risks are as follows:

i) Credit risk:

Bank balances and deposits with short term maturities are held with leading financial institutions. The Group limits its concentration of time deposits with any one financial institution to a maximum of 10% of shareholders' equity.

ii) Interest rate risk:

(US$ '000)

	2022	2021
Interest receivable basis:		
- Bank balances	Daily/Monthly	Daily/Monthly
- Deposits with short term maturities	On maturity	On maturity
Effective rates	0.01% - 5.79%	0.01% - 3.15%

As the deposits are short term maturities, there is no sensitivity to interest rate fluctuation.

iii) Currency risk:

(US$ '000)

	2022	2021
U.S. Dollar	206,637	43,613
Bahraini Dinar	6,898	6,609
Pound Sterling	932	7,564
Euro	282	648
Other	392	621
	215,141	**59,055**

FOR THE YEAR ENDED 31 DECEMBER 2022

6. INVESTMENTS

(US$ '000)

	2022	2021
At fair value through profit or loss		
Designated at fair value on initial recognition		
Debt securities		
- Investment grade	-	99,312
- Other	-	6,105
	-	105,417
Held to maturity		
Debt securities		
- Investment grade	-	6,002
- Other	-	8,060
	-	14,062
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	27,005	27,850
- Investment grade	96,709	162,946
- Other	37,361	96,494
Common stock of unlisted companies	2,794	3,205
Other equity type investment	10,688	14,111
	174,557	304,606
Loans and receivables	-	360
Investment in associates	540	525
	175,097	**424,970**

FOR THE YEAR ENDED 31 DECEMBER 2022

6. INVESTMENTS (Continued)

Movements in the Group's impairment recognised on available for sale debt securities are as follows:

(US$ '000)

	2022	2021
At 1 January	1,908	1,492
Impairment recognised during the year	2,375	416
Provision reversed on sale	(3,008)	-
At 31 December	**1,275**	**1,908**

Debt securities amounting to US$ nil (2021: US$ 18.2 million) have been pledged as security for reinsurance guarantees.

Details of significant exposures to credit, interest rate and currency risks on investments are as follows:

i) Credit risk:

The Group limits its investment concentration in debt securities in any one investee and in any one industry group to 10% and 20% respectively, of the total debt securities portfolio.

The Group also limits its investment concentration in common stock of listed companies of any one issue and any one issuer to 5% and 10% respectively, of its budgeted equity portfolio at the time of purchase.

ii) Debt securities - interest rate risk:

2022	Interest receivable basis	Effective Rates	Coupon Rates
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.375% - 0.500%	0.375% - 0.500%
Investment grade debt Securities	Monthly/Semi-annual/ Annual	0.750% - 5.839%	0.750% - 5.839%
Other debt securities	Monthly/Semi-annual/ Annual	1.740% - 5.500%	1.740% - 5.500%

2021	Interest receivable basis	Effective Rates	Coupon Rates
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.375% - 0.500%	0.375% - 0.500%
Investment grade debt securities	Monthly/Semi-annual/ Annual	0.010% - 7.125%	0.010% - 7.125%
Other debt securities	Monthly/Semi-annual/ Annual	1.740% - 5.500%	1.740% - 5.500%

FOR THE YEAR ENDED 31 DECEMBER 2022

6. INVESTMENTS (Continued)

iii) Debt securities - currency risk:

(US$ '000)

2022	U.S. Dollar	Bahraini Dinar	Other	Total
Supra-nationals and OECD country government securities	27,005	-	-	27,005
Investment grade debt Securities	96,709	-	-	96,709
Other debt securities	33,424	3,937	-	37,361
	157,138	**3,937**	**-**	**161,075**
2021				
Supra-nationals and OECD country government securities	27,850	-	-	27,850
Investment grade debt Securities	268,263	-	(3)	268,260
Other debt securities	106,505	4,154	-	110,659
	402,618	**4,154**	**(3)**	**406,769**

iv) Debt securities - remaining term to maturity:

The principal amount and book values of debt securities are shown in the table below by contractual maturity.

(US$ '000)

	2022		2021	
	Principal Amount	Book value	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	28,000	27,005	28,000	27,850
	28,000	27,005	28,000	27,850
Debt securities of investment grade issuers:				
- Due in one year or less	26,000	25,685	65,561	63,635
- One to five years	71,000	65,330	130,006	133,591
- More than five years	6,500	5,694	66,762	71,034
	103,500	96,709	262,329	268,260
Other debt securities:				
- Due in one year or less	4,944	3,977	944	-
- One to five years	36,482	33,384	43,584	44,098
- More than five years	-	-	5,159	66,561
	41,426	37,361	49,687	110,659
	172,926	**161,075**	**340,016**	**406,769**

FOR THE YEAR ENDED 31 DECEMBER 2022

6. INVESTMENTS (Continued)

v) Common stock:

Common stocks have no fixed maturity dates and are generally not exposed to interest rate risk. However, they are subject to price risk and its sensitivity is shown in note 7. Dividends are generally declared on an annual basis.

The book value of common stock classified by currencies in which they are denominated are as follows:

(US$ '000)

	2022	2021
U.S. Dollar	1,794	2,205
Other	1,000	1,000
	2,794	**3,205**

vi) Commitments:

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 8.3 million (2021: US$ 7.7 million).

7. SENSITIVITY ANALYSIS

The sensitivity of the Group's profit or loss and total equity to market risks on its cash and cash equivalents and investments is as follows:

(US$ '000)

	2022		2021	
	Income	Equity	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves-				
debt instruments	(25)	(4,149)	(2,136)	(7,350)
– 100 basis points shift in yield curves-				
debt instruments	25	2,294	2,164	5,549
Currency risk				
10% increase in US Dollar exchange rate	(1,131)	-	(5,881)	-
10% decrease in US Dollar exchange rate	1,382	-	7,187	-
Equity price				
10% increase in equity prices	-	-	1,161	-
10% decrease in equity prices	-	-	(1,161)	-

FOR THE YEAR ENDED 31 DECEMBER 2022

8. ACCRUED INCOME

(US$ '000)

	2022	2021
Accrued insurance premiums		
Expected to be received:		
- Within 12 months	334	367
- After 12 months	33	37
	367	404
Accrued interest		
- Expected to be received within 12 months	3,079	1,744
	3,446	**2,148**

9. INSURANCE RECEIVABLES

(US$ '000)

	2022	2021
Balances due:		
- Within 12 months	7,049	29,097
- After 12 months	28	44
	7,077	**29,141**

Movements in the Group's provision for impaired receivables are as follows:

(US$ '000)

	2022	2021
At 1 January	16,752	16,670
Additional provision for impairment	-	82
31 December	**16,752**	**16,752**

The individually impaired receivables mainly relate to counter party in financial difficulty. The ageing of these receivables is as follows:

(US$ '000)

	2022	2021
Over two years	3,327	3,327
	3,327	**3,327**

The ageing analysis of receivables that are past due and not considered impaired is as follows:

(US$ '000)

	2022	2021
Upto 6 months	946	334
6 to 12 months	1,508	1,020
	2,454	**1,354**

FOR THE YEAR ENDED 31 DECEMBER 2022

10. INSURANCE DEPOSITS

(US$ '000)

	2022	2021
Balances due:		
- Within 12 months	9,174	13,307
- After 12 months	9,985	8,421
	19,159	**21,728**

Movements in the Group's provision for impaired deposits are as follows:

(US$ '000)

	2022	2021
At 1 January	1,978	1,976
Provision for impairment	-	2
31 December	**1,978**	**1,978**

The individually impaired deposits mainly relate to counter parties in financial difficulty. The ageing of these deposits is as follows:

(US$ '000)

	2022	2021
Over ten years	196	196
	196	**196**

The ageing analysis of deposits that are past due and not considered impaired is as follows:

(US$ '000)

	2022	2021
Upto 1 year	3,378	1,058
1 to 3 years	2,076	1,692
	5,454	**2,750**

FOR THE YEAR ENDED 31 DECEMBER 2022

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

(US$ '000)

	2022	2021
General insurance business		
- Claims outstanding	7,836	21,007
- Unreported claims	708	16,848
- Deferred retrocession premium reserve	1	645
	8,545	38,500
Life insurance business		
- Claims outstanding	13	15
- Unreported claims	1	1
	14	16
	8,559	**38,516**

12. OTHER ASSETS

(US$ '000)

	2022	2021
Intangible assets:		
- Computer software	9,994	9,977
	9,994	9,977
Less: Accumulated amortization	(9,661)	(9,648)
	333	329
Other assets		
- Collateralised cash deposits	7,761	14,611
- Other receivables	240	5,996
- Prepayments	492	486
	8,493	21,093
	8,826	**21,422**

(US$ '000)

	2022	2021
Movement in intangible assets:		
Net book value at 1 January	329	538
- Additions	17	-
- Amortization charge	(13)	(21)
- Disposals	-	(188)
Net book value at 31 December	**333**	**329**

Collateralised cash deposits have been pledged as security for reinsurance trust agreements, letters of credit and guarantees.

FOR THE YEAR ENDED 31 DECEMBER 2022

13. INVESTMENT PROPERTY

(US$ '000)

	2022	2021
Carrying value at 1 January	4,622	4,622
Reversal of impairment	280	143
Depreciation	(148)	(143)
Carrying value at year-end	**4,754**	**4,622**

In 2020, the Group's subsidiary Takaful Re Ltd, Dubai (TRL) based on new leasing regulations issued during the year by Dubai International Financial Centre (DIFC) determined that the sub-let portion of TRL's office premises could be given on long-term lease that can qualify to be a finance lease. Prior to that determination, the entire office premises of TRL were classified as property and equipment. Pursuant to that determination, TRL has reclassified the portions of office premises sub-let by them to investment property in accordance with the requirement of IAS 40: Investment Property. Accordingly, the fair value of the sub-let property classified as investment property by TRL has been transferred from property and equipment to investment property on 1 January 2020.

Investment property is carried at cost less accumulated depreciation and impairment. The fair value of investment property was assessed as at December 2022 by an independent Royal Institution of Chartered Surveyors (RICS) registered valuer. The fair value of the investment property as at 31 December 2022 USD 4,754 million (2021: USD 4.622 million) and fair value measurement has been categorised as Level 3.

14. PROPERTY AND EQUIPMENT

(US$ '000)

	2022	2021
Land	1,972	2,080
Building	8,192	9,833
Furniture and fixtures	6,921	6,921
Hardware	2,290	2,360
Office equipments	460	447
Others	397	397
	20,232	**22,038**
Less: Accumulated depreciation and impairment		
Building	-	(222)
Furniture and fixtures	(6,907)	(6,906)
Hardware	(2,273)	(2,351)
Office equipments	(449)	(446)
Others	(334)	(388)
	(9,963)	(10,313)
	10,269	**11,725**
Movements in property and equipment:		
Net book value at 1 January	11,725	12,006
- Revaluation of property	(1,147)	152
- Additions	33	5
- Disposals	(1)	(1)
- Depreciation charge	(341)	(437)
Net book value at 31 December	**10,269**	**11,725**

FOR THE YEAR ENDED 31 DECEMBER 2022

14. PROPERTY AND EQUIPMENT (Continued)

Land and Building comprises the head office property owned and occupied by the Company since 1984. Building also includes portion of office premises of TRL which is used for administration purpose.

The head office property was revalued at year end by independent external valuer and classified as level 2 in the fair value measurement hierarchy as it has been valued using investment approach method, the fair value of building including land has been determined at US$ 5,115,000 against a carrying value of US$ 6,559,000. The decrease in fair value of land of US$ 108,000 and the fair value of the building of USD 1,336,000 has been adjusted to property revaluation reserve.

TRL Building has been revalued as at December 2022 by an independent RICS registered valuer and accordingly an impairment reversal of US$ 297,249 has been recognised in the profit or loss.

15. TECHNICAL PROVISIONS

(US$ '000)

	2022	2021
General insurance business		
Claims outstanding	89,328	142,545
Unreported losses	15,931	78,372
Unearned premiums	669	3,956
	105,928	224,873
Life insurance business		
Claims outstanding	8,256	10,973
Unreported losses	19,636	19,767
Unearned premiums	10	165
	27,902	30,905
	133,830	**255,778**

The mean term of reserves is 2.9 years and 2.7 years for non-life and life business respectively.

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16. CLAIMS DEVELOPMENT

The table below shows the incurred gross and net claims including unreported losses computed with reference to earned premiums, compared with previous estimates for the last 5 years:

(US$ '000)

	Underwriting year						
	2017	2018	2019	2020	2021	2022	**Total**
Gross							
Estimate of incurred claims costs:							
- At end of underwriting year	127,688	98,051	55,541	1,474	-	-	
- One year later	233,862	198,985	112,330	1,033	-	-	
- Two years later	250,680	206,944	110,136	845	-	-	
- Three years later	235,117	204,591	112,572	-	-	-	
- Four years later	230,929	201,385	-	-	-	-	
- Five years later	227,550	-	-	-	-	-	
Current estimate of incurred claims	227,550	201,385	112,572	845	-	-	542,352
Cumulative payments to date	(214,187)	(179,021)	(100,020)	(114)	-	-	(493,342)
Liability recognized	13,363	22,364	12,552	731	-	-	49,010
Liability in respect of prior years							84,141
Total liability included in the statement of financial position							**133,151**

	2017	2018	2019	2020	2021	2022	**Total**
Net							
Estimate of incurred claims costs:							
- At end of underwriting year	106,954	84,203	48,217	1,474	-	-	
- One year later	183,530	151,704	92,768	1,033	-	-	
- Two years later	191,546	156,533	96,171	845	-	-	
- Three years later	184,133	156,231	89,262	-	-	-	
- Four years later	179,926	152,566	-	-	-	-	
- Five years later	176,749	-	-	-	-	-	
Current estimate of incurred claims	176,749	152,566	89,262	845	-	-	419,422
Cumulative payments to date	(164,347)	(131,450)	(76,864)	(114)	-	-	(372,775)
Liability recognized	12,402	21,116	12,398	731	-	-	46,647
Liability in respect of prior years							77,946
Total liability included in the statement of financial position							**124,593**

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17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

(US$ '000)

2022	Gross	Reinsurance	Net
Claims			
Claims outstanding	153,518	21,022	132,496
Unreported losses	98,139	16,849	81,290
Total at beginning of year	251,657	37,871	213,786
Change in provision during the year	(82,076)	(20,848)	(`61,228)
Claims settled during the year	(36,430)	(8,465)	(27,965)
Balance at end of year	**133,151**	**8,558**	**124,593**
Unearned premium			
At beginning of year	4,121	646	3,475
Change in provision during the year	(3,442)	(645)	(2,797)
Balance at end of year	**679**	**1**	**678**
Accrued insurance premium			
At beginning of year	464	60	404
Movement during the year	(83)	(46)	(37)
Balance at end of year	**381**	**14**	**367**
Deferred policy acquisitions costs			
At beginning of year	327	(38)	365
Movement during the year	(341)	(1)	(340)
Balance at end of year	**(14)**	**(39)**	**25**

2021			
Claims			
Claims outstanding	212,915	35,874	177,041
Unreported losses	168,526	33,027	135,499
Total at beginning of year	381,441	68,901	312,540
Change in provision during the year	(35,360)	(6,116)	(29,244)
Claims settled during the year	(94,424)	(24,914)	(69,510)
Balance at end of year	**251,657**	**37,871**	**213,786**
Unearned premium			
At beginning of year	27,428	5,467	21,961
Change in provision during the year	(23,307)	(4,822)	(18,485)
Balance at end of year	**4,121**	**645**	**3,476**
Accrued insurance premium			
At beginning of year	8,540	1,774	6,766
Movement during the year	(8,077)	(1,715)	(6,362)
Balance at end of year	**463**	**59**	**404**
Deferred policy acquisitions costs			
At beginning of year	4,796	47	4,749
Movement during the year	(4,469)	(85)	(4,384)
Balance at end of year	**327**	**(38)**	**365**

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18. INSURANCE PAYABLES

(US$ '000)

	2022	2021
Due within 12 months	23,878	49,863
	23,878	**49,863**

19. OTHER LIABILITIES

(US$ '000)

	2022	2021
Provision for probable loss estimates in a subsidiary (note 34 (iii))	5,113	7,613
Non-reinsurance payables	-	6,990
Post-employment benefits (note 28)	4,855	5,436
Accrued expenses	5,226	6,719
Dividends payable	234	234
Reinsurance premiums accrued	1,219	1,219
Other	634	882
	17,281	**29,093**
Balances due:		
- Within 12 months	12,426	23,657
- After 12 months	4,855	5,436
	17,281	**29,093**

20. SHAREHOLDERS' EQUITY

i) Share capital:

a) Composition

(US$ '000)

	2022	2021
Authorised 500 million ordinary shares of US$ 1 each	500,000	500,000
Issued, Subscribed and Fully Paid-up 220 million (2021: 220 million) ordinary shares of US$ 1 each	220,000	220,000

The company's shares are listed on Bahrain Bourse.

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20. SHAREHOLDERS’ EQUITY (Continued)

b) Major Shareholders

Shareholders who have an interest of 5% or more of the outstanding and issued shares are as shown below:

Name	Nationality	No. of shares (in millions) 2022	No. of shares (in millions) 2021	% of total outstanding shares 2022	% of total outstanding shares 2021	% of total issued shares 2022	% of total issued shares 2021
Central Bank of Libya	Libya	31.8	31.8	16.0	16.0	14.4	14.4
Emirates Investment Authority	UAE	30.5	30.5	15.4	15.4	13.8	13.8
General Pension & Social Security Authority	UAE	27.5	27.5	13.9	13.9	12.5	12.5
Ahmed Omar Salem Alkorbi	UAE	21.7	21.7	10.9	10.9	9.9	9.9
Kuwait Investment Authority	Kuwait	20.0	20.0	10.1	10.1	9.1	9.1
Emirates Development Bank	UAE	11.0	11.0	5.6	5.6	5.0	5.0

c) Shareholding pattern

The shareholding pattern in the outstanding shares of the Company is as follows:

Shares	No. of shares (in millions) 2022	No. of shares (in millions) 2021	No. of shareholders 2022	No. of shareholders 2021	% of total outstanding shares 2022	% of total outstanding shares 2021
Less than 1%	45.0	42.5	4,248	4,282	22.7%	21.5%
1% to 5%	10.6	13.1	3	4	5.4%	6.6%
5% to 10%	11.0	11.0	1	1	5.6%	5.6%
10% and above	131.5	131.5	5	5	66.3%	66.3%

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20. SHAREHOLDERS' EQUITY (Continued)

ii) Treasury stock:

The Company held 21,885,118 of its own shares at 31 December 2022 (2021: 21,885,118 shares) which are carried at cost of US$ 14,793,000 (2021: US$ 14,793,000).

iii) Legal reserve:

In accordance with applicable legal provisions and Articles of Association, the Group is required to set aside 10% of net profits each year to build a Legal reserve up to a maximum of 100% of the paid up value of its share capital.

iv) Investment revaluation reserve:

Investment revaluation reserve comprises gains or losses arising from remeasurement of available for sale investment assets. These gains or losses are carried in the reserve until the assets are disposed of, at which time the gains or losses are included in income.

v) Property revaluation reserve:

Property revaluation reserve represents the difference between the cost of land and buildings less accumulated depreciation and their fair values. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from property revaluation reserve to retained earnings.

vi) Capital management:

The Group's total capital comprises paid-up capital, legal reserve and retained earnings less treasury shares. The Group's policy is to maintain a strong capital base so as to maintain client, investor and market confidence and to sustain future development of the business. The parent company is regulated by Central Bank of Bahrain, which sets and monitors capital requirement for the parent company. Central Bank of Bahrain (CBB) requires the parent company to compute the solvency margin requirement and disclose it in the annual report in accordance with provisions of the CBB Rule Book. The company is in compliance with the required margin of solvency.

Additionally, the Company manages its capital adequacy on an evaluation of its capital requirement through risk based capital models.

21. NON-CONTROLLING INTERESTS

(US$ '000)

	2022	2021
At 1 January	12,815	17,066
Share of comprehensive income	(39)	349
Subsidiary's capital reduction - non controlling interest	-	(4,600)
At 31 December	**12,776**	**12,815**

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22. SEGMENT INFORMATION

The Group's reinsurance business consists of two main business segments, Non-life and Life. Non-life business primarily consists of Property, Engineering, Marine, Accident, Whole Account and Other classes. Life business mainly involves short term group life policies and long term life policies. Life portfolio does not contain investment linked policies. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance for which discrete financial information is available.

i) Analysis of revenue by primary business segment:

(US$ '000)

	Non-life						Life		Total
2022	Property	Engineering	Marine	Accident	Whole account	Others	Short term	Long term	
REVENUES:									
Gross premiums written	232	49	(165)	(24)	920	264	(5)	61	1,332
Outward reinsurance premiums	(463)	(1,091)	7	(1)	(1,111)	-	(17)	(61)	(2,737)
Change in unearned premiums - gross	-	327	-	79	1,822	1,124	-	155	3,507
Change in unearned premiums - reinsurance	-	(7)	-	-	(796)	-	-	-	(803)
Earned premiums	(231)	(722)	(158)	54	835	1,388	(22)	155	1,299
Investment income attributable to insurance funds	110	12	17	27	8	67	76	37	354
	(121)	(710)	(141)	81	843	1,455	54	192	1,653
COSTS AND EXPENSES:									
Gross claims paid	(2,739)	(4,631)	(1,551)	(337)	(24,597)	(2,052)	(513)	(10)	(36,430)
Claims recovered from reinsurers	75	496	223	16	7,529	126	-	-	8,465
Change in provision for outstanding claims - gross	6,396	5,570	2,783	582	10,423	2,021	2,490	228	30,493
Change in provision for outstanding claims - reinsurance	(302)	(628)	(378)	(87)	(2,562)	10	(1)	(1)	(3,949)
Change in provision for unreported losses - gross	2,720	5,509	788	1,572	16,186	1,645	560	(429)	28,551
Change in provision for unreported losses - reinsurance	(44)	(310)	(64)	(26)	(4,436)	(144)	-	-	(5,024)
Claims and related expenses	6,106	6,006	1,801	1,720	2,543	1,606	2,536	(212)	22,106
Policy acquisition costs	261	83	(59)	51	(322)	67	140	3	224
Policy acquisition costs recovered from reinsurers	3	61	17	2	17	-	-	-	100
Change in deferred policy acquisition costs - gross	-	(70)	-	(19)	-	-	-	(1)	(90)
Change in deferred policy acquisition costs - reinsurance	-	1	-	-	-	-	-	-	1
Policy acquisition costs	264	75	(42)	34	(305)	67	140	2	235
Operating expenses	(1,439)	(1,052)	(723)	(505)	(154)	(982)	(509)	(196)	(5,560)
Underwriting result	**4,810**	**4,319**	**895**	**1,330**	**2,927**	**2,146**	**2,221**	**(214)**	**18,434**

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22. SEGMENT INFORMATION (Continued)

i) Analysis of revenue by primary business segment:

(US$ '000)

2021	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole account	Others	Short term	Long term	
REVENUES:									
Gross premiums written*	(1,134)	(253)	(1,285)	(775)	69	(459)	222	146	(3,469)
Outward reinsurance premiums	(1,121)	(501)	66	26	643	9	(17)	(104)	(999)
Change in unearned premiums - gross	49	2,584	255	243	14,343	5,182	-	150	22,806
Change in unearned premiums - reinsurance	-	(207)	(10)	-	(4,321)	-	-	-	(4,538)
Earned premiums	(2,206)	1,623	(974)	(506)	10,734	4,732	205	192	13,800
Investment income attributable to insurance funds	1,519	124	171	256	19	1,054	803	323	4,269
	(687)	1,747	(803)	(250)	10,753	5,786	1,008	515	18,069
COSTS AND EXPENSES:									
Gross claims paid	(10,704)	(6,983)	(2,493)	(833)	(66,476)	(4,565)	(2,203)	(167)	(94,424)
Claims recovered from reinsurers	416	590	319	47	23,523	18	-	1	24,914
Change in provision for outstanding claims - gross	9,958	5,286	5,880	1,283	16,995	2,553	1,605	(175)	43,385
Change in provision for outstanding claims-reinsurance	(538)	(230)	(297)	(12)	(6,222)	(202)	(2)	1	(7,502)
Change in provision for unreported losses - gross	9,768	4,565	3,891	1,916	39,487	3,409	6,164	(4,164)	65,036
Change in provision for unreported losses - reinsurance	(426)	(667)	(223)	(72)	(14,235)	(818)	(7)	-	(16,448)
Claims and related expenses	8,474	2,561	7,077	2,329	(6,928)	395	5,557	(4,504)	14,961
Policy acquisition costs	1,259	165	363	437	(3,842)	238	(196)	67	(1,509)
Policy acquisition costs recovered from reinsurers	23	(78)	(36)	(26)	12	(1)	-	-	(106)
Change in deferred policy acquisition costs - gross	(14)	(828)	(70)	(59)	-	35	-	(2)	(938)
Change in deferred policy acquisition costs-reinsurance	-	82	3	-	-	-	-	-	85
Policy acquisition costs	1,268	(659)	260	352	(3,830)	272	(196)	65	(2,468)
Operating expenses	(2,388)	(1,214)	(759)	(497)	(102)	(1,048)	(709)	(128)	(6,845)
Underwriting result	**6,667**	**2,435**	**5,775**	**1,934**	**(107)**	**5,405**	**5,660**	**(4,052)**	**23,717**

*Gross premiums written are negative due to reversal of excess pipeline estimates of prior years and cessation of new business underwriting by the Company effective 13 August 2020.

FOR THE YEAR ENDED 31 DECEMBER 2022

22. SEGMENT INFORMATION (Continued)

ii) Analysis of premiums and non-current asset based on geographical location of the risk insured and location of the asset respectively:

(US$ '000)

	2022		2021	
	Premium	Non-current assets	Premium	Non-current assets
from:				
- Middle East	314	22,966	(2,827)	21,918
- Africa	-	2,599	-	2,123
- Asia	-	1,844	-	1,506
- Others	1,018	13,282	(642)	16,946
	1,332	**40,691**	**(3,469)**	**42,493**

There is no significant cedant group as the portfolio is diversified.

iii) Analysis of segment assets and liabilities:

(US$ '000)

	Non-Life						Life			
2022	Property	Engineering	Marine	Accident	Whole	Others	Short term	Long term	Corporate	Total
Reinsurance assets	8,204	7,789	9,445	2,947	8,790	4,659	332	782	-	42,948
Cash	14,968	13,839	7,186	5,921	1,144	11,236	5,436	10,915	144,496	215,141
Investments	12,214	11,187	5,640	4,634	7,965	9,273	4,529	9,098	110,557	175,097
Others	-	-	-	-	-	-	-	-	19,167	19,167
	35,386	32,815	22,271	13,502	17,899	25,168	10,297	20,795	274,220	452,353
Reinsurance liabilities	34,136	31,658	21,667	13,005	4,589	24,231	9,837	19,876	-	158,999
Others	-	-	-	-	-	-	-	-	15,990	15,990
	34,136	**31,658**	**21,667**	**13,005**	**4,589**	**24,231**	**9,837**	**19,876**	**15,990**	**174,989**

(US$ '000)

	Non-Life						Life			
2021	Property	Engineering	Marine	Accident	Whole	Others	Short term	Long term	Corporate	Total
Reinsurance assets	9,535	11,889	10,316	3,259	68,461	5,717	439	1,002	-	110,618
Cash	4,374	3,928	2,044	1,701	6,057	2,688	1,450	2,075	34,738	59,055
Investments	37,875	35,347	16,148	12,940	44,966	25,515	14,172	20,640	217,367	424,970
Others	-	-	-	-	-	-	-	-	19,049	19,049
	51,784	51,164	28,508	17,900	119,484	33,920	16,061	23,717	271,154	613,692
Reinsurance liabilities	45,876	45,337	26,351	16,299	118,572	29,417	13,472	19,874	-	315,198
Others	-	-	-	-	-	-	-	-	19,536	19,536
	45,876	**45,337**	**26,351**	**16,299**	**118,572**	**29,417**	**13,472**	**19,874**	**19,536**	**334,734**

FOR THE YEAR ENDED 31 DECEMBER 2022

23. INVESTMENT INCOME

(US$ '000)

2022	Insurance funds	Shareholders' funds	Total
Interest income			
Investments designated at fair value through profit or loss	223	475	698
- Others	2,627	5,989	8,616
Realised gains on available for sale	531	1,245	1,776
Loss on fair value measurement of investments at fair value through profit or loss			
- Held for trading investments	-	-	-
- Investments designated at fair value through profit or loss	(1,598)	(3,469)	(5,067)
Impairment loss-available for sale			
Debt Securities	(758)	(1,617)	(2,375)
- Other	(125)	(279)	(404)
Income from associates	-	64	64
Other	(546)	(1,185)	(1,731)
	354	**1,223**	**1,577**

(US$ '000)

2021	Insurance funds	Shareholders' funds	Total
Interest income			
Investments designated at fair value through profit or loss	416	484	900
- Others	3,542	4,552	8,094
Realised gains on available for sale	1,170	1,345	2,515
Gain (loss) on fair value measurement of investments at fair value through profit or loss			
- Held for trading investments	217	252	469
Investments designated at fair value through profit or loss	(391)	(582)	(973)
Impairment loss-available for sale			
- Debt Securities	(193)	(223)	(416)
- Other	(197)	(249)	(446)
Income from associates	-	125	125
Other	(295)	(365)	(660)
	4,269	**5,339**	**9,608**

FOR THE YEAR ENDED 31 DECEMBER 2022

24. OPERATING EXPENSES

(US$ ’000)

2022	Underwriting	Non-Underwriting	Total
Salaries and benefits	3,143	2,205	5,348
General and administration	2,417	1,237	3,654
	5,560	**3,442**	**9,002**

(US$ ’000)

2021	Underwriting	Non-Underwriting	Total
Salaries and benefits	3,773	2,548	6,321
General and administration	3,072	1,600	4,672
	6,845	**4,148**	**10,993**

25. OTHER INCOME

(US$ ’000)

	2022	2021
Third party administration services	172	356
Reversal of provisions	5,205	2,200
Other	1,397	911
	6,774	**3,467**

26. OTHER EXPENSES AND PROVISIONS

(US$ ’000)

	2022	2021
Foreign exchange loss	1,212	2,772
Write back investment property impairment and depreciation	(132)	-
Provision for doubtful receivables & deposits (Write back)	53	(24)
Other, net	1,942	1,216
	3,075	**3,964**

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27. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic and diluted earnings per share has been computed as follows:

		2022	2021
Weighted average number of shares Outstanding	’000	198,115	198,115
Net profit	US$’000	19,632	24,065
Earnings per share	US cents	9.9	12.1

28. POST EMPLOYMENT BENEFITS

The Group operates a number of post-employment plans on defined benefit basis. Eligibility for participation in the defined benefit plans is based on completion of a specified period of continuous service or date of hire. Benefits are based on the employee’s years of service.

The principal assumptions used for accounting purposes were:

	2022	2021
Discount rate	5.5%	3.2%
Expected return on assets	5.5%	3.2%
Future salary increases	3.3%	3.3%

The change in assumptions does not have material impact on the liability recognised.

The movements in the liability recognised in the consolidated statement of financial position are:

(US$ ’000)

	2022	2021
Balance at 1 January	5,436	6,652
Accruals for the year	534	425
Payments during the year	(1,115)	(1,641)
Balance at 31 December	**4,855**	**5,436**

29. FORWARD FOREIGN EXCHANGE CONTRACTS

In the ordinary course of its business, the Group uses forward foreign exchange contracts to hedge its exposure in respect of foreign currency denominated investments and insurance liabilities. In the event that the item being hedged is sold or settled prior to maturity of the forward foreign exchange contract, it is generally the Group’s policy to enter into another offsetting forward foreign exchange contract of the same amount and maturity date. The notional amounts of these financial instruments are not recognised in the Group’s consolidated financial statements but their fair values are recognised as assets or liabilities, as appropriate, with changes in fair value being taken to the consolidated statement of profit or loss. The contracts oblige the Group to exchange cash flows to be received in the future from foreign currency denominated investments for U.S. Dollars at predetermined exchange rates. The counter parties in respect of these transactions are leading financial institutions.

FOR THE YEAR ENDED 31 DECEMBER 2022

29. FORWARD FOREIGN EXCHANGE CONTRACTS (Continued)

i) Forward foreign exchange contracts – by currency:

(US$ '000)

	2022		2021	
	Notional amount purchases	Notional amount sales	Notional amount purchases	Notional amount sales
Euro	-	-	-	14,292
Pound Sterling	-	-	-	3,810
	-	**-**	**-**	**18,102**

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of the volume of outstanding transactions, but do not represent credit or market risk exposures.

ii) Forward foreign exchange contracts - remaining term to maturity:

All of the forward foreign exchange contracts outstanding are due in one year or less.

iii) Forward foreign exchange contracts - unrealised gains and losses:

The following table summarises the fair value of the Group's hedging portfolio of forward foreign exchange contracts at the statement of financial position date, segregating the items between those that are in an unrealised gain position from those that are in an unrealised loss position.

(US$ '000)

	2022		2021	
	Purchases	Sales	Purchases	Sales
Unrealised gains	-	-	-	304
Unrealised losses	-	-	-	-
	-	**-**	**-**	**304**

30. RECONCILIATION OF NET RESULT TO CASH FLOWS FROM OPERATING ACTIVITIES

(US$ '000)

	2022	2021
Profit for the year	19,914	24,411
Change in insurance funds	(89,082)	(113,666)
Change in insurance receivable/payable, net	(3,921)	12,790
Change in accrued income	(1,298)	6,638
Change in other assets/liabilities, net	50,397	(11,423)
Net cash used in operating activities	**(23,990)**	**(81,250)**

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31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIIVTIES

(US$ '000)

	Dividends	Non-controlling interest
Balances at 31 December 2020	321	17,066
Share of comprehensive income	-	349
Exchange adjustments on dividends	(87)	-
Subsidiary's capital reduction	-	(4,600)
Balances at 31 December 2021	**234**	**12,815**
Share of comprehensive income	-	(39)
Balances at 31 December 2022	**234**	**12,776**

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32. FAIR VALUE DISCLOSURE

The following table presents the fair values of the Group's financial instruments:

US$ '000

2022	Book value: At fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Amortised cost	Total	Fair value
ASSETS							
Cash and bank balances	-	215,141	-	-	-	215,141	215,141
Investments	-	-	-	174,557	-	174,557	174,557
Accrued income	-	3,446	-	-	-	3,446	3,446
Insurance receivables	-	7,077	-	-	-	7,077	7,077
Insurance deposits	-	19,159	-	-	-	19,159	19,159
Other assets	-	8,001	-	-	-	8,001	8,001
LIABILITIES							
Insurance payables	-	-	-	-	23,878	23,878	23,878
Other liabilities	-	-	-	-	6,942	6,942	6,942

US$ '000

2021	Book value: At fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Amortised cost	Total	Fair value
ASSETS							
Cash and bank balances	-	59,055	-	-	-	59,055	59,055
Investments	105,417	360	14,062	304,606	-	424,445	424,664
Accrued income	-	2,148	-	-	-	2,148	2,148
Insurance receivables	-	29,141	-	-	-	29,141	29,141
Insurance deposits	-	21,728	-	-	-	21,728	21,728
Other assets	-	20,607	-	-	-	20,607	20,607
LIABILITIES							
Insurance payables	-	-	-	-	49,863	49,863	49,863
Other liabilities	-	-	-	-	14,761	14,761	14,761

The information disclosed in the table above is not indicative of the net worth of the Group.

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 in the principal market, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

FOR THE YEAR ENDED 31 DECEMBER 2022

32. FAIR VALUE DISCLOSURE (Continued)

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The following methods and assumptions were used to estimate the fair value of the financial instruments:

i) General:

The book values of the Group's financial instruments except investments and forward foreign exchange contracts were deemed to approximate fair value due to the immediate or short term maturity of these financial instruments.

Hence, the fair value measurement details are not disclosed.

ii) Investments:

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

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

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

  Valuation techniques include net present value and discounted cash flow models and other valuation models. Assumptions and inputs used in valuation includes risk free and benchmark interest rates, bond and equity prices, and foreign exchange rates. The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received on sale of the asset at the measurement date.

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32. FAIR VALUE DISCLOSURE (Continued)

The table below analyses financial instruments, measured at fair value as at the end of the year, by level in the fair value hierarchy into which the fair value measurement is categorized:

(US$ '000)

2022	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Designated at fair value on initial recognition				
Debt securities	-	-	-	-
Available for sale				
Debt securities	67,009	94,066	-	161,075
Common stock of unlisted companies	-	-	2,794	2,794
Other	-	-	10,688	10,688
Forward foreign exchange contracts	-	-	-	-
	67,009	**94,066**	**13,482**	**174,557**

(US$ '000)

2021	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Designated at fair value on initial recognition				
Debt securities	18,383	87,034	-	105,417
Available for sale				
Debt securities	146,308	140,982	-	287,290
Common stock of unlisted companies	-	-	3,205	3,205
Other	-	-	14,111	14,111
Forward foreign exchange contracts	-	304	-	304
	164,691	**228,320**	**17,316**	**410,327**

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32. FAIR VALUE DISCLOSURE (Continued)

The tables below show movements in the Level 3 financial assets measured at fair value:

(US$ '000)

	Unlisted equity	Others	Total
Balance at 1 January 2022	3,205	14,111	17,316
Gain recognised in:			
- Other comprehensive income	(115)	(1,339)	(1,454)
Investments made during the year	33	156	189
Investments redeemed during the year	(329)	(2,240)	(2,569)
Balance at 31 December 2022	**2,794**	**10,688**	**13,482**

	Unlisted equity	Others	Total
Balance at 1 January 2021	3,349	16,236	19,585
Gain recognised in:			
- Other comprehensive income	179	1,180	1,359
Investments made during the year	12	518	530
Investments redeemed during the year	(335)	(3,823)	(4,158)
Balance at 31 December 2021	**3,205**	**14,111**	**17,316**

The carrying values of the investment held in level 3 are based on unobservable inputs and reflects proportional share of the fair values of the respective companies and their underlying net assets. The Group does not expect the fair value of assets under level 2 & level 3 to change significantly on changing one or more of the observable / unobservable inputs. The valuations of these investments are reviewed quarterly and updated as necessary on the basis of information received from investee and investment managers. The Group recognises transfers between levels of the fair value hierarchy at the end of reporting period during which the change occurred. For the year ended 31 December 2022, there were no transfers in and out of level 1, level 2 and level 3 (31 December 2021: nil) . The fair values are estimates and do not necessarily represent the price at which the investment would sell. As the determination of fair values involve subjective judgments and given the inherent uncertainty of assumptions regarding capitalisation rates, discount rates, leasing and other factors, the amount which will be realized by the Company on the disposal of its investments may differ significantly from the values at which they are carried in the consolidated financial statements, and the difference could be material.

iii) Forward foreign exchange contracts:

The fair value of forward foreign exchange contracts, used for hedging purposes, is based on quoted market prices.

iv) Fair value less than carrying amounts:

The fair value of fixed interest debt securities fluctuates with changes in market interest rates. The book value of financial assets held to maturity has not been reduced to fair value where lower, because such market rate variations are considered temporary in nature and management intends, and has the financial resources and capacity, to generally hold such investments to maturity.

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33. TEMPORARY EXEMPTION FROM IFRS 9 DISCLOSURE

2022

a) Fair value and changes in fair value:

(US$ ’000)

	Fair value	Changes in fair value during the year
i) Financial assets having cash flows that are solely payment of principal and interest.	161,075	(10,095)
ii) All other financial assets that are not solely payment of principal and interest.	51,164	(5,364)
	212,239	**(15,459)**

b) Credit risk exposure relating to note 33 (a (i)) above:

(US$ ’000)

	Book value	Fair value
Supra-nationals and OECD country governments	27,005	27,005
Other investment grade	96,709	96,709
Other	37,361	37,361
	161,075	**161,075**

2021

a) Fair value and changes in fair value

(US$ ’000)

	Fair value	Changes in fair value during the year
i) Financial assets having cash flows that are solely payment of principal and interest.	218,674	25,226
ii) All other financial assets that are not solely payment of principal and interest.	277,112	10,614
	495,786	**35,840**

b) Credit risk exposure relating to note 33 (a (i)) above:

(US$ ’000)

	Book value	Fair value
Supra-nationals and OECD country governments	27,850	27,850
Other investment grade	144,531	144,653
Other	46,074	46,171
	218,455	**218,674**

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34. PRINCIPAL SUBSIDIARIES & ASSOCIATES

i) Subsidiaries and Associates:

At 31 December 2022, the principal subsidiaries of the Company were:

	Country of Incorporation	Ownership	Non-controlling Interests	Principal Activities
Arig Capital Limited (under run-off)	United Kingdom	100%	Nil	Reinsurance
Gulf Warranties W.L.L. (under voluntary liquidation)	Kingdom of Bahrain	100%	Nil	Warranty
Takaful Re Limited (under run-off)	United Arab Emirates	54%	46%	Retakaful Insurance

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2021. The Company holds 49% of the equity share in its associate company Arima Insurance software W.L.L.

Financial statements of Takaful Re Limited (TRL), Gulf Warranties W.L.L. (GWL) and Arig Capital Limited (ACL) are not prepared on going concern basis as TRL and ACL are under run-off and GWL is under voluntary liquidation.

ii) Interest in Subsidiaries: Takaful Re Limited:

(US$ '000)

	2022	2021
Non-controlling interests	46%	46%
Total assets	37,411	39,417
Total liabilities	9,637	11,558
Net Assets	**27,774**	**27,859**
Revenue	(23)	109
Profit for the year	613	753
Total comprehensive income	(85)	758
Comprehensive income attributable to non-controlling interests	(39)	349
Net cash used in operating activities	(1,380)	(1,972)
Net cash (used in) provided by investing activities	(5,305)	3,664
Net cash used in financing activities	-	(10,000)
Net decrease in cash and cash equivalents	**(6,685)**	**(8,308)**

The subsidiary's policyholder funds are consolidated as these funds are controlled and managed by the subsidiary which is in a position to direct activities and operations.

iii) Interest in Subsidiaries: Gulf Warranties W.L.L.:

The Group's subsidiary's GWL in 2018, based on management's assessments had provided for probable loss of US$ 21.5 million. Following settlement of certain liabilities the provision have been reduced to US$ 5.1 million in the books of the subsidiary and consequently in the consolidated financial statements of the Group. This does not constitute admission of any liability beyond the share capital of Gulf Warranties W.L.L.

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35. RELATED PARTY TRANSACTIONS

Related parties represent the Company's major shareholders, associate companies, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties.

Government of UAE controls 31.3% of issued shares in the Group through major shareholders Emirates Investment Authority, General Pension and Social Security Authority and Emirates Development Bank while Government of Libya controls 14.4% of issued shares in the Group through Central Bank of Libya. The Group does not have any significant transactions with these governments and entities controlled, jointly controlled or significantly influenced by these governments.

The following is the summary of transactions with related parties:

i) Associate companies:

(US$ '000)

	2022	2021
a) Service fees for administration services provided by associate	388	447
b) Balances outstanding		
Payables	84	198

ii) Compensation to directors and key management personnel:

(US$ '000)

	2022	2021
a) Directors		
- Remuneration proposed / paid	740	500
- Attendance fees	297	267
- Travel expenses	125	4
b) Key management compensation		
- Salaries and other short-term employee benefits	347	347
- Post-employment benefits	120	49
- Others	15	15
c) Balances payable to key		
Management	355	566

All transactions with related parties are conducted on an arm's length basis. All outstanding balances from related parties are expected to be settled within 12 months. No provisions have been required in 2022 and 2021 for any outstanding amounts due from related parties.

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36. PARENT COMPANY

The unconsolidated statement of financial position of the parent company, Arab Insurance Group (B.S.C.), is presented below.

(US$ '000)

	Note	2022	2021
ASSETS			
Cash and bank balances		201,272	37,354
Investments		167,954	371,574
Accrued income		3,331	2,047
Insurance receivables		7,105	10,071
Insurance deposits		19,049	21,348
Deferred policy acquisition costs		25	111
Reinsurers' share of technical provisions		8,531	10,559
Other assets		29,302	47,266
Investment in subsidiaries and associates		15,538	15,569
Property and equipment		5,222	6,817
TOTAL ASSETS		**457,329**	**522,716**
LIABILITIES			
Technical provisions		132,386	184,518
Insurance payables		23,691	27,694
Other liabilities		36,664	44,361
TOTAL LIABILITIES		**192,741**	**256,573**
SHAREHOLDERS' EQUITY	20		
Share capital		220,000	220,000
Treasury stock		(14,793)	(14,793)
Reserves		40,872	54,988
Retained earnings		18,509	5,948
TOTAL SHAREHOLDER'S EQUITY		264,588	266,143
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**457,329**	**522,716**

37. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The directors propose to recommend the following appropriations for approval of shareholders at the Annual General Assembly meeting to be held on 29 March 2023:

	(US$ '000)
Cash dividend of US$ 0.05 per share of US$ 1 each	11,000
Directors' remuneration	740