

**SHARJAH INSURANCE COMPANY P.S.C.**

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

**SHARJAH INSURANCE COMPANY P.S.C.**

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	<b>Page</b>
<b>Board of Directors' report</b>	1
<b>Independent Auditor's Report</b>	3
<b>Statement of financial position</b>	8
<b>Statement of income</b>	9
<b>Statement of comprehensive income</b>	10
<b>Statement of changes in equity</b>	11
<b>Statement of cash flows</b>	12
<b>Notes to the financial statements</b>	14

## **Board of Directors' Report**

The Board of Directors of Sharjah Insurance Company has the honor to disclose the audited financial statements for 31 December 2022.

The following is a brief summary of the results of the company's operations for the year ended 31 December 2022 .

### **First: Insurance Activity:**

In the interest of the Board of Directors' of the Company to maintain the technical profits achieved in the past two years, the company has continued a conservative underwriting policy to select the business according to the technical results reached as follows:

#### **Operational Results:**

- Total written premium for 2022 amounted AED 23 million compared to AED 25.5 million for year 2021, the net retained premium for 2022 amounted to AED 3.3 million compared to AED 10.2 million in 2021.
- Net operating profit for the year 2022 was AED 0.16 million compared to AED 3.5 million.

### **Second: Investment Activity:**

- Investment profits for the year 2022 amounted to AED 32.6 million compared to AED 24.3 million in 2021.
- As per the statement of cashflows, The Company acquired financial assets through profit or loss amounted to AED 118.8 million during the year compared to 124.4 million in 2021, and sold financial assets through profit and loss and financial assets through other comprehensive income amounted to AED 95.2 million and AED 9.9 million compared to AED 38.6 million and AED 61.3 million in 2021, respectively.

**The Company's net profit for the year 2022 amounted to AED 31 million compared to AED 27.2 million for the year 2021.**

The main objective of the company's board of directors and its executive management is to maintain and develop the economic entity to the benefits of the country, the citizens and the investors. Therefore, we are committed to be in the ranks of the competitive Company's professionalism and committed to apply the highest standards of quality and management governance to meet the requirements of transparency and disclosure.



- The company renewed the Reinsurance agreement for 2023 on technical basis to ensure the continuation of the underwriting performance and expansion of its operation .

-Based on these results and in accordance with notice No . CBUAEBSD/2022/4697, the Board of Directors has decided to approach the Central Bank of the UAE to obtain approval for the announcement of proposed dividend for the year 2022 to shareholders.

-Finally , I would like to thank the Board of Directors and employees for their efforts and hope greater efforts to be done to continue the successful journey .

**Yours faithfully**

**Ahmed Mohamed Hamad Al Midfa**

**Chairman**



**Independent Auditor's Report  
To the Shareholders of Sharjah Insurance Company P.S.C.**

**Report on the audit of the financial statements**

**Opinion**

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

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

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with the requirements of IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

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

**Independent Auditor's Report  
To the Shareholders of Sharjah Insurance Company P.S.C. (continued)**

**Report on the audit of the financial statements (continued)**

**Key audit matters (continued)**

**i) Valuation of insurance contract liabilities**

The estimation of liabilities arising from insurance contracts amounting to AED 35.6 million such as outstanding claims, incurred but not reported claims, unallocated loss adjustment expenses and unearned premium reserve, as disclosed in note 10 to the financial statements, involves a significant degree of judgement. These liabilities are based on the best-estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs and the pattern of risk distribution over the coverage period. Actuarial computations have been used to determine these provisions. Underlying these computations are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Since the determination of such a provision requires the expertise of an external valuation expert who incorporates significant assumptions, judgements and estimations, the valuation of these liabilities were significant to our audit.

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

- Understood the governance process in place to determine the insurance contract liabilities;
- Tested the underlying company data to source documentation on sample basis;
- Applied our industry knowledge and experience and compared the methodology, models and assumptions used against recognised actuarial practices;
- We assessed the competence, capabilities, and objectivity of the management actuarial specialist;
- Reperformed computations on selected classes of business, particularly focusing on the largest and most uncertain reserves, then compared our re-computed claims reserves to those booked by management, and sought to understand any significant differences;
- For the remaining classes, we evaluated the methodology and assumptions, or performed a diagnostic check to identify and follow up any anomalies; and
- We involved our own actuarial specialist to assist us in performing our procedures in this area.

**ii) Valuation of investment properties**

The Company holds investment properties under the fair value method as at 31 December 2022 amounting to AED 53.1 million, as detailed in note 7. The fair value estimate requires significant judgement and estimates by management and independent external valuer. The Company has involved an independent external valuer in order to value the investment properties for the purpose of determining the fair value for inclusion in the financial statements. The existence of significant estimation and judgement coupled with change in valuation assumptions used could result in material change. Therefore, the valuation of these investment properties was significant to our audit.

Our audit procedures, among others, included:

- We assessed the competence, capabilities, and objectivity of external valuers appointed by the management; and
- We understood the basis of valuation for each property and other judgements used in performing the valuation;
- We checked the accuracy and relevance of the input data used for deriving fair values; and
- We assessed the appropriateness of the key assumptions and methodologies used.

**Independent Auditor's Report  
To the Shareholders of Sharjah Insurance Company P.S.C. (continued)**

**Report on the audit of the financial statements (continued)**

**Other Information**

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

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

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

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

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

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

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

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

**Auditors' Responsibilities for the Audit of the Financial Statements**

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

**Independent Auditor's Report  
To the Shareholders of Sharjah Insurance Company P.S.C. (continued)  
Report on the audit of the financial statements (continued)**

**Auditors' Responsibilities for the Audit of the Financial Statements (continued)**

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

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

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

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

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



**Independent Auditor's Report  
To the Shareholders of Sharjah Insurance Company P.S.C. (continued)**

**Report on Other Legal and Regulatory Requirements**

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

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. 32 of 2021,
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Directors' report is consistent with the books of account of the Company;
- v) as disclosed in Note 8 to the financial statements, the Company has investments in securities as at 31 December 2022;
- vi) Note 23 to the financial statements discloses material related party transactions and balances, and the terms under which they were conducted; and
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has, during the financial year ended 31 December 2022, contravened any of the applicable provisions of the UAE Federal Law No. 32 of 2021, or its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2022.
- viii) The Company did not make any social contributions during the financial year ended 31 December 2022.

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

*GRANT THORNTON*

**GRANT THORNTON**

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

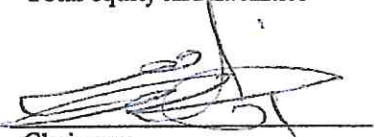


**16 March 2023**


Sharjah Insurance Company P.S.C.  
Financial statements

Statement of financial position  
As at 31 December 2022

	Notes	2022 AED	2021 AED
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	1,294,619	2,362,070
Intangible assets	6	73,409	180,253
Investment properties	7	53,104,355	51,949,400
Investments designated at fair value through other comprehensive income (FVOCI)	8.1	36,986,809	50,685,171
Statutory deposit	9	5,000,000	5,000,000
<b>Total non-current assets</b>		<b>96,459,192</b>	<b>110,176,894</b>
<b>Current assets</b>			
Reinsurance contract assets	10	22,990,677	25,740,433
Insurance and other receivables	11	14,769,346	22,176,879
Investments at fair value through profit or loss (FVTPL)	8.2	134,255,729	108,714,402
Bank balances and cash	12	39,180,351	54,131,325
<b>Total current assets</b>		<b>211,196,103</b>	<b>210,763,039</b>
<b>Total assets</b>		<b>307,655,295</b>	<b>320,939,933</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	13	150,000,000	137,500,000
Statutory reserve	14.1	54,811,157	51,707,121
Voluntary reserve	14.2	30,000,000	30,000,000
Reinsurance reserve	14.3	299,957	196,889
Cumulative change in fair value of financial investments designated at FVOCI		(115,520,843)	(111,624,590)
Retained earnings		129,014,494	122,515,004
<b>Total equity</b>		<b>248,604,765</b>	<b>230,294,424</b>
<b>Non-current liabilities</b>			
Provision for employees' end of service indemnity	15	856,730	964,807
Lease liabilities	17	468,179	1,410,124
<b>Total Non-current liabilities</b>		<b>1,324,909</b>	<b>2,374,931</b>
<b>Current liabilities</b>			
Insurance contract liabilities	10	35,567,273	44,201,350
Insurance and other payables	16	21,399,038	23,318,049
Lease liabilities	17	750,845	874,691
Bank overdrafts	22	8,465	19,876,488
<b>Total current liabilities</b>		<b>57,725,621</b>	<b>88,270,578</b>
<b>Total liabilities</b>		<b>59,050,530</b>	<b>90,645,509</b>
<b>Total equity and liabilities</b>		<b>307,655,295</b>	<b>320,939,933</b>

  
Chairman



  
Managing Director

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

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

**Statement of income**  
**For the year ended 31 December 2022**

	Notes	2022 AED	2021 AED
Gross written premiums	18	22,950,024	25,453,063
Reinsurance premiums ceded	18	(20,613,680)	(18,107,380)
<b>Net insurance premium revenue</b>		<b>2,336,344</b>	<b>7,345,683</b>
Net change in unearned premiums and unexpired risk reserve	18	1,009,271	2,858,115
<b>Net premiums earned</b>		<b>3,345,615</b>	<b>10,203,798</b>
Commissions earned		5,883,988	4,979,566
Commissions incurred		(1,807,968)	(1,882,624)
<b>Gross underwriting income</b>		<b>7,421,635</b>	<b>13,300,740</b>
Gross claims paid	10	(11,590,497)	(10,944,963)
Reinsurance share of claims paid	10	7,657,739	4,037,527
<b>Net claims paid</b>		<b>(3,932,758)</b>	<b>(6,907,436)</b>
Net change in insurance contract liabilities	10	4,875,050	5,313,518
<b>Net claims incurred</b>		<b>942,292</b>	<b>(1,593,918)</b>
Other income related to underwriting activities		344,185	1,450,502
<b>Underwriting profit</b>		<b>8,708,112</b>	<b>13,157,324</b>
General and administrative expenses relating to underwriting activities	20	(8,548,767)	(9,617,962)
<b>Net underwriting profit</b>		<b>159,345</b>	<b>3,539,362</b>
Investment and other income, net	19	32,572,022	24,259,571
Change in fair value of investment properties	7	1,154,955	(1,500,600)
Finance costs		(417,231)	(104,998)
Finance cost-lease liability		(70,123)	(99,685)
Reversal of impairment	11	-	3,878,126
Unallocated general and administrative expenses	20	(2,358,606)	(2,745,699)
<b>Profit for the year</b>		<b>31,040,362</b>	<b>27,226,077</b>
<b>Basic and diluted earnings per share (Restated – Note 21)</b>	21	<b>0.21</b>	<b>0.18</b>

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

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

**Statement of comprehensive income**  
**For the year ended 31 December 2022**

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	2022 AED	2021 AED
Profit for the year	<u>31,040,362</u>	<u>27,226,077</u>
<b>Other comprehensive income</b> <i>Items that will not be reclassified subsequently to profit or loss</i>		
Net change in fair value of equity instruments designated at FVOCI	(3,896,253)	25,008,114
Gain on sale of equity instruments designated at FVOCI	<u>2,176,732</u>	<u>587,428</u>
<b>Other comprehensive (loss)/income for the year</b>	<u>(1,719,521)</u>	<u>25,595,542</u>
<b>Total comprehensive income for the year</b>	<u><u>29,320,841</u></u>	<u><u>52,821,619</u></u>

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

Sharjah Insurance Company P.S.C.  
Financial statements

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

	Share capital AED	Statutory reserve AED	Voluntary reserve AED	Reinsurance reserve AED	Cumulative change in fair value of financial investments designated at FVOCI AED	Retained earnings AED	Total AED
Adjusted balance at 1 January 2021	137,500,000	48,984,513	30,000,000	106,352	(136,632,704)	107,139,644	187,097,805
Profit for the year	-	-	-	-	-	27,226,077	27,226,077
Other comprehensive loss for the year	-	-	-	-	25,595,542	-	25,595,542
Total comprehensive (loss)/income for the year	-	-	-	-	25,595,542	27,226,077	52,821,619
Transfer to retained earnings on disposal of investments designated at FVOCI	-	-	-	-	(587,428)	587,428	-
Transfer to statutory reserve	-	2,722,608	-	-	-	(2,722,608)	-
Transfer to reinsurance reserve	-	-	-	90,537	-	(90,537)	-
Dividend (Note 29)	-	-	-	-	-	(9,625,000)	(9,625,000)
Balance at 31 December 2021 / 1 January 2022	137,500,000	51,707,121	30,000,000	196,889	(111,624,590)	122,515,004	230,294,424
Profit for the year	-	-	-	-	-	31,040,362	31,040,362
Other comprehensive income for the year	-	-	-	-	(1,719,521)	-	(1,719,521)
Total comprehensive income for the year	-	-	-	-	(1,719,521)	31,040,362	29,320,841
Transfer to retained earnings on disposal of investments designated at FVOCI	-	-	-	-	(2,176,732)	2,176,732	-
Transfer to statutory reserve	-	3,104,036	-	-	-	(3,104,036)	-
Transfer to reinsurance reserve	-	-	-	103,068	-	(103,068)	-
Bonus shares issued (Note 13)	12,500,000	-	-	-	-	(12,500,000)	-
Dividend (Note 29)	-	-	-	-	-	(11,010,500)	(11,010,500)
Balance at 31 December 2022	150,000,000	54,811,157	30,000,000	299,957	(115,520,843)	129,014,494	248,604,765

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

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

**Statement of cash flows**  
**For the year ended 31 December 2022**

	Notes	2022 AED	2021 AED
<b>Cash flows from operating activities</b>			
Profit for the year		31,040,362	27,226,077
Adjustments to reconcile profit for the year to net cash flows:			
Depreciation of property and equipment	5	871,298	1,105,802
Amortization of intangible assets	6	114,205	78,114
Reversal of expected credit losses		-	(3,878,126)
Provision for employees' end of service indemnity	15	102,593	181,820
Change in fair value of investment properties	7	(1,154,955)	1,500,600
Directors' remuneration	29	750,000	400,000
Investment income	19	(32,572,022)	(24,259,571)
Finance cost		487,354	204,683
<b>Operating cash flows before changes in operating assets and liabilities</b>		<b>(361,165)</b>	<b>2,559,399</b>
Change in reinsurance contract assets		2,749,756	(2,110,691)
Change in insurance contract liabilities		(8,634,077)	(6,060,942)
Change in insurance and other receivables		7,407,533	9,929,972
Change in insurance and other payables		(1,919,011)	3,683,211
<b>Cash (used in)/generated from operations</b>		<b>(756,964)</b>	<b>8,000,949</b>
Employees' end of service indemnity paid	15	(210,670)	(352,623)
Directors' remuneration paid	29	(750,000)	(400,000)
<b>Net cash (used in)/generated from operating activities</b>		<b>(1,717,634)</b>	<b>7,248,326</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	5	(58,512)	(268,535)
Purchase of intangible assets	6	(7,361)	(26,679)
Purchase of investments designated at FVOCI	8.2	(108,477)	-
Purchase of investments at FVTPL	8.2	(118,772,956)	(124,457,323)
Proceeds from disposal of investments designated at FVOCI		12,087,318	61,284,101
Proceeds from disposal of investments at FVTPL		109,326,461	43,144,741
Change in fixed deposits		-	10,846,938
Interest income received		147,014	146,669
Dividend income received		14,055,622	4,754,245
Other investment (expense)/income	19	(222,055)	335,182
Net income from investment properties	7	2,473,806	2,438,314
<b>Net cash generated from/(used in) investing activities</b>		<b>18,920,860</b>	<b>(1,802,347)</b>

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

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

**Statement of cash flows (continued)**  
**For the year ended 31 December 2022**

	2022	2021
	AED	AED
<b>Cash flows from financing activities</b>		
Interest paid	(417,231)	(104,998)
Lease liability paid	(858,446)	(496,702)
Dividends paid	29 (11,010,500)	(9,625,000)
<b>Net cash used in financing activities</b>	<b>(12,286,177)</b>	<b>(10,226,700)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4,917,049</b>	<b>(4,780,721)</b>
Cash and cash equivalents at the beginning of the year	29,254,837	34,035,558
<b>Cash and cash equivalents at the end of the year</b>	<b>22 34,171,886</b>	<b>29,254,837</b>
<b>Non-cash transactions, net</b>		
Bonus shares	12,500,000	-
Movement in rights of use assets	(254,665)	(541,795)
Lease liabilities	277,468	574,699
(Gain)/Loss on cancellation of lease under IFRS 16	(22,803)	32,904

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

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**1. General information**

Sharjah Insurance Company P.S.C. - Sharjah (the "Company") is incorporated as a public shareholding company by an Amiri Decree issued by His Highness, The Ruler of Sharjah on 8 March 1970. The Company is subject to the regulations of U.A.E. Federal Law No. 6 of 2007, on Establishment of Insurance Authority and Organization of its Operations and is registered in the Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.) under registration No.12. The Company operates through its head office in Sharjah and has branches in Dubai and Ajman. The address of the Company's registered office is P.O. Box 792, Sharjah, United Arab Emirates.

The principal activity of the Company is dealing in property and non-property insurance and life insurance. The Company mainly carries out general insurance business.

Federal Law By Decree No. 32 of 2021 on Commercial Companies (the "New Companies Law") was issued on September 20, 2021 with an effective date of January 2, 2022, and will entirely replace Federal Law No. 2 of 2015, as amended, on Commercial Companies. The Company has twelve months from the effective date to comply with the provisions of the New Companies Law. The Company is currently in the process of amending the statutory documents, to reflect the changes required due to application of the UAE Federal law No. (32) of 2021.

On 9 December 2022, the UAE Ministry of Finance released the Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime will become effective for accounting periods beginning on or after 1 June 2023.

A rate of 9% will apply to taxable income exceeding a particular threshold to be prescribed by way of a Cabinet Decision (expected to be AED 375,000 based on information released by the Ministry of Finance), a rate of 0% will apply to taxable income not exceeding this threshold and a rate of 0% on qualifying income of free zone entities. In addition, there are several other decisions that are yet to be finalized by way of a Cabinet Decision that are significant in order for entities to determine their tax status and taxable income. Therefore, pending such important decisions, the Company has considered that the Law, as it currently stands, is not substantively enacted as at December 31, 2022 from the perspective of IAS 12 – Income Taxes.

The Company shall continue to monitor the timing of the issuance of these critical Cabinet Decisions to determine their tax status and the application of IAS 12 – Income Taxes. The Company is currently in the process of assessing the possible impact on the financial statements, both from current and deferred tax perspective, once the Law becomes substantively enacted.

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

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

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

- COVID-19 Rent related concessions beyond 30 June 2021 (Amendments to IFRS 16). The amendment applies to annual reporting periods beginning on or after 1 April 2021.
- Reference to the Conceptual Framework (Amendments to IFRS 3) with effective date 1 January 2022.
- Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37) with effective date 1 January 2022.
- Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16) with effective date 1 January 2022.
- Annual Improvements to IFRS Standards 2018–2020 (IFRS 1, IFRS 9, IFRS 16 and IAS 41) with effective date 1 January 2022.



**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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

**2.2 Amendment to standards and interpretations issued but not yet effective**

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

IFRS 17 Insurance Contracts (1 January 2023)

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

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

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

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

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

The CSM represents the unearned profit of a group of insurance contracts and is recognised in profit or loss as the insurance service is provided to the customer using coverage units. Coverage units are a measurement of the quantum of service provided across the life of the contract and are used to measure the service provided in the reporting period and release a corresponding amount of profit to the profit or loss. If a group of contracts becomes loss-making after inception the loss is recognised immediately in the profit or loss. This treatment of profits and losses in respect of services is broadly consistent with the principles of IFRS 15 and IAS 37 applicable to other industries.

Under the general model the CSM is adjusted for non-economic assumption changes relating to future periods. IFRS 17 requires the standard to be applied retrospectively. Where this is assessed as impracticable the standard allows the application of a simplified retrospective approach or a fair value approach to determine the contractual service margin. The measurement principles set out in IFRS 17 will significantly change the way in which the Company measures its insurance contracts and associated reinsurance contracts.

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

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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

**2.2 Amendment to standards and interpretations issued but not yet effective (continued)**

**Premium allocation approach:**

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

- The Company expects that it will apply the PAA to all contracts because the standard has given options to the entities to simplify their contract measurement approach by applying Premium Allocation Approach for their insurance contract where the coverage period is 12 months or less or if applying the simplified approach will give results not materially different from the results produced by applying general measurement model. This option will reduce the complexities, time and cost in applying IFRS 17 for the group.

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

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

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

**Impact assessment – Non-Life Insurance**

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

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

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

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

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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

**2.2 Amendment to standards and interpretations issued but not yet effective (continued)**

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

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

These standards, amendments and interpretations are not expected to have a significant impact on the financial statements in the period of initial application and therefore no disclosures have been made.

**3. Significant accounting policies**

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

**3.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards and comply with applicable requirements of the Federal Law No. (6) of 2007 (as amended), Concerning the Establishment of the Insurance Authority & Organization of the Insurance Operations, the Federal Law No. (32) of 2021 Concerning the Commercial Companies and Insurance Authority Board Decision No. (25) of 2014 Pertinent to Financial Regulations for Insurance Companies, Insurance Authority Board Decision No. (23) of 2019 Concerning Instruction Organizing Reinsurance Operations.

**3.2 Basis of preparation**

The financial statements have been prepared on the historical cost basis except for investment properties and financial assets that have been carried at fair value, as explained in the accounting policies below.

**3.3 Insurance contracts**

*3.3.1 Definition, recognition and measurement*

The Company issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

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

*3.3.2 Short-term insurance contracts*

These contracts are casualty, property and short-duration life insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**3. Significant accounting policies (continued)**

**3.3 Insurance contracts (continued)**

*3.3.2 Short-term insurance contracts (continued)*

Short-duration life insurance contracts indemnifies the Company's customers from the consequences of events that would affect on the ability of the customer or customer's dependents to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these insurance contracts, premiums are recognised as revenue (earned premiums) on time-proportion basis wherein revenue from an insurance contract is recognised over the effective period of the policy with the exception of marine, where the unearned premium reserve (UPR) is recognised as fixed proportion of the written premiums and for engineering where UPR is calculated on uniform risk basis. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability.

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct claims settlement costs and arise from events that have occurred up to the reporting date even if even they have not yet been reported to the Company.

The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Unallocated loss adjustment expense reserves correspond to the provision representing future claim expenses and related handling costs that are not case specific. It represents all other expenses and costs that are related to the adjudication of claims but cannot be assigned to a specific claim and is calculated based on recommendation of Company's external actuarial valuation report.

*3.3.3 Reinsurance contracts*

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The Company assesses its reinsurance contract assets for impairment on a regular basis. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

*3.3.4 Insurance contract liabilities*

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the end of the reporting period, in addition for claims incurred but not reported.

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

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**3. Significant accounting policies (continued)**

**3.3 Insurance contracts (continued)**

*3.3.5 Salvage and subrogation reimbursements*

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

*3.3.6 Liability adequacy test*

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

*3.3.7 Receivables and payables related to insurance contracts*

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortized cost. The impairment loss is also calculated under the same method used for these financial assets.

*3.3.8 Commission earned and incurred*

Commissions and other acquisition costs that are related to securing new contracts and renewing existing contracts are charged to profit or loss when incurred. The Company recognise commissions received from reinsurance premium ceded as commission income in the period in which premium was ceded to the reinsurers.

**3.4 Revenue recognition**

*3.4.1 Insurance contract income*

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements (Note 3.3).

*3.4.2 Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

*3.4.3 Dividend income*

Dividend income from investments is recognised when the Company's rights to receive payment have been established.

*3.4.4 Rental income*

Rental income from investment property which are leased under operating leases are recognised on a straight-line basis over the term of the relevant lease.

**3.5 General and administrative expenses**

85% of general and administrative expenses for the year are allocated to insurance departments in proportion to each department's share of written premium.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**3. Significant accounting policies (continued)**

**3.6 Foreign currencies**

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

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

Exchange differences are recognized in statement of income in the year in which they arise.

**3.7 Employee benefits**

*3.7.1 Defined contribution plan*

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

*3.7.2 Annual leave and leave passage*

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

*3.7.3 Provision for employees’ end of service indemnity*

Provision is also made for the full amount of end of service indemnity due to non-U.A.E. national employees in accordance with the U.A.E. Labour Law and is based on current remuneration and their period of service at the end of the reporting period. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service indemnity is disclosed as a non-current liability.

**3.8 Property and equipment**

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The useful lives considered in the calculation of depreciation for all the assets are 4 - 5 years. Right-of-use assets are depreciated over the lease term.

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

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**3. Significant accounting policies (continued)**

**3.9 Intangible assets**

Intangible assets are reported at cost less accumulated amortisation and identified impairment losses, if any. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful lives considered in the calculation of amortisation is 4 years.

**3.10 Investment properties**

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

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

Fair value is determined by open market values based on valuations performed by external independent consultants.

**3.11 Impairment of non-financial assets**

At the end of each reporting period, the Company reviews the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**3. Significant accounting policies (continued)**

**3.12 Provisions**

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

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

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

**3.13 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in statement of income in the period in which they are incurred.

**3.14 Leases**

**3.14.1 The Company as a Lessee**

The Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract or part of a contract, that conveys the right-to-use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company.
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- The Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

**Measurement and recognition of leases as a lessee**

At lease commencement date, the Company recognises a right of use asset and a lease liability on the statement of financial position. The right of use asset is measured at cost, which is made up of the initial measurement of the lease liability, any direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).



**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**3. Significant accounting policies (continued)**

**3.14 Leases (continued)**

**3.14.1 The Company as a Lessee (continued)**

**Measurement and recognition of leases as a lessee (continued)**

The Company depreciates the right of use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The Company also assesses the right of use asset for impairment when such indicators exist. At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of the fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or statement of income if the right of use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in statement of income on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in as a separate line item as lease liabilities.

**3.14.2 The Company as a Lessor**

The Company's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Company classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

**3.15 Financial instruments**

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL). Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in statement of income.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**3. Significant accounting policies (continued)**

**3.15 Financial instruments (continued)**

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- (i) debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- (ii) debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVOCI);
- (iii) all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Company may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:
  - a. the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and
  - b. the Company may irrevocably designate a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

**Cash and bank and insurance and other receivables**

Cash and bank and insurance and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

**Equity instruments at FVOCI**

Investments in equity instruments/funds at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments in equity instruments/funds, but reclassified to retained earnings. The Company has designated all investments in equity instruments that are not held for trading as FVOCI.

Dividends on these investments in equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

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

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**3. Significant accounting policies (continued)**

**3.15 Financial instruments (continued)**

**Debt instruments at amortised cost or at FVOCI**

The Company assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Company's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

At initial recognition of a financial asset, the Company determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Company reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Company has not identified a change in its business models. When a debt instrument measured at FVOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. Debt instruments that are subsequently measured at amortised cost or at FVOCI are subject to impairment.

**Financial assets at FVTPL**

Financial assets at FVTPL are:

- (i) assets with contractual cash flows that are not SPPI; or/and
- (ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- (iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Fair value option: A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an "accounting mismatch").

**Reclassifications**

If the business model under which the Company holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Company's financial assets. During the current financial year and previous accounting period, there was no change in the business model under which the Company holds financial assets and therefore no reclassifications were made.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**3. Significant accounting policies (continued)**

**3.15 Financial instruments (continued)**

**Impairment**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss model (ECLs). The Company recognises loss allowances for expected credit losses on bank balances including statutory and fixed deposits and insurance and other receivables that are not measured at FVTPL.

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Company has elected to measure loss allowances for bank balances including statutory and fixed deposits, insurance and other receivables at an amount equal to life time ECLs.

Loss allowance for financial investments measured at amortised costs are deducted from gross carrying amount of assets.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue costs or effort. This includes both quantitative and qualitative information and analysis, based on Company's historical experience and informed credit assessment and including forward-looking information.

For certain categories of financial assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio as well as observable changes in national or local economic conditions that correlate with default on receivables.

Impairment losses related to bank balances including statutory and fixed deposits and insurance and other receivables are presented in the statement of income.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of the grade of the investment.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**3. Significant accounting policies (continued)**

**3.15 Financial instruments (continued)**

**Measurement of ECL**

The Company considers broader range of information when assessing the credit risk, and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. In applying this forward looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk. (Stage 1); and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low. (Stage 2)

Stage 3 would cover financial assets that have objective evidence of impairment at the reporting date. The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of “investment grade”.

12-month expected credit loss are recognized for the first category (Stage 1) while “life time expected credit losses” are recognized for the second category (Stage 2). Measurement of the expected credit losses is determined by a probability - weighted estimate of credit losses over the expected life of the financial instrument.

The Company makes use of a simplified approach in accounting for insurance receivables and for other receivables records life time expected credit loss. These are expected shortfalls in the contractual cashflows, considering the potential for default at any point during the life of a financial instrument. In calculating, the Company uses its historical experience, external indicators and forward looking information to calculate the expected credit losses using a provision matrix.

The Company assesses impairment of insurance receivables on a collective basis as they possess shared credit risks characteristics, they have been grouped based on the days past due.

**Credit-impaired financial assets**

A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. At each reporting date, the Company assesses whether financial assets carried at amortized costs are credit impaired.

**Derecognition of financial assets**

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost or measured at FVTPL, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair value of securities reserve is not reclassified to statement of income, but is reclassified to retained earnings.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**3. Significant accounting policies (continued)**

**3.15 Financial instruments (continued)**

**Financial liabilities and equity instruments**

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities are classified as 'other financial liabilities'.

*Other financial liabilities*

Insurance and other payables and bank overdrafts are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except for short term payable when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

*Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

*Dividend distribution*

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

**3.16 Fair value measurement**

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized with in fair value hierarchy, based on the lowest level of input that is significant to the fair value measurement as a whole.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**3. Significant accounting policies (continued)**

**3.16 Fair value measurement (continued)**

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the assets or liability.

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**4.1 Critical accounting judgements**

The following are the critical judgements, apart from those involving estimations (see 4.2 below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

*4.1.1 Classification of investments*

Management decides on acquisition of an investment whether it should be classified as FVTPL or FVOCI. The Company classifies investments at FVTPL if they are acquired primarily for the purpose of making a short-term profit by the dealers.

Equity instruments are classified as financial assets measured at FVOCI when they are considered by management to be strategic equity investments that are not held to benefit from changes in their fair value and are not held for trading.

Management is satisfied that the Company's investments in securities are appropriately classified.

*4.1.2 Classification of properties*

In the process of classifying properties, management has made various judgments. Judgments are needed to determine whether a property qualifies as an investment property, property and equipment, property under development and/or property held for sale. Management develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment, property under development and property held for sale. In making its judgment, management has considered the detailed criteria and related guidance set out in IAS 2 – Inventories, IAS 16 – Property, Plant and Equipment, and IAS 40 – Investment Property, with regards to the intended use of the property.

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

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

**4.1 Critical accounting judgements (continued)**

*4.1.3 Business model assessment*

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of Note 3.15). The Company determines the business model at a level that reflects how Company's financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the years presented.

**4.2 Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*4.2.1 The ultimate liability arising from claims made under insurance contracts*

The estimation of ultimate liability arising from the claims made under insurance contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of each reporting period. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on external actuarial assessment, taking into account the historical data of the claims reported and settlement pattern. Such method takes into account the best estimates of the future contractual cash flows estimated based on the historical data. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

*4.2.2 Impairment of insurance receivables*

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

Before accepting any new customer, the Company assesses the potential customers' credit quality and defines credit limits by customer.

The Company always measures the loss allowance for receivables at an amount equal to lifetime ECL. The expected credit losses on insurance receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. There has been no change in the estimation techniques or significant assumptions made during the current reporting year.



**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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

**4.2 Key sources of estimation uncertainty (continued)**

*4.2.3 Liability adequacy test*

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Company makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of the liability. Any deficiency is immediately charged to the profit or loss.

*4.2.4 Valuation of unquoted equity instruments*

Valuation of unquoted equity investments is done by independent external valuer normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, or other valuation models. In the absence of an active market for these investments or any recent transactions that could provide evidence of the current fair value, management estimates the fair value of these instruments using net assets valuation method or other valuation models.

*4.2.5 Depreciation of property and equipment*

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. Management has not considered any residual value as it is deemed immaterial.

*4.2.6 Amortization of intangible assets*

The period of amortisation of the intangible assets is determined based on the pattern in which the asset's future economic benefits are expected to be consumed by the Company and technological obsolescence. Management has concluded that no impairment of intangible assets is required based on impairment test performed by the Company as of the reporting date.

*4.2.7 Revaluation of investment properties*

The investment properties are carried at fair value, with changes in the fair value being recognized in the statement of income. The management engaged independent valuation specialists to assess fair value during the year. The fair value of plots of land was determined based on an acceptable approach that reflects recent transactions prices for similar properties. The fair value of buildings was determined using income approach. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Sharjah Insurance Company P.S.C.  
Financial statements

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

5. Property and equipment

	Decoration and office improvements AED	Furniture and office equipment AED	Right-of-use assets-building AED	Total AED
<b>Cost</b>				
At 31 December 2020	1,720,475	3,862,077	3,853,713	9,436,265
Additions during the year	-	268,535	966,043	1,234,578
Disposals during the year	-	-	(859,859)	(859,859)
31 December 2021	1,720,475	4,130,612	3,959,897	9,810,984
Additions during the year	-	58,512	115,165	173,677
Disposals during the year	-	-	(575,848)	(575,848)
<b>At 31 December 2022</b>	<b>1,720,475</b>	<b>4,189,124</b>	<b>3,499,214</b>	<b>9,408,813</b>
<b>Accumulated depreciation</b>				
At 31 December 2020	1,720,475	3,502,436	1,555,812	6,778,723
Charge for the year	-	299,896	805,906	1,105,802
Relating to disposals	-	-	(435,611)	(435,611)
At 31 December 2021	1,720,475	3,802,332	1,926,107	7,448,914
Charge for the year	-	149,793	721,505	871,298
Related to disposals	-	-	(206,018)	(206,018)
<b>At 31 December 2022</b>	<b>1,720,475</b>	<b>3,952,125</b>	<b>2,441,594</b>	<b>8,114,194</b>
<b>Carrying amount</b>				
At 31 December 2022	-	236,999	1,057,620	1,294,619
At 31 December 2021	-	328,280	2,033,790	2,362,070

During the current year, the Company cancelled the lease contract for Dubai branch and Ajman branch with annual lease of AED 120 thousand and 85 thousand, respectively, and obtained new lease contract for Dubai office with annual lease of AED 82 thousand.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**6. Intangible assets**

	<b>Computer software</b>
	<b>AED</b>
<b>Cost</b>	
At 31 December 2020	833,617
Additions during the year	26,679
At 31 December 2021	<u>860,296</u>
Additions during the year	7,361
<b>At 31 December 2022</b>	<u><b>867,657</b></u>
<b>Accumulated amortization</b>	
At 31 December 2020	601,929
Charge for the year	78,114
At 31 December 2021	<u>680,043</u>
Charge for the year	114,205
<b>At 31 December 2022</b>	<u><b>794,248</b></u>
<b>Carrying amount</b>	
<b>At 31 December 2022</b>	<u><b>73,409</b></u>
At 31 December 2021	<u>180,253</u>

**7. Investment properties**

	<b>2022</b>	<b>2021</b>
	<b>AED</b>	<b>AED</b>
Fair value at the beginning of the year	51,949,400	53,450,000
Changes in fair value	1,154,955	(1,500,600)
<b>Fair value at the end of the year</b>	<u><b>53,104,355</b></u>	<u>51,949,400</u>

The fair value of the Company's investment properties has been arrived at on the basis of valuations carried by independent external valuers who have appropriate market experience in the valuation of properties in the United Arab Emirates.

The fair value was determined based on the acceptable approach that reflects recent transactions prices for similar properties, and income approach for other properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Investment properties include properties mortgaged to Ministry of Economy and Commerce, U.A.E. amounting to AED 24.9 million (2021: AED 21.9 million) in accordance with the requirements of U.A.E. Federal Law No. 6 of 2007, on Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE").

The Company's investment properties are classified as Level 3 in the fair value hierarchy as at 31 December 2022 (2021: Level 3).

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**7. Investment properties (continued)**

The property rental income earned by the Company from its investment properties and the direct operating expenses related to the investment properties are as follows:

	2022 AED	2021 AED
Rental income	2,498,080	2,446,499
Direct operating expenses	(24,274)	(8,185)
Net income from investment properties (Note 19)	<u>2,473,806</u>	<u>2,438,314</u>

Details of the Company's investment properties and their fair values are as follows:

	2022 AED	2021 AED
Plots of land located in Sharjah, U.A.E	5,980,250	5,980,000
Shops located in Sharjah, U.A.E	41,872,500	41,175,000
Villas located in Sharjah, U.A.E	2,545,605	2,456,900
Building located in Sharjah, U.A.E.	2,706,000	2,337,500
	<u>53,104,355</u>	<u>51,949,400</u>

**8. Financial investments**

The Company's financial investments at the end of reporting period are detailed below:

**8.1 Financial investments designated at FVOCI**

	2022 AED	2021 AED
Quoted securities	32,285,645	47,599,464
Unquoted securities	4,701,164	3,085,707
	<u>36,986,809</u>	<u>50,685,171</u>

The geographical classification of the investments is as follows:

	2022 AED	2021 AED
Within U.A.E.	15,100,516	21,523,489
In other GCC countries	21,886,293	29,161,682
	<u>36,986,809</u>	<u>50,685,171</u>

The electronic custody of investments designated at FVOCI with fair value AED Nil (2021: AED 6.11 million) are transferred to the bank's appointed broker as security against credit facility granted to the Company (Note 22).

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**8. Financial investments (continued)**

**8.2 Financial investments at FVTPL**

	2022 AED	2021 AED
Quoted securities	133,910,440	108,360,339
Unquoted securities	345,289	354,063
	<u>134,255,729</u>	<u>108,714,402</u>

The geographical classification of the investments is as follows:

	2022 AED	2021 AED
Within U.A.E.	92,744,231	95,857,509
Other GCC countries	41,511,498	12,856,893
	<u>134,255,729</u>	<u>108,714,402</u>

The electronic custody of investments designated at FVTPL with fair value AED 42.4 million (31 December 2021: AED 40.69 million) are transferred to the bank's appointed broker as security against credit facility granted to the Company (Note 22).

The movements in financial investments are as follows:

	At FVOCI		At FVTPL	
	2022 AED	2021 AED	2022 AED	2021 AED
At 1 January	50,685,171	86,373,730	108,714,402	10,783,755
Purchased during the year	108,477	-	118,772,956	124,457,323
Disposals during the year	(9,910,586)	(61,284,101)	(95,243,123)	(38,555,928)
Change in fair value	(3,896,253)	25,595,542	2,011,494	12,029,252
<b>At 31 December</b>	<u>36,986,809</u>	<u>50,685,171</u>	<u>134,255,729</u>	<u>108,714,402</u>

Disclosure as required by the circular No. 411/2019 dated 7 July 2019: At reporting date, the Company does not have any investment in securities with Abraaj Group.

**9. Statutory deposit**

In accordance with the requirements of Federal Law No. 6 of 2007, on Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") (formerly Insurance Authority of U.A.E.), the Company maintains a bank deposit of AED 5,000,000 (31 December 2021: AED 5,000,000) as a statutory deposit. In addition to the statutory deposit, there are investment properties with a fair value amounting to AED 24.9 million (2021: AED 21.9 million) mortgaged to the Ministry of Economy and Commerce (Note 7).

Sharjah Insurance Company P.S.C.  
Financial statements

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

10. Insurance contract liabilities and reinsurance contract assets

	2022 AED	2021 AED
<b>Gross</b>		
Insurance contract liabilities		
Claims reported unsettled	16,198,159	24,841,463
Unallocated loss adjustment exposure reserve	682,954	1,374,409
Unexpired risk reserve	4,680,268	3,511,982
Claims incurred but not reported	5,560,002	5,904,722
Unearned premium	8,445,890	8,568,774
<b>Total insurance contract liabilities, gross</b>	<b>35,567,273</b>	<b>44,201,350</b>
<b>Recoverable from reinsurers</b>		
Re-insurance contract assets		
Claims reported unsettled	12,330,475	17,754,866
Unexpired risk reserve	-	458,646
Claims incurred but not reported	3,644,813	3,024,851
Unearned premium	7,015,389	4,502,070
<b>Total reinsurers' share of insurance liabilities</b>	<b>22,990,677</b>	<b>25,740,433</b>
<b>Net</b>		
Claims reported unsettled	3,867,684	7,086,597
Unallocated loss adjustment exposure reserve	682,954	1,374,409
Unexpired risk reserve	4,680,268	3,053,336
Claims incurred but not reported	1,915,189	2,879,871
Unearned premium	1,430,501	4,066,704
	<b>12,576,596</b>	<b>18,460,917</b>

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

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

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

	2022		2021		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Net AED
Claims reported unsettled	24,841,463	(17,754,866)	7,086,597	24,610,423	9,315,049
Unallocated loss adjustment expense reserve	1,374,409	-	1,374,409	1,614,476	1,614,476
Incurrd but not reported	5,904,722	(3,024,851)	2,879,871	9,221,129	5,724,870
<b>Total at the beginning of the year</b>	<b>32,120,594</b>	<b>(20,779,717)</b>	<b>11,340,877</b>	<b>35,446,028</b>	<b>16,654,395</b>
Claims settled in the year	(11,590,497)	7,657,739	(3,932,758)	(10,944,963)	(6,907,436)
Net change in outstanding claims and technical reserves	1,911,018	(2,853,310)	(942,292)	7,619,529	1,593,918
<b>Total at the end of the year</b>	<b>22,441,115</b>	<b>(15,975,288)</b>	<b>6,465,827</b>	<b>32,120,594</b>	<b>11,340,877</b>
Claims reported unsettled	16,198,159	(12,330,475)	3,867,684	24,841,463	7,086,597
Unallocated loss adjustment expense reserve	682,954	-	682,954	1,374,409	1,374,409
Incurrd but not reported	5,560,002	(3,644,813)	1,915,189	5,904,722	2,879,871
<b>Total at the end of the year</b>	<b>22,441,115</b>	<b>(15,975,288)</b>	<b>6,465,827</b>	<b>32,120,594</b>	<b>11,340,877</b>
<b>Unearned premium and unexpired risk reserve</b>					
Total at the beginning of the year	12,080,756	(4,960,716)	7,120,040	14,816,264	9,978,155
Increase / (decrease) during the year	13,126,158	(7,015,389)	6,110,769	12,080,756	7,120,040
Released during the year	(12,080,756)	4,960,716	(7,120,040)	(14,816,264)	(9,978,155)
Net change during the year	1,045,402	(2,054,673)	(1,009,271)	(2,735,508)	(2,858,115)
<b>Total at the end of the year</b>	<b>13,126,158</b>	<b>(7,015,389)</b>	<b>6,110,769</b>	<b>12,080,756</b>	<b>7,120,040</b>

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**11. Insurance and other receivables**

	2022 AED	2021 AED
<b>Receivables arising from insurance and reinsurance contracts</b>		
Due from policyholders	12,346,531	14,923,237
Due from local insurance companies	15,706,458	18,161,315
Due from foreign insurance companies	12,635,023	12,876,549
Due from brokers	460,533	481,043
Less: Expected credit losses	<u>(28,090,250)</u>	<u>(28,090,250)</u>
	<b>13,058,295</b>	<b>18,351,894</b>
<b>Other receivables</b>		
Prepayments and others	<u>1,711,051</u>	<u>3,824,985</u>
	<b>14,769,346</b>	<b>22,176,879</b>

The Company has adopted a policy of dealing with credit worthy counter parties. Adequate credit assessment is made before accepting any insurance contracts from any counter party. The average credit period is 120 days.

The Company writes off an insurance receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings etc.

Before accepting any new customer, the Company assesses the potential customers' credit quality and defines credit limits by customer.

The Company always measures the loss allowance for receivables at an amount equal to lifetime ECL. The expected credit losses on insurance receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

***Ageing of insurance receivables:***

	2022 AED	2021 AED
0 - 90 days	4,634,282	5,916,953
91 - 180 days	2,817,003	3,305,771
181 - 270 days	1,307,460	3,471,756
Above 271 days	<u>32,389,800</u>	<u>33,747,664</u>
	41,148,545	46,442,144
Less: Expected credit losses	<u>(28,090,250)</u>	<u>(28,090,250)</u>
	<b>13,058,295</b>	<b>18,351,894</b>



Sharjah Insurance Company P.S.C.  
Financial statements

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

11. Insurance and other receivables (continued)

*Movements in allowance for impairment of financial assets*

	2022 AED	2021 AED
Balance at 1 January	28,090,250	31,968,376
Reversal of impairment	-	(3,878,126)
<b>Balance at the end of the year</b>	<b>28,090,250</b>	<b>28,090,250</b>

12. Bank balances and cash

	2022 AED	2021 AED
Fixed deposits *	5,000,000	5,000,000
Cash on hand	43,187	25,878
Portfolio accounts	612,357	612,357
Current and call accounts	33,524,807	48,493,090
	<b>39,180,351</b>	<b>54,131,325</b>

\* The interest rate on fixed deposits with banks is 0.50% to 0.75% (2021: is 0.50% to 0.75%) per annum. All fixed deposits are held in local banks in the United Arab Emirates.

Bank balances and cash are held:

	2022 AED	2021 AED
Within U.A.E.	37,671,960	33,038,286
Outside U.A.E.	1,508,391	21,093,039
	<b>39,180,351</b>	<b>54,131,325</b>

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**13. Share capital**

	2022	2021
	AED	AED
Authorized, issued and fully paid:		
150 million ordinary shares of AED 1 each		
(2021: 137.5 million ordinary shares of AED 1 each)	<u>150,000,000</u>	<u>137,500,000</u>

During the year, the Assembly General Meeting held on 21 April 2022 approved the issuance of 12,500,000 bonus shares amounted to AED 12,500,000, after obtaining initial approvals from regulatory authorities. The Company is currently in process of completing legal procedures for capital increase including updating its commercial register and article of association.

**14. Reserves**

**14.1 Statutory reserve**

In accordance with the UAE Federal Law No. (32) of 2021 concerning Commercial Companies and the Company's Articles of Association, 10% of profit is to be transferred to non-distributable legal reserve. The general assembly may suspend such transfer whenever the balance of the legal reserve equals 50% of the Company's paid up share capital. This reserve is not available for distribution except as stipulated by the Law.

**14.2 Voluntary reserve**

As per Articles of association, voluntary reserve can be created upon a recommendation of the Board of Directors and this reserve cannot be utilized for any other purpose unless approved by the Ordinarily General meeting. No transfer to voluntary reserve is made during 2021 and 2022.

**14.3 Reinsurance reserve**

In accordance with Insurance Authority's Board of Directors' Decision No. 23 Article 34 of 2019, an amount of AED 103,068 (2021: AED 90,537) was transferred from retained earnings to reinsurance reserve. The reserve is not available for distribution and will not be disposed of without prior approval from Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE").

**15. Provision for employees' end of service indemnity**

Movements in the net liability were as follows:

	2022	2021
	AED	AED
Balance at the beginning of the year	964,807	1,135,610
Charged during the year	102,593	181,820
Paid during the year	<u>(210,670)</u>	<u>(352,623)</u>
	<u>856,730</u>	<u>964,807</u>

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**16. Insurance and other payables**

	2022 AED	2021 AED
<b>Payables arising from insurance and reinsurance contracts:</b>		
Due to policy holders and service providers	5,993,123	8,411,452
Due to local insurance companies	1,211,091	891,139
Due to foreign insurance companies	3,589,431	4,444,446
Due to brokers	201,305	68,321
Premium reserve withheld	6,481,430	5,223,390
	<u>17,476,380</u>	<u>19,038,748</u>
<b>Other payables</b>		
Accrued expenses and provisions	768,494	1,076,397
Rent received in advance	772,575	821,315
Unclaimed dividends	2,381,589	2,381,589
	<u>21,399,038</u>	<u>23,318,049</u>

**17. Leases**

Lease liabilities are presented in the statement of financial position as follows:

	2022 AED	2021 AED
Current	750,845	874,691
Non-current	468,179	1,410,124
	<u>1,219,024</u>	<u>2,284,815</u>

The Company has a building lease recognised as right-of use assets with lease term of 5 years.

The Company's future minimum operating lease payments are as follows:

	Within 1 year AED	1-5 years AED	After 5 years AED	Total AED
<b>December 31, 2022</b>				
Lease payments	786,120	475,703	-	1,261,823
Finance charges	(35,275)	(7,524)	-	(42,799)
<b>Net present value</b>	<u>750,845</u>	<u>468,179</u>	<u>-</u>	<u>1,219,024</u>
<b>December 31, 2021</b>				
Lease payments	949,654	1,456,563	-	2,406,217
Finance charges	(74,963)	(46,439)	-	(121,402)
<b>Net present value</b>	<u>874,691</u>	<u>1,410,124</u>	<u>-</u>	<u>2,284,815</u>

During the prior year, the loss relating to cancellation of lease contract with Ajman branch Rolla branches amounted to AED 32,904 (Note 19) relating to disposal of lease contracts with carrying amount of AED 541,795.

During the current year, the Company conducted new lease agreements and terminated currently existing agreements resulting in net decrease in lease liabilities by AED 277,468 and a gain amounted to AED 22,803, recognized in statement of income as investment income (Note 19). Incremental borrowing rate used is 4% (2021: 4%).

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**18. Net insurance premium revenue**

	2022 AED	2021 AED
<b>Gross premium written</b>		
Gross premium written	22,950,024	25,453,063
Change in unearned premium	122,884	3,746,607
Change in unexpired risk reserve	<u>(1,168,286)</u>	<u>(1,011,099)</u>
	<u>21,904,622</u>	<u>28,188,571</u>
<b>Reinsurance premium ceded</b>		
Reinsurance premium ceded	(20,613,680)	(18,107,380)
Change in unearned premium	2,513,319	390,808
Change in unexpired risk reserve	<u>(458,646)</u>	<u>(268,201)</u>
	<u>(18,559,007)</u>	<u>(17,984,773)</u>
<b>Net insurance premium revenue</b>	<u>3,345,615</u>	<u>10,203,798</u>

**19. Investment and other income, net**

	2022 AED	2021 AED
Gain from disposal of financial investments at FVTPL	14,083,338	4,588,813
Unrealised gain on financial investments at FVTPL (Note 8)	2,011,494	12,029,252
Dividend from financial investments at FVTPL	10,579,863	2,118,700
Dividend from financial investments at FVOCI	3,475,759	2,635,545
Net income from investment properties (Note 7)	2,473,806	2,438,314
Interest on bank deposits	147,014	146,669
Gain / (loss) on cancellation of leases (Note 17)	22,803	(32,904)
Other investment (expense) / income	<u>(222,055)</u>	<u>335,182</u>
	<u>32,572,022</u>	<u>24,259,571</u>

**20. General and administrative expenses**

	2022 AED	2021 AED
Staff cost	6,266,086	6,917,131
Legal and professional fee	1,386,827	1,554,906
Depreciation (Note 5)	871,298	1,105,802
Director's Remuneration (Note 23)	750,000	950,000
Government and regulatory fees	359,173	550,614
Office expenses	132,424	158,250
Amortization (Note 6)	114,205	78,114
Bank charges	102,935	10,900
Miscellaneous	<u>924,425</u>	<u>1,037,944</u>
	<u>10,907,373</u>	<u>12,363,661</u>

85% of the general and administrative expenses amounting to AED 8,548,767 (2021: AED 9,617,962) is allocated to the underwriting activities, excluding the director's remuneration and management expenses, which is fully unallocated. Unallocated portion is amounting to AED 2,358,606 (2021: AED 2,745,699).

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**21. Basic and diluted earnings per share**

	2022	2021
Profit for the year (in AED)	31,040,362	27,226,077
Weighted average number of shares	150,000,000	150,000,000
Basic and diluted earnings per share (in AED) (Restated)	0.21	0.18

Basic and diluted earnings per share have been calculated by dividing the profit for the year by the weighted average number of shares outstanding at the end of the reporting period. Diluted earnings per share for the year ended 31 December 2022 and 31 December 2021 are equivalent to basic earnings per share. The EPS for the year ended 31 December 2021 were restated based on the number of shares after adjusting the bonus shares issued during the year (Note 29).

**22. Cash and cash equivalents**

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

	2022 AED	2021 AED
Bank balances and cash (Note 12)	39,180,351	54,131,325
Fixed deposit with original maturity over 3 months (Note 12)	(5,000,000)	(5,000,000)
	34,180,351	49,131,325
Less: bank overdrafts	(8,465)	(19,876,488)
<b>Cash and cash equivalents</b>	<b>34,171,886</b>	<b>29,254,837</b>

**Bank overdrafts facility**

During the prior year, the Company availed bank overdraft facility and is secured by electronic custody of investments designated at FVTPL having a fair value of AED 42.4 million (2021: AED 40.69 million) and investments designated at FVTOCI having a fair value of AED Nil (2021: AED 6.11 million), by the bank's appointed broker.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**23. Related party transactions**

Related parties include the Company's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

At the end of the reporting year, amounts due from/to related parties included under due from policyholders and gross outstanding claims were as follows:

	2022 AED	2021 AED
<b>Balances with major affiliates of shareholders and BOD</b>		
Due from policyholders	6,000,358	28,660
Due to policyholders	(30,553)	(30,553)
Outstanding claims	(3,184,733)	(95,419)
Rights-of-use asset	969,647	1,582,055
Lease liability	(1,141,869)	(1,827,389)

The amounts outstanding are unsecured and payable on demand.

**Transactions:**

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

	2022 AED	2021 AED
<b>Transactions with major affiliates of shareholders and BOD</b>		
Gross premium written	3,626,475	612,489
Claims paid	(2,433,782)	(58,200)
Lease liability repayments	(745,000)	(745,000)

The Company has entered into above transactions with related parties which were made on substantially the same terms, as those prevailing at the same time for comparable transactions with third parties.

**Compensation of board of directors/key management personnel**

	2022 AED	2021 AED
Short-term benefits	580,000	580,000
Director's remuneration (Note 20)	750,000	950,000
Long-term benefits	68,627	54,819

**24. Contingent liabilities and capital commitments**

The Company, in common with the significant majority of insurers, is subject to litigation in the normal course of its business. The Company, based on independent legal advice, has considered that existing provision is adequate to cover probable outflow of these court cases.

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

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**25. Insurance risk**

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

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

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

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

*25.1 Frequency and severity of claims*

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

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

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set limit of AED 50,000 in any one motor policy. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**25. Insurance risk (continued)**

*25.2 Sources of uncertainty in the estimation of future claim payments*

Claims on insurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and element of the claims provision includes incurred but not reported claims (IBNR). The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims.

For some insurance contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities. In estimating the liability for the cost of reported claims not yet paid, the Company considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Company has involved external actuarial valuer's as well. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

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

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

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

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

Type of risk	2022	2021
Motor	55-60%	45-50%
Non-motor	45-50%	10-15%



**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**25. Insurance risk (continued)**

*25.3 Process used to decide on assumptions*

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

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

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

*25.4 Reinsurance risk*

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

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

*25.5 Sensitivity of underwriting profit and losses*

The contribution by the insurance operations is a profit of AED 159 thousand for the year ended 31 December 2022 (2021: profit of AED 3.5 million). The Company does not foresee any major impact from insurance operations to the Company's results and expects to increase the contribution by insurance operations to the profitability due to the following reasons:

The Company has an overall retention level of 10% (2021: 29%) and the decrease is mainly contributed by decline in Motor line of business wherein the retention level is lower. However, in this class, the risk is adequately covered by quota share reinsurance programs to guard against major financial impact.

The Company earns a net commission and other underwriting income of AED 4.4 million (2021: AED 4.5 million). These commissions arise primarily from the reinsurance placements and are a consistent and recurring source of income.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**26. Capital risk management**

The Company's objectives when managing capital are:

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

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

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

	2022 AED	2021 AED
Total capital held	<u>150,000,000</u>	137,500,000
Minimum regulatory capital	<u>100,000,000</u>	100,000,000
Solvency Capital Requirement (SCR)	<u>74,050,097</u>	76,173,534
Minimum Guarantee Fund (MGF)	<u>24,683,366</u>	25,391,178
<i>Own funds</i>		
Basic own funds	191,986,419	183,083,709
MCR solvency margin - (surplus)	91,986,419	83,083,709
SCR solvency margin - (surplus)	117,936,322	106,910,175
MGF solvency margin - (surplus)	167,303,054	157,692,531

The UAE Insurance Companies register of the Central Bank of the U.A.E. ("CBUAE") has issued resolution no. 42 for 2009 setting the minimum subscribed or paid-up capital of AED 100 million for establishing insurance firms. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies. During the year, the company declared 12.5 million bonus share that increased the total capital held to AED 150 million.

Further, as per Article (8) of section (2) of financial regulations issued for insurance companies in U.A.E., the Company shall at all times comply with the requirements of solvency margin. As of 31 December 2022, the Company has complied with the requirements of solvency margin.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**26. Capital risk management (continued)**

*26.1 Gearing ratio*

The Company reviews the capital structure on a regular basis. As part of this review, the Company considers the cost of capital and the risks associated with capital.

The gearing ratio at the yearend was as follows:

	2022 AED	2021 AED
Debt (Note 22)	8,465	19,876,488
Bank balances and cash (Note 12)	<u>(39,180,351)</u>	<u>(54,131,325)</u>
Net debt	<u>(39,171,886)</u>	<u>(34,254,837)</u>
Shareholders' funds (i)	<u>248,604,765</u>	<u>230,294,424</u>
Net debt to equity ratio	<u>Favorable</u>	<u>Favorable</u>

- (i) Shareholders' funds include share capital, statutory reserve, voluntary reserve, reinsurance reserve, and cumulative changes in fair value of financial investments designated at FVOCI and retained earnings.

**27. Financial risk management**

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

*27.1 Categories of financial instruments*

	2022 AED	2021 AED
<b>Financial assets</b>		
Financial investments designated at FVOCI	36,986,809	50,685,171
Financial investments at FVTPL	134,255,729	108,714,402
Statutory deposit at amortized cost	5,000,000	5,000,000
Insurance and other receivables at amortized cost (excluding prepayments) *	13,908,899	21,210,317
Bank balances and cash – non-interest bearing	34,180,351	49,131,325
Bank balances and cash - interest bearing	5,000,000	5,000,000
<b>Total</b>	<u>229,331,788</u>	<u>239,741,215</u>
<b>Financial liabilities at amortized cost</b>		
Bank overdrafts	8,465	19,876,488
Lease liabilities	1,219,024	2,284,815
Insurance and other payables (excluding accruals and non-financial liabilities)	19,857,969	21,420,337
<b>Total</b>	<u>21,085,458</u>	<u>43,246,761</u>

\* Insurance and other receivables include prepayments as at 31 December 2022 amounted to AED 860,447 (2021: AED 966,562).

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**27. Financial risk management (continued)**

*27.1 Categories of financial instruments (continued)*

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

*27.2 Fair value measurements*

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

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

Fair value and related valuation techniques for financial and non-financial assets is as follow:

	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	31 December 2022 AED	31 December 2021 AED				
<b>Investment designated at FVOCI</b>						
Quoted equity securities	32,285,645	47,599,464	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	4,701,164	3,085,707	Level 3	Multiple based and OTC based market valuation methods.	Net asset value	Higher the net assets, value of the investees, higher the fair value.
<b>Investment at FVTPL</b>						
Quoted equity Securities	133,910,440	108,360,339	Level 1	Quoted bid prices in an active market.	None	N/A
Unquoted equity securities	345,289	354,063	Level 3	Net assets valuation method.	Net asset value	Higher the net assets, value of the investees, higher the fair value.
<b>Investment properties</b>	<b>53,104,355</b>	<b>51,949,400</b>	<b>Level 3</b>	- Income approach considering projected cashflows and occupancy ratio. - Market approach	Projected cashflows	Higher the projected cashflows, higher the fair value.
	<b>224,346,893</b>	<b>211,348,973</b>				

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**27. Financial risk management (continued)**

*27.2 Fair value measurements (continued)*

Movement in level 3 assets is as follows:

Category	Opening balance AED	Additions/ (Disposals) AED	Revaluation impact AED	Closing balance AED
<b>31 December 2022</b>				
<i>Financial assets:</i>				
Unquoted equity securities	3,439,770	-	1,606,683	5,046,453
Investment properties	51,949,400	-	1,154,955	53,104,355
	<u>55,389,170</u>	<u>-</u>	<u>2,761,638</u>	<u>58,150,808</u>
<b>31 December 2021</b>				
<i>Financial assets:</i>				
Unquoted equity securities	3,123,364	1,104,842	(788,436)	3,439,770
Investment properties	53,450,000	-	(1,500,600)	51,949,400
	<u>56,573,364</u>	<u>1,104,842</u>	<u>(2,289,036)</u>	<u>55,389,170</u>

There was no transfer between the levels during the current year. There are no financial liabilities which should be measured at fair value and accordingly, no disclosure is made in the above table.

*27.3 Market risk*

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

Market risk exposures are measured using sensitivity analysis. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

*27.3.1 Foreign currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is not exposed to significant currency risk because the Company's significant transactions, assets and liabilities are dominated in its functional currency. There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams, other G.C.C. currencies or US Dollars to which the Dirham is fixed.

*27.3.2 Interest risk*

The Company's exposure to variable interest rate risk relates to its bank deposits and overdrafts. At 31 December 2022, bank deposits carried interest at the range of 0.50% to 0.75% (2021: 0.50% to 0.75% per annum) and bank overdraft carried interest rate at EIBOR plus 1.5% per annum (2021: 1.5% per annum).

If interest rates had been 50 basis points higher/lower throughout the year and all other variables were held constant, the Company's profit for the year ended 31 December 2022 and equity as at 31 December 2022 would increase/decrease by approximately AED 42 (2021: AED 99,382).

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

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**27. Financial risk management (continued)**

*27.3 Market risk (continued)*

*27.3.3 Equity price risk*

Market price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices. The financial instruments that expose the Company to market price risk consist primarily of financial assets carried at FVTPL and FVOCI. To manage such risks, the Company diversifies its investments based on advance decision to allocate assets to different classes, and following up with market conditions and trends, in addition to management estimates of short and long term changes in fair value.

*27.3.3.1 Sensitivity analysis*

At the end of the reporting period, if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Company's:

- profit for the year would have increased/decreased by AED 13.4 million (2021: AED 10.87 million).
- other comprehensive income/(loss) and equity would have increased/decreased by AED 3.7 million (2021: AED 5.07 million).

*27.3.3.2 Method and assumptions for sensitivity analysis*

- The sensitivity analysis has been done based on the exposure to equity price risk at the reporting date.
- At the end of the reporting period, if equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.

A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

*27.4 Credit risk*

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

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

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

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

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**27. Financial risk management (continued)**

*27.4 Credit risk (continued)*

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

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

For receivables the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

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

At the end of the reporting period, the Company's maximum exposure to credit risk, from insurance receivables situated outside the U.A.E. were as follows:

	<b>2022</b>	<b>2021</b>
	<b>AED</b>	<b>AED</b>
Europe and Asia	<b>5,170,242</b>	<b>2,881,339</b>
Other Arab countries	<b>7,109,228</b>	<b>9,995,210</b>

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

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

*27.5 Liquidity risk*

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

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

**27. Financial risks management (continued)**

*27.5 Liquidity risk (continued)*

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

	Less than 30 days AED	31-90 days AED	91-180 days AED	181 - 365 days AED	Above 365 days AED	Total AED
<b>31 December 2022</b>						
<b>Financial assets</b>						
Investments designated at FVOCI	-	-	-	-	36,986,809	36,986,809
Financial investment at FVTPL	134,255,729	-	-	-	-	134,255,729
Statutory deposit	-	-	-	-	5,000,000	5,000,000
Insurance and other receivables - excluding prepayments*	2,550,306	2,934,580	2,817,002	5,607,011	-	13,908,899
Bank balances and cash – non interest bearing	34,180,351	-	-	-	-	34,180,351
Bank balances and cash – interest bearing	-	-	-	-	5,000,000	5,000,000
	<b>170,986,386</b>	<b>2,934,580</b>	<b>2,817,002</b>	<b>5,607,011</b>	<b>46,986,809</b>	<b>229,331,788</b>
<b>Financial liabilities</b>						
Insurance and other payables (excluding accruals and non-financial liabilities)	3,513,013	9,886,084	3,642,826	2,816,046	-	19,857,969
Lease liabilities	58,348	116,139	196,342	380,016	468,179	1,219,024
Bank overdrafts	8,465	-	-	-	-	8,465
	<b>3,579,826</b>	<b>10,002,223</b>	<b>3,839,168</b>	<b>3,196,062</b>	<b>468,179</b>	<b>21,085,458</b>
<b>31 December 2021</b>						
<b>Financial assets</b>						
Investments designated at FVOCI	-	-	-	-	50,685,171	50,685,171
Financial investment at FVTPL	108,714,402	-	-	-	-	108,714,402
Statutory deposit	-	-	-	-	5,000,000	5,000,000
Insurance and other receivables - excluding prepayments*	5,553,780	3,221,596	3,305,771	6,453,076	2,676,094	21,210,317
Bank balances and cash – non interest bearing	49,131,325	-	-	-	-	49,131,325
Bank balances and cash – interest bearing	-	-	-	-	5,000,000	5,000,000
	<b>163,399,507</b>	<b>3,221,596</b>	<b>3,305,771</b>	<b>6,453,076</b>	<b>63,361,265</b>	<b>239,741,215</b>
<b>Financial liabilities</b>						
Insurance and other payables (excluding accruals and non-financial liabilities)	5,117,578	9,470,222	4,088,356	2,744,181	-	21,420,337
Lease liabilities	56,106	159,353	217,587	441,645	1,410,124	2,284,815
Bank overdrafts	19,876,488	-	-	-	-	19,876,488
	<b>25,050,172</b>	<b>9,629,575</b>	<b>4,305,943</b>	<b>3,185,826</b>	<b>1,410,124</b>	<b>43,581,640</b>



**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**28. Segment information**

The Company is organized into two segments: Underwriting and investments. Underwriting segment incorporates accident and liabilities insurance, fire insurance, marine insurance and other classes of insurance. Investments segment includes investments inside and outside U.A.E. marketable equity securities, term deposits with banks and investment properties.

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

Insurance premium represents the total income arising from insurance contracts. The Company does not conduct any business outside U.A.E. There are no transactions between the business segments.

Sharjah Insurance Company P.S.C.  
Financial statements

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

28. Segment information (continued)

Segmental information is presented below:

31 December 2022	Underwriting (AED)				Investments		Total
	Accident and liabilities	Fire	Marine	Others	Total	AED	
Segment revenue – gross	12,042,541	9,613,835	956,540	337,108	22,950,024	-	22,950,024
Segment result (net)	527,032	(1,199,358)	9,632	822,039	159,345	33,726,977	33,886,322
Unallocated costs – net							(2,845,960)
Profit for the year							31,040,362
Segment assets					42,760,023	229,346,893	272,106,916
Unallocated assets							35,548,379
Total assets							307,655,295
Segment liabilities					54,584,722	-	54,584,722
Unallocated liabilities							4,465,808
Total liabilities							59,050,530

There are no transactions between the business segments.

Sharjah Insurance Company P.S.C.  
Financial statements

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

28. Segment information (continued)

31 December 2021	Underwriting (AED)					Investments		Total
	Accident and liabilities	Fire	Marine	Others	Total	AED	AED	AED
Segment revenue – gross	13,401,794	10,550,920	1,173,565	326,784	25,453,063	-	-	25,453,063
Segment result (net)	2,162,303	1,406,000	141,565	(170,506)	3,539,362	22,758,971		26,298,333
Unallocated costs – net								927,744
Profit for the year								<u>27,226,077</u>
Segment assets								268,444,970
Unallocated assets						216,348,973		51,673,648
Total assets								<u>320,118,618</u>
Segment liabilities								64,316,495
Unallocated liabilities								25,507,699
Total liabilities								<u>89,824,194</u>

There are no transactions between the business segments.

**Sharjah Insurance Company P.S.C.**  
**Financial statements**

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

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**29. Dividends**

At the Annual General Meeting held on 21 April 2022, Shareholders approved a cash dividend of AED 11,010,500 (AED 8 fils per share) for the year ended 31 December 2021 and bonus shares distribution of AED 12,500,000. Shareholders also approved Board of Directors remuneration of AED 750,000 for 2021.

Based on the results and in accordance with Notice No. CBUAE/BSD/2022/4697, the Board of Directors has decided to approach the Central Bank of the UAE to obtain approval for the announcement of proposed dividend for the year 2022 to shareholders.

**30. Approval of the financial statements**

The financial statements were approved by the Board of Directors and authorized for issue on 16 March 2023.

**31. Comparative figures**

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

<u>Statement of financial position</u>	31 December 2021 - as previously reported AED	Reclassification AED	31 December 2021 - as currently reported AED
Insurance and other receivables	21,355,564	821,315	22,176,879
<b>Total current assets</b>	<b>209,941,724</b>	<b>821,315</b>	<b>210,763,039</b>
<b>Total assets</b>	<b>320,118,618</b>	<b>821,315</b>	<b>320,939,933</b>
Insurance and other payables	22,496,734	821,315	23,318,049
<b>Total current liabilities</b>	<b>87,449,263</b>	<b>821,315</b>	<b>88,270,578</b>
<b>Total liabilities</b>	<b>89,824,194</b>	<b>821,315</b>	<b>90,645,509</b>
<b>Total equity and liabilities</b>	<b>320,118,618</b>	<b>821,315</b>	<b>320,939,933</b>

Further, the management has resolved to change the presentation of the underwriting operation for a more detailed presentation in the statement of income, this change had no impact on the net underwriting results and results of operations for the year ended 31 December 2021.

**32. Subsequent events**

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