

Arab Reinsurance Company S.A.L.

**Independent auditor's report
and financial statements
for the year ended 31 December 2023**

Arab Reinsurance Company S.A.L.

**Independent auditor's report
and financial statements
for the year ended 31 December 2023**

	Page
Independent auditor's report	3 - 5
Financial Statements:	
Statement of financial position	6
Statement of profit or loss and other comprehensive income	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10 - 48

Independent Auditor's Report to the shareholders of Arab Reinsurance Company S.A.L.

Qualified Opinion

We have audited the financial statements of Arab Reinsurance Company S.A.L., which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of the matter described in the "Basis of Qualified Opinion", the accompanying financial statements present fairly, in all material respects, the financial position of Arab Reinsurance Company S.A.L. as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Qualified Opinion

- As disclosed under note "7c" to the financial statements, financial assets at fair value through profit or loss have not been revalued at the market price listed on Beirut stock exchange as at December 31, 2023; which constitute a departure from IFRS. Had the company applied the market price listed on Beirut Stock Exchange for the revaluation of these financial assets, the yearly income would have increased by US\$ 65 million.
- The Company has followed the local regulator's requirements to postpone the application of IFRS 17 for annual periods beginning on or after January 1, 2024. Consequently, the Company has not applied IFRS 17 Insurance Contracts, which is effective for annual periods beginning on or after January 1, 2023, as required by IFRSs. Instead, it has continued to account for its insurance contracts using the previous accounting policies based on IFRS 4 Insurance Contracts. The impact of this departure from IFRSs could not be determined at this stage.

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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the Code of Ethics of the Lebanese Association of Certified Public Accountants that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report (continued) to the shareholders of Arab Reinsurance Company S.A.L.

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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report (continued)
to the shareholders of Arab Reinsurance Company S.A.L.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's use of going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Beirut, Lebanon
3 March, 2024


DFK Fiduciaire du Moyen-Orient

Arab Reinsurance Company S.A.L.

Statement of financial position

As at 31 December 2023

	<u>Notes</u>	<u>2023</u> <u>US\$</u>	<u>2022</u> <u>US\$</u>
<u>Assets</u>			
Property and equipment	5	2,190,051	2,229,952
Investment property	6	36,301,985	36,314,053
Intangible assets		-	1,126
Deferred acquisition cost	22	8,307,199	6,786,786
Financial assets at amortised cost	7.a	51,397,845	53,176,130
Financial assets at fair value through other comprehensive income (FVTOCI)	7.b	9,673,777	9,000,964
Financial assets at fair value through profit or loss (FVTPL)	7.c	33,852,559	33,852,559
Receivables including reinsurance receivables	8	73,452,063	69,182,157
Reinsurance assets	15	62,126,968	62,570,591
Bank deposits	9	32,547,951	28,775,828
Cash and cash equivalents	10	2,902,904	4,473,896
Total assets		<u>312,753,302</u>	<u>306,364,042</u>
<u>Equity and Liabilities</u>			
<u>Equity</u>			
Capital	12	75,000,000	75,000,000
General reserve		3,773,299	3,773,299
Legal reserve	13	15,301,511	14,823,011
Fair value reserve	11	(2,002,288)	(1,967,425)
Treasury shares	12	(7,371,678)	(7,371,678)
Retained earnings		29,630,104	24,973,561
Total equity		<u>114,330,948</u>	<u>109,230,768</u>
<u>Liabilities</u>			
Reinsurance contracts	15	151,159,709	155,836,933
Unearned reinsurance commission	20	2,190,333	2,023,719
Retirement benefit obligation	16	385,471	409,846
Accounts payable	17	44,666,662	38,830,532
Income tax provision	26	20,179	32,244
Total liabilities		<u>198,422,354</u>	<u>197,133,274</u>
Total equity and liabilities		<u>312,753,302</u>	<u>306,364,042</u>

The notes on pages 8 to 48 are an integral part of these financial statements.

Arab Reinsurance Company S.A.L.

Statement of Profit or Loss and Other comprehensive income for the year ended 31 December 2023

	<u>Notes</u>	<u>2023</u> <u>US\$</u>	<u>2022</u> <u>US\$</u>
Reinsurance premium revenue	18	73,085,724	61,405,063
Reinsurance premium ceded to reinsurers, net of Unearned Premium Reserve	18	(7,375,372)	(15,034,575)
Net earned reinsurance premium		<u>65,710,352</u>	<u>46,370,488</u>
Investment income	19	4,863,933	4,381,015
Reinsurance commission income and profit sharing	20	3,404,097	3,998,701
Other operating loss, net	25	(710)	(45,879)
Net income		<u>73,977,672</u>	<u>54,704,325</u>
Reinsurance claims and loss adjustment expenses	21	(58,966,123)	(34,342,220)
Reinsurance claims and loss adjustment expenses recovered from reinsurers	21	13,665,847	3,278,977
Net reinsurance claims		<u>(45,300,276)</u>	<u>(31,063,243)</u>
Expenses for acquisition of reinsurance contracts	22	(18,533,553)	(14,619,652)
Expenses for administration and other expenses	23	(4,975,521)	(4,178,188)
Expenses		<u>(68,809,350)</u>	<u>(49,861,083)</u>
Profit before tax		5,168,322	4,843,242
Tax expense	26	(33,279)	(58,254)
Profit for the year		<u>5,135,043</u>	<u>4,784,988</u>
Other comprehensive income for the year			
Change in fair value reserve	11	(34,863)	(49,275)
Total comprehensive income for the year		<u>5,100,180</u>	<u>4,735,713</u>

The notes on pages 8 to 48 are an integral part of these financial statements.

Arab Reinsurance Company S.A.L.

Statement of changes in equity for the year ended 31 December 2023

	Capital US\$	General reserve US\$	Legal reserve US\$	Fair value reserve US\$	Treasury shares US\$	Retained earnings US\$	Total US\$
Balance at 1 January 2022	75,000,000	3,773,299	14,346,681	(1,918,150)	(7,371,678)	20,664,903	104,495,055
Transfers to legal reserve (note 13, 14)	-	-	476,330	-	-	(476,330)	-
Profit for the year	-	-	-	-	-	4,784,988	4,784,988
Changes in fair value reserve (note 7, 11)	-	-	-	(49,275)	-	-	(49,275)
Balance at 31 December 2022	75,000,000	3,773,299	14,823,011	(1,967,425)	(7,371,678)	24,973,561	109,230,768
Transfer to legal reserve (note 13, 14)	-	-	478,500	-	-	(478,500)	-
Profit for the year	-	-	-	-	-	5,135,043	5,135,043
Changes in fair value reserve (note 7, 11)	-	-	-	(34,863)	-	-	(34,863)
Balance at 31 December 2023	75,000,000	3,773,299	15,301,511	(2,002,288)	(7,371,678)	29,630,104	114,330,948

The notes on pages 8 to 48 are an integral part of these financial statements.

Arab Reinsurance Company S.A.L.

Statement of cash flows for the year ended 31 December 2023

	Note	2023 US\$	2022 US\$
<u>Cash flows from operating activities:</u>			
Profit before tax		5,168,322	4,843,242
<i>Adjustments for:</i>			
Depreciation and amortization	5 - 6	74,252	83,696
Loss on disposal of property and equipment	25	710	-
Amortisation of financial assets at amortised cost	7.a	(39,014)	(11,440)
Effective loss on restricted bank accounts	10	(4,798,440)	-
Interest received	19	4,758,966	4,100,981
Interest income	19	(4,833,528)	(4,038,255)
Net (increase)/decrease in financial assets at FVTOCI	7.b	(707,676)	1,090,252
Net decrease in financial assets at amortised cost	7.a	833,333	1,566,667
Net increase in bank deposits	9	(3,661,456)	(1,690,260)
Net decrease in reinsurance contracts	15	(4,677,224)	(17,147,649)
Net decrease in reinsurance assets	15	443,623	10,647,800
Net increase in deferred acquisition costs	22	(1,520,413)	(166,585)
Net (increase)/decrease in receivables including reinsurance receivables	8	(4,269,906)	3,513,873
Net decrease in retirement benefit obligation	16	(24,375)	(13,822)
Net increase in accounts payable	17	5,823,030	3,664,578
Net increase/(decrease) in unearned reinsurance commission	20	166,614	(64,135)
Income tax paid	26	(32,245)	(123,341)
Net cash (used in)/provided by operating activities		(7,295,427)	6,255,602
<u>Cash flows from investing activities:</u>			
Acquisition of property and equipment	5	(27,024)	(22,980)
Proceeds from sale of property and equipment		5,158	825
Net cash (used in) investing activities		(21,866)	(22,155)
Net change in cash and cash equivalents		(7,317,293)	6,233,447
Cash and cash equivalents at beginning of year	10	12,097,942	5,864,495
Cash and cash equivalents at end of year	10	4,780,649	12,097,942

The notes on pages 8 to 48 are an integral part of these financial statements.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

1 - GENERAL INFORMATION

1.1 - Company information

Arab Reinsurance Company S.A.L. ("the Company") is incorporated as a Lebanese joint stock company (Inter-Arab Company) and is registered at the Commercial Register of Beirut under number 26233. The Company is licensed by a special presidential decree number 2933 on 11 March 1972 for 50 years ending in 2022. The extraordinary general assembly of shareholders convened on 14 November 2020 approved the extension of the Company's activity for another 50 years ending in 2072.

The purpose of the Company is to carry all reinsurance and investments activities.

1.2 - Lebanon economic and financial situation

Since the last quarter of 2019, Lebanon is witnessing severe events that have a significant impact on the economic situation during the past four years, resulting in the biggest crisis the country has witnessed since its independence in 1943 along with their related adverse impact on the financial, monetary and economic outlook in general and the banking system in particular.

The crisis was intensified by the negative impact of COVID-19 that affected Lebanon and the world, in addition to the explosion in the Beirut sea port on 4 August 2020, leading to further deterioration in the economic environment, disruption of commercial operations and regular banking practices, and increase in unemployment and social and economic turmoil.

Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default during March 2020 following the Lebanese Government decision to discontinue payments on all of its outstanding USD denominated Eurobonds. Throughout this sequence of events, the ability of the Lebanese Government and the banking sector in Lebanon to borrow funds from international markets was affected.

The deterioration of the economic conditions referred to above led to a significant decrease in external capital inflows and to a decrease in the foreign exchange reserves in the Banque du Liban, which made it more difficult to secure foreign currencies to pay the cost of imports from abroad as the economic model of Lebanon relies mainly on imports, in addition to systemic failures across banking, debt and the exchange rate. Banks have imposed restrictions on capital and foreign currencies and on transfers of foreign currencies outside Lebanon, which led to the difficulty of accessing foreign currencies and cash, and to the emergence of a parallel market to the official peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the official peg of 1,507.5 LBP/USD (till 31 January 2023) and 15,000 LBP/USD (as from 1 February 2023).

Since 2020, the Lebanese economy was recognised as a hyperinflationary economy, the currency depreciation has accelerated and cash dollarization increased.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

1 - GENERAL INFORMATION (continued)

1.2 - Lebanon economic and financial situation (continued)

International Monetary Fund (IMF)

On 7 April 2022 the International Monetary Fund (IMF) announced that the Lebanese authorities and the IMF team have reached a staff-level agreement on a comprehensive economic reform program for a US\$ 3 billion that could be supported by a 46-month Extended Fund Arrangement (EFF), this agreement is subject to the approval by IMF management and the Executive Board.

The IMF issued in March 2023 the concluding statement of its 2023 Article IV Mission. It says Lebanon is at a particularly difficult juncture. Lebanon has been facing an unprecedented sovereign-banking-currency crisis, which is ongoing for more than three years. Since the onset of the crisis, the economy has contracted by about 40 percent, the Lebanese lira has lost 98 percent of its value, inflation has been at triple-digits, and the central bank has lost two thirds of its foreign exchange (FX) reserves.

Although the economy showed some signs of stabilization in 2022, it remains severely depressed. The stabilization was supported by the expiration of COVID measures, a rebound in tourism, strong remittances inflows, and a gradual improvement in terms of trade in the second half of the year. Still, high uncertainty, banking sector restrictions, and expensive and very limited electricity supply continue to hinder economic activity. Following the dramatic exchange rate depreciation in Q1 2023, cash dollarization increased, and inflation accelerated to 270 percent y-o-y in April 2023. The fiscal deficit is estimated to have widened to 5 percent of GDP in 2022, due to collapsing revenues. The current account deficit is estimated to have widened to almost 30 percent of GDP on account of surging imports, while foreign domestic investment (FDI) has remained depressed, as have been other financial inflows.

During the year 2023 the International Monetary Fund (IMF) warned that Lebanon's progress for reforms has been slow considering how complicated the situation is, adding, one would have expected more in terms of implementation and approval of the legislations, noting a very slow progress.

The International Monetary Fund (IMF) concluded by stating its commitment to supporting Lebanon and continuing its engagement with authorities through policy advice and technical assistance. Still, this support will depend on Lebanon's implementation of a comprehensive reform program.

Lebanese Government's Financial Recovery Plan

On 20 May 2022, the Lebanese Government endorsed a financial recovery roadmap which includes several measures to secure international aid and unlock funds from the IMF.

Despite the urgency of the situation, as a result of the continued political paralysis the authorities were not able to implement policies and reforms to resolve the crisis and restore macroeconomic stability.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

1 - GENERAL INFORMATION (continued)

1.3 - Company's Particulars

The company's significant specific areas for consideration arising from the above economic situation are set out below:

- Investment securities at amortized cost comprise as at 31 December 2023, debt securities issued by the Lebanese government with carrying value before allowances for impairment loss of US\$ 22,105,000. The total accumulated allowance for impairment loss amounted to US\$ 20,868,163 as at 31 December 2023 (US\$ 19,894,500 as at 31 December 2022) (see note 7).
- Balances held with Lebanese banks (restricted) have dropped from US\$ 8.3 million as of 31 December 2022 to US\$ 2 million as of 31 December 2023. The total accumulated allowance for impairment loss amounted to US\$ 1.8 million as at 31 December 2023 (US\$ 7.6 million as at 31 December 2022) (see notes 9 and 10).

Management are implementing the following measures (performing the following actions) to mitigate the effect of the economic situation in Lebanon and risk of their exposure to local banks and sovereign debts:

- Keep on hold any previously taken decision to invest further in Lebanese sovereign debt, and continuing to take the appropriate commercial decisions to optimize the operations outside the Lebanese territories and to find alternative sources of investment income to ensure that the business remains successful and at the right size.
- Continuously monitoring cashflow forecasts to maintain an adequate balance between cash in hand and at local banks and cash at foreign banks.
- The Company's reinsurance operations are mainly carried outside Lebanon. In fact, for the year ending 31 December 2023, 97% of its reinsurance premium were from abroad.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

2.1 - Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC Interpretations. They have been prepared under the historical cost convention except for financial assets carried at fair value.

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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.2 - Application of new and revised IFRS Accounting Standards

a) New and amended Accounting Standards and Interpretations that are effective for the current year

In the current year, the Company has applied the below amendments to IFRS Accounting Standards and Interpretations that are effective for an annual period that begins on or after January 1, 2023 (except for IFRS 17). Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- *Amendments to IAS 8 — Definition of Accounting Estimates*

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

- *Amendments to IAS 12 — Deferred Tax related to Assets and Liabilities arising from a Single Transaction.*

The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. It specifically addresses the recognition of deferred tax related to assets and liabilities arising from a single transaction.

It requires companies to recognize deferred tax on particular transactions that, upon initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 - Application of new and revised IFRS Accounting Standards (continued)

a) *New and amended Accounting Standards and Interpretations that are effective for the current year (continued)*

- *Amendments to IAS 1 and IFRS Practice Statement 2 — Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim at helping entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

- *IFRS 17 — Insurance contract*

The Company has not applied IFRS 17 Insurance Contracts in the preparation of the financial statements for the year ended 31 December 2023. Insurance and reinsurance companies in Lebanon are permitted by the local regulator to defer the adoption of IFRS 17 until 1 January 2024, in line with the endorsement process in the jurisdiction. The Company will apply IFRS 17 retrospectively from that date, subject to the transitional provisions in the standard. The Company is currently assessing the impact of IFRS 17 on its financial statements and will disclose the expected effects in its 2024 financial statements, as required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

This standard aims to provide useful information about insurance contracts, considering their unique features and long-term variability in cash flows. Insurance contracts, being a unique combination of financial instruments and service contracts, are subject to the principles outlined in IFRS 17:

1. Risk-Adjusted Present Value: Entities calculate the fulfillment cash flows (which incorporate all available information about future cash flows) in a manner consistent with observable market data. If this value represents a liability, it includes an amount for the contractual service margin, which reflects unearned profit.
2. Recognition of Profit: Profit from a group of insurance contracts is recognized over the period during which the entity provides insurance services. As the entity is released from risk, the profit is recognized. If a group of contracts becomes loss-making, the loss is recognized immediately.
3. Presentation: Insurance revenue (excluding investment components), insurance service expenses (excluding repayment of investment components), and insurance finance income or expenses are presented separately.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 - Application of new and revised IFRS Accounting Standards (continued)

b) New accounting standards, amendments and interpretations not yet effective

The following amendments to IFRS have been issued but are not yet effective and have not been early adopted by the Company. The Company intends to adopt them when they become effective.

- *Amendments to IAS 1 Presentation of financial statements — Classification of Liabilities as Current or Non-current.*

The amendments provide guidance regarding the classification of assets and liabilities as current or non-current. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024, with early application permitted.

- *Amendments to IFRS 16 Leases — Lease Liability in a Sale and Leaseback*

The amendments specifically address the treatment of lease liability in a sale and leaseback scenario and clarify how a seller-lessee subsequently measures sale and leaseback transactions that meet the requirements in IFRS 15 to be accounted for as a sale. The amendments are for annual periods beginning on or after January 1, 2024 with early application permitted.

- *Amendment to IAS 7 and IFRS 7— Supplier finance arrangements*

The amendments introduce two new disclosure objectives:

One in IAS 7: To provide information enabling users (investors) to assess the effects of supplier finance arrangements on an entity's liabilities and cash flows.

Another in IFRS 7: To help users understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if these arrangements were no longer available.

These amendments aim to enhance transparency and provide investors with better insights into how supplier finance arrangements affect an entity's financial position and risk exposure.

The amendments are for annual periods beginning on or after January 1, 2024 with early application permitted.

- *Amendment to IAS 21 — Lack of exchangeability*

The amendments specify when a currency is exchangeable into another currency and when it is not, and how an entity determines a spot rate when a currency lacks exchangeability.

Under the amendments, entities are required to provide additional disclosures to help users evaluate how a currency's lack of exchangeability affects, or is expected to affect, its financial performance, financial position and cash flows.

These amendments are effective for reporting periods beginning on or after January 1, 2025 with early application permitted.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 - Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'US Dollars' (US\$), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through Other Comprehensive Income (FVTOCI) are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss; other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measured at fair value, such as equities classified as financial assets at fair value through Other Comprehensive Income, are included in other comprehensive income.

2.4 - Property and equipment

All property and equipment are stated at historical cost less accumulated depreciation and accumulated losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate the cost of each asset to their residual values over their estimated useful lives as follows:

	<u>Years</u>
Buildings	50
Leasehold improvements	5
Office equipment	5 - 13
Furniture	13
Other equipment	5

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 - Property and equipment (continued)

Subsequent expenditures are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of profit or loss.

2.5 - Investment property

Property held for long-term rental yields or capital appreciation or both that is not occupied by the Company is classified as investment property. Investment property comprises land and buildings which are stated at historical cost based on IAS 40 'Investment property'.

Depreciation on the building is calculated using the straight-line method to allocate cost over the estimated useful economic lives. The estimated useful economic life is 50 years.

The investment property carrying amount will be written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount.

2.6 - Intangible assets

Separately purchased computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using straight line method over their estimated useful life (three to five years).

2.7 - Impairment of non financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed 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 to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 - Financial assets

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

It introduces an 'expected credit loss (ECL)' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. Since the Company activities are predominantly connected with insurance, the entity has chosen to apply the temporary exemption from IFRS 9 and delayed its' application till 2023.

2.8.1 - Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss (FVTPL), loans and receivables, fair value through other comprehensive income (FVTOCI) and financial asset at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit and loss (FVTPL)

Financial assets at fair value through profit or loss (FVTPL) are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling it in the short term. Financial assets at FVTPL are measured at the end of each reporting period, with any gains or losses arising on re-measurement recognised in profit or loss.

(b) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company intends to sell immediately or in the short term, which are classified at fair value through profit and loss.

Receivables arising from reinsurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of receivables.

(c) Financial assets at fair value through other comprehensive income (FVTOCI)

Financial assets classified at fair value through Other Comprehensive Income (FVTOCI) are non-derivatives that are either designated in this category or not classified in any of the other categories.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 - Financial assets (continued)

2.8.1 - Classification (continued)

(d) Financial assets at amortised cost

Financial assets at amortised cost are non derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

These do not include any of the classifications listed above. Interest on financial assets at amortised cost is included in the statement of profit or loss. In case of impairment, the loss is reported as a deduction in the carrying amount of the investment and recognised in the statement of profit or loss.

2.8.2 - Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Gains or losses arising from changes in the fair value of a financial asset at fair value through profit or loss category are presented in the statement of profit or loss in the period in which they arise. Dividend income from financial assets is recognised in the statement of profit or loss when the Company's right to receive payment is established.

Receivables are carried at amortised cost net of provision for impairment losses where applicable.

Changes in the fair value of monetary securities classified at (FVTOCI) are recognised in other comprehensive income. When securities classified at (FVTOCI) are sold or impaired, the accumulated fair value adjustments are recognised in equity.

Interest on these securities is recognised in the income statement as part of investment income.

2.8.3 - Impairment of financial assets

(a) Assets carried at amortised cost

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 - Financial assets (continued)

2.8.3 - Impairment of financial assets (continued)

Evidence of impairment may include indications that the debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss. If a loan or investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the statement of profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

2.9 - Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.10 - Dividends distribution

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

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 - Retirement benefit obligations

The Company is subscribed to the compulsory defined benefit plan in accordance with the National Social Security Fund regulations. The provision for employees' termination indemnities is based on the liability that would arise if the employment of all the employees' were voluntarily terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the sum of the last basic salary and the monthly average of the last 12 months' remunerations, less contributions paid to the Lebanese National Social Security Fund.

2.12 - Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.13 - Share capital

Ordinary shares are classified as equity.

2.14 - Treasury shares

When an entity purchases its own shares and holds them in treasury 'treasury shares', the amount paid is deducted from equity. No gain or loss should be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.

2.15 - Current income tax

The income tax charge is calculated at the rate of 17% of assumed profit which represents 10% of gross premiums written in Lebanon and other operating income in accordance with the Lebanese laws.

2.16 - FX Forward trade

Forward currency contracts are accounted for off balance sheet until settlement date and all gains or losses at reporting dates arising from the difference between spot rate and forward rate are recognized in statement of profit or loss during that period.

2.17 - Investment income

Investment income mainly comprises interest and dividend income and realised gains and losses on sale of financial assets. Investment income is stated net of investment expenses and charges.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 - Investment income (continued)

Interest income is recognised on an accrual basis, by reference to the principal outstanding and at the effective interest rate applicable. Interest includes interest earned on bank deposits and on financial assets at amortised costs. Dividend income is recognised under investment income when dividends are declared. Realised gain and loss from sale of investments are calculated as the difference between net proceeds from sale and the carrying value of investments.

2.18 - Insurance contracts

The Company enters into insurance agreements whereby it compensates insurance companies for losses on one or more contracts issued by these companies. Such insurance agreements transfer significant insurance risk to the Company.

(a) Recognition and measurement

The Company's insurance contracts cover general insurance risks insured by the Company. General insurance contracts cover insurance risks written by the ceding companies. They protect the customers of the ceding companies from damage suffered to their assets as well as against the risk of causing harm to third parties as a result of their legitimate activities. General insurance contracts also protect the customers of the ceding companies from the consequences of events such as illness and disability.

Premiums are recognised as revenue when they are underwritten, and they include an estimation of underwritten premiums that are not yet received from the ceding companies and in proportion with the period of coverage. Unearned premiums represent the proportion of premiums accepted in the year that relate to unexpired terms of policies in force at the statement of financial position date, calculated on a time apportionment basis.

Claims and loss adjustments expenses are recognised in the statement of profit or loss when incurred and based on the estimated claims on the basis of the ultimate cost of settling the claims, using the ultimate loss ratios of the benefits due to contract holders and the third parties affected by the contract holders. These expenses include claims and loss adjustment expenses directly or indirectly related to events occurring within the statement of financial position date even if they were not reported to the Company.

The claims provisions cover future payments obligations from claims in respect of which the amount of the insurance benefit and / or the time of payment are still uncertain. These are established for losses from loss events that occurred prior to the statement of financial position date. The level of the provision is based on information provided by cedants. Additional provisions are constituted in cases where the provisions indicated by cedants are considered to be inadequate. The provisions also include claim settlement costs.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 - Insurance contracts (continued)

(a) Recognition and measurement (continued)

Taking into consideration the fact that significant time lags may exist between loss events and notification of the claims to the Company, incurred but not reported claims ("IBNR") are established on the basis of the Company's own estimates for claims that have already been incurred but not yet reported. These are guided by the principle of best estimate using actuarial methods (e.g. ultimate loss ratio methods). Such estimates are based upon both past experience and assessments of the future development. The adequacy of the provisions is regularly reviewed.

(b) Deferred acquisition costs

Commissions and other acquisition costs that are related to securing new contracts and renewing existing contracts are capitalised as deferred acquisition cost - ("DAC"). All other costs are recognised as expenses when incurred.

The DAC is subsequently amortised over the life of the contract. The resulting change to the carrying value of the DAC is charged to the statement of profit or loss.

(c) Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more insurance contracts issued by the Company are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment on a yearly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in note 2.8.3.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 - Insurance contracts (continued)

(c) Reinsurance contracts held (continued)

Reinsurance commissions income received from reinsurers are earned over the same period as the related ceded premiums.

(d) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from insurance companies and brokers. If there is objective evidence that the insurance receivables is impaired, the Company reduces the carrying amount of the insurance receivables accordingly and recognises that impairment loss in the statement of profit or loss. The Company gathers the objective evidence that a insurance receivable is impaired using the same process adopted for receivables. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in note 2.8.3.

2.19 - Comparative figures

Where applicable prior year figures have been re-classified in order to conform to current year presentation.

3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) The ultimate liability arising from claims under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the Company's critical accounting estimates. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

(b) Process used to decide on assumptions

The risks associated with these insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis.

The Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual insurance contracts carried out at year-end to derive data for the contracts held.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Process used to decide on assumptions (continued)

The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

The Company uses the ultimate loss ratio based on history and experience and multiplies this ratio by the earned premiums in order to estimate the ultimate cost of claims.

(c) Estimated premium revenue

Premium revenue not reported by cedants at the statement of financial position date and relating to the current underwriting year is estimated based on average development factors computed using triangulation of data received per class of business and type of treaty.

4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Company issues contracts that transfer insurance risks. Moreover, the operations of the company expose it to different types of financial risk. This section summarises these risks and the way the Company manages them.

4.1 - Insurance risk

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

The principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insured events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

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

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

4.1 - Insurance risk (continued)

(a) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew treaties, it can impose deductibles and it has the right to reject the payment of a fraudulent claim.

The Company is protected by reinsurance arrangements including quota share, surplus excess of loss treaties as well as catastrophe treaties.

The concentration of insurance risk before and after reinsurance in relation to the type of general insurance risk accepted is summarised below, with reference to the carrying amount of the related insurance liabilities (gross and net of reinsurance) arising from general insurance contracts:

As at 31 December 2023

In US\$

	Type of risk					Total
	Fire	Engineering	Marine	Motor	Other	
Gross	73,662,610	18,091,245	10,801,507	30,442,319	18,162,028	151,159,709
Net	23,643,721	10,835,793	10,754,513	30,442,319	13,356,395	89,032,741

As at 31 December 2022

In US\$

	Type of risk					Total
	Fire	Engineering	Marine	Motor	Other	
Gross	79,541,144	18,731,309	11,863,946	24,374,328	21,326,206	155,836,933
Net	27,222,346	10,936,272	11,814,806	24,374,328	18,918,590	93,266,342

(b) Sources of uncertainty in the estimation of future claim payments

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

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK

4.1 - Insurance risk (continued)

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

The liability for these contracts comprise a provision for Incurred But Not Reported, a provision for reported claims not yet paid and a provision for unexpired risks at the statement of financial position date.

In calculating the estimated cost of unpaid claims (both reported and not), the Company's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until several months after the event that gave rise to the claims has happened.

In estimating the liability for the cost of reported claims not yet paid the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

4.2 - Financial risk

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is equity price risk. The Company manages these positions to achieve investment returns in excess of its obligations under insurance contracts. The Company has not changed the processes used to manage its risks from previous periods.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK

4.2.1 - Market risk

Market risk is comprised of interest rate risk, equity price risk and currency risk.

(i) Interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The Company's revenue will be significantly affected by changes in prevailing interest rates since a portion of its income derives from interest on investments and bank deposits. The Company's interest-earning assets are subject to fixed interest rates.

	Effective interest rate	
	2023	2022
	%	%
Financial assets at amortised cost	6.6	6.7
Bank deposits	5.2	1.9
Cash & cash equivalents	-	0.1

(ii) Equity price risk

The sensitivity analysis for equity risk illustrates how fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

The equity securities described in this note are classified as financial assets at (FVTOCI) and (FVTPL).

(iii) Currency risk

The Company underwrites insurance contracts mainly in US Dollars. The Company concentrates its investments in assets denominated in the same currency as their related liabilities which reduces the foreign currency exchange risk for these operations. The Company's exposure to foreign currencies arises from assets and liabilities that are denominated in currencies other than the US\$.

The Company's financial assets and liabilities denominated in Lebanese Pounds have been translated year end at the official exchange rate which differentiated from prevailing market rate as disclosed under note 1.2. Most of the Company's assets and liabilities are denominated in currency other than Lebanese Pounds, and accordingly exposure to Lebanese Pounds is deemed immaterial and the impact of the valuation of these assets and liabilities at a different rate will be recognized in the financial statements once the official exchange rate is changed by the relevant authorities.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK

4.2 - Financial risk (continued)

4.2.1 - Market risk (continued)

(iii) Currency risk (continued)

As at 31 December 2023	US\$	Indexed in US\$	Turkish Lira in US\$	Other in US\$	Total in US\$
Assets					
Property and equipment	2,190,051	-	-	-	2,190,051
Investment property	36,301,985	-	-	-	36,301,985
Deferred acquisition cost	1,408,403	3,538,202	2,106,290	1,254,304	8,307,199
Financial assets at amortized cost	51,397,845	-	-	-	51,397,845
Financial assets at FVTOCI	4,392,724	-	-	5,281,053	9,673,777
Financial assets at FVTPL	33,852,559	-	-	-	33,852,559
Receivables including reinsurance receivables	11,202,316	28,182,635	17,644,690	16,422,422	73,452,063
Reinsurance assets	30,345,494	15,771,738	3,521,749	12,487,987	62,126,968
Bank deposits	32,547,951	-	-	-	32,547,951
Cash & cash equivalents	2,045,614	-	-	857,290	2,902,904
Total Assets	205,684,942	47,492,575	23,272,729	36,303,056	312,753,302
Liabilities					
Reinsurance contracts	68,047,668	41,495,163	12,140,015	29,476,863	151,159,709
Unearned reinsurance commission	371,349	932,907	555,359	330,718	2,190,333
Retirement benefit obligation	385,471	-	-	-	385,471
Accounts payable	21,464,203	13,229,979	3,869,954	6,102,526	44,666,662
Income tax provision	20,179	-	-	-	20,179
Total Liabilities	90,288,870	55,658,049	16,565,328	35,910,107	198,422,354
Net balance sheet position at 31 December 2023	115,396,072	(8,165,474)	6,707,401	392,949	114,330,948

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK

4.2 - Financial risk (continued)

4.2.1 - Market risk (continued)

(iii) Currency risk (continued)

As at 31 December 2022	US\$	Indexed in US\$	Turkish Lira in US\$	Other in US\$	Total in US\$
Assets					
Property and equipment	2,229,952	-	-	-	2,229,952
Investment property	36,314,053	-	-	-	36,314,053
Intangible assets	1,126	-	-	-	1,126
Deferred acquisition cost	1,560,961	2,986,186	950,150	1,289,489	6,786,786
Financial assets at amortized cost	53,176,130	-	-	-	53,176,130
Financial assets at FVTOCI	3,845,619	-	-	5,155,345	9,000,964
Financial assets at FVTPL	33,852,559	-	-	-	33,852,559
Receivables including reinsurance receivables	13,899,312	29,675,740	8,816,555	16,790,550	69,182,157
Reinsurance assets	46,449,586	9,653,669	1,095,721	5,371,615	62,570,591
Bank deposits	27,165,303	-	-	1,610,525	28,775,828
Cash & cash equivalents	2,892,720	-	-	1,581,176	4,473,896
Total Assets	221,387,321	42,315,595	10,862,426	31,798,700	306,364,042
Liabilities					
Reinsurance contracts	109,233,400	27,641,693	4,271,672	14,690,168	155,836,933
Unearned reinsurance commission	465,455	890,436	283,321	384,507	2,023,719
Retirement benefit obligation	409,846	-	-	-	409,846
Accounts payable	22,947,194	8,954,073	2,075,292	4,853,973	38,830,532
Income tax provision	32,244	-	-	-	32,244
Total Liabilities	133,088,139	37,486,202	6,630,285	19,928,648	197,133,274
Net balance sheet position at 31 December 2022	88,299,182	4,829,393	4,232,141	11,870,052	109,230,768

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK

4.2 - Financial risk (continued)

4.2.2 - Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- reinsurance assets including receivables from reinsurers;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- bank deposits; and
- financial assets at amortised cost

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to a regular review. Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract.

The table below summarises assets bearing credit risk net of provisions:

	2023	2022
	US\$	US\$
Receivables (excluding prepayments)	73,452,063	69,174,434
Reinsurance assets	62,126,968	62,570,591
Financial assets at amortised cost	51,397,845	53,176,130
Bank deposits	32,547,951	28,775,828
Cash and cash equivalents (excluding cash on hand)	2,156,732	3,667,871
Total assets bearing credit risk	<u>221,681,559</u>	<u>217,364,854</u>

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK

4.2 - Financial risk (continued)

4.2.2 - Credit risk (continued)

The assets above are analysed in the table below using Standard & Poor's rating or equivalent when not available from Standard & Poor's. The concentration of credit risk is substantially unchanged compared to the prior year.

	2023	2022
	US\$	US\$
AA	8,009,469	4,526,996
A	62,231,220	59,482,297
BBB	20,918,871	3,134,074
Below BBB or not rated	92,123,838	117,846,382
Total	183,283,398	184,989,749
Pipeline receivables	38,398,161	32,375,105
	<u>221,681,559</u>	<u>217,364,854</u>

4.2.3 - Liquidity risk

The table below indicates the estimated amount and timing of cash flows arising from liabilities:

At 31 December 2023

In US\$

	Carrying Amount	Payments due by period				
		0-1 years	1-2 years	2-3 years	3-4 years	>5 years
Reinsurance contracts	151,159,709	84,588,656	36,258,018	12,783,818	6,939,359	10,589,858
Other liabilities	45,072,312	17,031,865	9,636,694	4,232,289	1,706,611	12,464,853
	<u>196,232,021</u>	<u>101,620,521</u>	<u>45,894,712</u>	<u>17,016,107</u>	<u>8,645,970</u>	<u>23,054,711</u>

At 31 December 2022

In US\$

	Carrying Amount	Payments due by period				
		0-1 years	1-2 years	2-3 years	3-4 years	>5 years
Reinsurance contracts	155,836,933	87,117,085	37,480,737	9,364,418	6,826,924	15,047,769
Other liabilities	39,272,622	14,528,315	7,629,465	2,884,461	1,389,347	12,841,034
	<u>195,109,555</u>	<u>101,645,400</u>	<u>45,110,202</u>	<u>12,248,879</u>	<u>8,216,271</u>	<u>27,888,803</u>

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

4 - MANAGEMENT OF INSURANCE AND FINANCIAL RISK

4.3 - Fair value hierarchy

The different levels have been identified as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2),
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	2023			
	Level 1	Level 2	Level 3	Total
	US\$	US\$	US\$	US\$
At fair value through OCI	685,186	-	8,988,591	9,673,777
At fair value through Profit or loss	33,852,559	-	-	33,852,559
	<u>34,537,745</u>	<u>-</u>	<u>8,988,591</u>	<u>43,526,336</u>

	2022			
	Level 1	Level 2	Level 3	Total
	US\$	US\$	US\$	US\$
At fair value through OCI	578,690	-	8,422,274	9,000,964
At fair value through Profit or loss	33,852,559	-	-	33,852,559
	<u>34,431,249</u>	<u>-</u>	<u>8,422,274</u>	<u>42,853,523</u>

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

5 - PROPERTY AND EQUIPMENT

	Land & buildings US\$	Leasehold improvements US\$	Furniture US\$	Office equipment US\$	Other equipment US\$	Total US\$
<u>Cost:</u>						
Balance as at January 1, 2022	2,962,112	255,275	470,086	26,115	426,384	4,139,972
Additions	-	-	-	-	22,980	22,980
Disposals	-	-	-	-	(825)	(825)
At 31 December 2022	<u>2,962,112</u>	<u>255,275</u>	<u>470,086</u>	<u>26,115</u>	<u>448,539</u>	<u>4,162,127</u>
Additions	-	-	844	-	26,180	27,024
Disposals	-	-	-	-	(17,829)	(17,829)
At 31 December 2023	<u><u>2,962,112</u></u>	<u><u>255,275</u></u>	<u><u>470,930</u></u>	<u><u>26,115</u></u>	<u><u>456,890</u></u>	<u><u>4,171,322</u></u>
<u>Accumulated depreciation:</u>						
Balance as at January 1, 2022	(766,692)	(249,451)	(443,331)	(26,115)	(376,080)	(1,861,669)
Additions	(35,674)	(5,824)	(9,946)	-	(19,062)	(70,506)
At 31 December 2022	<u>(802,366)</u>	<u>(255,275)</u>	<u>(453,277)</u>	<u>(26,115)</u>	<u>(395,142)</u>	<u>(1,932,175)</u>
Additions	(35,674)	-	(5,807)	-	(19,576)	(61,057)
Disposals	-	-	-	-	11,961	11,961
At 31 December 2023	<u><u>(838,040)</u></u>	<u><u>(255,275)</u></u>	<u><u>(459,084)</u></u>	<u><u>(26,115)</u></u>	<u><u>(402,757)</u></u>	<u><u>(1,981,271)</u></u>
<u>Net book value:</u>						
At 31 December 2023	<u><u>2,124,072</u></u>	<u><u>-</u></u>	<u><u>11,846</u></u>	<u><u>-</u></u>	<u><u>54,133</u></u>	<u><u>2,190,051</u></u>
At 31 December 2022	<u><u>2,159,746</u></u>	<u><u>-</u></u>	<u><u>16,809</u></u>	<u><u>-</u></u>	<u><u>53,397</u></u>	<u><u>2,229,952</u></u>

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

6 - INVESTMENT PROPERTY

	2023	2022
	US\$	US\$
Cost	<u>36,618,114</u>	<u>36,618,113</u>
Accumulated depreciation	<u>(316,129)</u>	<u>(304,060)</u>
Net book value	<u>36,301,985</u>	<u>36,314,053</u>

Investment property comprises vacant commercial properties in Beirut Central District, an apartment in Ras Beirut and a land in sector D of the central district of Beirut. These properties are not occupied by the Company and are held for long term rental yields except for the land.

No rental income have been earned during the two reported years.

7 - INVESTMENT SECURITIES

Investment securities are broken down as follows:

	2023	2022
	US\$	US\$
Financial assets at amortized cost (note 7.a)	<u>71,081,950</u>	<u>71,876,269</u>
Accrued interest receivable	<u>1,184,058</u>	<u>1,194,361</u>
Allowance for impairment loss	<u>(20,868,163)</u>	<u>(19,894,500)</u>
	<u>51,397,845</u>	<u>53,176,130</u>
Financial assets at fair value through other comprehensive income (FVTOCI) (note 7.b)	<u>9,673,777</u>	<u>9,000,964</u>
Financial assets at fair value through profit or loss (FVTPL) (note 7.c)	<u>33,852,559</u>	<u>33,852,559</u>

7.a - Financial assets at amortised cost

The table below analyses the maturity of the financial assets as at 31 December 2023:

	Nominal value	1 - 5 years	6 - 10 years	11 - 15 years
Debt securities issued by the Lebanese government	22,105,000	13,605,000	3,500,000	5,000,000
Foreign debt securities	48,976,950	28,110,050	19,803,500	1,063,400

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

7 - INVESTMENT SECURITIES (continued)

7.a - Financial assets at amortised cost (continued)

The movement of financial assets at amortised cost is detailed as follows:

	2023	2022
	US\$	US\$
At beginning of year	71,876,269	73,431,496
Additions	500,000	-
Redemption	(1,200,000)	(1,500,000)
Disposals	(133,333)	(66,667)
Amortisation	39,014	11,440
	<u>71,081,950</u>	<u>71,876,269</u>

The movement of allowance for impairment loss is detailed as follows:

	2023	2022
	US\$	US\$
At beginning of year	(19,894,500)	(19,894,500)
Transfer from "allowance for impairment loss on bank current accounts" (note 10)	(973,663)	-
	<u>(20,868,163)</u>	<u>(19,894,500)</u>

7.b - Financial assets at fair value through other comprehensive income (FVTOCI)

	2023	2022
	US\$	US\$
Financial assets at fair value - listed	626,223	578,690
Financial assets at fair value - not listed	9,047,554	8,422,274
	<u>9,673,777</u>	<u>9,000,964</u>

This caption consists mainly of equity securities denominated in US\$ and in Euros. Financial assets at (FVTOCI) are stated net of a provision for impairment.

Summarised below is the movement of financial assets at (FVTOCI):

	2023	2022
	US\$	US\$
At beginning of year	9,000,964	10,140,491
Additions	557,267	565,611
Redemption	-	(1,518,049)
Currency translation gain / (loss)	150,409	(137,814)
Change in fair value (note 11)	(34,863)	(49,275)
	<u>9,673,777</u>	<u>9,000,964</u>

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

7 - INVESTMENT SECURITIES (continued)

7.c - Financial assets at fair value through profit or loss (FVTPL)

	2023 US\$	2022 US\$
Financial assets at fair value through profit or loss (FVTPL)	<u>33,852,559</u>	<u>33,852,559</u>

Financial assets at fair value through profit or loss represents shares in a local real estate company. Management did not account for the unrealised gain of US\$ 65 million resulting from the revaluation of these shares as at December 31, 2023 since it considers that the share price, as listed on Beirut stock exchange, is higher than its realisable value and therefore might mislead the reader of these financial statements.

8 - RECEIVABLES INCLUDING REINSURANCE RECEIVABLES

	2023 US\$	2022 US\$
Pipeline receivables	38,398,161	32,375,105
Due from insurance companies and brokers	12,996,447	11,029,668
Provision for impairment of receivables	(1,500,000)	(1,500,000)
Deposits with ceding companies	21,035,820	23,793,380
Due from related parties (note 27)	1,395,750	2,571,811
Due from employees	63,772	11,958
Other receivables	1,062,113	900,235
	<u>73,452,063</u>	<u>69,182,157</u>

The carrying amount of receivables approximate their fair values at 31 December 2023 and 2022. There is no concentration of credit risk with respect to balances due from contract holders, as the Company has a large number of dispensed debtors.

Provision for impairment of receivables as at 31 December 2023 represents individual provision for the amount of US\$ 1.2 million (2022: US\$ 1.2 million) and collective provision for the amount of US\$ 300 thousand (2022: US\$ 300 thousands).

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

9 - BANK DEPOSITS

	2023	2022
	US\$	US\$
Time deposit	<u>32,400,000</u>	28,709,875
Time deposit- restricted *	-	28,669
Accrued interest receivable	147,951	63,086
Allowance for impairment loss on restricted time deposit	-	(25,802)
	<u>32,547,951</u>	<u>28,775,828</u>

Bank deposits as at 31 December 2023, mature during the first quarter of the year 2024.

10 - CASH AND CASH EQUIVALENTS

	2023	2022
	US\$	US\$
Cash on hand	<u>746,172</u>	806,025
Bank current accounts	1,943,553	3,041,772
Bank current accounts - restricted *	2,090,924	8,250,145
Allowance for impairment loss	<u>(1,877,745)</u>	<u>(7,624,046)</u>
	<u>2,902,904</u>	<u>4,473,896</u>

The movement of allowance for impairment loss on bank restricted deposits and current accounts is as follows:

	Bank Current Account	Bank Deposits
	US\$	US\$
Balance as at December 31, 2022	<u>(7,624,046)</u>	<u>(25,802)</u>
Effective loss	4,798,440	-
Transfer from "bank deposits" to "bank current accounts"	(25,802)	25,802
Transfer from "bank current accounts" to "allowance for impairment loss on financial assets at amortized cost" (note 7)	973,663	-
Balance as at December 31, 2023	<u>(1,877,745)</u>	<u>-</u>

* The use of "restricted" bank accounts denominated in foreign currencies is limited for local settlements in Lebanon and cannot be withdrawn in cash or transferred abroad.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

11 - FAIR VALUE RESERVE

Below is the movement of the fair value reserve of financial assets at fair value through OCI:

	2023	2022
	US\$	US\$
At beginning of the year	1,967,425	1,918,150
Change in fair value	34,863	49,275
	<u>2,002,288</u>	<u>1,967,425</u>

12 - SHARE CAPITAL

At 31 December 2022, the share capital is comprised of 75,000,000 authorised and fully paid shares with a par value of US\$ 1 each, similar to last year.

An extraordinary general assembly of shareholders held on 21 May 2013, approved an amendment to article 18 of the Company's Bylaws. This amendment grants the Board of Directors the power to purchase the Company's own shares from specific shareholder under certain circumstances. This concerns situations where the status of the shareholder is prejudicial to the interests of the Company as a result of an international sanctions regime applying to the shareholder or the Country in which he operates.

Pursuant to the above amended article, the board of directors took the decision on 27 June 2013 to acquire 6,935,440 shares representing 9.24% of the share capital and held by one of the shareholders estimated the fair value of these shares at US\$ 7.37 million. This amount was reflected on the statement of financial position as treasury shares, deducted from shareholders' equity and as an obligation payable to the shareholder (note 17).

13 - LEGAL RESERVE

According to Article 60 of the Company's bylaws, 10% of the annual net profit should be transferred to a legal reserve until such reserve reaches the Company's capital. This reserve is not available for distribution to shareholders.

14 - PROFIT ALLOCATION

The ordinary general assembly of the Company convened on 17 June 2023 and approved the allocation of 2022 profit to retained earnings after transferring 10% of the amount to legal reserve.

Arab Reinsurance Company S.A.L.

Notes to the financial statements
for the year ended 31 December 2023

15 - REINSURANCE CONTRACTS AND REINSURANCE ASSETS

	2023	2022
	US\$	US\$
Reinsurance contracts		
Outstanding claims	118,869,543	128,791,583
Unearned premiums provision	31,690,166	26,445,350
Claims incurred but not reported	600,000	600,000
Total reinsurance liabilities, gross	151,159,709	155,836,933
Recoverable from reinsurers		
Outstanding claims	55,798,821	56,520,364
Unearned premiums provision	6,328,147	6,050,227
	62,126,968	62,570,591
Net		
Outstanding claims	63,070,722	72,271,219
Unearned premiums provision	25,362,019	20,395,123
Claims incurred but not reported	600,000	600,000
Total reinsurance liabilities, net	89,032,741	93,266,342

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

15 - INSURANCE CONTRACTS AND REINSURANCE ASSETS (continued)

15.1 - Development claims tables

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Company's estimate of total claims outstanding for each underwriting year has changed at successive year-ends. The bottom half of the tables reconciles the cumulative claims to the amount appearing in the statement of financial position. An underwriting-year basis is considered to be most appropriate for the business written by the Company.

Underwriting year	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Total</u>
<u>In US\$'000</u>											
Estimate of ultimate claims costs:											
- at end of accident year		35,215	29,004	30,664	27,745	27,544	49,945	23,742	23,306	36,053	283,218
- one year later		55,836	47,237	50,378	46,134	65,637	69,629	47,994	53,733		436,578
- two years later		59,017	47,336	50,693	47,378	67,177	65,276	51,884			388,761
- three years later		55,101	46,594	48,590	47,333	61,212	60,713				319,543
- four years later		55,550	41,742	46,855	46,012	59,095					249,254
- five years later		54,632	40,899	46,621	44,994						187,146
- six years later		54,385	41,494	46,775							142,654
- seven years later		54,238	40,832								95,070
- eight years later		54,284									54,284
Current estimate of cumulative claims	5,936	54,284	40,832	46,775	44,994	59,095	60,713	51,884	53,733	36,053	454,299
Current payment to date		(51,403)	(33,776)	(43,103)	(40,296)	(42,165)	(36,535)	(42,250)	(30,849)	(14,452)	(334,829)
Liability recognised in the statement of financial position	<u>5,936</u>	<u>2,881</u>	<u>7,056</u>	<u>3,672</u>	<u>4,698</u>	<u>16,930</u>	<u>24,178</u>	<u>9,634</u>	<u>22,884</u>	<u>21,601</u>	<u>119,470</u>
Total liability included in the statement of financial position											<u><u>119,470</u></u>

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

16 - RETIREMENT BENEFIT OBLIGATION

The movement in the provision recognised in the balance sheet is as follows:

	2023	2022
	US\$	US\$
At beginning of year	409,846	423,668
Settlements	(24,375)	(13,822)
At end of year	385,471	409,846

17 - ACCOUNTS PAYABLE

	2023	2022
	US\$	US\$
Current account with insurance companies, reinsurers and brokers	15,941,118	10,624,951
NSSF and other taxes payable	85,436	149,532
Deposits from reinsurance companies	15,263,080	14,823,512
Accrued expenses	127,942	348,468
Other payables (note 12)	7,374,170	7,374,864
Due to related parties (note 27)	2,540,419	2,173,616
Deferred tax liability (notes 7.c, 19)	3,334,497	3,335,589
	44,666,662	38,830,532

18 - NET EARNED REINSURANCE PREMIUM

	2023	2022
	US\$	US\$
Reinsurance premium revenue	73,085,724	61,405,063
Reinsurance premium revenue ceded to reinsurers	16,050,863	14,694,355
Change in reinsurance share of unearned premium provision	277,920	1,006,075
Change in unearned premium reserve (UPR)	(8,953,411)	(665,855)
Reinsurance premium revenue ceded to reinsurers, net of unearned premium reserve	7,375,372	15,034,575
Net earned reinsurance premium	65,710,352	46,370,488

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

19 - INVESTMENT INCOME

	2023	2022
	US\$	US\$
Interest income on bank deposits net of withholding tax	<u>1,350,933</u>	<u>400,747</u>
Interest income on debt securities	3,424,580	3,551,688
Dividend Income	30,405	9,996
Interest income on deposits with cedants	58,015	85,820
Realised gains from sale of financial assets at (FVTOCI)	<u>-</u>	<u>332,764</u>
	<u>4,863,933</u>	<u>4,381,015</u>

Further to the announcement of the Lebanese Government on 23 March 2020 to discontinue payments on all of its US Dollars denominated Eurobonds, the Company did not recognize during the current and previous years any interest income on these bonds.

20 - REINSURANCE COMMISSION INCOME AND PROFIT SHARING

	2023	2022
	US\$	US\$
Reinsurance commission income and profit sharing	<u>3,570,711</u>	<u>3,934,566</u>
Unearned reinsurance commission at beginning of year	2,023,719	2,087,854
Unearned reinsurance commission at end of year	<u>(2,190,333)</u>	<u>(2,023,719)</u>
	<u>3,404,097</u>	<u>3,998,701</u>

Arab Reinsurance Company S.A.L.

Notes to the financial statements
for the year ended 31 December 2023

21 - REINSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	2023 US\$	2022 US\$
Gross paid claims	<u>68,888,164</u>	<u>51,627,330</u>
Change in the provision for outstanding claims and IBNR	<u>(9,922,041)</u>	<u>(17,285,110)</u>
Reinsurance claims and loss adjustments expenses	<u>58,966,123</u>	<u>34,342,220</u>
Reinsurance share of paid claims	14,387,390	12,920,702
Change in reinsurer' share of outstanding claims and IBNR	<u>(721,543)</u>	<u>(9,641,725)</u>
Reinsurer' share of incurred claims	<u>13,665,847</u>	<u>3,278,977</u>
Net reinsurance claims	<u>45,300,276</u>	<u>31,063,243</u>

22 - EXPENSES FOR ACQUISITION OF REINSURANCE CONTRACTS

	2023 US\$	2022 US\$
Commission paid	<u>20,053,966</u>	<u>14,786,237</u>
Deferred acquisition costs at beginning of year	6,786,786	6,620,201
Deferred acquisition costs at end of year	<u>(8,307,199)</u>	<u>(6,786,786)</u>
Total expenses for the acquisition of reinsurance contracts	<u>18,533,553</u>	<u>14,619,652</u>

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

23 - EXPENSES FOR ADMINISTRATION AND OTHER EXPENSES

	2023	2022
	US\$	US\$
Employee benefit expense (note 24)	<u>2,182,625</u>	<u>2,289,740</u>
Depreciation (notes 5,6)	74,252	83,696
Utilities	80,525	141,298
Professional fees	211,012	328,351
Maintenance and repairs expenses	68,401	52,874
Office supplies and similar expenses	43,712	74,577
Other taxes	61,890	14,105
Board of directors' attendance and related fees	133,768	124,343
Committees and representation expenses	51,368	53,784
Net Exchange loss	1,485,090	321,966
Other expenses	<u>582,878</u>	<u>743,454</u>
Total administrative expenses	<u>4,975,521</u>	<u>4,228,188</u>
Less: Arab Re Pool expenses	-	(50,000)
	<u><u>4,975,521</u></u>	<u><u>4,178,188</u></u>

24 - EMPLOYEE BENEFIT EXPENSE

	2023	2022
	US\$	US\$
Salaries and wages	<u>1,955,874</u>	<u>1,961,321</u>
National social security costs	154,166	247,055
Other staff costs	<u>72,585</u>	<u>81,364</u>
	<u><u>2,182,625</u></u>	<u><u>2,289,740</u></u>

25 - OTHER OPERATING LOSS, NET

	2023	2022
	US\$	US\$
Other income	-	4,121
Income related to Arab Re pool (note 23)	-	(50,000)
Loss on disposal of property and equipment, net	<u>(710)</u>	<u>-</u>
	<u><u>(710)</u></u>	<u><u>(45,879)</u></u>

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

26 - INCOME TAX PROVISION

The income tax is comprised of the following:

	2023	2022
	US\$	US\$
Tax on reinsurance income	<u>20,179</u>	<u>32,244</u>
Other taxes	<u>13,100</u>	<u>26,010</u>
	<u>33,279</u>	<u>58,254</u>

Taxable reinsurance income is comprised of the following:

	2023	2022
	US\$	US\$
Gross premiums written in Lebanon	<u>2,481,613</u>	<u>4,239,949</u>
Commission received on ceded premiums	<u>484,586</u>	<u>498,977</u>
Other income	<u>1,310</u>	<u>2,804</u>
	<u>2,967,509</u>	<u>4,741,730</u>
Assumed profit at a weighted average rate of 4%	<u>118,700</u>	<u>189,669</u>
Tax rate	<u>17%</u>	<u>17%</u>
Income tax expense on reinsurance income	<u>20,179</u>	<u>32,244</u>

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

27 - RELATED PARTIES

The related parties are comprised of the Company's shareholders. The following transactions were carried out with related parties:

	2023	2022
	US\$	US\$
<i>(a) Reinsurance contracts:</i>		
Premiums accepted	9,930,982	10,421,463
Premiums ceded	(4,355,530)	(4,774,873)
Commission expense	(2,835,282)	(2,789,154)
Claims paid	(1,472,611)	(1,033,566)
Commission on income from ceded premiums	1,429,489	1,444,371
<i>(b) Board of directors compensation and similar fees:</i>		
Board of directors' attendance and similar fees (note 23)	133,768	124,343
Chairman remuneration fees	375,000	300,000

Outstanding balances arising from reinsurance and other activities were as follows:

	2023	2022
	US\$	US\$
Due to related parties (note 17)	2,540,419	2,173,616
Due from related parties (note 8)	1,395,750	2,571,811

28 - CONTINGENT LIABILITIES

28.1 - Fx Forward Trade

The company entered during the previous year into forward FX trade (selling Euro 1 million against receiving US Dollars) with settlement date in year 2026. No hedging has been applied. Total forex loss as of 31 December 2023 amounted to US Dollars 30.6 thousands.

Arab Reinsurance Company S.A.L.

Notes to the financial statements for the year ended 31 December 2023

28 - CONTINGENT LIABILITIES (continued)

28.2 - Legal

A lawsuit was filed on the 10th of April 2014 by a previous shareholder (see note 12) in which he requested the immediate suspension of the execution of the resolutions voted in the ordinary and extraordinary general assemblies of the Company dated 21 May 2013 and the annulment of the aforementioned assemblies.

On the 20th of December 2016, the same previous shareholder presented a brief claiming his shares of the profits for the years 2012, 2013, and 2015 with interest in addition to the damages. On 10 December 2019, the court of first instance condemned the Company to pay to him his share of the dividends for the year 2012 and 2013 amounting to US\$ 527,093 and US\$ 395,320 respectively or their equivalent value in Lebanese pounds in addition to the annual interest calculated based on the average rate applicable on the dollar accounts between banks from the date of the decision to the distribute the dividends and dismissed to pay to him dividends for the years 2014 and 2015. The company will appeal as soon as it is duly notified the judgment.

Several other lawsuits filed by or against the company existed as at 31 December 2023, yet no determination of the outcome of the claims can be made at this point in time and similarly no accurate estimate of the range of potential losses/gains can be made.

28.3 - Tax

Open tax years that are subject to examination and acceptance by the fiscal authorities comprise the financial years from 2017 till 2023. Any additional liability depends on the outcome of this review.