Friends Provident International Limited
-United Arab Emirates Branch

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

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

Independent auditor's report to the Directors of Friends Provident International Limited in respect of its United Arab Emirates Branch

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Friends Provident International Limited – United Arab Emirates Branch (the "Branch") as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited
The Branch's financial statements comprise:

- the income statement for the year ended 31 December 2022;
- the statement of comprehensive income for the year then ended;
- the statement of financial position as at 31 December 2022;
- the statement of changes in net residual attributable to head office for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Branch in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (6) of 2007, as amended, and the related Financial Regulations for Insurance Companies, 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 Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

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

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Jacques Fakhoury, Douglas O'Mahony, Wassim El Afchal, Murad Alnsour and Rami Sarhan are registered as practising auditors with the UAE Ministry of Economy

Independent auditor's report to the Directors of Friends Provident International Limited in respect of its United Arab Emirates Branch (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch'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 Branch 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.

Independent auditor's report to the Directors of Friends Provident International Limited in respect of its United Arab Emirates Branch (continued)

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. (6) of 2007, as amended, and the related Financial Regulations, we have obtained all the required information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers Limited Partnership Dubai Branch
27 April 2023

Jacques Fahoury
Registered Auditor Number 379
Place: Dubai, United Arab Emirates

Friends Provident International Limited - United Arab Emirates Branch

Income Statement for the year ended 31 December 2022

	Notes	2022 AED'000	2021 Restated* AED'000
Revenue			
Gross premiums	4	**59,090**	64,700
Premiums ceded to reinsurers	4	**(24,072)**	(26,259)
Net written premiums		**35,018**	38,441
Fee and commission income	5	**147,415**	176,856
Total revenue		**182,433**	215,297
Investment return on assets attributable to Head Office	6	**506**	175
Policyholder claims, benefits and investment return			
Gross claims paid	7	**(20,468)**	(23,151)
Reinsurers share of claims paid	7	**10,946**	14,510
Investment return on policyholder contracts	6	**(660,044)**	527,197
Change in insurance contract liabilities	21	**(13,674)**	28,037
Change in investment contract liabilities	21	**718,723**	(492,416)
Total policyholder claims, benefits and investment return		**35,483**	54,177
Acquisition costs for investment and insurance contracts	8	**(67,673)**	(77,051)
General and administrative expenses	9	**(47,940)**	(74,297)
Board of directors' remuneration	26 (c)	**-**	(146)
Total operational expenses		**(115,613)**	(151,494)
Increase in net residual attributable to Head Office for the year		**102,809**	118,155

Statement of Comprehensive Income for the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Increase in net residual attributable to Head Office for the year		**102,809**	118,155
Exchange differences on translation to presentation currency		**(19,861)**	(6,104)
Total comprehensive income for the year		**82,948**	112,051

*See note 27 for details of the restatement

All comprehensive income and expenditure arise from continuing operations.

The accompanying notes on pages 9 to 54 form an integral part of these financial statements.

Friends Provident International Limited - United Arab Emirates Branch

Statement of Financial Position as at 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Assets			
Statutory deposits	14	**4,096**	4,091
Right of use assets	10	**1,538**	325
Deferred acquisition costs	12	**314,038**	406,922
Premiums and insurance balances receivable	15	**7,469**	7,984
Other receivables	16	**10,914**	19,495
Financial assets held at fair value through profit or loss	11	**4,336,623**	5,809,609
Cash and cash equivalents	17	**636,497**	822,363
Total assets		**5,311,175**	7,070,789
Liabilities			
Mathematical reserves	21	**4,990,935**	6,618,147
Deferred income	19	**91,420**	91,770
Lease liabilities	20	**1,747**	275
Reinsurance liabilities	13	**14,945**	14,442
Payables	18	**14,375**	38,142
Total liabilities		**5,113,422**	6,762,776
Net assets		**197,753**	308,013
Net residual attributable to Head Office account			
Accumulated profit		**178,909**	269,308
Foreign currency translation reserve		**18,844**	38,705
Total net residual attributable to Head Office account		**197,753**	308,013

The financial statements on pages 5 to 54 were approved for issue by the Board of Directors of the Head Office and signed on their behalf by:

A Brogden
Director
27 April 2023

A Lateef
General Manager – UAE
27 April 2023

The accompanying notes on pages 9 to 54 form an integral part of these financial statements.

Friends Provident International Limited - United Arab Emirates Branch

Statement of changes in net residual attributable to Head Office Account for the year ended 31 December 2022

	Accumulated Profit AED'000	Foreign Currency Translation Reserve AED'000	Total AED'000
At 1 January 2022	269,308	38,705	308,013
Transfer of funds to the Head Office (Note 26 (c))	(193,208)	-	(193,208)
Increase in net residual attributable to Head Office account for the year	102,809	-	102,809
Other comprehensive income			
Exchange differences	-	(19,861)	(19,861)
Total comprehensive income for the year	102,809	(19,861)	82,948
At 31 December 2022	**178,909**	**18,844**	**197,753**
At 1 January 2021	275,091	44,809	319,900
Transfer of funds to the Head Office (Note 26 (c))	(123,938)	-	(123,938)
Increase in net residual attributable to Head Office account for the year	118,155	-	118,155
Other comprehensive income			
Exchange differences	-	(6,104)	(6,104)
Total comprehensive income for the year	118,155	(6,104)	112,051
At 31 December 2021	**269,308**	**38,705**	**308,013**

The Statement of changes in net residual attributable to Head Office account is not a substitute for a statement of changes in equity. Since the Branch has not issued any equity instruments, a statement of changes in equity has not been presented for the years ended 31 December 2022 and 2021.

The accompanying notes on pages 9 to 54 form an integral part of these financial statements.

Friends Provident International Limited - United Arab Emirates Branch

Statement of Cash Flows for the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Increase in net residual attributable to Head Office Account for the year		**102,809**	118,155
Adjustments for:			
- Net investment return	6	**702,086**	(524,773)
- Foreign currency exchange fluctuation gain		**(160,356)**	(22,085)
- Deferred fee income released to the income statement	19	**(26,309)**	(28,167)
- Increase in deferred fee income	19	**36,110**	39,636
- Deferral of acquisition costs	8,12	**(21,053)**	(38,804)
- Amortisation of deferred acquisition costs	8,12	**71,176**	87,638
- Impairment of deferred acquisition costs	8,12	**466**	425
- Net sales in financial assets held at fair value through profit or loss		**171,427**	180,978
- Increase/(decrease) in technical provisions – Insurance contracts	21	**13,674**	(28,037)
- (Decrease)/increase in fair value of reserves for investment contracts	21	**(718,723)**	492,416
- Decrease in technical provisions – Investment contracts		**(235,631)**	(277,741)
- Depreciation of right-of-use assets	10	**827**	1,325
Changes in working capital			
- (Increase)/decrease in premiums and insurance balances receivable		**(354)**	705
- Decrease in other receivables		**6,678**	3,300
- Decrease in payables		**(20,175)**	(23,130)
Net cash outflows from operating activities		**(77,348)**	(18,159)
-Transfer of funds to the Head Office	26(c)	**(193,208)**	(123,938)
- Principal elements of lease payments	20	**(841)**	(1,067)
Net cash outflows from financing activities		**(194,049)**	(125,005)
Net decrease in cash and cash equivalents		**(271,397)**	(143,164)
Cash and cash equivalents at the beginning of the year		**822,363**	955,614
Effect of foreign exchange rate changes		**85,531**	9,913
Cash and cash equivalents at the end of the year	17	**636,497**	822,363

Additions amounting to AED 2,238,000 to each of the right-of-use assets and lease liabilities are considered to be non-cash transactions during the year ended 31 December 2022 (Notes 10 and 20). There were no non-cash transactions in the previous year.

The accompanying notes on pages 9 to 54 form an integral part of these financial statements.

1. General information

Friends Provident International Limited – United Arab Emirates Branch (the "Branch") is registered in the United Arab Emirates. The registered office of the Branch is located at 5th Floor, Building 6, Emaar Square, Dubai, United Arab Emirates. The Branch is a branch of Friends Provident International Limited (the "Company" or "Head Office"), which is incorporated in the Isle of Man.

The Branch conducts life insurance business. There has been no change in the nature of this activity during the financial year.

On 1 February 2022, International Financial Group Limited "("IFGL") announced that Cinven, an international private equity firm, had acquired the majority shareholding in IFGL from Vitruvian Partners LLP. This was subject to regulatory approval and this was received on 23 January 2023 (Note 26(a)).

The new immediate parent company of IFGL is Argo Bidco Limited. Argo Bidco Limited is wholly owned by Argo Midco Limited, which is wholly owned by Argo Topco Limited, which is in turn 81.7% owned by Argo Feederco Limited, 0.1% by Aldford Street Nominees Limited and 18.2% by IFGL management. Cinven Capital Management (SFF) General Partner Limited, which is authorised and regulated by the Guernsey Financial Services Commission, manages the investments in Argo Feederco Limited on behalf of the beneficial owners. IFGL is the highest level at which consolidated financial statements are prepared for the IFGL Group.

The financial statements have been prepared from the records of the Branch and reflect only transactions recorded locally.

2. Summary of significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) and its interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and according to the templates identified by the Central Bank of the UAE ("CBUAE") under the United Arab Emirates (U.A.E) Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations, as amended and the UAE Insurance Authority Board of Directors' Decision No. (25) of 2014 pertinent to the Financial Regulations for Insurance Companies. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The presentation of the income statement has been amended to demonstrate more clearly the direct relationship between the investment return being earned on unit-linked backing assets and the consequent movement in insurance and investment contract liabilities, as the directors believe this presentation is more representative of the results of the Branch. Previously these amounts were all disclosed under one heading in the income statement, they have now been allocated between investment return on assets attributable to Head Office and investment return on policyholder contracts (note 6 and note 27).

Further amendments have been made to the reinsurance commission and fee and commission income presentation within the income statement to align with the Head Office of the Branch (note 27).

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The Branch meets the definition of a reporting entity under the Conceptual Framework for IFRS (‘the Conceptual Framework’). IFRS defines a reporting entity as an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. The Conceptual Framework requires that the boundary of reporting entity should be a complete set of economic activities and not contain arbitrary economic activities and should result in neutral information.

The Branch is in the business of providing insurance which represent its economic activities. All the operating activities of the Branch are clearly defined and separately managed from the other businesses of the Head Office and accounting records are maintained on this basis. The financial statements have been drawn up from the books of account of the Branch which contain evidence of transactions recorded therein. The assets of the Branch are used solely for use of the Branch. The liabilities relate to the Branch’s activities.

The financial statements have been prepared on the historical cost basis except for financial assets held at fair value through profit or loss, which are carried at fair value. The financial statements are presented in United Arab Emirates Dirhams (AED), and all values are rounded to the nearest thousand (AED’000) as indicated. British Pounds (GBP) is the functional currency for the Branch. Assets, liabilities and equity, are translated from the functional currency into the presentation currency at the closing rate at the statement of financial position date, and income and expenses are translated at exchange rates approximating those ruling at the dates of the transactions.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Note 3.

These financial statements have been prepared on a going concern basis. The Branch’s statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as current: Financial assets held at fair value through profit or loss, Premiums and insurance balances receivable, Other receivables, Cash and cash equivalents, and Payables. The following balances would generally be classified as non-current: Statutory deposits and Right of use assets. The following balances would comprise of both a current and non-current portion: Deferred acquisition costs, Reinsurance liabilities, Lease liabilities, Mathematical reserves and Deferred income.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Adoption of new and revised standards and regulations

The Branch has applied all applicable accounting standards and interpretations effective for the current year ended 31 December 2022.

(a) The below were adopted by the Branch

Standard/amendment/interpretation	Effective date
• Annual improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)	1 January 2022
• References to conceptual framework (Amendments to IFRS 3)	1 January 2022

The amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) The below were not yet effective and have not been adopted by the Branch:

Standard/amendment/interpretation	Effective date
• IFRS 17, 'Insurance contracts' and Amendments to IFRS17	1 January 2023
• Narrow scope amendments to IAS 1, Practice statement 2, IAS 8 and IAS 12	1 January 2023
• Amendments to IAS 1, Presentation of financial statements on classification of liabilities as current or non-current	1 January 2024

Management anticipates that these new standards, interpretations and amendments will be adopted in the Branch's financial statements as and when they are applicable. Management is currently assessing the impact of the above new standards, interpretations and amendments on the financial statements.

There are no other relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Branch's financial year beginning on 1 January 2022 that would be expected to have a material impact on the financial statements of the Branch.

UAE regulations

Federal Decree Law No. (24) of 2020 which amends certain provisions of the U.A.E. Federal Law No. 6 of 2007 on Establishment of Insurance Authority and Organization of its Operations was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. Effective 2 January 2021, the insurance sector including third party administrators became under the supervision and authority of the Central Bank of the UAE ("CBUAE").

In December 2014, the CBUAE issued the Board of Directors' decision number (25) of 2014 pertinent to Financial Regulations for Insurance Companies (the "Financial Regulations"). The Branch has complied with applicable sections of the Financial Regulations issued by the CBUAE as at 31 December 2022.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts

The Branch will apply IFRS 17 for the first time on 1 January 2023. This standard will bring significant changes to the accounting for insurance and reinsurance contracts and is expected to have a material impact on the Branch's financial statements in the period of initial application.

(i) Estimated impact of the adoption of IFRS 17

IFRS 17 replaces IFRS4 'Insurance Contracts' and is effective for annual periods beginning on or after 1 January 2023. The Branch has assessed the estimated impact that the initial application of IFRS 17 will have on the financial statements. Based on the assessments undertaken to date, the total adjustment to the balance of the Branch's total net assets attributable to Head Office account is estimated to be an increase of AED 63.5m (21% of total net assets attributable to Head Office account) at 1 January 2022. The Branch will restate corresponding information on adoption of IFRS17.

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

- the Branch is continuing to refine the new accounting processes and internal controls required for applying IFRS 17; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Branch finalises its first set of financial statements from the date of implementation of IFRS17.

(ii) Identifying contracts in scope of IFRS 17

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

Under the new standard, contracts under which the Branch accepts significant insurance risk will be classified as insurance contracts. Contracts held by the Branch under which it transfers significant insurance risk related to insurance contracts will be classified as reinsurance contracts. The Branch does not expect significant changes to arise from the application of these requirements as such contracts are currently classified as insurance and reinsurance contracts under IFRS 4.

(iii) Level of aggregation

Insurance contracts

Under IFRS 17, insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by first identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into annual cohorts (i.e., by year of issue) and each annual cohort into three groups based on the profitability of contracts:

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

When a contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts may be added.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts (continued)

(iii) Level of aggregation (continued)

Insurance contracts (continued)

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

Reinsurance contracts

Groups of reinsurance contracts will be established in a similar approach as for insurance contracts issued such that there is one reinsurance group for each group of underlying insurance contracts, creating a one-for-one correspondence between these groups.

A group of reinsurance contracts initiated by the Branch that provide proportionate coverage will be recognised on the date on which any underling insurance contract is initially recognised. This applies to the Branch’s quota share reinsurance contracts. The Branch only has quota share reinsurance arrangements.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts (continued)

(iv) Contract boundaries

The Branch will use the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance and reinsurance contracts.

Under IFRS 17, the measurement of a group of contracts includes all the future cash flows within the boundary of each contract in the group, determined as below.

Insurance contracts	Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Branch can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and any investment services). A substantive obligation to provide services ends when: - the Branch has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or - the Branch has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date. The reassessment of risks considers only risks transferred from policyholders to the Branch, which may include both insurance and financial risks, but exclude lapse and expense risks.
Reinsurance contracts	Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Branch is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer: - has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or - has a substantive right to terminate the coverage.

Riders, representing add-on provisions to a basic insurance policy that provide additional benefits to the policyholder at additional cost, that are issued together with the main insurance contracts form part of a single insurance contract with all of the cash flows within its boundary.

The contract boundary will be reassessed at each reporting date to include the effect of changes in circumstances on the Branch's substantive rights and obligations and, therefore, may change over time.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts (continued)

(v) Measurement

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

Contracts are subject to different requirements depending on whether they are classified as direct participating contracts or contracts without direct participation features. Direct participating contracts are contracts that are substantially investment-related service contracts under which the Branch promises an investment return based on underlying items; they are contracts for which, at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Branch expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the Branch expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

All the Branch’s insurance contracts will be classified as direct participating contracts as they meet all of the criteria mentioned above. All reinsurance contracts are expected to be classified as contracts without direct participation features. The Branch will apply the general measurement model (“GMM”) on all insurance and reinsurance contracts.

Insurance contracts - Initial measurement

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

The risk adjustment for non-financial risk for a group of insurance contracts, determined separately from the other estimates, is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

The CSM of a group of insurance contracts represents the unearned profit that the Branch will recognise as it provides services under those contracts. On initial recognition of a group of insurance contracts, if the total of (a) the fulfilment cash flows, (b) any cash flows arising at that date and (c) any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group is a net inflow, then the group is not onerous. In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.

If the total is a net outflow, then the group is onerous. In this case, the net outflow is recognised as a loss in the income statement. A loss component is created to depict the amount of the net cash outflow, which determines the amounts that are subsequently presented in the income statement as reversals of losses on onerous contracts and are excluded from insurance revenue.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts (continued)

(v) Measurement (continued)

Insurance contracts - subsequent measurement

Subsequently, the carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims that have not yet been paid. The liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date.

The fulfilment cash flows of groups of insurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows.

Changes relating to future services	Adjusted against the CSM (or recognised in the insurance service result in the income statement if the group is onerous)
Changes relating to current or past services	Recognised in the insurance service result in the income statement
Effects of the time value of money, financial risk and changes therein on estimated future cash flows that do not vary with returns on underlying items	Recognised as insurance finance income or expenses

When measuring a group of direct participating contracts, the Branch will adjust the fulfilment cash flows for the whole of the changes in the obligation to pay policyholders an amount equal to the fair value of the underlying items. These changes do not relate to future services and are recognised in the income statement. The Branch will then adjust any CSM for changes in the amount of the Branch's share of the fair value of the underlying items, which relate to future services, as explained below.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the year, adjusted for:

- the CSM of any new contracts that are added to the group in the year;
- the change in the amount of the Branch's share of the fair value of the underlying items and changes in fulfilment cash flows that relate to future services, except to the extent that:
    - a decrease in the amount of the Branch's share of the fair value of the underlying items, or an increase in the fulfilment cash flows that relate to future services, exceeds the carrying amount of the CSM, giving rise to a loss in the income statement (included in insurance service expenses) and creating a loss component; or
    - an increase in the amount of the Branch's share of the fair value of the underlying items, or a decrease in the fulfilment cash flows that relate to future services, is allocated to the loss component, reversing losses previously recognised in the income statement (included in insurance service expenses);
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue because of the services provided in the year.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts (continued)

(v) Measurement (continued)

Insurance contracts – subsequent measurement (continued)

Changes in fulfilment cash flows that relate to future services include the changes relating to future services measured at current discount rates and changes in the effect of the time value of money and financial risks that do not arise from underlying items.

If the total is a net outflow, then the group is onerous. In this case, the net outflow is recognised as a loss in the income statement. A loss component is created to depict any losses recognised in the income statement, which determines the amounts that are subsequently presented in the income statement as reversals of losses on onerous groups.

Reinsurance contracts

To measure a group of reinsurance contracts, the Branch will apply the same accounting policies as are applied to insurance contracts, with the following modifications.

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

The Branch will measure the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in the income statement.

The risk adjustment for non-financial risk is the amount of risk being transferred by the Branch to the reinsurer.

On initial recognition, the CSM of a group of reinsurance contracts represents a net cost or net gain on purchasing reinsurance. It is measured as the equal and opposite amount of the total of (a) the fulfilment cash flows, (b) any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group, (c) any cash flows arising at that date and (d) any income recognised in the income statement because of onerous underlying contracts recognised at that date. However, if any net cost on purchasing reinsurance coverage relates to insured events that occurred before the purchase of the group, then the Branch recognises the cost immediately in the income statement as an expense.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the period, adjusted for:

- the CSM of any new contracts that are added to the group in the year;
- interest accreted on the carrying amount of the CSM during the year, measured at the discount rates on nominal cash flows that do not vary based on the returns on any underlying items determined on initial recognition;
- income recognised in the income statement in the year on initial recognition of onerous underlying contracts (where applicable);

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts (continued)

(v) Measurement (continued)

Reinsurance contracts (continued)

- reversals of a loss-recovery component to the extent that they are not changes in the fulfilment cash flows of the group of reinsurance contracts;
- changes in fulfilment cash flows that relate to future services, measured at the discount rates determined on initial recognition, unless they result from changes in fulfilment cash flows of onerous underlying contracts, in which case they are recognised in the income statement and create or adjust a loss-recovery component;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised in the income statement because of the services received in the year.

Insurance acquisition cash flows

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Under IFRS 17, insurance acquisition cash flows are allocated to groups of insurance contracts using a systematic and rational method and considering, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort.

If insurance acquisition cash flows are directly attributable to a group of contracts (e.g. non-refundable commissions paid on issuance of a contract), then they are allocated to that group.

At each reporting date, the Branch will revise the amounts allocated to groups to reflect any changes in assumptions that determine the inputs to the allocation method used. Amounts allocated to a group will not be revised once all contracts have been added to the group.

The Branch does not expect to have any insurance acquisition cash flows arising before the recognition of the related group of contracts that would be recognised as an asset.

Impact assessment

Under IFRS 17, all profits will be recognised in the income statement over the lifetime of the contracts, and this will primarily be driven by the timing of the recognition of profit or loss of the CSM as services are provided and the risk adjustment for non-financial risk as the related risk expires. The Branch expects that, even though the total profit recognised over the lifetime of the contract will not change, it will emerge more slowly under IFRS 17. This is mainly because all profits are currently recognised in the income statement on initial recognition of the contracts. The different timing of profit recognition will result in a decrease in liabilities on adoption of IFRS 17 because a portion of profits previously recognised and accumulated in net assets attributable to Head Office account under IFRS 4 will be included in the measurement of the liabilities under IFRS 17.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts (continued)

(v) Measurement (continued)

Impact assessment (continued)

The decrease in the liabilities for insurance contracts on transition to IFRS 17 can mainly be attributed to the following:

Changes from IFRS 4	Impact on net residual attributable to Head Office on transition to IFRS 17
The estimates of the present value of future cash flows will result in an increase in net residual attributable to Head Office as the Branch will: - Release currently existing prudent non-unit reserves held under IFRS 4; and - Recognise expected future profit released as earned as at the opening balance sheet date.	Increase
- Recognise the risk adjustment for non-financial risk under IFRS 17 will be higher than under IFRS 4 as the Branch currently does not recognise an explicit risk margin; and - Recognise a CSM, determined using the transition approaches described under (ix) below will be recognised for the unearned profit for these contracts.	Decrease

(vi) Fulfilment cash flows

Fulfilment cash flows comprise:

- estimates of future cash flows;
- an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and
- a risk adjustment for non-financial risk

The Branch's objective in estimating future cash flows is to determine the expected value of a range of scenarios that reflects the full range of possible outcomes. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts (continued)

(vii) Significant judgements and estimates

Estimates of future cash flows

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

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

When estimating future cash flows, the Branch will take into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts will not be taken into account until the change in legislation is substantively enacted. The Branch derives cost inflation assumptions from the difference between the yields on nominal and inflation-linked government bonds.

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

Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Expenses will be attributed to acquisition and maintenance activities at local entity level using activity-based costing techniques. Cash flows attributable to acquisition and maintenance activities will be allocated to groups of contracts using methods that are systematic and rational and are consistently applied to all costs that have similar characteristics. Other costs are recognised in the income statement as they are incurred.

Discount rates

All cash flows will be discounted using risk-free yield curves with no volatility adjustments.

Risk adjustment for non-financial risk

Risk adjustments for non-financial risk will be determined to reflect the compensation that the Branch would require for bearing non-financial risk and will be allocated to groups of contracts based on an analysis of the risk profiles of the groups. Risk adjustments for non-financial risk reflect the diversification benefits from contracts issued by the Branch, in a way that is consistent with the compensation that it would require and that reflects its degree of risk aversion.

The risk adjustments for non-financial risk will be determined using a confidence level technique.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts (continued)

(vii) Significant judgements and estimates (continued)

Risk adjustment for non-financial risk (continued)

To determine the risk adjustments for non-financial risk for reinsurance contracts, the Branch will apply this technique both gross and net of reinsurance and derive the amount of risk being transferred to the reinsurer as the difference between the two results.

Applying a confidence level technique, the Branch will estimate the probability distribution of the expected present value of the future cash flows from insurance contracts at each reporting date and will calculate the risk adjustment for non-financial risk as the excess of the value at risk at the 85th percentile (the target confidence level) over the expected present value of the future cash flows.

Contractual service margin

The CSM of a group of contracts is recognised in the income statement to reflect services provided in each year based on the number of coverage units provided in the year, which is determined by considering for each contract the quantity of the benefits to be provided and its expected coverage period. The coverage units will be reviewed and updated at each reporting date.

The Branch will determine the quantity of the benefits provided under each contract as follows.

Product	Basis for determining quantity of benefits provided
Insurance contracts	Sum assured amounts
Reinsurance contracts	Reinsured sum assured amounts

Fair value approach

For those groups of contracts where the Branch applies the fair value approach, the CSM at 1 January 2022 will be determined as the difference between the fair value of a group of contracts at that date and the fulfilment cash flows at that date. The Branch will measure the fair value of insurance contracts as the sum of (a) the present value of the net cash flows expected to be generated by the contracts, determined using a discounted cash flow technique; and (b) an additional margin, determined using a confidence level technique.

The cash flows considered in the fair value measurement will be consistent with those that were within the contract boundary. Therefore, the cash flows related to expected future renewals of insurance contracts are not considered in determining the fair value of those contracts if they are outside the contract boundary.

The Branch's approach to measuring fair value differs from the IFRS 17 requirements for measuring fulfilment cash flows in certain respects. These differences will give rise to a CSM at the date of transition. In particular, in measuring fair value the Branch will:

- consider the cash flows included in the measurement of fulfilment cash flows but adjust them to reflect the perspective of market participants. For example, expense cash flows are increased to cover a reasonable level of general overheads that are not directly attributable to fulfilling the insurance contracts but that a market participant acquiring the contracts would expect to bear;
- use the discount rates applied in measuring fulfilment cash flows but increase the rates to reflect the effect of the Branch's non-performance risk; and

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts (continued)

(vii) Significant judgements and estimates (continued)

Fair value approach (continued)

- include a margin comprising a risk premium to reflect what market participants would demand as compensation for the uncertainty inherent in the cash flows and a profit margin to reflect what market participants would require to assume the obligations to service the insurance contracts.

In determining the risk premium, the Branch will allow for certain risks that were not reflected in the fulfilment cash flows but would be considered by market participants.

(viii) Presentation and disclosure

IFRS 17 will significantly change how insurance and reinsurance contracts are presented and disclosed in the Branch's financial statements.

Under IFRS 17, portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. All rights and obligations arising from a portfolio of contracts will be presented on a net basis; therefore, balances such as insurance receivables and payables will no longer be presented separately.

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

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

Disclosure

IFRS 17 requires extensive disclosures about amounts recognised in the financial statements, including detailed reconciliations of contracts, effects of newly recognised contracts and information on the expected CSM pattern, as well as disclosures about significant judgements made when applying IFRS 17. There will also be expanded disclosures about the nature and extent of risks from insurance and reinsurance contracts. Disclosures will generally be made at a more granular level than under IFRS 4, providing more transparent information for assessing the effects of contracts on the financial statements.

(ix) Transition

The Branch will adopt IFRS 17 retrospectively, applying the fair value approach as an alternative transition method where the full retrospective approach is impracticable.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 17: Insurance contracts (continued)

(ix) Transition (continued)

For groups of insurance contracts issued after 31 December 2016, the Branch will apply the full retrospective approach, whereby at 1 January 2022, the Branch will:

- identify, recognise and measure each group of insurance and reinsurance contracts as if IFRS 17 had always been applied;
- derecognise previously reported balances that would not have existed if IFRS 17 had always been applied. This includes insurance and reinsurance receivables and payables. Under IFRS 17, these will be included in the measurement of the insurance and reinsurance contracts; and
- recognise any resulting net difference in net residual attributable to Head Office.

The Branch will apply the transition provisions in IFRS 17 and will not disclose the impact of the adoption of IFRS 17 on each financial statement line item. The effects of adopting IFRS 17 on the financial statements at 1 January 2022 as estimated under (i) above will be presented in the Statement of changes in net residual attributable to Head Office Account.

For groups of insurance contracts issued before 31 December 2016, the Branch will apply the fair value approach in IFRS 17 to identify, recognise and measure these groups of contracts at 1 January 2022 because it is impracticable to apply the full retrospective approach.

The Branch considers the full retrospective approach impracticable for these groups of contracts under any of the following circumstances:

- The effects of retrospective application are not determinable because the information required has not been collected (or had not been collected with sufficient granularity) and was unavailable. Such information included for certain contracts:
  - expectations about a contract's profitability and risks of becoming onerous required for identifying certain groups of contracts;
  - information about historical cash flows and discount rates required for determining the estimates of cash flows on initial recognition and subsequent changes on a retrospective basis; and
  - information about changes in assumptions and estimates, which might not have been documented on an ongoing basis.

- The full retrospective approach requires assumptions about what Branch management's intentions would have been in previous periods or significant accounting estimates that could not be made without the use of hindsight. Such assumptions and estimates included for certain contracts:
  - expectations at contract inception about policyholders' shares of the returns on underlying items at contract inception required for identifying direct participating contracts; and
  - assumptions about the risk adjustment for non-financial risk, because the Branch was not subject to any accounting or regulatory framework that required an explicit margin for non-financial risk before 31 December 2016.

2. Summary of significant accounting policies (continued)

2.2 Foreign currency translation

(a) Functional currency

Items included in the financial statements of the Branch are measured using the currency of the primary economic environment in which the Branch operates. British Pounds (GBP) is the functional currency for the Branch in accordance with the requirements of IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

(b) Transactions and balances

Transactions in currencies other than the functional currency are recorded on initial recognition in GBP at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in currencies other than GBP are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a currency other than GBP are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a currency other than GBP are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items into the functional currency at the end of the reporting period are recognised in the income statement.

All resulting exchange differences are recorded in the foreign currency translation reserve and recognised in other comprehensive income as exchange difference in translation of foreign operations.

2.3 Product classification

(a) Insurance contracts

Contracts under which the Branch accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder, are classified as insurance contracts.

Under IFRS 4: *Insurance Contracts*, insurance risk is a risk other than financial risk. Financial risk is the risk of a possible future change in one or more of: a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Insurance contracts may also transfer some financial risk.

Once a policyholder contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period. As a general guideline, the Branch defines a significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are more than 5% greater than the benefits payable if the insured event did not occur.

(b) Investment contracts

Policyholder contracts not considered insurance contracts under IFRS 4 are classified as investment contracts. Contracts classified as investment contracts are unit-linked. The Branch has no contracts with Discretionary Participating Features (“DPF”) products.

2. Summary of significant accounting policies (continued)

2.4 Revenue recognition

(a) Premiums

Premium income in respect of single premium insurance policies is accounted for when the premiums are received. For all other insurance contracts, premiums are recognised as income when receivable. Premiums are shown gross of commission and before any sales-based taxes or duties.

Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the deemed lapse date is offset against premiums.

Deposits collected under investment contracts are not accounted for through the income statement but are recognised directly in investment contract liabilities. Unitised liabilities are recognised in investment contract liabilities when premiums are received, and non-unitised premiums are recognised when they fall due.

(b) Fee and commission income

Investment contract policyholders are charged for policy administration services, investment management services and for surrenders.

Policy administration fees comprise primarily fees and charges from unit-linked contracts. These fees and charges are recognised as revenue in the accounting period in which the services are rendered. Surrender fees are recorded when the required action is complete.

Front-end fees charged on investment contracts relating to future provision of services are deferred and recognised as income over the expected lifetime of the contract on a straight-line basis with the amount not recognised at the year-end presented as a liability. Actuarial funding is recognised as per note 2.14.

Annual management charges are charged on the internal funds available to investment contract holders. These fees are based on the value of the fund and are recognised on an accruals basis.

(c) Investment return

Investment income is recognised in the income statement net of related expenses and includes dividends, interest and the movement in the financial assets at fair value through profit or loss.

Dividend income from listed and unlisted securities is recognised as revenue when the right to receive payment is established. For listed securities this is the date the security is listed as ex-dividend. Interest bearing bonds and stocks have income accrued within their market value.

Fund manager rebates are accounted for on an accruals basis, based on the total rebates earned during the period to the extent they are considered recoverable rather than based on cash received. This ensures that income is matched against expenses based on the period in which these are incurred.

2. Summary of significant accounting policies (continued)

2.4 Revenue recognition (continued)

(d) Unrealised gains and losses on investments

Unrealised gains and losses on investments represent the difference between the valuation of investments designated as fair value through profit or loss, at the statement of financial position date and their original cost, or if they have been previously fair valued, the valuation at the last statement of financial position date. Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

2.5 Expense recognition

(a) Claims and benefits paid

Claims reflect the cost of all claims incurred during the year, including claims handling costs. Death claims and surrenders are recognised on the basis of notifications received. Maturities and annuity payments are recorded when due. Claims are accrued to the policyholder and included within insurance and investment contract liabilities, as appropriate. Claims for investment contracts representing deposit element of contracts are not recognised in the income statement.

(b) Acquisition expenses

Direct and directly attributable acquisition costs incurred during a financial period arising from writing insurance contracts and direct acquisition costs from writing investment contracts, are deferred to the extent that they are recoverable out of future margins and amortised over the term of those contracts. All other acquisition costs are recognised as an expense when incurred.

(c) Commission

Commission is recognised on an accruals basis. Typically, commission is payable on insurance related business on an indemnity basis. The rates are subject to mutual agreement between the Branch and the intermediary, in which a determining factor will be the contract's nature. In addition, some initial commission may be exchanged for trail commission.

(d) Other expenses

All other expenses are charged to the income statement on an accruals basis.

(e) Employee benefits – pension cost

The Branch operates a defined contribution pension scheme. The scheme is funded through contribution to a separately administered fund. The Branch has no further payment obligations once the contributions have been paid. The contributions are recognised as employee expenses when they are due.

2. Summary of significant accounting policies (continued)

2.6 Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.7 Right-of-use assets and lease liabilities

The Branch leases office and its rental contract is for fixed periods of 3 years.

The contracts may contain both lease and non-lease components. However, for leases of offices for which the Branch is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Branch under residual value guarantees
- the exercise price of a purchase option if the Branch is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Branch exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. The discount rate for the Branch has been determined to be 5% (2021:5%), based on the annual increments to the Branch's lease.

The Branch is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

2. Summary of significant accounting policies (continued)

2.7 Right-of-use assets and lease liabilities (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Branch is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

2.8 Financial assets and other receivables

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

- Fair value through profit or loss ("FVTPL") (Investments), and
- Amortised cost (Insurance and other receivables, cash and cash equivalents and statutory deposit).

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Purchases and sales of financial assets are recognised on the date the Branch commits to purchase or sell the assets. The Branch derecognises a financial asset when and only when the contractual right to receive cash flows expires or when the asset, together with substantially all the risks and rewards of ownership, have been transferred.

At initial recognition, the Branch measures a financial asset at its fair value. Transaction costs are expensed in the income statement.

The Branch subsequently measures:

- Investments at fair value through profit or loss, changes in fair value are recognised in the income statement in the period in which they arise, and
- Insurance and other receivables at amortised cost using the effective interest rate method.

For Insurance and other receivables at amortised cost, the Branch applies the simplified impairment approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Included in the financial assets held at fair value are assets held by the Head Office for the benefit of the Branch and are controlled by the management of the Branch.

2.9 Deferred acquisition costs (DAC) and deferred enhanced allocation (DEA)

For insurance contacts, deferred acquisition costs comprise all direct costs arising from writing the contracts, which are incurred during a financial period. Acquisition costs are amortised over the expected term of the contracts where their recovery has not been reflected in the valuation of policyholder liabilities, but only to the extent that they are recoverable out of future margins.

2. Summary of significant accounting policies (continued)

2.9 Deferred acquisition costs (DAC) and deferred enhanced allocation (DEA) (continued)

The rate of amortisation of acquisition costs on such contracts is proportional to the future margins expected to emerge in respect of the related policies, over the expected term of those policies.

For investment contracts without DPF, acquisition costs comprise all incremental costs that are directly related to the writing of the contract, which are incurred during a financial period, and are amortised on a straight line basis over the expected term of the contract if they are recoverable out of future margins.

Enhanced allocation costs are the cost of initial unit allocations to policyholders in excess of units warranted by unit prices paid. These are deferred in line with relevant DAC.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortisation period and are treated as changes in accounting estimate.

2.10 Reinsurance liabilities/ assets

Benefits to which the Branch is entitled under reinsurance contracts held are recognised as reinsurance 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.

2.11 Cash and cash equivalents

Cash and cash equivalents include demand deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown as part of cash and cash equivalents in the statement of financial position.

2.12 Financial liabilities

The Branch classifies its financial liabilities as either financial liabilities at fair value through profit or loss or financial liabilities carried at amortised cost. Financial liabilities measured at amortised cost are discounted for the time value of money, except in instances when this is not material.

Financial liabilities at fair value through profit or loss, such as investment contracts, are designated on initial recognition when one of the following criteria is satisfied:

- it eliminates or significantly reduces an accounting mismatch caused by financial assets and financial liabilities being measured on a different basis; and
- the financial liability contains or may contain an embedded derivative.

The Branch recognises a financial liability when, and only when, it becomes a party to the contractual provisions of a financial instrument. Derecognition of a financial liability is when, and only when, the obligation specified in the contract is discharged, cancelled or expires.

2. Summary of significant accounting policies (continued)

2.13 Insurance contracts

Insurance contract liabilities are calculated on recognised actuarial principles. The calculation of liabilities to policyholders for non-profit contracts includes explicit allowance for future expenses. The minimum liabilities for any contract are set at the surrender value of that contract.

The Branch carries out an annual liability adequacy test on its insurance contract liabilities less related deferred acquisition costs to ensure that the carrying amount of its liabilities is sufficient in the light of estimated future cash flows.

Economic assumptions

The principal economic assumptions are the valuation interest rate, being the rate, at which projected policy cash flows are discounted, and inflation rate, being the rate at which expenses and certain policy charges increase. Economic assumptions are the same as those used for regulatory reporting. Economic assumptions are adjusted from year to year by references to changes in consistent economic indices or yields on the underlying portfolio.

The rates used in the valuation of insurance contract liabilities are shown below:

Economic assumptions	**31 December 2022**	**31 December 2021**
Valuation interest rate	3.85%	1.35%
Expense inflation rate	5.10%	4.50%

Demographic assumptions

Insurance contract liabilities allow for mortality and morbidity risk by making assumptions about the proportion of policyholders who die or become sick. Allowance for future mortality for protection business has been made using mortality tables derived by the reinsurers of the protection business. Investigations into actual recent experience are conducted to help derive a margin to apply to these tables.

The table below summarises the margin percentages assumed for statutory reporting.

Demographic assumptions	**31 December 2022**	**31 December 2021**
Term - International Protector	44% of reinsurers rates	49% of reinsurers rates
Term – Simply Protect	49% of reinsurers rates	54% of reinsurers rates

No lapses are assumed in the calculation of insurance contract liabilities. Sensitives on the assumptions are presented in Note 23 (d).

2.14 Investment contracts

(a) Unit-linked Liabilities

Investment contracts are unit-linked contracts. A unit-linked investment contract is recognised at fair value reflected through current unit prices.

2. Summary of significant accounting policies (continued)

2.14 Investment contracts (continued)

(b) Non-unit Liabilities

The investment contract liabilities relate to the value of unit-linked funds plus actuarial funding and investment claims outstanding. Actuarial funding allows for the fact that charges are deducted from the fund on inception for certain policies and these charges are recognised as revenue over the life of the bond or on any surrender. Actuarial funding is restricted to surrender value of underlying contracts. Besides above elements non-unit liabilities consist of non-linked manual adjustments like guaranteed growth units or premium incurred not received. Following the implementation of Insurance Authority Board of Directors' Decision No.49 (BOD49), actuarial funding is not allowed for financial reporting. The Branch has stopped selling new business where actuarial funding would have been required. As such, the deferred actuarial funding is wholly attributed to business sold before BOD49.

2.15 Provisions and contingent liabilities

A provision is recognised by the Branch when it has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax risk-free rate and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event or if there is a present obligation as a result of a past event but either a payment is not probable, or the amount cannot be reliably estimated.

2.16 Other payables

Other payables are recognised when due and measured on initial recognition at the fair value of the consideration payable. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest rate method.

2.17 Net residual attributable to Head Office

The Branch is not a separate legal entity and hence it did not issue own equity instruments. Therefore, as a practical expedient, the Branch measures the 'Net residual attributable to Head Office' at the carrying value of the Branch's net assets.

3. Significant accounting estimates and judgements

The preparation of these financial statements in conformity with IFRS requires the Branch's management to use accounting estimates and make judgements in the application of critical accounting policies that affect the reported amounts of assets and liabilities. All significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2021.

3. Significant accounting estimates and judgements (continued)

(a) Fair value determination of financial instruments at fair value through profit or loss

Financial assets are designated at fair value as they are managed on a fair value basis. Financial liabilities i.e., investment contracts are designated at fair value to eliminate mismatch with corresponding assets which are managed on a fair value basis.

Fair values of financial instruments that are quoted in active markets are based on bid prices for the assets held. When independent prices are not available, fair values are determined by using valuation techniques which refer to market observable data and management's estimates. These include comparison with similar instruments when market observable prices are publicly available.

In determining fair value, market makers will take into account transactions they have observed in identical or similar assets as well as movements in market indices and other factors they regard as relevant. In some cases, consensus prices have been based on fewer and potentially more historic transactions.

Corporate bond valuations are generally obtained from brokers and pricing services. Bond prices provided by pricing services are based on the best estimate of market prices determined by market makers based on a variety of factors and are generally observable prices. In determining fair value, market makers will take into account transactions they have observed in identical or similar assets as well as movements in market indices and any other factors that they regard as relevant. In some cases, consensus prices have been based on fewer and potentially more historic transactions.

Private equity investment funds are valued based on information received from the fund manager of the fund. Fair values of private equity investments are based on lower of annual audited financial statements under accepted accounting practices or other valuation based on professional advice.

Structured investments are valued either using counterparty or broker quotes.

Methods considered when determining fair values of unlisted shares and other variable securities include net asset valuation and management's estimates based on market data.

For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid prices.

Investments are classified as Level 3 where they have been valued with reference to management estimates and information obtained from fund managers, counterparties or brokers. An analysis of financial assets by category is disclosed in Note 11.

(b) Insurance contracts

Insurance contract liabilities are calculated on recognised actuarial principles, with key assumptions stated in Note 2.13.

The Branch carries out an annual liability adequacy test on its insurance contract liabilities less related deferred acquisition costs and other related intangible assets to ensure that the carrying amount of its liabilities is sufficient in the light of estimated future cash flows.

3. Significant accounting estimates and judgements (continued)

(c) Recoverability of Deferred Acquisition Costs ("DAC") and Deferred Enhanced Allocation ("DEA")

DAC and DEA assets are assessed for impairment each year by the Branch. This impairment testing provides comfort that future margins are sufficient to recover the carrying amount of the DAC asset. During the year, AED 466,000 (2021: AED 425,000) of DAC impairment was recorded in respect of investment contracts. This is reflected in Note 12.

(d) Recognition of bank balances and financial assets held at fair value through profit or loss

The Branch recognises balances with banks and financial assets held at fair value on the statement of financial position although these are held in the name of the Company. In deciding the appropriateness of whether the Branch should recognise the assets, the Branch considers the following: the Branch has control over the assets; the Branch obtain direct economic benefit from the assets (i.e. income earned from these assets is recognised in the statement of comprehensive income of the Branch); the assets are used solely for the operations of the Branch and any use of these assets is authorised by the Branch's management; the assets are held for the beneficial interest of the Branch and these are part of the assets that are required to be maintained at the Branch's level to meet local regulatory requirements; and on liquidation or sale of the Branch, the assets would form part of the Branch's assets and not assets of the Company.

4. Segmental premium analysis

		2022 AED'000			2021 AED'000	
	Single	**Periodical**	**Total**	**Single**	**Periodical**	**Total**
Gross income	**162,094**	**259,869**	**421,963**	290,373	295,544	585,917
Less: Deposit accounting adjustment	**(162,094)**	**(200,779)**	**(362,873)**	(290,373)	(230,844)	(521,217)
Shown as: Gross Premiums	**-**	**59,090**	**59,090**	-	64,700	64,700
Premiums ceded to reinsurers	**-**	**(24,072)**	**(24,072)**	-	(26,259)	(26,259)
Net premiums	**-**	**35,018**	**35,018**	-	38,441	38,441

All gross premiums arise from Protection type of business.

5. Fee and commission income

	2022 AED'000	2021 AED'000
Annual management charges	**22,310**	25,651
Amortisation of deferred actuarial funding (Note 2.14)	**80,638**	97,703
Amortisation of deferred front-end fees (Note 19)	**26,309**	28,167
Policy administration fees	**18,158**	25,335
Total	**147,415**	176,856

6. Net investment return

	2022 AED'000	2021 Restated AED'000
Investment income from financial investments at fair value through profit or loss	**70,605**	121,900
Net fair value (losses) / gains from financial investments at fair value through profit or loss (Note 11(a))	**(772,691)**	402,873
Net foreign exchange gains	**42,548**	2,599
Total net investment return	**(659,538)**	527,372

The fair value (losses)/gains from financial assets at fair value through profit or loss include both the net fair value gain and loss on the revaluation of assets held at the statement of financial position date and the gains and losses realised on assets disposed of during the year. Investment income is made up of interest and dividend income received as well as fund manager rebates and was included within one line in the prior year audited financial statements.

As explained in note 23, the majority of the assets of the Branch are contractually linked to written unit-linked contract liabilities and consequently the majority of the investment return is borne by the holders of the underlying contracts.

Investment return is presented in the income statement by business cohort, as follows:

	2022 AED'000	2021 AED'000
Investment return on assets attributable to Head Office	**506**	175
Investment return on policyholder contracts	**(660,044)**	527,197
	(659,538)	527,372

7. Claims, benefits and expenses

	2022 AED'000	2021 AED'000
Gross claims	**463,684**	637,079
Less: Deposit Accounting adjustment	**(443,216)**	(613,928)
Shown as: Gross claims paid	**20,468**	23,151
Reinsurance share of claims recovered from reinsurers	**(10,946)**	(14,510)
Net claims and benefits paid	**9,522**	8,641

All gross claims paid arise from Protection type of business.

8. Commission and acquisition expenses

	2022 AED'000	2021 AED'000
Commission income – insurance contracts:		
Reinsurance commissions	**(3,351)**	(4,720)
Commission and acquisition expenses – insurance contracts:		
Commission paid	**2,412**	1,015
Commission and acquisition expenses– investment contracts:		
Commission paid	**15,883**	27,924
Commission deferral in the year (Note 12)	**(18,913)**	(35,231)
Amortisation of DAC and DEA (Note 12)	**71,176**	87,638
Impairment of DAC (Note 12)	**466**	425
Enhanced allocations (Note 21)	**2,140**	3,573
Enhanced allocations and expenses deferred (Note 12)	**(2,140)**	(3,573)
	68,612	80,756
Total	**67,673**	77,051

9. General and administrative expenses

	2022 AED'000	2021 AED'000
Communication	**5**	258
Computer expenses	**685**	2,849
Administrative services provided from Head Office (Note 26 (c))	**15,174**	15,047
Marketing and publicity	**48**	588
Other administrative expenses	**18,094**	25,790
Professional fees	**3,980**	4,678
Rent and other accommodation expenses	**687**	850
Depreciation of right of use assets (Note 10)	**827**	1,325
Interest on lease liabilities	**78**	38
Salaries and other employee benefits	**7,130**	18,926
Training and welfare	**10**	39
Travel expenses	**51**	103
Fees and levies	**731**	3,229
Investment expenses	**440**	577
Total	**47,940**	74,297

The Branch did not make any social contributions during the year ended 31 December 2022 or 2021.

10. Right of use assets

	2022 AED'000	2021 AED'000
Balance as at 1 January	**325**	1,648
Addition to right of use assets	**2,238**	-
Depreciation of right of use assets (Note 9)	**(827)**	(1,325)
Exchange difference	**(198)**	2
As at 31 December	**1,538**	325

For details of additions during the year refer to note 20.

11. Financial assets held at fair value through profit or loss

a) Analysis of financial assets held at fair value through profit or loss

	2022 AED'000	2021 AED'000
Financial assets measured at fair value through profit or loss:		
Shares and other variable yield securities	**3,761,420**	4,867,471
Fixed income securities	**575,203**	942,138
Total financial assets held at fair value through profit or loss	**4,336,623**	5,809,609

	2022 AED'000	2021 AED'000
Balance as at 1 January	**5,809,609**	5,541,814
Purchase of equity securities	**76,802**	123,163
Sale of equity securities	**(111,885)**	(66,327)
Realised and unrealised (losses) / gains on financial assets held at fair value through profit or loss (Note 6)	**(772,691)**	402,873
Foreign exchange differences and net movement of other non-equity financial assets	**(665,212)**	(191,914)
As at 31 December	**4,336,623**	5,809,609

All financial assets are held in the name of the Head Office for the beneficial interest of the Branch and controlled by the management of the Branch

b) Determination of fair value hierarchy

Financial assets at fair value have been classified into three categories as set out below. Financial assets at fair value include shares and other variable yield securities, government securities, corporate bonds and deposits with credit institutions.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples include listed equities and bonds in active markets and quoted unit trusts / Open-ended investment companies ("OEIC").

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category generally includes assets that are priced based on models using market observable inputs. An example is certificates of deposit.

Level 3 – Inputs for the asset that are not based on observable market data. Assets with single price feeds and/or limited trading activity are included in this category. Examples include unlisted equities and private equity.

The majority of the Branch's assets held at fair value are valued based on quoted market information or market observable data. Approximately 0.1% (31 December 2021: 0.1%) of the total assets held at fair value are based on valuation techniques where significant observable market data is not available, or the price is not observable from current market transactions. However, the fair value measurement objective of these assets remains the same, that is, an exit price from the perspective of the Branch.

11. Financial assets held at fair value through profit or loss (continued)

b) Determination of fair value hierarchy (continued)

The Branch is also required to categorise its financial liabilities held at fair value into the above Level 1, 2 or 3 hierarchies. The Branch's financial liabilities at fair value are the unit-linked investment contracts and have been classified as Level 2. The underlying assets are predominantly categorised as level 1 or 2 and as such, the inputs into the valuation of the liabilities are observable. The position assigned to the liability in the fair value hierarchy has to be determined by the lowest level of any input to its valuation that is considered to be significant.

Due to the unit-linked nature of the contracts there is no material exposure to changes in credit risk. There are no significant currency or geographical risk concentrations in the Branch.

The classifications take into account the types of inputs used to determine the fair value measurements.

An analysis of financial assets held at fair value in accordance with the fair value hierarchy is set out below. The Company's shareholders have no direct exposure to profits or losses on unit-linked assets (other than through investment management fees).

As at 31 December 2022

Financial assets held at fair value through profit or loss	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Shares and other variable yield securities				
- Equities	**158,282**	**-**	**21**	**158,303**
- Unit trusts, OEICs and other investments	**3,511,679**	**87,827**	**3,611**	**3,603,117**
	3,669,961	**87,827**	**3,632**	**3,761,420**
Fixed income securities				
- Government bonds	**-**	**374**	**-**	**374**
- Corporate bonds	**-**	**574,150**	**679**	**574,829**
	-	**574,524**	**679**	**575,203**
Total financial assets held at fair value through profit or loss	**3,669,961**	**662,351**	**4,311**	**4,336,623**

As at 31 December 2021

Financial assets held at fair value through profit or loss	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Shares and other variable yield securities				
- Equities	238,942	-	284	239,226
- Unit trusts, OEICs and other investments	4,536,712	88,353	3,180	4,628,245
	4,775,654	88,353	3,464	4,867,471
Fixed income securities				
- Government bonds	-	1,234	-	1,234
- Corporate bonds	-	940,122	782	940,904
	-	941,356	782	942,138
Total financial assets held at fair value through profit or loss	4,775,654	1,029,709	4,246	5,809,609

11. Financial assets held at fair value through profit or loss (continued)

c) Level 3 reconciliation

The following table shows a reconciliation of Level 3 financial assets which are recorded at fair value through profit or loss as at 31 December:

	2022 AED'000	2021 AED'000
As at 1 January	**4,246**	35,659
Net gains/(losses) recognised in the income statement	**20,405**	(30,415)
Purchases	**-**	21
Sales	**(26,787)**	(1,344)
Transfers from/(to) other levels	**889**	(280)
Foreign exchange differences	**5,558**	605
As at 31 December	**4,311**	4,246
Total unrealised gains/(losses) included in profit for the year for assets held at 31 December	**20,406**	(30,551)

Amounts were transferred into Level 3 because of the lack of observable market data, resulting from a decrease in market activities for the securities. Transfers out of level 3 arise due to availability of prices in an active market.

12. Deferred acquisition costs

	2022 AED'000	2021 AED'000
Balance as at 1 January	**406,922**	461,143
Commission deferred (Note 8)	**18,913**	35,231
Enhanced allocations and expenses deferred (Note 8)	**2,140**	3,573
Amortisation charged to the income statement (Note 8)	**(71,176)**	(87,638)
Impairment charged to the income statement (Note 8)	**(466)**	(425)
Foreign exchange differences	**(42,295)**	(4,962)
Balance as at 31 December	**314,038**	406,922

The expected realisation of the deferred acquisition costs balance as at 31 December 2022 is AED 61,385,000 (2021: AED 75,566,000) within twelve months from the statement of financial position date and AED 252,653,000 (2021: AED 331,356,000) after twelve months from the statement of financial position date.

13. Reinsurance liabilities

	2022 AED'000	2021 AED'000
Balance as at 1 January	**(14,442)**	21,582
Expected return	**1,807**	(1,799)
New business strain	**937**	2,738
Experience variance	**(682)**	(1,955)
Basis changes	**969**	(34,375)
Economic variances	**(5,335)**	(996)
Exchange difference	**1,801**	363
Balance as at 31 December	**(14,945)**	(14,442)

The Branch takes out reinsurance on its insurance contracts. Reinsurance liabilities are valued using the same methods and bases as those used to value the underlying liabilities that are being reinsured. The liability position as at 31 December 2022 and 31 December 2021 has arisen as a result of change of the assumptions used in valuing the mathematical reserves during the year ended 31 December 2021 to be aligned with IFGL assumptions.

The expected realisation of the reinsurance liabilities as at 31 December 2022 is AED 1,375,000 (2021: AED 1,807,000) within twelve months from the statement of financial position date and AED 13,570,000 (2021: AED 12,635,000) after twelve months from the statement of financial position date.

14. Statutory deposit

As at 31 December 2022, the amount of the regulatory assets maintained locally in accordance with Federal Law No. (6) of 2007, as amended was AED 4,096,000 (31 December 2021: AED 4,091,000). The Branch is restricted from withdrawing these amounts without approval from the Central Bank of the UAE. The average interest rates on these balances were 0.03% (31 December 2021: 0.10%).

15. Premiums and insurance balances receivable

	2022 AED'000	2021 AED'000
Inside UAE:		
Due from policyholders	**7,469**	7,984

Ageing:

	2022 AED'000	2021 AED'000
Inside UAE:		
Less than 30 days	**2,064**	2,176
30 to 90 days	**5,405**	5,808
Total	**7,469**	7,984

All receivables are expected to be realised within twelve months from the statement of financial position date (2021: All).

16. Other receivables

	2022 AED'000	2021 AED'000
Sales settlements	**2,502**	6,293
Interest receivable	**119**	211
Amount due from reinsurer	**-**	6,057
Amounts due from Head Office (Note 26(d))	**2,689**	-
Other receivables	**5,604**	6,934
Total	**10,914**	19,495

All receivables are expected to be realised within twelve months from the end of reporting period (2021: All).

17. Cash and cash equivalents

	2022 AED'000	2021 AED'000
Cash at bank and on hand	**636,497**	822,363
Total cash and cash equivalents	**636,497**	822,363

The Branch has no liens or guarantees. Included in the cash and cash equivalents are the assets amounting to AED 146,798,000 (2021: AED 215,236,000) which are held by the Head Office for the benefit of the Branch and are controlled by the management of the Branch.

18. Payables

	2022 AED'000	2021 AED'000
Payables – Inside UAE:		
Amounts payable to policyholders	**6,883**	5,876
Payables – Outside UAE:		
Amounts due to Head Office (Note 26 (d))	**-**	24,268
Amounts due to reinsurers in respect of premiums	**2,751**	2,943
Amounts due to reinsurers in respect of claims	**4,600**	-
Accrued expenses and other payables	**141**	5,055
Total	**14,375**	38,142

All payables are expected to be settled within the next twelve months from the statement of financial position date.

19. Deferred income

	2022 AED'000	2021 AED'000
Balance as at 1 January	**91,770**	81,531
Establishment charges deferred	**36,110**	39,636
Fees released to the income statement (Note 5)	**(26,309)**	(28,167)
Exchange difference	**(10,151)**	(1,230)
Balance as at 31 December	**91,420**	91,770

19. Deferred income (continued)

The expected realisation of the deferred income balance as at 31 December 2022 is AED 25,104,000 (2021: AED 28,172,000) within twelve months from the statement of financial position date and AED 66,316,000 (2021: AED 63,598,000) after twelve months from the statement of financial position date.

20. Lease liabilities

	2022 AED'000	**2021 AED'000**
Balance as at 1 January	**275**	1,342
Addition to lease liabilities	**2,238**	-
Repayment	**(841)**	(1,105)
Interest expense	**75**	38
Balance as at 31 December	**1,747**	275

The present value of lease liabilities is as follows:

	2022 AED'000	**2021 AED'000**
Due within one year	**727**	275
Due later than one year but not later than five years	**1,020**	-
Total lease liabilities	**1,747**	275

The right-of-use assets and lease liabilities for the Dubai office lease expired in March 2022, a new Dubai office lease was signed in February 2022 for 3 years. The lease will continue to be recognised as a finance lease under IFRS 16.

21. Mathematical reserves

Summary of the Actuary's report on the technical provisions

	2022 AED'000	**2021 AED'000**
Mathematical reserves		
Insurance contract liabilities	**60,064**	54,726
Investment contract liabilities	**4,930,871**	6,563,421
Total mathematical reserves	**4,990,935**	6,618,147

The present value of mathematical reserves is as follows:

	2022 AED'000	**2021 AED'000**
Due within one year	**392,515**	638,402
Due later than one year	**4,598,420**	5,979,745
Total mathematical reserves	**4,990,935**	6,618,147

21. Mathematical reserves (continued)

Movement in insurance contract liabilities

	2022 AED'000	2021 AED'000
Balance as at 1 January	**54,726**	119,535
Provisions in respect of new business	**1,272**	3,454
Impact of operational assumption changes	**47,052**	(53,356)
Impact of economic assumption changes	**(37,695)**	(7,924)
Actual experience	**929**	(6,598)
Exchange difference	**(6,220)**	(385)
Balance as at 31 December	**60,064**	54,726
Reinsurers' share of insurance contract liabilities as at 31 December (Note 13)	**14,945**	14,442
Net insurance contract liabilities as at 31 December	**75,009**	69,168
Movement reflected in the income statement:		
Change in insurance contract liabilities	**13,674**	(28,037)
Total movement	**13,674**	(28,037)

Other movements within insurance contract liabilities are driven by the economic and non-economic assumptions.

Movement in investment contract liabilities

	2022 AED'000	2021 AED'000
Balance as at 1 January	**6,563,421**	6,433,734
Premiums (Note 4)	**362,873**	521,217
Claims (Note 7)	**(443,216)**	(613,928)
Fee and income from service activities	**(157,217)**	(188,324)
Acquisition costs (Note 8)	**2,140**	3,573
Change in investment contract liabilities	**(718,723)**	492,416
Other movements	**(211)**	(280)
Exchange difference	**(678,196)**	(84,987)
Balance as at 31 December	**4,930,871**	6,563,421
Analysed as:		
Unit-linked reserves	**4,678,210**	6,197,664
Other non-unit reserves	**252,661**	365,757
Total investment contract liabilities	**4,930,871**	6,563,421

22. Capital management

The Branch's objectives when managing capital are:

- to comply with the insurance capital requirements required by the United Arab Emirates insurance regulator, the CBUAE;
- to safeguard the Branch's ability to continue as a going concern so that it can continue to protect policyholders; and
- to provide an adequate return to the Head Office by pricing insurance contracts commensurately with the level of risk.

The Branch is required to satisfy the Minimum Capital Requirement of AED 100,000,000 subscribed and paid up share capital to be maintained at Friends Provident International level (the Company) under Cabinet resolution no. 42 of 2009 of the United Arab Emirates. The Branch monitors its capital level on a regular basis to assess whether such requirements have been met, and reports to the CBUAE annually.

Management believe that the Branch has complied with the above-mentioned paid up share capital requirement of a minimum of AED 100,000,000 maintained at the Company level, including the solvency margin requirements as per the CBUAE's Financial Regulations, as at 31 December 2022 and 2021 on an IFRS basis, as follows:

	2022 AED'000	**2021 AED'000**
Minimum Capital Requirement (MCR)	**100,000**	100,000
Solvency Capital Requirement (SCR)	**81,864**	78,492
Minimum Guarantee Fund (MGF)	**27,288**	26,164
Own Funds		
Basic Own Funds	**197,753**	308,013
MCR Solvency Surplus	**97,753**	208,013
SCR Solvency Surplus	**115,889**	229,521
MGF Solvency Surplus	**170,465**	281,849

The results for 31 December 2021 are unaudited due to the change in basis during the year.

Localisation of assets within UAE

In December 2014, the UAE Insurance Authority issued the Board of Directors' decision number (25) of 2014 pertinent to Financial Regulations for Insurance Companies. Article 2 "Technical Provisions" of Section 3 "Regulations Pertinent to the Basis of Calculating the Technical Provisions" states that investments equivalent to the total technical provisions for all policies issued inside the UAE shall be maintained in the UAE. For FPIL this equates to investments equivalent to the Mathematical Reserves (excluding unit linked funds' related technical provisions), gross of reinsurance, shall be maintained in the UAE.

As at 31 December 2022 and 31 December 2021, management believes that the Branch complied with the localisation requirement for capital management based on regulatory reserves, which are calculated in line with the regulations and reported to the relevant authority accordingly.

23. Risk management objectives and policies for mitigating risks

The Branch is a branch of Friends Provident International Limited (the Company, or FPIL). The Company has adopted the IFGL Group Risk Management Framework and has embedded this within the Company and its Branches. All risk management activities are set and undertaken on the Branch's behalf by the Group and are summarised in the below statements.

23. Risk management objectives and policies for mitigating risks (continued)

The IFGL Group Risk Management Framework forms an integral part of FPIL Management and Board processes and decision making across the Company and its branches. The key components of the Risk Management Framework comprise: [1] risk strategy; [2] risk principles; [3] risk profile; [4] risk appetite; [5] risk governance; and, [6] risk responsibilities. The Risk Management Framework is complemented by the approved Group Risk Policies, which detail the processes that the Company uses to identify, assess, measure, manage, monitor and report risks, including the use of stress and scenario testing.

The Board of Directors of the Head Office has overall responsibility for the Branch's Risk Management Framework. The Board approves the risk appetite exposure for each material risk identified; sets the tone for risk culture; and reviews the adequacy of the Risk Management Framework, which includes the Own Risk and Solvency Assessment ("ORSA").

The Board is supported in its role by the Group Audit & Risk Committee ("GARC"), which advises on risk appetite; independently reviews and challenges material risks; and reports risk management matters to the Board. The oversight of risk and risk management is further supported by a number of Management Committees and sub committees.

The Company has adopted the 'Three Lines of Defence' model, which clearly allocates accountability and ownership for risk and controls and provides an effective separation of risk taking from risk oversight. Line 1, led by Executive Management, is accountable for the identification and management of risk. Line 2, the Risk Function, are objective and independent from risk taking and provide support and opinion on Line 1 risk management activities. Line 3, IFGL Group Internal Audit, provide independent, risk-based and objective assurance to the Board by examining and evaluating the effectiveness of internal controls, procedures, risk management governance processes and regulatory compliance.

The purpose of the Risk Management Framework is to address adverse risks, develop business opportunities, and ensure the achievement of the Business Plan within risk appetite. The Risk Management Framework is also supported by the Group's suite of Risk Policies in which each Policy Executive Owner attests to policy compliance on an annual basis. The effectiveness of the Risk Management Framework and risk governance is further assessed and concluded on as part of the ORSA process.

This note presents information about the Branch's exposure to risks and the objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Branch, in the course of doing business, is exposed to the following categories of risk:

- **Insurance Risk**: these are risks that may lead to a reduction in earnings or value due to adverse developments in the timing, frequency and severity of claims for insured/underwritten events and in customer behaviour. Examples include: [1] persistency risk; [2] mortality, disability and morbidity risk; and, [3] expense risk.
- **Financial Risk**: these are risks that may lead to a reduction in earnings or value and include: [1] credit risk; [2] market risk; and, [3] liquidity risk.
- **Operational Risk**: these are risks that may lead to a reduction in earnings or value due to: [1] inadequacy or failure of our processes, people and systems or from external events; [2] product failure, inappropriate or poor customer treatment or business conduct; [3] failure or interruption in operation of IT, communication technology and other business critical systems; [4] a material threat to our business data, critical systems and business processes (including systems security and cyber risk).

Further information on the types and management of specific risks types is given in the section below.

23. Risk management objectives and policies for mitigating risks (continued)

a) Market risk

Market risk is the risk of loss arising from a change in the values of, or the income from, assets or a change in interest or exchange rates. A risk of loss also arises from volatility in asset prices, interest rates, or exchange rates. Market risk includes the following three elements:

- Price risk – the risk of fluctuations in fair value or future cash flows of a financial instrument arising from a change of or volatility in equity prices or income;
- Foreign exchange risk – the risk of fluctuations in fair value or future cash flows of a financial instrument arising from a change of or volatility in exchange rates; and
- Interest rate and inflation risk – the risk of fluctuations in fair value or future cash flows of a financial instrument arising from a change of or volatility in interest rates and implied market inflation.

The Company's shareholder earnings are affected by market movements and this exposure impacts both assets and associated liabilities. The Branch has further exposure to market risk to the extent that the income from unit linked policies administered is based on the value of the financial assets held within those policies. The Company on behalf of the Branch manages market risk attaching to assets held to deliver income and gains for the Company's shareholders. The principal objective for the Company's shareholder assets is to manage them so that they meet the local regulatory reserve requirements of the Branch and support its operational objectives.

(i) Price risk

Price risk, as defined above, is accepted in accordance with an agreed risk appetite in order to achieve the desired level of return from policyholder assets.

For unit-linked policies, the policyholder bears the majority of the investment risk and any change in asset values is matched by a broadly equivalent change in the realistic liability. However, charges which are expressed as a percentage of fund values are impacted by movements in equity prices therefore falling values have an adverse effect on the Company's shareholders. In an event of a 10% fall in equity prices, it is estimated that the operating profit for the coming year will decrease by AED 2,320,000 (2021: AED 3,100,000).

The Company's shareholder's funds do not contain any equity content, and hence there has been no exposure to price risk within those funds.

(ii) Foreign exchange risk

Foreign exchange risk, as defined above, is accepted in accordance with an agreed risk appetite, reflecting the nature of the business that the Branch writes.

For unit-linked policies, the Branch is exposed to a currency mismatch between the charges taken from the policy, which can be in any currency depending on underlying investment, and operating expenses, which are predominantly in sterling. In an event of a 10% fall in foreign currencies, it is estimated that the total profit for the coming year will decrease by AED 2,440,000 (2021: AED 6,300,000).

The Company's shareholders are exposed to currency risk on the Branch's regulatory assets deposited with financial institutions, which is not considered material.

23. Risk management objectives and policies for mitigating risks (continued)

a) Market risk (continued)

(iii) Interest rate and inflation risk

Interest rate, as defined above, is accepted in accordance with an agreed risk appetite, reflecting the nature of the business that the Branch writes. The Company on behalf on the Branch actively monitor and look to control this risk through the use of reinsurance.

For non-unit reserves and insurance contracts, the actuarial liabilities are exposed to interest rates through the changes in the discount rate in reserve calculations. A decrease in interest rates will result in increased insurance and positive non-unit reserves. Inflation rates also have an impact through expense inflation. However, as interest rates and inflation tend to move in the same direction, a decrease in inflation will result in lower non-unit and insurance liabilities reserves.

The Company's shareholders are exposed to interest rate risk on the fixed deposits and fixed interest securities directly held, which is not considered material.

b) Credit risk

Credit risk is the risk of loss the default of a company, individual or country. Credit risk includes the following elements:

- Investment credit risk – financial loss arising from a change in the value of an investment due to a rating downgrade, default, or widening of credit spreads. Changes in credit spreads are also affected by the liquidity of the stock, but since the liquidity is usually closely related to credit risk, the risk is managed as credit risk;
- Deposit risk – financial loss arising from a deposit institution's default, or the deterioration of the deposits institution's financial position;
- Loan risk – financial loss arising from a debtor's inability to repay all, or part of its loan obligations to the Branch or the deterioration of the debtor's financial position;
- Reinsurance counterparty risk – financial loss arising from a reinsurer's default, or the deterioration of the reinsurers' financial position;
- Country risk – financial loss arising from economic agents in a sovereign foreign country, including its government, being unable or unwilling to fulfil their obligations due to a shortage of foreign exchange or another common reason such as currency inconvertibility; and
- Settlement risk – financial loss arising from the failure or substantial delay of an expected settlement in a transfer system to take place, due to the party other than the Branch defaulting/not delivering on its settlement obligations.

The Company's shareholders are exposed to credit risk on the balances deposited with banks and financial institutions in the form of cash and statutory deposit, premiums and insurance balances and other receivables. The primary risk is counterparty risk; this is mitigated by holding the shareholder deposits in financial institutions with high investment grade credit ratings. A majority of cash is held with highly rated institutions. Accounts receivable are aimed to be settled in a timely manner by operations.

In certain limited circumstances, the Company's shareholders are exposed to deposit risk for cash amounts held on behalf of unit-linked policyholders for premium proceeds with respect to policies not yet issued, and withdrawal/surrenders/maturities claim proceeds not yet paid to beneficiaries.

23. Risk management objectives and policies for mitigating risks (continued)

b) Credit risk (continued)

The Branch is exposed to reinsurance counterparty risk as follows:
- As a result of debt arising from claims made by but not yet paid by reinsurers.
- From reinsurance premium payments made to reinsurers in advance; and
- As a result of reserves held by the reinsurer which would have to be met by the Company on behalf of the Branch in the event of default.

In order to mitigate reinsurance counterparty risk, the Company, on behalf of the Branch, gives consideration to the credit quality of a reinsurer before entering into a reinsurance treaty.

Concentrations of credit risk might exist where the Branch has significant exposure to a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

The key areas that the Branch is exposed to settlement risk include:
- Bank transfers, including foreign exchange transactions; and
- The purchase and sale delay costs on policyholder investments in line with policy conditions.

Objectives in managing credit risk

To mitigate credit risk:

- Counterparty limits are set for investments, cash deposits and foreign exchange trade exposure.
- Robust criteria are in place for establishment and ongoing management of reinsurance arrangements.

An indication of the Branch's exposure to credit risk is the quality of the investments and counterparties with which it transacts. Policyholders and the Company's shareholders are exposed to credit risk on deposits with credit institutions and cash and cash equivalents. Debt and other fixed income securities mainly comprise government bonds and corporate bonds.

The following table gives an indication of the level of creditworthiness of those categories of assets which are neither past due nor impaired and are most exposed to credit risk using principally ratings prescribed by Standard & Poor's and Moody's. Assets held within unit-linked funds have been excluded from the table below as the credit risk on these assets is borne by the policyholders rather than the Company's shareholders. This is the maximum exposure to credit risk as at 31 December 2022 and 31 December 2021.

31 December 2022

	AA AED'000	A AED'000	Not rated AED'000	Total AED'000
Non-linked assets				
Statutory deposit	4,096	-	-	4,096
Cash and cash equivalents	81,516	212,760	17	294,293
Premiums and insurance balance receivable	-	-	7,469	7,469
Other receivables	-	-	7,682	7,682
Total	85,612	212,760	15,168	313,540
%	27%	68%	5%	100%

23. Risk management objectives and policies for mitigating risks (continued)

b) Credit risk (continued)

Objectives in managing credit risk (continued)

31 December 2021

	AA AED'000	A AED'000	Not rated AED'000	Total AED'000
Non-linked assets				
Statutory deposit	4,091	-	-	4,091
Cash and cash equivalents	63,235	369,717	18	432,970
Premiums and insurance balance receivable	-	-	7,984	7,984
Other receivables	-	-	17,250	17,250
Total	67,326	369,717	25,252	462,295
%	15%	80%	5%	100%

c) Liquidity risk

Liquidity risk is the risk that the Branch although solvent, either does not have sufficient financial resources available to it in order to meet its obligations when they fall due or can secure them only at excessive cost.

The Branch faces two key types of liquidity risk:

- The Company's shareholder liquidity risk (liquidity within the fund managed for the benefit of the Company's shareholders); and
- Policyholder liquidity risk (liquidity within the fund managed for the benefit of policyholders).

The overall objective of the Company's shareholder liquidity risk management is to ensure there are sufficient funds available to meet the cash flow needs of the business. The overall objective of policyholder liquidity risk is to ensure that sufficient liquid funds are available to meet cash flow requirements under all but the most extreme scenarios.

The Branch will meet the Company's shareholder liquidity needs arising in a number of key areas. For example:

- The ability to support the liquidity requirements arising from new business;
- The ability to meet regulatory requirements with regards to locally maintaining cash; and
- The ability to fund its day-to-day cash flow requirements.

Exposure to policyholder liquidity risk is within the unit linked funds. As a general rule, the Branch is less likely to be significantly impacted by policyholder liquidity risk on the linked funds as policyholder benefits are expressed directly as units held in an underlying fund. However, liquidity needs may still arise from a number of potential areas, including:

- A short-term mismatch between cash flows arising from assets and cash flow requirements of liabilities;
- Having to realise assets to meet liabilities during stressed market conditions,
- Investments in illiquid assets;
- Higher than expected level of lapses/surrenders caused by economic shock, adverse reputational issues or other events; and
- The implementation of temporary restrictions for the withdrawal of funds.

23. Risk management objectives and policies for mitigating risks (continued)

c) Liquidity risk (continued)

Liquidity risk is managed in the following way:

- Forecasts are prepared regularly to predict required liquidity levels over both the short and medium term;
- Credit risk of cash deposits is managed by applying counterparty limits and imposing restrictions over the credit ratings of third parties with whom cash is deposited;
- Assets of a suitable maturity and marketability are held to meet policyholder liabilities as they fall due; and
- Limits are set on the level of investment in securities that are not readily realisable.

The table presented below indicates the undiscounted expected contractual cash flows in respect of financial liabilities. Linked business and non-linked investment contracts may be surrendered or transferred on demand. For such contracts, the earliest contractual maturity date is therefore the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. However, we expect surrenders, transfers and maturities to occur over many years, and therefore the tables below reflect the expected cash flows for these contracts, rather than their contractual maturity date.

		Undiscounted expected contractual cash flows		
	Carrying value	**Within 1 year or payable on demand**	**1 - 5 years**	**More than 5 years**
As at 31 December 2022	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Mathematical reserves - Investment contracts	**4,930,871**	**390,515**	**1,614,530**	**2,925,826**
Lease liabilities	**1,747**	**727**	**1,020**	**-**
Amounts payable to policyholders	**6,883**	**6,883**	**-**	**-**
Amounts due to reinsurers in respect of premiums	**2,751**	**2,751**	**-**	**-**
Amounts due to reinsurers in respect of claims	**4,600**	**4,600**	**-**	**-**
Accrued expenses and other payables	**141**	**141**	**-**	**-**
Reinsurance liabilities	**14,945**	**1,375**	**13,570**	-

23. Risk management objectives and policies for mitigating risks (continued)

c) Liquidity risk (continued)

		Undiscounted expected contractual cash flows		
	Carrying value	Within 1 year or payable on demand	1 - 5 years	More than 5 years
As at 31 December 2021	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Mathematical reserves - Investment contracts	6,563,421	636,717	2,507,052	3,419,652
Lease liabilities	275	275	-	-
Amounts due to Head Office	24,268	24,268	-	-
Amounts payable to policyholders	5,876	5,876	-	-
Amounts due to reinsurers in respect of premiums	2,943	2,943	-	-
Accrued expenses and other payables	5,055	5,055	-	-
Reinsurance liabilities	14,442	1,807	12,635	-

d) Insurance risk

Insurance risk includes the following areas:

- Mortality risk – risk of loss arising due to policyholder death experience being different from expectations;
- Morbidity risk – risk of loss arising due to policyholder health experience being different from expectations;
- Persistency risk – risk of loss arising from lapse experience being different from expectations; and
- Expense risk – risk of loss due to expense experience being different from expectations

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Underpinning the Branch's management of insurance risk is:

- Adherence to an approved underwriting policy that takes into account the level of risk that the Branch is willing to accept;
- Controls around the development of products and their pricing;
- Regular analysis of actual mortality, morbidity and lapse experience which feeds into the development of products and policies. If the analysis changes expectations of future liability cash flows, periodic adjustments are made to asset cash flows to maintain the asset liability match; and
- The Branch also undertakes reinsurance arrangements to manage the insurance risk it undertakes.

The Branch has not disclosed information relating to actual claims compared with previous estimates. For the Branch's life business, actual claims including outstanding claims were not material, individually or in aggregate, at the reporting date. For the Branch's individual life business, there is no uncertainty about the amount and timing of claims payments once the claim is notified as the amounts are specified in the policy. Furthermore, claims notified are typically paid within a short period of time.

23. Risk management objectives and policies for mitigating risks (continued)

d) Insurance risk (continued)

Mortality and morbidity risk

When pricing policies, an assumption is made as to the likelihood of death during the policy terms and this assumption is reviewed as part of the annual valuation of policies. To the extent that actuarial experience is worse than anticipated in pricing a loss will be made.

Persistency and option risk

Persistency experience varies over time as well as from one type of contract to another. Factors that will cause lapse rates to vary over time include changes in investment performance of the assets underlying the contract where appropriate, regulatory changes that make alternative products more attractive, customer perceptions and the general economic environment.

Expense risk

Although IFRS 4 expense risk is not a component of insurance risk, it is an important policy cash flow risk in the context of insurance and investment contracts. Majority of the impact of changes in expense levels is borne by the Company's shareholders, with policyholders exposed to inflation linked increase in certain policy charges.

Sensitivities

Sensitivities	**Impact 2022**	**Impact 2021**
Equity impact of interest rate +1%	Increase of AED 10.9m	Increase of AED 11.8m
Equity impact of expenses +10%	Decrease of AED 7.7m	Decrease of AED 2.7m
Equity impact of assurance mortality +5%	Decrease of AED 3.5m	Decrease of AED 1.0m
Equity impact of annuitant mortality -5%	No impact	No impact
Equity impact of foreign currency -10%	Increase of AED 5.5m	Decrease of AED 4.0m
Equity impact of persistency -10%	No impact	No impact
Equity impact of equities prices -10%	No impact	No impact
Equity impact of properties prices -10%	No impact	No impact
Equity impact of morbidity +5%	Decrease of AED 2.7m	Decrease of AED 2.7m

The above sensitivities are provided on a net of reinsurance basis.

Equity impact of persistency is equal to zero as no lapses are assumed in the reserving basis.

e) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks include, but are not limited to, information technology, information security, human resources, project management, tax, legal, fraud and compliance. Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the different products, activities, processes and systems under their control and for the allocation of responsibilities.

Each part of the business is responsible for identifying, assessing, managing and reporting on its operational risks on a regular basis and for implementing and maintaining controls within its remit in accordance with the IFGL Group's operational risk methodology. In performing these assessments, account is taken of the IFGL Group's risk appetite with greater significance being placed on those risks that fall outside these parameters.

24. Contingent liabilities

The Head Office of the Branch is a member of Isle of Man Policyholders Compensation Scheme governed by the Life Assurance (Compensation of Policyholders) Regulations 1991. The objective of the scheme is to provide compensation for policyholders should an authorised insurer be unable to meet its liabilities to policyholders.

In the event of a levy being charged on the Scheme members, the Head Office of the Branch would be obliged to meet the liability arising at the time. The maximum levy payable in accordance with the requirements of the Scheme in respect of the insolvency of any insurer is two per cent of the long-term business liabilities.

25. Income tax

The Branch is not subject to corporate tax in Dubai on profits/losses attributed to the Branch as the United Arab Emirates as at 31 December 2022 has no system of federal income taxation. On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax regime in the UAE. The Law was previously gazetted on 10 October 2022, becoming law 15 days later. The Corporate Tax regime will become effective for accounting periods beginning on or after 1 June 2023.

However, at year end, the threshold at which the 9% tax rate would apply was not finalised in the Law as the relevant Cabinet Decision had not been announced. Therefore, pending this decision by the Cabinet, the Branch has determined that the Law was not practically operational as at 31 December 2022, and so not enacted or substantively enacted from the perspective of IAS 12 – Income Taxes. Following the publication of the Cabinet Decision on 16 January 2023, the Branch will be subject to a 9% corporate tax rate on taxable income above a threshold of AED 375,000 for periods beginning on or after 1 June 2023. The Branch is currently in the process of assessing the possible impact on its financial statements, both from current and deferred tax perspective.

26. Related party transactions and balances

(a) Parent company and entities

The Head Office of the Branch is Friends Provident International Limited ("FPIL"), which is incorporated in the Isle of Man. The Company is controlled by the following entities:

Name	**Type**	**Place of Incorporation**	**Ownership Interest** **31 December 2022**	31 December 2021
IFG Holding Company Limited	Immediate parent entity, controlling party	Isle of Man	**76.2%**	76.2%
Aviva Group Holdings Limited	Non-controlling party (former immediate parent entity)	United Kingdom	**23.8%**	23.8%

The Head Office of the Branch's immediate parent company is IFG Holding Company Limited, a company incorporated in the Isle of Man and a subsidiary of IFGL. During 2022, the majority of the issued share capital of IFGL was ultimately held by VIP I Nominees Limited. VIP I Nominees Limited held the issued share capital of IFGL on behalf of investors in the Vitruvian Investment Partnership I Continuation Fund ("VIP I CF"). VIP I Nominees Limited was managed by Vitruvian Partners LLP. VIP I CF was also managed by Vitruvian Partners LLP. Vitruvian Partners LLP was deemed to be the ultimate controlling party.

26. Related party balances and transactions (continued)

(a) Parent company and entities (continued)

On 1 February 2022, IFGL announced that Cinven, an international private equity firm, had acquired the majority shareholding in IFGL from Vitruvian Partners LLP. Following the receipt of regulatory approvals, this transaction was completed on 23 January 2023.

The new immediate parent company of IFGL is Argo Bidco Limited. Argo Bidco Limited is wholly owned by Argo Midco Limited, which is wholly owned by Argo Topco Limited, which is in turn 81.7% owned by Argo Feederco Limited, 0.1% by Aldford Street Nominees Limited and 18.2% by IFGL management.

Cinven Capital Management (SFF) General Partner Limited, which is authorised and regulated by the Guernsey Financial Services Commission, manages the investments in Argo Feederco Limited on behalf of the beneficial owners. IFGL is the highest level at which consolidated financial statements are prepared for the IFGL Group.

(b) Key management personnel compensation

During the year ended 31 December 2022, an amount of AED 2,700,000 (2021: AED 2,688,000) was allocated to the Branch and included in general and administrative expenses in respect of the FPIL Board expenses, as the FPIL Board acted as the Key Management Personnel, for the Branch.

(c) Transactions with other related parties

The following transactions were carried out with related parties at terms agreed between the parties during the year:

	2022 AED'000	**2021 AED'000**
Other transactions		
Administrative services provided by the Head Office (Note 9)	**(15,174)**	(15,047)
Board of directors' remuneration	**-**	(146)
Transfer of funds to Head Office	**(193,208)**	(123,938)

Following changes to the expense allocation model of the Head Office of the Branch, expenses such as Board of directors' remuneration are allocated to the branch via the administrative expenses detailed above.

The Branch is recharged for administrative expenses incurred by Head Office on its behalf. The terms of recharges are such that it equates to the original cost incurred. During the year, the management has approved the transfer of funds of AED 193,208,000 (2021: AED 123,938,000) from the Branch to its Head Office.

(d) Outstanding balances arising from related parties

	2022 AED'000	**2021 AED'000**
Receivable from the Head Office (Note 16)	**2,689**	-
Payable to the Head Office (Note 18)	**-**	(24,268)
Net residual attributable to the Head Office account	**197,753**	308,013

When the Branch was set up, expenditure incurred by the Branch was borne by the Head Office. These payables do not have a fixed repayment date and bear no interest.

27. Restatement of the income statement

As per the information provided in the basis of preparation accounting policy, the income statement has been restated to demonstrate more clearly the direct relationship between the investment return being earned on unit-linked backing assets and the consequent movement in insurance and investment contract liabilities, as the directors believe this presentation is more representative of the results of the Branch. Further amendments have also been made to the reinsurance commission and fee and commission income presentation within the income statement to align with the Head Office of the Branch. There has been no change to the increase in net residual attributable to Head Office and the changes are reclassifications only on the income statement. Further, there are no other changes to the statement of financial position or the statement of cash flows for the year ended 31 December 2021 from the above reclassification.

The changes from the prior year signed financial statements are as follows:

	As previously presented AED '000	**Adjustment AED'000**	**As adjusted AED'000**
Reinsurance commission income	4,720	(4,720)	-
Commission and acquisition expenses – Insurance contracts	(1,015)	1,015	-
Commission and acquisition expenses – Investment contracts	(80,756)	80,756	-
Acquisition costs for investment and insurance contracts	-	(77,051)	(77,051)
Net impact	**(77,051)**	**-**	**(77,051)**
Net investment return	524,773	(524,773)	-
Foreign currency exchange fluctuation gain/(loss)	2,599	(2,599)	-
Investment return on assets attributable to Head Office	-	175	175
Investment return on policyholder contracts	-	527,197	527,197
Net impact	**527,372**	-	**527,372**

28. Events occurring after the reporting period

On 1 February 2022, IFGL announced that Cinven, an international private equity firm, had acquired the majority shareholding in IFGL from Vitruvian Partners LLP. Following the receipt of regulatory approvals, this transaction was completed on 23 January 2023. There are no other events subsequent to the end of the reporting period that would have a material impact on the financial statements.

29. Authorisation of financial statements

The financial statements of Friends Provident International Limited, United Arab Emirates Branch for the year ended 31 December 2022 were authorised for issue by the Branch's management on 27 April 2023. The Board of Directors of the Company have the power to amend the financial statements after issue.