

SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

SAUDI ENAYA COOPERATIVE INSURANCE COMPANY**(A Saudi Joint Stock Company)**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022**

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INDEPENDENT AUDITORS' REPORT

**To the Shareholders of
Saudi Enaya Cooperative Insurance Company
(A Saudi Joint Stock Company)**

Opinion

We have audited the financial statements of Saudi Enaya Cooperative Insurance Company, (A Saudi Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2022, and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended and the summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company 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 ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. 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 professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. we have determined the matter described below to be the key audit matter to be communicated in our report. For the matter below, a description of how our audit addressed the matter is provided in that context:

INDEPENDENT AUDITORS' REPORT (CONTINUED)

**To the Shareholders of
Saudi Enaya Cooperative Insurance Company
(A Saudi Joint Stock Company)**

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the key audit matter
<p><i>Valuation of ultimate claim liabilities arising from insurance contracts</i></p> <p>As at 31 December 2022, outstanding claims, claims incurred but not reported (IBNR), premium deficiency reserves and other technical reserves amounted to SR 38.450 million, SR 23.672 million, SR 19.279 million and SR 429 thousands respectively as reported in Note 16.1 to the financial statements.</p> <p>The valuation of the ultimate liability arising from claims made under insurance contracts is the key judgmental area for management given the level of subjectivity inherent in estimating the impact of claim events that have occurred and incurred but not reported for which the ultimate outcome remains uncertain.</p> <p>A range of methods is used to determine these technical reserves. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amounts and settlement patterns of claims. The Company also involves an independent actuary to calculate the technical reserves. The Company exercises significant judgments including a number of subjective assumptions when determining both the timing and the amounts of the technical reserves. Changes in the assumptions used to value the reserves can lead to material impact on the valuation of technical reserves.</p> <p>Because of the significance of the judgments involved, assumptions used and the magnitude of the total balance, technical reserves have been considered as a key audit matter.</p> <p><i>The Company's disclosures about the significant accounting policies of the above mentioned key audit matter are included in Note 3 to the financial statements.</i></p>	<p>We have performed test of key controls over the claims administration and the valuation of individual reported claims reserves to confirm the operating effectiveness of those key controls.</p> <p>In obtaining sufficient audit evidence to assess the integrity of data used as inputs in to the actuarial valuations, we tested the completeness and accuracy of the underlying data used in estimating the technical insurance reserves by performing reconciliations of the underlying data to the financial ledger and the actuarial data used by the Company's appointed actuary while calculating the reserves.</p> <p>We evaluated the competence, capabilities and objectivity of the management's expert by considering their professional qualifications and experience and assessing their relationship with the entity.</p> <p>In order to challenge management's methodologies and assumptions, we were assisted by our actuarial specialist to understand and evaluate the Company's actuarial practices and provisions established. In order to gain comfort over the actuarial report issued by management's expert, our actuarial specialist performed the following:</p> <ul style="list-style-type: none"> ○ Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years, we sought sufficient justification for any significant differences; ○ Assessed the reasonableness of key actuarial assumptions and judgments used by management in calculating the reserves; and ○ Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions performed. <p>We also assessed the adequacy of the financial statements disclosures with respect to technical reserves.</p>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**To the Shareholders of
Saudi Enaya Cooperative Insurance Company
(A Saudi Joint Stock Company)**

Other information included in the Company's 2022 Annual Report

The Board of Directors (the "BOD") is responsible for the other information. Other information consists of the information included in the Company's 2022 annual report, other than the financial statements and our auditors' report thereon, which is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's by-laws, 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, the 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 the Management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance (i.e. Board of Directors) are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing "ISA" as endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

**To the Shareholders of
Saudi Enaya Cooperative Insurance Company
(A Saudi Joint Stock Company)**

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

As part of an audit in accordance with International Standards on Auditing ("ISAs") as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of the Managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of
Saudi Enaya Cooperative Insurance Company
(A Saudi Joint Stock Company)

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

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

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

For El Sayed El Ayouty & Co.
Certified Public Accountants
P.O. Box 780
Jeddah 21421
Kingdom of Saudi Arabia



Abdullah Ahmed Balamesh
Certified Public Accountant
License No. 345



For Al Azem, Al Sudairy, Al Shaikh & Partners
For Professional Consulting
P. O. Box 10504
Riyadh 11443
Kingdom of Saudi Arabia



Abdullah M. AlAzem
Certified Public Accountant
License No. 335



9 March 2023
17 Sha'aban 1444H
Jeddah, Kingdom of Saudi Arabia

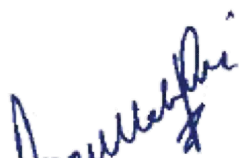
SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Notes	31 December	
		2022	2021
		SAR '000	
ASSETS			
Cash and cash equivalents	5	156,742	159,152
Short term murabaha deposits	6	135,353	77,908
Premiums receivable – net	7	63,372	58,486
Reinsurers balance receivable	8	-	-
Reinsurers share of outstanding claims	16.1	-	-
Prepaid expenses and other assets	15	25,474	11,639
Deferred policy acquisition costs	10	6,025	6,926
Investments	9	1,133	1,668
Property and equipment – net	12	1,467	1,523
Intangible assets – net	11	794	899
Right of use assets – net	13.1	1,115	679
Statutory deposit	14	34,500	22,500
Accrued commission income on statutory deposit		5,012	4,545
TOTAL ASSETS		430,987	345,925
LIABILITIES			
Accrued and other liabilities	18	43,370	54,209
Unearned premiums	16.2	108,554	108,727
Outstanding claims	16.1	38,450	46,806
Claims incurred but not reported	16.1	23,672	15,745
Premium deficiency reserve	16.1	19,279	34,527
Other technical reserves	16.1	429	391
End-of-service indemnities	19	5,172	5,787
Lease liabilities	13.2	776	2,250
Zakat and income tax provision	24	14,696	13,250
Accrued commission income payable to SAMA		5,012	4,545
TOTAL LIABILITIES		259,410	286,237
SHAREHOLDERS' EQUITY			
Share capital	25	230,000	150,000
Accumulated losses	4	(60,530)	(91,245)
TOTAL SHAREHOLDERS' EQUITY		169,470	58,755
Re-measurement reserve on end-of-service indemnities – related to insurance operations		2,107	933
TOTAL EQUITY		171,577	59,688
TOTAL LIABILITIES AND EQUITY		430,987	345,925
COMMITMENTS AND CONTINGENCIES	17	-	-



Chairman



Acting CFO / Senior Finance
Manager



Chief Executive Officer

The accompanying notes from 1 – 34 form an integral part of these financial statements.

SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

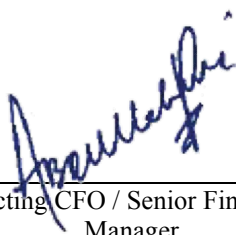
STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022	2021
		SAR '000	
REVENUES			
Gross premiums written	16.2	227,474	218,502
Net premiums written		227,474	218,502
Changes in unearned premiums, net		173	(41,223)
Net premiums earned	16.2	227,647	177,279
TOTAL REVENUES		227,647	177,279
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	20	196,730	152,024
Net claims paid		196,730	152,024
Changes in outstanding claims, net		(8,356)	7,619
Changes in claims incurred but not reported, net		7,927	2,771
Net claims incurred	20	196,301	162,414
Changes in premium deficiency reserve	20	(15,248)	19,982
Changes in other technical reserves	20	38	64
Policy acquisition costs	10	13,859	7,602
Other underwriting expenses		14,871	8,963
TOTAL UNDERWRITING COSTS AND EXPENSES		209,821	199,025
NET UNDERWRITING INCOME / (LOSS)		17,826	(21,746)



Chairman



Acting CFO / Senior Finance
Manager



Chief Executive Officer

The accompanying notes from 1 – 34 form an integral part of these financial statements.


SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022	2021
		SAR '000	
OTHER OPERATING (EXPENSES) / INCOME			
Release of doubtful debts	7&8	150	2,621
General and administrative expenses	29	(38,734)	(47,948)
Commission income on deposits	6	5,193	3,280
Unrealized gain on investments	9	129	237
Realized gain on investments	9	2	5,260
Amortization of held to maturity investments, net	9	-	213
Other income	30	7,299	98
TOTAL OTHER OPERATING EXPENSES		(25,961)	(36,239)
Net loss for the year before zakat and income tax		(8,135)	(57,985)
Net income attributed to the insurance operations		-	-
Net loss for the year attributable to the shareholders before zakat and income tax		(8,135)	(57,985)
Provision adjustment for prior years	24	(361)	(2,475)
Zakat and income tax provision for the year	24	(1,085)	(1,512)
Net loss for the year		(9,581)	(61,972)
Loss per share (expressed in SAR per share)			
Weighted average number of ordinary shares outstanding (in thousands shares)	28	13,642	15,000
Basic and diluted loss per share for the year (SAR / share)	28	(0.70)	(4.13)



Chairman



Acting CFO / Senior Finance
Manager



Chief Executive Officer

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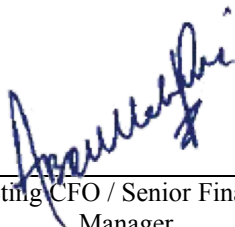
SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 SAR '000	2021
Net loss for the year		(9,581)	(61,972)
Other comprehensive income / (loss)			
<i>Items that will not be reclassified to statements of income in subsequent years</i>			
Actuarial gain / (loss) on defined indemnities obligation – related to Insurance operations	19	1,174	(75)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(8,407)	(62,047)



Chairman



Acting CFO / Senior Finance
Manager



Chief Executive Officer

The accompanying notes from 1 – 34 form an integral part of these financial statements.

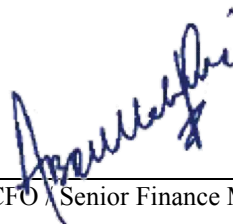
SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Related to shareholders' operations			Re-measurement reserve of end-of- service indemnities – related to insurance operations	Total equity
	Share capital	Accumulated losses	Total shareholders' equity SAR '000		
2022					
Balance as at 1 January 2022	150,000	(91,245)	58,755	933	59,688
Reduction of share capital	(50,000)	50,000	-	-	-
Issuance of right shares	130,000	-	130,000	-	130,000
Transaction cost of capital movement	-	(9,704)	(9,704)	-	(9,704)
Total comprehensive loss for the year					
Net loss for the year	-	(9,581)	(9,581)	-	(9,581)
Other comprehensive income	-	-	-	1,174	1,174
Total comprehensive loss for the year	-	(9,581)	(9,581)	1,174	(8,407)
Balance as at 31 December 2022	230,000	(60,530)	169,470	2,107	171,577



Chairman



Acting CFO / Senior Finance Manager



Chief Executive Officer

The accompanying notes from 1 – 34 form an integral part of these financial statements.

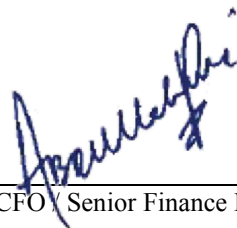
SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN EQUITY – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

	Related to shareholders' operations			Re-measurement reserve of end-of- service indemnities – related to insurance operations	Total equity
	Share capital	Accumulated losses	Total shareholders' equity SAR '000		
<u>2021</u>					
Balance as at 1 January 2021	150,000	(29,273)	120,727	1,008	121,735
<i>Total comprehensive loss for the year</i>					
Net loss for the year	-	(61,972)	(61,972)	-	(61,972)
Other comprehensive loss	-	-	-	(75)	(75)
<i>Total comprehensive loss for the year</i>	-	(61,972)	(61,972)	(75)	(62,047)
Balance as at 31 December 2021	150,000	(91,245)	58,755	933	59,688



Chairman



Acting CFO / Senior Finance Manager




Chief Executive Officer

The accompanying notes from 1 – 34 form an integral part of these financial statements.


SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

		2022	2021
	Notes	SAR '000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year before zakat and income tax		(8,135)	(57,985)
<i>Adjustments for non-cash items:</i>			
Depreciation of property and equipment	12	760	1,090
Amortization of intangible assets	11	349	491
Depreciation of right of use assets	13.1	1,112	2,064
Reversal of lease liability	13.2	(2,250)	-
Finance cost on lease liabilities	13.2	28	33
Release of doubtful debts	7&8	(150)	(2,621)
Unrealized gain on investments	9	(129)	(237)
Realized gain on investments	9	(2)	(5,260)
Amortization of held to maturity investments	9	-	(213)
Provision for end-of-service indemnities	19	1,085	1,482
		(7,332)	(61,156)
<i>Changes in operating assets and liabilities:</i>			
Premiums receivable		(4,736)	(6,979)
Reinsurers' balance receivable		-	421
Reinsurers' share of outstanding claims		-	119
Deferred policy acquisition costs	10	901	(3,696)
Prepaid expenses and other assets		(13,835)	(4,859)
Accrued and other liabilities		(10,839)	18,184
Unearned premiums		(173)	41,223
Outstanding claims		(8,356)	7,499
Claims incurred but not reported		7,927	2,771
Premium deficiency reserve		(15,248)	19,982
Other technical reserves		38	65
Cash (used in) / generated from operating activities		(51,653)	13,574
End-of-service indemnities paid	19	(526)	(740)
Zakat paid	24	-	(2,737)
Net cash flows (used in) / generated from operating activities		(52,179)	10,097
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments	9	666	74,161
Placement in short term murabha deposits		(135,353)	(89,550)
Proceeds from maturity of short-term murabha deposits		77,908	51,669
Decrease in statutory deposit	14	(12,000)	-
Purchase of property and equipment	12	(704)	(471)
Proceeds from the sale of property and equipment		-	31
Purchase of intangible assets	11	(244)	(308)
Net cash flows (used in) / generated from investing activities		(69,727)	35,532
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of right shares		130,000	-
Transaction cost of capital movement		(9,704)	-
Payment of lease liabilities	13.2	(800)	(1,703)
Net cash flows generated from / (used in) financing activities		119,496	(1,703)
Net change in cash and cash equivalents		(2,410)	43,926
Cash and cash equivalents, beginning of the year		159,152	115,226
Cash and cash equivalents, end of the year		156,742	159,152


Chairman


Acting CFO / Senior Finance Manager


Chief Executive Officer

The accompanying notes from 1 – 34 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

1. GENERAL

Saudi Enaya Cooperative Insurance Company (a Joint Stock Company incorporated in Kingdom of Saudi Arabia), “the Company”, was formed pursuant to Royal Decree No. 98/Q dated 16 Rabi Awwal 1433H. (Corresponding to 8 February 2012). The Company operates under Commercial Registration no. 4030223528 dated 27 Rabi Awal 1433H (corresponding to 19 February 2012). The registered address of the Company's head office is as follows:

Building No. 7521
Al Fakhr, Al Khaldiya District
P.O. Box 3732
Jeddah 23423
Kingdom of Saudi Arabia

Following is the branch of the Company:

<u>Branch</u>	<u>Commercial Registration Number:</u>
Riyadh	1010421871

The Company is licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree No. M/49 dated 27 Rajab 1432H (corresponding to 29 June 2011) pursuant to the Council of Ministers’ Resolution No 224 dated 25 Rajab 1432H (corresponding to 27 June 2011). As of the date of incorporation, the Company is 77% owned by the Saudi shareholders and the general public and 23% owned by non-Saudi shareholders. The Company was listed on the Saudi Stock Exchange (Tadawul) on 27 February 2012. The Company is licensed to underwrite medical insurance only.

On 27 Rajab 1432H corresponding to 29 June 2011, the Law on the Supervision of Cooperative Insurance Companies (“Insurance Law”) was promulgated by Royal Decree Number (M/49). On 27 February 2012, the Saudi Central Bank (“SAMA”), as the principal authority responsible for the application and administration of the Insurance Law and its Implementing Regulations, granted the Company a license to transact insurance activities in the Kingdom of Saudi Arabia.

On 29 Rabi Al-Awwal 1442H corresponding to 15 November 2020, the Company signed a non-binding Memorandum of Understanding (“MOU”) with Amana Cooperative Insurance Company (“Amana”) to evaluate a potential merger between the two companies. On 18 Ramadan 1442H corresponding to 30 April 2021, the Company announced that it has signed a binding merger agreement with Amana. Whereas each Board of Directors of both companies had reached an agreement regarding the conditions under which the company will be merged into Amana.

The Company announced to its shareholders on 15 July 2021 that The General Authority of Competition (“GAC”) has issued a non-objection certificate to complete the merger according to GAC certificate issued with reference number 5 dated 6 Zul-Hijjah 1442H.

The Company announced the issuance of the Approval of the Saudi Central Bank on 18 Rabi-Al-Thani 1443 corresponding to 23 November 2021 on the potential Merger. On 6 Jumada Al-AThani 1443 corresponding to 9 January 2022, a resolution was passed in the extra ordinary general assembly meeting to disapprove the terms of the merger agreement entered into between the Company and Amana on 17 Ramadan 1442H corresponding to 29 April 2021.

On 11 Jamada Al-Awwal 1444H corresponding to 05 December 2022, the Company signed a non-binding Memorandum of Understanding (“MOU”) with United Cooperative Assurance Company Cooperative Insurance Company to evaluate a potential merger between the two companies. As at 31 December 2022, both companies are in the process of conducting technical, financial, tax legal and actuarial due diligence on the terms and conditions of the potential merger.

2. BASIS OF PREPARATION

(a) Basis of compliance

The financial statements for year ended 31 December 2022 have been prepared in accordance with International Financial Reporting Standards are endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

2. BASIS OF PREPARATION – (continued)

(a) Basis of compliance – (continued)

The financial statement is prepared under the going concern basis and the historical cost convention, except for the measurement of investments at their fair value and measurement of employees end of service benefits which are recognized at the present value of future obligations. The Company's statement of financial position is not presented using a current / non-current classification. However, the following balances would generally be classified as current: cash and cash equivalents, short term murabaha deposits, premiums receivable-net, deferred policy acquisition costs, prepaid expenses and other assets, accrued and other liabilities, unearned premiums, reinsurance commission and zakat and income tax. The following balances would generally be classified as noncurrent: outstanding claims, claims incurred but not reported, premium deficiency reserve, other technical reserves, end-of-service indemnities, lease liabilities, accrued commission income payable to SAMA, accrued commission income on statutory deposit, investments, statutory deposit, property and equipment – net, intangible assets – net and right of use assets – net.

As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and presents the supplementary information accordingly (note 32). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. Similarly, in the past, the Company's annual financial statements presented separately the statements of financial position, income, comprehensive income and cash flows for the insurance operations and shareholders operations. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

In accordance with the by-laws of the Company, the surplus arising from the Insurance Operations is distributed as follows:

Shareholders	90%
Policyholders	10%
	<u>100%</u>

In case of deficit arising from the Insurance Operations, the entire deficit is allocated and transferred to Shareholders' Operations.

The statement of financial position, statement of income and statement of comprehensive income and cash flows of the insurance operations and shareholders operations which are presented on pages 50 to 56 of the financial statements have been provided as supplementary financial information and to comply with the requirements of the guidelines issued by SAMA implementing regulations. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders operations. Accordingly, the statements of financial position, statement of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company-level financial statements in compliance with IFRS, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Inter-operation balances, transactions and unrealized gains or losses, if any, are eliminated in full during amalgamation. The accounting policies adopted for the insurance operations and shareholders' operations are uniform for like transactions and events in similar circumstances.

(b) Functional and presentation currency

These financial statements have been presented in Saudi Arabian Riyals (SAR), which is also the functional currency of the Company. All financial information presented in Saudi Arabian Riyal has been rounded to the nearest thousands, except where otherwise indicated.

(c) Fiscal year

The Company follows a fiscal year ending December 31.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

2. BASIS OF PREPARATION – (continued)

(d) Critical accounting judgments, estimates and assumptions

The preparation of the financial statements requires the use of estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Estimates and judgments 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.

Following are the accounting judgments and estimates that are critical in preparation of these financial statements:

i) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. 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. Estimates are made at the end of the reporting period both for the expected ultimate cost of claim reported and for the expected ultimate costs of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company. At the end of each reporting period, prior year claims estimates are re-assessed for adequacy and changes are made to the provision.

The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method, Expected Claims / Loss Ratio Method and Cape Cod Method are used by the actuaries to determine these provisions. Actuary had also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

ii) Impairment of financial assets

The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost. The determination of what is significant or prolonged requires judgment. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

iii) Impairment of receivables

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

iv) Deferred tax

Deferred tax asset is recognised only to the extent that it is probable that the future taxable profits will be available and credits can be utilized. Deferred tax asset has not been provided in these financial statements for the year ended 31 December 2022 since the Company does not anticipate availability of future taxable profit to utilize any tax credits.

v) Fair value of financial instruments

Investments at fair value through Statement of income are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

2. BASIS OF PREPARATION – (continued)

(d) Critical accounting judgments, estimates and assumptions – (continued)

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2021. Based on the adoption of amendments to existing standards and in consideration of the current economic environment, the following accounting policies are applicable effective 01 January 2022, replacing, amending, or adding to the corresponding accounting policies set out in the 2021 annual financial statements.

a. New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

The Company has adopted the following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB):

Amendments to IFRS 3, IAS 16, IAS 37

IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

The adoption of the above amendment does not have any material impact on the Financial Statements during the year.

b. Standards issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted; however, the Company has not early adopted them in preparing these Financial Statements.

Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities

These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

Amendments to IAS 1, Practice statement 2 and IAS 8

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction

These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b. Standards issued but not yet effective – (continued)

IFRS 17 and IFRS 9

The Company will apply IFRS 17 and IFRS 9 for the first time on 1 January 2023. These standards will bring significant changes to the accounting for insurance and reinsurance contracts and financial instruments and are expected to have a material impact on the Company's financial statements in the period of initial application.

Overall impact on Equity due to Transition to IFRS17 and IFRS9

The Company estimates that, on adoption of IFRS 17 and IFRS9, the impact of these changes (before Zakat) is a reduction in the Company's total equity of SAR 4.8 million as at 01 January 2022. The impact on equity at 01 January 2023 is currently being estimated and shall be disclosed in the financial statements for the period ending 31 March 2023.

<i>Transition To</i>	<i>Change in Equity as at 01 January 2022</i>
<i>IFRS 17</i>	<i>Decrease by SAR 4.3 million</i>
<i>IFRS 9</i>	<i>Decrease by SAR 0.5 million</i>
<i>Total Impact</i>	<i>Decrease by SAR 4.8 million</i>

The above change in equity will affect the solvency ratio of the Company, which will be estimated and disclosed in the financial statements for the period ending 31 March 2023

IFRS 17 – Insurance Contracts

IFRS 17 replaces IFRS 4 Insurance Contracts and is effective for annual periods beginning on or after 1 January 2023, with early adoption permitted. The Company expects to first apply IFRS 17 on that date. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with direct participation features ("DPF").

• Structure and status of the implementation project

The Company is currently in the implementation and dry runs phase of IFRS 17 (i.e., Phase 4 of SAMA four-phase approach for the transition from IFRS 4 to IFRS 17). This phase requires the implementation of methodologies, assumptions and policy choices as defined in Phase 3, in addition to installation and integration of systems. The following table shows the progress made by the Company under the main areas of Phase 4:

Key area of focus	Progress and summary of impact
Governance structure	The Company has a comprehensive IFRS 17 governance structure which includes establishing a steering committee to provide oversight, monitor the progress of implementation, approve decisions and assign roles and responsibilities to various stakeholders. This includes the involvement of the internal audit and the Audit and Board Committees.
Regulatory requirements with respect to IFRS 17	<ul style="list-style-type: none"> - The Company has met all the timelines of the industry-wide four-phase approach of SAMA for the transition from IFRS 4 to IFRS 17, including the three Dry Runs that were part of Phase 4. - The first dry run as at 31 December 2020 was performed during 2021 and the report was timely submitted to SAMA on 30 November 2021. - The Second dry run was performed during first half of 2022 which included the preparation of the IFRS 17 financial statements as at 31 December 2021 along with the comparative statement of financial position as at 31 December 2020. The report was timely submitted to SAMA on 31 May 2022. The audit of the second dry run was performed and the respective audit report was submitted to SAMA on 29 September 2022. - The Company refined its implementation plan taking into consideration the learnings from the first and second dry runs and implemented these policies in the third dry run as at 30 June 2022, which was performed during October - November 2022. The results were audited during November 2022. The results and respective audit report were submitted to SAMA on 30 November 2022. - The monthly "Summary Progress Reports" from May to December 2022, were also submitted in due time.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b. Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

Key area of focus	Progress and summary of impact
Key areas remaining to be completed	<p><i>Operational and financial:</i> The Company is in the process of implementing the selected IFRS 17 software solution and is implementing changes to the accounting, actuarial modelling, processes and controls, data and systems to comply with the requirements of IFRS 17 and for a smooth system integration. This includes implementing the Phase 3 Design decisions, blueprints of its end state functional design, transition processes and a comprehensive data policy and data dictionary. The Company is assessing the expected financial impact of adopting the IFRS 17 Standard.</p> <p><i>IFRS 17 testing:</i> The Company's implementation plan includes a number of testing phases: parallel runs and User Acceptance Testing (UAT), in addition to the internal dry runs.</p>

• **Significant Judgements and Accounting Policy Choices**

The Company is expected to apply the following significant accounting policies in the preparation of financial statement on the effective date of this Standard i.e., Jan 01, 2023:

i. Contracts within/outside the scope of IFRS 17

An 'insurance contract' is defined in IFRS 17 as a contract under which one party (the issuer) 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. IFRS 17 defines the contract boundary as follows: "Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder".

If a contract transfers only financial risk, it is not within the scope of IFRS 17 and would be accounted for applying other standards such as IFRS 9, 'Financial Instruments'.

ii. Combination/Unbundling of Contracts

The Standard advises that the non-insurance component of the contract should be segregated from the overall contract, and treated under the relevant accounting standards if such non-insurance component is distinct. This process of separating the non- insurance component from the insurance contract is called unbundling. The Company does not have any non-insurance line of business.

iii. Level of Aggregation

The Company has identified two portfolios for IFRS 17 purposes:

- Medical Corporate: Group Medical Insurance business, mainly experience rated and covering over 250 members per group. All the contracts are onerous at initial recognition and have been split into the following categories by underwriting year: 2018 and Prior; 2019; 2020; 2021; and continued accordingly.
- Medical SME: SME & Retail Medical Insurance business, mainly book rated and under 250 members per group. All the contracts are onerous at initial recognition and have been split into the following categories by Underwriting Year: 2018 and Prior; 2019; 2020; 2021; and continued accordingly.

iv. Measurement – Overview

The Company is currently permitted under IFRS 4 to continue accounting using its accounting policies. However, IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Company.

Under IFRS 17, the Company's insurance contracts issued and reinsurance contracts held (all portfolios) are eligible to be measured by applying the premium allocation approach (PAA). The PAA simplifies the measurement of insurance contracts in comparison with the general model in IFRS 17.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b. Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

(II) Significant Judgements and Accounting Policy Choices (continued)

iv. Measurement – Overview (continued)

The measurement principles of the PAA differ from the earned premium approach' used by the Company under IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred acquisition expenses less amounts recognised in revenue for insurance services provided;
- Measurement of the liability for remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of coverage are more than 12 months apart; and
- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component (currently these may have formed part of the unexpired risk reserve provision).

Measurement of the liability for incurred claims (currently claims outstanding and incurred-but-not-reported (IBNR)) is determined on a discounted probability-weighted expected value basis, and includes an explicit risk adjustment for non-financial risk.

v. Significant Judgements and Estimates

- PAA eligibility assessment approach: Visa & Travel policies over 12 months are tested for PAA eligibility and found eligible. These are relatively an insignificant portion of the overall portfolio. The remaining medical policies having a duration of 12 months are measured under PAA.
- Discounting methodology: Discounting of liabilities has not been considered for both Liabilities for Incurred Claims & Remaining Coverage. The impact of this has been tested and is relatively immaterial as most associated cashflows take place within 6 months of the valuation date.
- Risk Adjustment (RA) methodology, including correlations, and Confidence level selected: The purpose of the risk adjustment is to measure the effect of uncertainty in the cash flows that arise from insurance contracts, other than uncertainty arising from financial risk. The methodology was based on a mix of results of Company's own experience variability and the Value at Risk ("VaR") approach in line with Solvency II. The parameters of the distribution were calibrated based on the experience and credibility of the historical data. 75th percentile has been decided by the Company as of the valuation date. The diversification benefit has been allowed for in the estimation of RA driven by the mix of business and the expected correlations between them.
- Onerousness determination: Onerousness on initial recognition is driven by the technical provisions & pricing adequacy reports as well as understanding of the expected profitability of new business written.
- Provision for Doubtful Debts: A methodology similar to IFRS 9 will be adopted to model the provision.
- VAT treatment: All cash flows are summarized as inclusive of VAT.
- CSM release pattern and Reinsurer Default provision are not applicable to the Company.

vi. Accounting Policy Choices

- Length of Cohorts: Annual.
- Expense Attribution: The Company has segregated the expenses into three components: acquisition, non-attributable and attributable.
- Deferral of Acquisition Cost: The Company has chosen to apply the deferral of acquisition cost as per paragraph 55 of IFRS 17 standard.
- Use of OCI for IFIE, Unwinding of Discount on Risk Adjustment and Policyholder Surplus accounting are not applicable to the Company.

vii. Presentation and Disclosure

For presentation in the statement of financial position, the Company aggregates insurance and reinsurance contracts issued and reinsurance contracts held, respectively and presents separately.

- Portfolios of insurance and reinsurance contracts issued that are assets
- Portfolios of insurance and reinsurance contracts issued that are liabilities
- Portfolios of reinsurance contracts held that are assets
- Portfolios of reinsurance contracts held that are liabilities

The portfolios referred to above are those established at initial recognition in accordance with the IFRS 17 requirements.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b. Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

(II) Significant Judgements and Accounting Policy Choices (continued)

vii. Presentation and Disclosure (continued)

The line item descriptions in the statement of profit or loss and other comprehensive income have been changed significantly compared with last year. Previously, the Company reported the following line items:

- Gross written premiums
- Net written premiums
- Changes in premium reserves
- Gross insurance claims
- Net insurance claims

Instead, IFRS 17 requires separate presentation of:

- Insurance revenue
- Insurance service expenses

The Company provides disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts
- Significant judgements, and changes in those judgements, when applying the standard

viii. Transition

Choice of Method (FRA, MRA, FV).

The Company has determined that reasonable and supportable information was available for all contracts in force at the transition date. Given that all contracts are eligible for the PAA, the Company has concluded that only current and prospective information was required to reflect circumstances at the transition date, which made the full retrospective application practicable. For this purpose, the full retrospective approach has been used by the Company.

Accordingly, the Company has identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied; derecognised any existing balances that would not exist if IFRS 17 had always applied; and recognised any resulting net difference in equity. The Company has not recognized any insurance acquisition cash flows assets relating to insurance contracts issued or expected to be issued.

Length of Comparatives

The Company will produce quarterly comparatives using the prior year reinstated financials.

(III) Transition Impact

Impact on Equity

The Company estimates that, on adoption of IFRS 17, the impact of these changes (before tax) is a reduction in the Company's total equity of SAR 4.3 million as at 1 January 2022. The impact on equity as at 1 January 2023 is currently being estimated and shall be disclosed in the financial statements for the period ending 31 March 2023.

Drivers of Changes in Equity	Impact on equity on transition to IFRS 17 as at 01 January 2022
Adjustment to technical provisions for the impact of difference between the IFRS 17 Risk adjustment for non-financial risk and the IFRS 4 prudence margins	<i>Decrease by SAR 3.6 million</i>
Recognition of onerous contracts at inception given that level of aggregation under IFRS 17 is more granular	<i>Decrease by SAR 3.6 million</i>
Impact of additional expenses classified as IFRS 17 acquisition costs to be deferred	<i>Increase by SAR 2.9 million</i>
Total Impact	<i>Decrease by SAR 4.3 million</i>

SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b. Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

(III) Transition Impact

Impact on Liabilities and Assets

	Impact on transition to IFRS 17 as at 01 January 2022
Liabilities	
Reclassification of items disclosed as separate line items under IFRS 4	<i>Decrease by SAR 65.4 million</i>
Adjustment to technical provisions for the impact of difference between the IFRS 17 Risk adjustment for non-financial risk and the IFRS 4 prudence margins	<i>Increase by SAR 3.6 million</i>
Recognition of onerous contracts at inception given that level of aggregation under IFRS 17 is more granular	<i>Increase by SAR 3.6 million</i>
Impact of additional expenses classified as IFRS 17 acquisition costs to be deferred	<i>Decrease by SAR 2.8 million</i>
Total Impact on Liabilities	<i>Decrease by SAR 61.0 million</i>
Assets	
Reclassification of items disclosed as separate line items under IFRS 4	<i>Decrease by SAR 65.4 million</i>
Total Impact on Assets	<i>Decrease by SAR 65.4 million</i>

Sources of Uncertainties

The estimates of the impact on transition to IFRS 17 are based on dry runs performed by the Company as part of the implementation process. As such, the estimates may change as the methodologies, workarounds or assumptions used are refined. Various operational processes are further expected to be automated, to reduce certain manual interventions which may have been present when arriving at the current estimates.

However, based on the information currently available, it is not expected that any potential changes in the above would result in impacts deviating significantly from the current estimates for the Company.

IFRS 9 – Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. However, the Company has met the relevant criteria and has applied the temporary exemption from IFRS 9 for annual periods before 1 January 2023. Consequently, the Company will apply IFRS 9 for the first time on 1 January 2023. The new standard addresses the following items related to financial instruments:

Financial Assets - Classification and measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially recognised on the trade date measured at their fair value. Except for financial assets and financial liabilities recorded at FVPL, transaction costs are added to this amount.

The Company classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms. The categories include the following:

- Amortized Cost
- Fair value through OCI
- Fair value through P/L

Debt instruments are held at amortised cost if both of the following conditions are met:

- The instruments are held within a business model with the objective of holding the instrument to collect the contractual cash flows
- The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The details of these conditions are outlined below.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b. Standards issued but not yet effective (continued)

IFRS 9 – Financial Instruments (continued)

Financial Assets - Classification and measurement (continued)

Business Model Assessment:

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise. The Company considers the timing, amount and volatility of cash flow requirements to support insurance liability portfolios in determining the business model for the assets as well as the potential to maximise return for shareholders and future business development.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios that is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of asset sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI Test:

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a debt arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Debt instruments measured at fair value through other comprehensive income:

The Company applies the new category under IFRS 9 for debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise debt instruments that had previously been classified as available-for-sale under IAS 39. Debt instruments in this category are those that are intended to be held to collect contractual cash flows and which may be sold in response to needs for liquidity or in response to changes in market conditions.

Financial assets measured at fair value through profit or loss:

Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition, or are mandatorily required to be measured at fair value under IFRS 9. This category includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or both to collect contractual cash flows and sell.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b. Standards issued but not yet effective (continued)

IFRS 9 – Financial Instruments (continued)

Financial assets – Impairment

The Company recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the appropriate effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Calculation of ECL:

As mentioned above, all assets are further classified into three stages based on the change in credit risk since inception. These three stages are described below:

Stage 1 - includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognized.

Stage 2 - includes financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized.

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognized.

The above approach is quantitatively modeled using the following formula.

$$\text{ECL} = \text{Probability of default (PD)} \times \text{Exposure at default (EAD)} \times \text{Loss given default (LGD)} \times \text{Discount factor (DF)}$$

ECL parameters definitions

- Probability of default: It defines the probability of a borrower to default in its commitment over the lifetime of the asset. According to IFRS 9 context, PD is calculated for two-time horizons. 12 - Months PD and lifetime PD.
 - 12- Months PD: likelihood of default in next 12 months of an asset.
 - Lifetime PD: likelihood of default in the lifetime of an asset.
- Exposure at Default ("EAD"): EAD is the total value / balance outstanding of an asset the entity is exposed to at the time of default.
- Loss Given Default ("LGD"): LGD is the total loss (expressed as a percentage) on an asset experienced by entity when a counterparty defaults on their contractual obligations.
- Discount Factor ("DF"): The company will discount the cash flows that it expects to receive at the effective interest rate determined at initial recognition, or an approximation thereto, to calculate the ECL. If a financial instrument has a variable interest rate, the ECL will be discounted using the current effective interest rate.
- Forward-looking information: Each of the ECL parameters, specifically the "PD", implicitly or explicitly contain a forward-looking macroeconomic factor that feeds into the calculation of the ECL.
- Definition of default: A default is defined based on the default of the borrower/ instrument issuer, when they are in default or rated ("D").
- Significant Increase in Credit Risk ("SICR"): Specific criteria should be achieved to conclude that the financial instrument has a significant increase in credit risk since initial recognition but that does not have objective evidence of impairment. The criteria vary and are determined based on the type of financial assets.

Financial liabilities

Financial liabilities will be measured at amortized cost unless either the financial liability is held for trading and is therefore required to be measured at FVTPL (e.g., derivatives not designated in a hedging relationship), or the company elects to measure the financial liability at FVTPL (using the fair value option). Such options are irrevocable and can only be classified upon prior approval.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

c. Standards issued but not yet effective (continued)

IFRS 9 – Financial Instruments (continued)

Financial liabilities (continued)

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

- The amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI;
- The remaining amount of the change in the fair value will be presented in the statement of income.

Transition

The general requirement in IFRS 9 is that an entity must apply IFRS 9 at the date of initial adoption retrospectively in accordance with IAS 8.

IFRS 9 does not require an entity to restate prior periods. Restatement is permitted only if it is possible without the use of hindsight and the restated financial statements reflect all the requirements of IFRS 9. If the entity does not restate prior periods, any difference between previous carrying amounts and those determined under IFRS 9 at the date of initial application should be included in the opening balance of the retained earnings (or other equivalent component of equity).

Accordingly, the Company will not restate its comparative figures, instead the impact will be included in the opening retained earnings as at 01 January 2023.

Estimated Change in the Company's Total Equity due to initial application of IFRS 9

The Company has assessed the estimated impact that the initial application of IFRS 9 will have on its financial statements. Based on assessments undertaken to date, the total adjustment (after Zakat) to the balance of the Company's total equity is estimated to be a reduction of SAR 0.5 million as at 01 January 2022, as summarized below. The impact on equity as at 01 January 2023 is currently being estimated and shall be disclosed in the financial reporting for the period 01 January 2023 to 31 March 2023.

<i>Adjustments due to adoption of IFRS 9</i>	<i>01 January 2022</i>
<i>Impairment of financial assets</i>	<i>SAR (0.5) million</i>
<i>Total Impact</i>	<i>SAR (0.5) million</i>

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

i. Insurance contracts

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

ii. Revenue Recognition

Recognition of premium

Premiums are recorded in the statement of income based on straight line method over the insurance policy coverage period. Unearned premiums are calculated on a straight-line method over the insurance policy coverage.

Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premium is taken to the statement of income in the same order that revenue is recognised over the period of risk.

Reinsurance

Reinsurance liabilities represent balances due to insurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

ii. Revenue Recognition

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

Investment income

Investment income on debt instruments classified under held to maturity investments and murabaha deposits are accounted for on an effective interest basis.

Dividend income

Dividend income on equity instruments classified under fair value through statement of income (FVSI) investments is recognized when the right to receive payment is established.

iii. Claims

Claims consist of amounts payable to providers, policyholders and third parties and related loss adjustment expenses, net of recoveries. Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date. The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Further, the Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

iv. Reinsurance contracts held

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. An asset or liability is recorded in the statement of financial position representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income as incurred. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

v. Deferred policy acquisition costs

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. All other acquisition costs are recognized as an expense when incurred. Amortization is recorded in the "Policy acquisition costs" in the statement of income. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income. Deferred policy acquisition costs are also considered in the liability adequacy test at each reporting date.

vi. Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities net of related deferred policy acquisition costs. In performing these tests management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of income by establishing a provision for losses arising from liability adequacy tests accordingly.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES– (continued)

vii. Receivables

Premiums receivable is stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in “Other general and administrative expenses” in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 7 and 8 fall under the scope of IFRS 4 “Insurance contracts”.

viii. Investments

i. Available-for-sale investments

Available-for-sale financial assets if any, are those non-derivative financial assets that are neither classified as held for trading or held to maturity or loans and receivables, nor are designated at fair value through profit or loss. Such investments are initially recorded at cost, being the fair value of the consideration given including transaction costs directly attributable to the acquisition of the investment and subsequently measured at fair value. Cumulative changes in fair value of such investments are recognized in other comprehensive income in the statement of comprehensive income under “Net change in fair value – Available for sale investments”. Realized gains or losses on sale of these investments are reported in the related statements of income under “Realized gain / (loss) on investments available for sale investments.” Dividend, commission income and foreign currency gain/loss on available-for-sale investments are recognized in the related statements of income or statement of comprehensive income - shareholders operations, as part of the net investment income / loss. Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the related statement of comprehensive income, as impairment charges. Fair values of available-for-sale investments are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics. For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Reclassification:

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to HTM is permitted only when the entity has the ability and intention to hold the financial asset until maturity. For a financial asset reclassified out of the available-for-sale category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the Effective Interest Rate “EIR”. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income.

ii. Held as FVSI

Investments in this category are classified if they are held for trading or designated by management as FVSI on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term and are recorded in the statement of financial position at fair value. Changes in fair value are recognized in net trading income/loss.

An investment may be designated at FVSI by the management, at initial recognition, if it satisfies the criteria laid down by IAS 39 except for the equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - (continued)

ii. Held as FVSI - (continued)

Investments at FVSI are recorded in the statement of financial position at fair value. Changes in the fair value are recognised in the statement of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVSI investments. Special commission income and dividend income on financial assets held as FVSI are reflected as either trading income or income from FVSI financial instruments in the statement of income.

Reclassification:

Investments at FVSI are not reclassified subsequent to their initial recognition, except that non-derivative FVSI instrument, other than those designated as FVSI upon initial recognition, may be reclassified out of the FVSI fair value through the statement of income (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables, if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, and then it may be reclassified out of the trading category only in 'rare circumstances'.

i. Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis.

Any gain or loss on such investments is recognised in the statement of income when the investment is derecognised or impaired.

Reclassification:

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Company's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

However, sales and reclassifications in any of the following circumstances would not impact the Company's ability to use this classification

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value
- Sales or reclassifications after the Company has collected substantially all the assets' original principal
- Sales or reclassifications attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

ii. De-recognition of financial instruments

The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party and the Company has also transferred substantially all risks and rewards of ownership.

iii. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation.

iv. Trade date accounting

All regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e., the date that the Company commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - (continued)

v. Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
 - Adverse changes in the payment status of issuers or debtors in the Company; or
 - National or local economic conditions at the country of the issuers that correlate with defaults on the assets.

If there is objective evidence that an impairment loss on a financial asset exists, the impairment is determined as follows:

- For assets carried at fair value, impairment is the significant or prolong decline in the fair value of the financial asset.
- For assets carried at amortized cost, impairment is based on estimated future cash flows that are discounted at the original effective commission rate.

For available-for-sale financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available for sale, the Company assesses individually whether there is objective evidence of impairment. Objective evidence may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in special commission income or principal payments, the probability that it will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income and statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the statement of income and statement of comprehensive income, the impairment loss is reversed through the statement of income and statement of comprehensive income.

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through statement of income as long as the asset continues to be recognised i.e., any increase in fair value after impairment has been recorded can only be recognised in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the statement of income under "Realized gain / (loss) on investments available for sale investments.

The determination of what is 'significant' or 'prolonged' requires judgement. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In making an assessment of whether an investment in debt instrument is impaired, the Company considers the factors such as market's assessment of creditworthiness as reflected in the bond yields, rating agencies' assessment of creditworthiness, country's ability to access the capital markets for new debt issuance and probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness. The amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income and statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES– (continued)

ix. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Subsequent costs 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 income during the financial period in which they are incurred. Land is not depreciated. The cost of other items of property and equipment is depreciated on the straight-line method to allocate the cost over estimated useful lives, as follows:

Leasehold improvements	3 years
Computer equipment	4 years
Motor vehicles	5 years
Furniture, fittings and office equipment	4 – 10 years

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate. The carrying values of these assets are reviewed for impairment when event or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in "Other income, net" in the statement of income.

x. Right of use assets

The Company applies the cost model, and measures the right of use assets at cost:

- a) Less any accumulated depreciation and any accumulated impairment losses; and
- b) Adjusted for any re-measurement of the lease liability for lease modifications.

Generally, right of use asset would be equal to lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to the transactions, etc. These need to be added to the right of use asset value.

xi. Intangible assets

Separately acquired intangible assets (mention category) are shown at historical cost. They have a finite useful life and are subsequent carried at cost less accumulated amortization and impairment losses. The Company amortises intangible assets with a limited useful life using straight-line method over the following periods:

Computer, software and license	4 years
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xii. Impairment of non-financial assets

Assets that have an indefinite useful life – for example, land – are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 level for which there are separately identifiable cash flows (cash-generating units).

xiii. Lease liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor. After the commencement date, the Company measures the lease liability by:

- a. Increasing the carrying amount to reflect incremental financing rate on the lease liability;
- b. Reducing the carrying amount to reflect the lease payments made; and
- c. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - (continued)

xiv. End-of-service indemnities

The Company operates an end-of-service indemnity plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made at the present value of expected future payments in respect of services provided by the employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The benefit payments obligation is discharged as and when it falls due. Remeasurements (actuarial gains / losses) as a result of experience adjustments and changes in actuarial assumptions are recognised in statement of comprehensive income.

xv. Zakat and income tax

The Company is subject to zakat and income tax in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of net adjusted income for the year. Zakat and income tax are accrued on a quarterly basis. Additional amounts payable, if any at the finalization of final assessments are accounted for when such amounts are determined. The zakat is applicable on 81% of the shareholders, while income tax on 19%.

xvi. Deferred Tax

The financial impact of adoption of accounting policy for deferred tax is not material to the financial statements, therefore prior period amounts have not been restated.

xvii. Dividend distribution

Dividend distribution if any, to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

xviii. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks including murabaha deposits with less than three months maturity from the date of acquisition.

xix. Cash flow statement

The Company's main cash flows are from insurance operations which are classified as cash flow from operating activities. Cash flows generated from investing and financing activities are classified accordingly.

xx. Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Saudi Riyals at the rate of exchange prevailing at the statement of financial position date. All differences are taken to the statements of income and comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Foreign exchange gains or losses on available-for-sale investments are recognized in "Other income, net" in the statement of income and statement of comprehensive income. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

xxi. Operating segments

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment), which is subject to risk and rewards that are different from those of other segments. For management purposes, the Company is organized into business units based on their products and services and has the following reportable segments:

- Medical - coverage for health insurance.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions. No inter-segment transactions occurred during the year.

xxii. Statutory reserves

In accordance with the Company's by-laws, the Company shall allocate 20% of its net income from shareholders operations each year to the statutory reserve until it has built up a reserve equal to the share capital.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES– (continued)

xxiii. Fair values

The fair value of financial assets is based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flow using commission for items with similar terms and risk characteristics.

For financial assets where there is no active market, fair value is determined by reference to the market value of a similar financial assets or where the fair values cannot be derived from active market, they are determined using a variety of valuation techniques. The inputs of this models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

xxiv. Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

xxv. Provisions

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

xxvi. Provision for outstanding claims

Judgement by management is required in the estimation of amounts due to policyholders and third parties arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company estimates its claims based on its experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually.

Management reviews its provisions for claims incurred, and claims incurred but not reported, on a monthly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of insurance operations and accumulated surplus for that year. The provision for outstanding claims, as at 31 December, is also verified and certified by an independent actuary.

4. GOING CONCERN

As at 31 December 2022, the Company's accumulated losses reached 26.32% of its share capital (31 December 2021: 60.83%) and its solvency reached 154% (31 December 2021: 43.0%).

Based on the above, the Company's Management has assessed its ability to continue as a going concern and is satisfied that the Company's operations shall continue for the foreseeable future under the normal course of business. In addition to the capital increase during the year, as described in note (25) and the potential merge as described in note (1), the financial statements have been prepared on the going concern basis and do not include any adjustments, which may be required, if the Company was not able to continue as a going concern.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

	Insurance operations	
	2022	2021
	SAR'000	
Bank and cash balances	23,074	49,959
	Shareholders' operations	
	2022	2021
	SAR'000	
Bank balances	772	79
Deposits maturing within 3 months from the acquisition date	132,896	109,114
	133,668	109,193
TOTAL	156,742	159,152

The Deposits are held with commercial banks and financial institution in the Kingdom of Saudi Arabia and GCC. These deposits are denominated in Saudi Arabian Riyals and have an original maturity of not exceeding three months.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

Murabaha deposits having original maturity of more than three months but less than a year, amounting to SAR 135.4 million (2021: SAR 77.9 million), which are held in Saudi Arabian Riyals in the Kingdom of Saudi Arabia and are presented in the statement of financial position of the Shareholders separately (note 32). As of 31 December 2022, the deposit carrying commission rates ranges from 0.92% to 5.5% (31 December 2021: 0.85% to 0.92%).

Premiums receivable comprise of amounts due from the following:

Premiums receivable from brokers and agents as at 31 December 2022 amounting to SAR 24.1 million (31 December 2021: SAR 28.2 million) are ultimately due from customers that are insured through brokers and agents.

	2022	2021
	SAR'000	
Balance at beginning of the year	17,280	19,671
Released during the year	(150)	(2,391)
Balance at end of the year	17,130	17,280

		Past due but not impaired	Past due and impaired			Total
	Neither past due nor impaired	Up to three months	Above three and up to six months	Above six and up to twelve months	Above twelve months	
						SAR'000
31 December 2022	38,138	12,431	4,079	3,661	5,063	63,372
31 December 2021	17,839	25,769	5,401	4,539	4,938	58,486

In respect of premium receivables, ten major customers account represent 34.4% of the balance as at 31 December 2022 (31 December 2021: 44%).

Reinsurers' receivable comprise of amounts due from the following:

	2022	2021
	SAR'000	
Reinsurer receivable	-	-
Provision for doubtful reinsurer receivable	-	-
Reinsurers' receivable	-	-

SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

8. REINSURERS' BALANCE RECEIVABLE (continued)

Movement in the allowance for doubtful reinsurer receivable during the year was as follows:

	2022	2021
	SAR'000	
Balance at the beginning of the year	-	6,800
Release of provision against reinsurer receivable	-	(230)
Write off during the year	-	(6,570)
Balance at the end of the year	-	-

9. INVESTMENTS

Investments are classified as follows:

	Shareholders' operations	
	2022	2021
	SAR'000	
- Held as FVSI	1,133	1,668

Movement in the fair value through statement of income (FVSI) investment balance is as follows:

	Shareholders' operations	
	2022	2021
	SAR'000	
Opening balance	1,668	8,047
Realized gain on investments	2	42
Sold during the year	(666)	(6,658)
Unrealized gain on investments	129	237
Closing balance	1,133	1,668

	2022	2021
	SAR'000	
Al Badr Murabaha Fund	-	664
Saudi Fransi GCC IPO Fund	1,133	1,004
	1,133	1,668

Movement in held to maturity investment balance is as follows:

	Shareholders' operations	
	2022	2021
	SAR'000	
Opening balance	-	60,329
Realized gain on held to maturity investment	-	5,218
Amortization of held to maturity investments, net	-	213
Sold during the year	-	(65,760)
Closing balance	-	-

10. DEFERRED POLICY ACQUISITION COST

	2022	2021
	SAR'000	
Insurance operations		
Balance at the beginning of the year	6,926	3,230
Incurred during the year	12,958	11,298
Amortized during the year	(13,859)	(7,602)
Balance at the end of the year	6,025	6,926

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11. INTANGIBLE ASSETS - NET

	2022	2021
	SAR'000	
<i>Insurance Operations</i>		
Cost:		
Balance at the beginning of the year	23,574	23,266
Additions during the year	244	308
Balance at the end of the year	23,818	23,574
Amortization:		
Balance at the beginning of the year	22,675	22,184
Charge for the year	349	491
Balance at the end of the year	23,024	22,675
Net book value as at 31 December	794	899

Intangible assets consist mainly of computer, software and license used for the benefit of insurance operations.

12. PROPERTY AND EQUIPMENT - NET

	<i>Leasehold improvements</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	<i>Furniture fittings and office equipment</i>	<i>Total</i>
	SAR'000				
<i>Insurance Operations</i>					
Cost:					
At 1 January 2021	4,692	11,673	449	2,632	19,446
Additions during the year	-	471	-	-	471
Disposal during the year	-	-	(309)	-	(309)
At 31 December 2021	4,692	12,144	140	2,632	19,608
Additions during the year	512	184	-	8	704
Disposal during the year	(4,692)	-	-	-	(4,692)
At 31 December 2022	512	12,328	140	2,640	15,620
Accumulated depreciation:					
At 1 January 2021	4,687	9,995	368	2,223	17,273
Charge for the year	5	835	36	214	1,090
Disposal during the year	-	-	(278)	-	(278)
At 31 December 2021	4,692	10,830	126	2,437	18,085
Charge for the year	45	597	14	104	760
Disposal during the year	(4,692)	-	-	-	(4,692)
At 31 December 2022	45	11,427	140	2,541	14,153
Net book value at 31 December 2022	467	901	-	99	1,467
31 December 2021	-	1,314	14	195	1,523

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13. RIGHT-OF-USE-ASSETS

13.1 RIGHT-OF-USE ASSET, NET

	2022	2021
	SAR'000	
Building		
Cost:		
At 1 January	5,486	3,784
Additions during the year	1,548	1,702
Deletions during the year	(4,807)	-
At 31 December	2,227	5,486
Accumulated depreciation:		
At 1 January	4,807	2,743
Additions during the year	1,112	2,064
Deletions during the year	(4,807)	-
At 31 December	1,112	4,807
Net book value	1,115	679

13.2 LEASE LIABILITIES

	2022	2021
	SAR'000	
At 1 January	2,250	2,218
Additions during the year	1,548	1,702
Deletions during the year	(2,250)	-
Finance cost	28	33
Payment made during the year	(800)	(1,703)
At 31 December	776	2,250

14. STATUTORY DEPOSIT

As required by the Saudi Arabian Insurance Regulations, the Company deposited an amount equivalent to 15% of its paid-up share capital, in a bank designated by SAMA. This statutory deposit cannot be withdrawn without the consent of SAMA, and commission accruing on this deposit is payable to SAMA. On 12 December 2022, the Company received the proceeds against the increase in share capital by SAR 130 million. Accordingly, on 21 December 2022, the Company deposited the additional required statutory deposit amounted SAR 12 million.

15. PREPAID EXPENSES AND OTHER ASSETS

	2022	2021
	SAR'000	
Insurance Operations		
Prepayments	438	1,032
Deferred third party administrator (TPA) fee	4,342	3,781
Advances to suppliers	473	581
Other receivables (Agent, broker, TPA and others)	12,340	4,965
Receivable -Umrah share	4,861	107
VAT receivable	658	187
Others	84	-
	23,196	10,653
Shareholders' Operations		
Accrued income	2,278	986
Total	25,474	11,639

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16. TECHNICAL RESERVES

16.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	2022	2021
	SAR'000	
Outstanding claims	38,450	46,806
Claims incurred but not reported	23,672	15,745
	62,122	62,551
Premium deficiency reserve	19,279	34,527
Other technical reserves	429	391
Net outstanding claims and reserves	81,830	97,469

16.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	2022		
	Gross	Reinsurance	Net
	SAR'000		
Balance at the beginning of the year	108,727	-	108,727
Premium written during the year	227,474	-	227,474
Premium earned during the year	(227,647)	-	(227,647)
Balance as at the end of the year	108,554	-	108,554
	2021		
	Gross	Reinsurance	Net
	SAR'000		
Balance at the beginning of the year	67,504	-	67,504
Premium written during the year	218,502	-	218,502
Premium earned during the year	(177,279)	-	(177,279)
Balance as at the end of the year	108,727	-	108,727

17. COMMITMENTS AND CONTINGENCIES

The Company has no contingencies or letter of guarantee as at 31 December 2022 (31 December 2021: Nil). There were no capital commitments outstanding as at 31 December 2022 (31 December 2021: Nil).

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending legal proceedings, management does not believe that such proceedings will have a material effect on its results and financial position. The Company did not have any significant outstanding legal proceedings as at the reporting date.

18. ACCRUED AND OTHER LIABILITIES

	2022	2021
	SAR'000	
Payable to medical providers	21,475	36,489
Payable to suppliers	4,292	1,629
Inspection and supervision fees	812	806
Accrued commission	12,753	10,528
Other liabilities	4,038	4,757
	43,370	54,209

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19. END OF SERVICE INDEMNITIES

Accruals are made in accordance with the actuarial valuation under the projected unit credit method while the benefit payments obligation is discharged as and when it falls due. The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

19.1 Movement of defined indemnities obligation

	2022	2021
	SAR'000	
Opening balance	5,787	4,970
Current service cost	921	1,296
Interest cost	164	186
Charge to statement of income	1,085	1,482
Charge to statement of other comprehensive income	(1,174)	75
Payment of benefits during the year	(526)	(740)
Closing balance	5,172	5,787

19.2 Principal actuarial assumptions

The following range of significant actuarial assumptions was used by the Company for the valuation of defined indemnities obligation liability:

	2022	2021
Valuation discount rate	5.1%	3.1%
Expected rate of increase in salary level across different age bands	3%	3%

The impact of changes in sensitivities on present value of end of service indemnities obligation is as follows:

	2022	2021
	SAR'000	
Valuation discount rate		
- Increase by 1%	(481)	(626)
- Decrease by 1%	565	746
Expected rate of increase in salary level across different age bands		
- Increase by 1%	(571)	(739)
- Decrease by 1%	494	632

The impact of changes in sensitivities on present value of end of service indemnities is as follows:

	2022	2021
Valuation Discount rate		
Increase by 1%	(4,691)	(5,161)
Decreased by 1%	(5,737)	(6,533)
Expected rate of increase in salary level across different age bands		
Increase by 1%	(5,743)	(6,526)
Decreased by 1%	(4,677)	(5,155)
Mortality rate		
Increase by 20%	(5,173)	(5,785)
Decreased by 20%	(5,171)	(5,789)
Withdrawal rate		
Increase by 20%	(5,172)	(5,650)
Decreased by 20%	(5,161)	(5,923)

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20. MOVEMENT IN OUTSTANDING RESERVES AND OTHER TECHNICAL RESERVES

	2022			2021		
	Gross	Due from reinsurers	Net	Gross	Due from reinsurers	Net
		SAR '000			SAR '000	
Outstanding claims	46,806	-	46,806	39,307	(119)	39,188
Claims incurred but not reported	15,745	-	15,745	12,974	-	12,974
Premium deficiency reserve	34,527	-	34,527	14,545	-	14,545
Other technical reserves	391	-	391	326	-	326
Balance at 1 January	97,469	-	97,469	67,152	(119)	67,033
Claim paid	(196,730)	-	(196,730)	(152,024)	-	(152,024)
Claims incurred	196,301	-	196,301	162,295	119	162,414
Premium deficiency reserve	(15,248)	-	(15,248)	19,982	-	19,982
Other technical reserves	38	-	38	64	-	64
Balance at 31 December	81,830	-	81,830	97,469	-	97,469
Outstanding claims	38,450	-	38,450	46,806	-	46,806
Claims incurred but not reported	23,672	-	23,672	15,745	-	15,745
Premium deficiency reserve	19,279	-	19,279	34,527	-	34,527
Other technical reserves	429	-	429	391	-	391
Total	81,830	-	81,830	97,469	-	97,469

Claims Triangulation Analysis by accident year

The following reflects the cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each financial position date, together with the cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims. The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company transfers much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

2022 Accident year	2019	2020	2021	2022	Total
			SAR '000		
Gross estimate of ultimate claims costs:					
At the end of accident year	93,496	154,726	176,257	215,902	215,902
One year later	93,993	147,455	167,617	-	167,617
Two years later	93,302	145,558	-	-	145,558
Three years later	93,492	-	-	-	93,492
Current estimate of cumulative claims	93,492	145,558	167,617	215,902	622,569
Cumulative payments to date	(93,492)	(145,232)	(166,727)	(154,995)	(560,446)
Total liability	-	326	890	60,907	62,123
Net estimate of ultimate claims costs:					
At the end of accident year	91,859	154,720	176,257	215,902	215,902
One year later	92,190	147,449	167,617	-	167,617
Two years later	91,516	145,551	-	-	145,551
Three years later	91,704	-	-	-	91,704
Current estimate of cumulative claims	91,704	145,551	167,617	215,902	620,774
Cumulative payments to date	(91,704)	(145,225)	(166,727)	(154,995)	(558,651)
Total liability	-	326	890	60,907	62,123

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21. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

- in the accessible principal market for the asset or liability, or
- in the absence of a principal market, in the most advantages accessible market for the asset or liability

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the financial statements.

Determination of fair value and fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

a. Carrying amounts and fair value

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation to fair value.

<u>Shareholders' Operations</u>	<u>Carrying value</u>	<u>Fair value</u>			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
			SAR'000		
31 December 2022					
Financial assets measured at fair value					
- Investments held as FVSI	1,133	1,133	-	-	1,133
<u>Shareholders' Operations</u>					
	<u>Carrying value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
			SAR'000		
31 December 2021					
Financial assets measured at fair value					
- Investments held as FVSI	1,668	1,668	-	-	1,668

All investment are held within Kingdom of Saudi Arabia and GCC.

22. OPERATING SEGMENTS

The Company only issues insurance contracts for providing health care services ('medical insurance') and all the insurance operations of the Company are carried out in the Kingdom of Saudi Arabia. The insurance operations are being monitored by management under one segment; hence no separate information is required.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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23. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management and Board of Directors. The following are the details of the major related party transactions during the year and the related balances:

	Nature of transactions	Transactions during the year ended 31 December		Balance receivable / (payable) as at 31 December	
		2022	2021	2022	2021
		SAR'000			
<u>Entities controlled, jointly controlled or significantly influenced by related parties</u>					
	Gross premium written	4,321	1,497	1,372	603
	Gross claims paid	2,261	1,266	-	-
Juffali Group – (affiliates)	Purchase of computer equipment, licenses, vehicles and other services	652	158	(184)	(104)
	Commission paid	289	28	-	-

Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly and comprise top management executives including the Chief Executive Officer and the Acting Chief Financial Officer of the Company.

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and top executives for the year ended 31 December:

	2022	2021
	SAR'000	
<i>Top management executives</i>		
Salaries and other allowances	4,842	4,000
End of service indemnities	181	148
	5,023	4,148
	2022	2021
	SAR'000	
<i>Board and committees</i>		
Board and committees' remuneration and fees	2,131	1,788
	2,131	1,788

24. ZAKAT AND INCOME TAX

a. Charge for the year

The current year's zakat provision is based on the following:

	2022	2021
	SAR'000	
Share capital	100,000	150,000
Adjusted brought forward losses	41,245	29,273
Provisions	35,641	39,964
Book value of property, equipment and intangible assets	(2,261)	(2,422)
Statutory deposit	(34,500)	(22,500)
Adjusted net loss for the year	(6,556)	(65,300)
Zakat base	51,079	70,469

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24. ZAKAT AND INCOME TAX – (continued)

a. Charge for the year

The differences between the accounting profit and zakat base are mainly due to certain adjustments in accordance with the relevant fiscal regulations. The movement in the zakat provision for the year was as follows:

	2022	2021
	SAR'000	
Balance, January 1	13,250	12,000
Provision adjustment for prior years	361	2,475
Provided during the year	1,085	1,512
Total provision charged to the statement of income	1,446	3,987
Paid during the year	-	(2,737)
Balance December 31	14,696	13,250

As the Company has incurred a loss during the year ended 31 December 2022, and in previous years, no provision has been established in respect of income tax in these financial statements.

b. Status of zakat assessments

The Company has filed its Zakat and tax returns until the year ended 31 December 2021 and zakat assessments until 2014 have been finalized and settled.

The Zakat, Tax and Customs Authority ("ZATCA") has raised assessments for the years 2015 through 2018 with additional zakat of SAR 9.49 million. The Company has submitted an appeal to the Tax Violations and Dispute Resolutions Committee ("TVDRC") against the ZATCA's assessment. The TVDRC heard the case and issued the decision reducing the liability by SAR 86 thousand. The Company and ZATCA filed an appeal with the Tax Violations and Dispute Appellate Committee ("TVDAC") and their review is awaited.

The zakat and tax returns for the years 2019 through 2021 are currently under review by the ZATCA.

25. SHARE CAPITAL

As at 31 December 2022, the authorized, subscribed and paid-up share capital of the Company was SAR 230 million, divided into 23 million shares of SAR 10 each.

On 20 Muharram 1444H corresponding to 18 August 2022, the Board of Directors had recommended reducing the Company's share capital from SAR 150 million to SAR 100 million by offsetting with accumulated losses. In an Extraordinary General Assembly meeting (second meeting) held on 22 Rabi Al Awwal 1444H corresponding to 18 October 2022, the Shareholders of the Company have approved this reduction and the required changes in the Company's by-laws relating to this reduction, accordingly the share capital and accumulated losses have been reduced by SAR 50 million. The capital reduction was through reduction of 1 share for every 3 shares held by the Shareholder. The purpose of capital reduction was restructuring the capital position of the Company in order to meet the compliance with the Companies Law. There was no impact of capital reduction on the Company's financial obligations.

On 20 Muharram 1444H corresponding to 18 August 2022, the Board of Directors recommended to increase the Company's capital, through right issue with a total value of SAR 130 million, through offering priority rights shares to reach to SAR 230 million. In an Extraordinary General Assembly meeting (second meeting) held on 12 Rabi Al Thani 1444H corresponding to 6 November 2022, the Shareholders of the Company have approved this increase and the required changes in the Company's by-laws relating to this increase. Accordingly, the share capital was increased by SAR 130 million. The capital increase was through an increase of 1.3 shares for every 1 share held by the Shareholder. The purpose of capital increase was to support the Company's future plans and enhance the solvency margin. The Company has completed the related legal formalities.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
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26. STATUTORY RESERVE

As required by Article 70 of the Saudi Arabian Insurance Regulations, 20% of the net shareholders' income (after deducting losses brought forward) shall be set aside as a statutory reserve until this reserve amounts to 100% of paid-up share capital. No reserve has been made as the Company made losses during the year.

27. CAPITAL MANAGEMENT

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value.

The Company manages its capital to ensure that it is able to continue as a going concern and comply with the regulator's capital requirements of the markets in which the Company operates while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid up share capital, reserves and accumulated losses. The Company maintains its capital as per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Regulations detailing the solvency margin required to be maintained.

The Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

- Minimum Capital Requirement of SAR 100 million.
- Premium Solvency Margin.
- Claims Solvency Margin.

The Company is in compliance with all the externally imposed Capital requirements with sound solvency margin. The Capital structure of the Company as at 31 December 2022 consists of paid-up share Capital of SAR 230 million (31 December 2021: SAR 150 million) and accumulated losses of SAR 60.5 million (31 December 2021: SAR 91.2 million) in the statement of financial position. In the opinion of the Board of Directors the Company has fully complied with the externally imposed capital requirements during the reported financial year.

28. LOSS PER SHARE

Loss per share for the year has been calculated by dividing the net loss for the year by the weighted average number of issued and outstanding shares for the year.

- a. The weighted average number of shares have been adjusted retrospectively for current year to reflect the bonus element of right share issue as required by IAS 33 "Earnings per share" as follows:

	2022	2021
	Shares'000	
Issued ordinary shares as at 1 January	15,000	15,000
Effect of rights share issue	8,000	-
Balance at the end of the year	23,000	15,000

During 2022, the weighted average number of ordinary shares for current year is computed using an adjustment factor of 1.31 which is a ratio of the theoretical ex-rights price of SAR 13.13 per ordinary share and the closing price of SAR 17.2 per ordinary share on the last day on which the shares were traded before the rights issue.

- b. The basic and diluted loss per share is calculated as follows:

	2022	2021
Net loss for the year – (SAR'000)	(9,581)	(61,972)
Weighted average number of ordinary shares – (shares'000)	13,642	15,000
Basic and diluted loss per share (SAR / Share)	(0.70)	(4.13)

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29. GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
	SAR'000	
<i>Insurance Operations</i>		
Employee costs	24,090	29,885
Depreciation (note 12)	760	1,090
Amortization (note 11)	349	491
Depreciation on right of use assets (note 13.1)	1,112	2,064
Rent expenses	48	269
Legal and professional fees	3,859	2,955
Repair and maintenance costs	2,841	2,336
Marketing expenses	30	3
Utilities and communication expenses	1,518	2,032
Other expenses	1,005	2,508
	35,612	43,633
	2022	2021
	SAR'000	
<i>Shareholders Operations</i>		
Legal and professional fees	406	1,821
Investment related expenses	304	313
Subscriptions	260	379
Committee fees	2,131	1,788
Others	21	14
	3,122	4,315
Total	38,734	47,948

30. OTHER INCOME

	2022	2021
	SAR'000	
<i>Insurance Operations</i>		
Haj and Umrah Income	4,754	51
Reversal of lease liability	2,250	-
Others	295	47
	7,299	98

31. RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's growth and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risks through its strategic planning process.

The strategy considers the impact of market conditions and available expertise on inherent risks to which the Company is exposed.

Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Audit committee

The Audit Committee is appointed by the Board of Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof and the soundness of the internal controls of the Company. The risks faced by the Company and the way these risks are mitigated by management are summarised below.

NOTES TO THE FINANCIAL STATEMENTS – (continued)
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31. RISK MANAGEMENT– (continued)

Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company manages this risk by ensuring that adequate reinsurance cover is taken to restrict the maximum loss payable for any individual claim. The Company only issues short term contracts not exceeding one year in connection with medical risks.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company only underwrites medical risks. The Company has limited its risk by imposing maximum claim amounts on contracts. Medical insurance is designed to compensate holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers and a large population is covered under the policy. Claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Geographical concentration of risks

Since the Company operates in Saudi Arabia, hence, all the insurance risks relate to policies written in Saudi Arabia.

Independent actuarial review of claims and claims reserves

In further mitigation of the insurance risk, the Company utilises an independent actuary who performs periodical reviews of the Company's claims modelling and claims projections as well as verifying the closing position claims reserves are adequate.

Key assumptions

The key source of estimation uncertainty at the statement of financial position date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the statement of financial position.

Process used to decide on assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral reasonable estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from providers and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available.

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, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs. For details, please refer note 2(d)(i).

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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31. RISK MANAGEMENT– (continued)

Process used to decide on assumptions – (continued)

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder, Bornheutter-Ferguson, Cape Cod and expected loss ratio methods.

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions such as the ultimate loss ratio with all other assumptions held constant showing the impact on net liabilities and net loss for the year.

	Change in assumptions	Impact on net loss for the year
	%	SAR'000
Ultimate loss ratio – Insurance Operations		
Year ended 31 December 2022	± 5%	± 11,381
Year ended 31 December 2021	± 5%	± 8,864

Reinsurance risk

In common with other insurance companies, in order to minimise financial exposure arising from a high volume of claims or large claims, the Insurance Operations, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

Furthermore, to minimise its exposure to significant losses from reinsurers' insolvencies, the Insurance Operations evaluates the financial condition of its reinsurers. The Company had an Excess of Loss arrangement (XOL) with an international reinsurance company with Standard and Poors rating of "AA-".

This reinsurance arrangement covered all individual and group contracts issued by the Insurance Operations in the Kingdom of Saudi Arabia.

The credit risk exposure in respect of reinsurer's share of outstanding claims, incurred but not reported claims and premium deficiency reserves is Nil (31 December 2021: Nil).

Regulatory framework risk

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

Capital management (solvency) risk

Capital requirements are set and regulated by the SAMA. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' values.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities.

The following information summarizes the minimum regulatory capital of the Company:

	2022	2021
	SAR'000	
Minimum regulatory capital	100,000	100,000

NOTES TO THE FINANCIAL STATEMENTS – (continued)
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31. RISK MANAGEMENT– (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The Company's risk management policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains for policyholders which are in line with their expectations.

The Board of Directors of the Company ensure that the overall market risk exposure is maintained at prudent levels and is consistent with the available capital. While the Board gives a strategic direction and goals, risk management function related to market risk is mainly the responsibility of Risk Committee. The team prepares forecasts showing the effects of various possible changes in market conditions related to risk exposures. This risk is being mitigated through the proper selection of securities. Company maintains diversified portfolio and performs regular monitoring of developments in related markets. In addition, the key factors that affect shares and sukuk market movements are monitored, including analysis of the operational and financial performance of investees.

Market risk comprises of three types of risk: currency risk, commission rate risk and market price risk.

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Shareholders' Operations are exposed to market risk with respect to their FVIS investments. A 5% change in the fair value of FVIS investments, with all other variables held constant, would impact the Shareholders' Operations by SAR 56.65 thousand (2021: SAR 83.4 thousand).

Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on its Murabaha deposits and held to the maturity investments.

The Company places Murabaha deposits which are realizable within three months and more than three months, with the exception of restricted deposits which are required to be maintained in accordance with regulations in Saudi Arabia on which the Company does not earn any commission. Management manages commission rate risk by monitoring changes in commission rates in the currencies in which its deposits are denominated.

Held to maturity investments are managed by the discretionary portfolio manager.

Details of maturities of the major classes of commission bearing securities as at 31 December are as follows:

Shareholder's Operations

	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>Above 1 year</i>	<i>Total</i>
2022	SAR '000			
Short term murabaha deposits	132,896	135,353	-	268,249
	132,896	135,353	-	268,249
2021				
Short term murabaha deposits	109,114	77,908	-	187,022
	109,114	77,908	-	187,022

The insurance operations did not have any commission bearing assets as at December 31, 2022 and 2021.

The maturities of deposits have been determined on the basis of the remaining period, at the statement of financial position date, to the contractual maturity date.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

31. RISK MANAGEMENT– (continued)

Commission rate risk (continued)

The effective commission rates for the commission bearing financial instruments, at 31 December, were as follows:

	2022	2021
<i>Shareholder's Operations</i>		
Saudi Arabian Riyal denominated Murabaha deposits	1.94%	1.77%

The Company had no deposits and investments in currencies other than Saudi Arabian Riyals. Further, held to maturity

The following information demonstrates the sensitivity statement of shareholders' operations to possible changes in commission rates, with all other variables held constant.

	2022	2021
<i>Shareholder's Operations</i>	SAR'000	
Increase in commission rates by 100 basis points	2,690	1,870
Decrease in commission rates by 100 basis points	(2,690)	(1,870)

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of losses due to exchange rate fluctuations as the Company primarily deals in Saudi Arabian Riyals and in United States Dollars. The Saudi Arabian Riyals is pegged to the US Dollar.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company seeks to manage its credit risk with respect to customers by following the Company's credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts.

For all classes of financial instruments held by the Company, the maximum credit risk exposure is the carrying value as disclosed in the statement of financial position. The Company's credit risk exposure is primarily concentrated in Saudi Arabia. The Company maintains the exposures within limits. These limits have been set on the basis of the types of exposures and the credit rating or financial standing of the counterparty. The Company seeks to manage its credit risk with respect to other counterparties by placing deposits with reputable banks. The Company enters into reinsurance contracts with recognized, creditworthy parties (rated A or above).

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

	2022	2021
	SAR'000	
<i>Insurance Operations</i>		
Cash at banks (note 5)	23,074	49,959
Premium receivable, net (note 7)	63,372	58,486
Amount due from shareholders' operations	122,766	139,901
Other receivables	658	187
	209,870	248,533
	2022	2021
	SAR'000	
<i>Shareholders' Operations</i>		
Cash and cash equivalents (note 5)	133,668	109,193
Short term murabaha deposits (note 6)	135,353	77,908
Investments (note 9)	1,133	1,668
Statutory deposit (note 14)	34,500	22,500
Other receivables	2,278	5,531
	306,932	216,800

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non-investment grade (satisfactory) or past due but not impaired.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

31. RISK MANAGEMENT– (continued)

Credit risk (continued)

Insurance operations' financial assets

	<i>Investment grade</i>	<i>Non-investment grade</i>		<i>Total</i>
		<i>Satisfactory</i>	<i>Past due but not impaired</i>	
		<i>SAR' 000</i>		
Cash and cash equivalents	23,074	-	-	23,074
Premiums receivable - net	-	50,568	12,804	63,372
Amount due from shareholders' operations	-	122,766	-	122,766
Other receivables	-	658	-	658
As at 31 December 2022	23,074	173,992	12,804	209,870

	<i>Investment grade</i>	<i>Non-investment grade</i>		<i>Total</i>
		<i>Satisfactory</i>	<i>Past due but not impaired</i>	
		<i>SAR' 000</i>		
Cash and cash equivalents	49,959	-	-	49,959
Premiums receivable - net	-	43,608	14,878	58,486
Amount due from shareholders' operations	-	139,901	-	139,901
Other receivables	-	187	-	187
As at 31 December 2021	49,959	183,696	14,878	248,533

Shareholders' operations' financial assets

	<i>Investment grade</i>	<i>Non-investment grade</i>		<i>Total</i>
		<i>Satisfactory</i>	<i>Past due but not impaired</i>	
		<i>SAR' 000</i>		
Cash and cash equivalents	133,668	-	-	133,668
Short term murabaha deposits	135,353	-	-	135,353
Investments	1,133	-	-	1,133
Statutory deposit	34,500	-	-	34,500
Other receivables	-	2,278	-	2,278
As at 31 December 2022	304,654	2,278	-	306,932

	<i>Investment grade</i>	<i>Non-investment grade</i>		<i>Total</i>
		<i>Satisfactory</i>	<i>Past due but not impaired</i>	
		<i>SAR' 000</i>		
Cash and cash equivalents	109,193	-	-	109,193
Short term murabaha deposits	77,908	-	-	77,908
Investments	1,668	-	-	1,668
Statutory deposit	22,500	-	-	22,500
Other receivables	-	5,531	-	5,531
As at 31 December 2021	211,269	5,531	-	216,800

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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31. RISK MANAGEMENT– (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. All assets of the Company are current, except for property and equipment, intangible assets and statutory deposit, which are non-current in nature.

The Company's financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to insurance operations, amount due to related parties and certain other liabilities. All financial liabilities are non-commission bearing and are expected to be settled within 12 months from the date of statement of financial position, except end of service indemnities, which are non-current in nature.

Maturity profiles

Unearned premiums have been excluded from the analysis as they are not contractual obligations. The table below summarizes the maturity profile of the financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

	2022			Total
	Up to one	More than	No fixed	
	year	one year	maturity	
	SAR' 000			
INSURANCE OPERATIONS' FINANCIAL LIABILITIES				
Outstanding claims and other technical reserves	81,830	-	-	81,830
Lease liabilities	776	-	-	776
Zakat and income tax provision	14,696	-	-	14,696
Accrued expenses and other liabilities	43,370	-	5,172	48,542
	140,672	-	5,172	145,844
SHAREHOLDERS' FINANCIAL LIABILITIES				
Accrued expenses and other liabilities	5,012	-	-	5,012
TOTAL FINANCIAL LIABILITIES	145,684	-	5,172	150,856
	2021			Total
	Up to one	More than	No fixed	
	year	one year	maturity	
	SAR' 000			
INSURANCE OPERATIONS' FINANCIAL LIABILITIES				
Outstanding claims and other technical reserves	97,469	-	-	97,469
Lease liabilities	2,250	-	-	2,250
Zakat income tax provision	13,250	-	-	13,250
Accrued expenses and other liabilities	54,209	-	5,787	59,996
	167,178	-	5,787	172,965
SHAREHOLDERS' FINANCIAL LIABILITIES				
Accrued expenses and other liabilities	4,544	-	-	4,544
TOTAL FINANCIAL LIABILITIES	171,722	-	5,787	177,509

Liquidity profile

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above. There are no differences between contractual and expected maturity of the financial liabilities of the Company.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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31. RISK MANAGEMENT– (continued)

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Company's activities.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

- Requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Ethical and business standards; and
- Risk mitigation policies and procedures

32. SUPPLEMENTARY INFORMATION

a) Statement of financial position

	31 December 2022			31 December 2021		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SAR '000					
ASSETS						
Cash and cash equivalents	23,074	133,668	156,742	49,959	109,193	159,152
Short term murabaha deposits	-	135,353	135,353	-	77,908	77,908
Premiums receivable, net	63,372	-	63,372	58,486	-	58,486
Prepaid expenses and other assets	23,196	2,278	25,474	10,653	986	11,639
Deferred policy acquisition costs	6,025	-	6,025	6,926	-	6,926
Investments	-	1,133	1,133	-	1,668	1,668
Due from shareholders' operations	122,766	-	122,766	139,901	-	139,901
Property and equipment	1,467	-	1,467	1,523	-	1,523
Intangible assets	794	-	794	899	-	899
Right of use assets, net	1,115	-	1,115	679	-	679
Statutory deposit	-	34,500	34,500	-	22,500	22,500
Accrued income on statutory deposit	-	5,012	5,012	-	4,545	4,545
	241,809	311,944	553,753	269,026	216,800	485,826
Less: Inter-operations eliminations	(122,766)	-	(122,766)	(139,901)	-	(139,901)
TOTAL ASSETS	119,043	311,944	430,987	129,125	216,800	345,925

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

32. SUPPLEMENTARY INFORMATION (continued)

a) Statement of financial position – (continued)

	31 December 2022			31 December 2021		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SAR '000					
<u>LIABILITIES</u>						
Accrued and other liabilities	43,370	-	43,370	53,860	349	54,209
Unearned premiums	108,554	-	108,554	108,727	-	108,727
Outstanding claims	38,450	-	38,450	46,806	-	46,806
Claims incurred but not reported	23,672	-	23,672	15,745	-	15,745
Premium deficiency reserve	19,279	-	19,279	34,527	-	34,527
Other technical reserves	429	-	429	391	-	391
Due to insurance operations	-	122,766	122,766	-	139,901	139,901
End-of-service indemnities	5,172	-	5,172	5,787	-	5,787
Lease liabilities	776	-	776	2,250	-	2,250
Zakat and income tax provision	-	14,696	14,696	-	13,250	13,250
Accrued commission income payable to SAMA	-	5,012	5,012	-	4,545	4,545
	<u>239,702</u>	<u>142,474</u>	<u>382,176</u>	<u>268,093</u>	<u>158,045</u>	<u>426,138</u>
Less: Inter-operations eliminations	-	(122,766)	(122,766)	-	(139,901)	(139,901)
<u>TOTAL LIABILITIES</u>	<u>239,702</u>	<u>19,708</u>	<u>259,410</u>	<u>268,093</u>	<u>18,144</u>	<u>286,237</u>
<u>SHAREHOLDERS' EQUITY</u>						
Share capital	-	230,000	230,000	-	150,000	150,000
Accumulated losses	-	(60,530)	(60,530)	-	(91,245)	(91,245)
<u>TOTAL SHAREHOLDERS' EQUITY</u>		<u>169,470</u>	<u>169,470</u>		<u>58,755</u>	<u>58,755</u>
Re-measurement reserve of defined indemnities obligation	2,107	-	2,107	933	-	933
	<u>2,107</u>	<u>-</u>	<u>2,107</u>	<u>933</u>	<u>-</u>	<u>933</u>
<u>TOTAL LIABILITIES' AND EQUITY</u>	<u>241,809</u>	<u>189,178</u>	<u>430,987</u>	<u>269,026</u>	<u>76,899</u>	<u>345,925</u>

SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

32. SUPPLEMENTARY INFORMATION (continued)

b) Statement of income

For the year ended 31 December	2022			2021		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SAR '000					
<u>REVENUES</u>						
Gross premiums written:						
- Individual	2,721	-	2,721	9,098	-	9,098
- Micro enterprises	11,981	-	11,981	29,711	-	29,711
- Small enterprises	99,247	-	99,247	80,189	-	80,189
- Medium enterprises	60,604	-	60,604	50,840	-	50,840
- Large enterprises	52,921	-	52,921	48,664	-	48,664
Total gross premiums written	227,474	-	227,474	218,502	-	218,502
Net premiums written	227,474	-	227,474	218,502	-	218,502
Changes in unearned premiums	173	-	173	(41,223)	-	(41,223)
Net premiums earned	227,647	-	227,647	177,279	-	177,279
<u>TOTAL REVENUES</u>	227,647	-	227,647	177,279	-	177,279
<u>UNDERWRITING COSTS AND EXPENSES</u>						
Gross claims paid	196,730	-	196,730	152,024	-	152,024
Net claims paid	196,730	-	196,730	152,024	-	152,024
Changes in outstanding claims, net	(8,356)	-	(8,356)	7,619	-	7,619
Changes in claims incurred but not reported, net	7,927	-	7,927	2,771	-	2,771
Net claims incurred	196,301	-	196,301	162,414	-	162,414
Changes in premium deficiency reserve	(15,248)	-	(15,248)	19,982	-	19,982
Changes in other technical reserves	38	-	38	64	-	64
Policy acquisition costs	13,859	-	13,859	7,602	-	7,602
Other underwriting expenses	14,871	-	14,871	8,963	-	8,963
<u>TOTAL UNDERWRITING COSTS AND EXPENSES</u>	209,821	-	209,821	199,025	-	199,025
NET UNDERWRITING INCOME / (LOSS)	17,826	-	17,826	(21,746)	-	(21,746)

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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32. SUPPLEMENTARY INFORMATION (continued)

b) Statement of income (continued)

For the year ended 31 December	2022			2021		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SAR '000					
<u>OTHER OPERATING (EXPENSES) / INCOME</u>						
Release of doubtful debts	150	-	150	2,621	-	2,621
General and administrative expenses	(35,612)	(3,122)	(38,734)	(43,633)	(4,315)	(47,948)
Commission income on deposits	-	5,193	5,193	-	3,280	3,280
Unrealized gain on investments	-	129	129	-	237	237
Realized gain on investments	-	2	2	-	5,260	5,260
Amortization of held to maturity investments, net	-	-	-	-	213	213
Other income	7,299	-	7,299	98	-	98
<u>TOTAL OTHER OPERATING (EXPENSES) / INCOME</u>	(28,163)	2,202	(25,961)	(40,914)	4,675	(36,239)
<u>NET LOSS FOR THE YEAR</u>	(10,337)	2,202	(8,135)	(62,660)	4,675	(57,985)
Net Income attributed to the insurance operations	-	-	-	-	-	-
<u>Net loss for the year attributed to shareholders' operations</u>	(10,337)	2,202	(8,135)	(62,660)	4,675	(57,985)
Provision adjustment for prior years	-	(361)	(361)	-	(2,475)	(2,475)
Zakat provision for the year	-	(1,085)	(1,085)	-	(1,512)	(1,512)
<u>Net (loss) / income for the year</u>	(10,337)	756	(9,581)	(62,660)	688	(61,972)
<u>Loss per share (SAR per share)</u>						
Weighted average number of ordinary shares outstanding (in thousands shares)			13,642			15,000
Basic and diluted loss per share for the year (SAR / share)			(0.70)			(4.13)

SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

32. SUPPLEMENTARY INFORMATION (continued)

c) statement of comprehensive income

For the year ended 31 December	2022			2021		
	Insurance operations	Share- holders' operations	Total	Insurance operations	Share- holders' operations	Total
	SAR '000					
Net loss for the year attributable to shareholders		(9,581)	(9,581)	-	(61,972)	(61,972)
Actuarial gain / (loss) on define indemnities obligation	1,174	-	1,174	(75)	-	(75)
<u>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR</u>	<u>1,174</u>	<u>(9,581)</u>	<u>(8,407)</u>	<u>(75)</u>	<u>(61,972)</u>	<u>(62,047)</u>

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

32. SUPPLEMENTARY INFORMATION (continued)

d) Statement of cash flows

For the year ended 31 December

	2022			2021		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SAR '000					
CASH FLOWS FROM OPERATING ACTIVITIES						
Net loss for the year	-	(8,135)	(8,135)	-	(57,985)	(57,985)
<i>Adjustments for non-cash items:</i>						
Depreciation of property and equipment	760	-	760	1,090	-	1,090
Amortization of intangible assets	349	-	349	491	-	491
Depreciation of right of use assets	1,112	-	1,112	2,064	-	2,064
Reversal of lease liability	(2,250)	-	(2,250)	-	-	-
Finance cost on lease liabilities	28	-	28	33	-	33
Release of doubtful debts	(150)	-	(150)	(2,621)	-	(2,621)
Unrealized gain on investments	-	(129)	(129)	-	(237)	(237)
Realized gain on investments	-	(2)	(2)	-	(5,260)	(5,260)
Amortization of held to maturity investments	-	-	-	-	(213)	(213)
Provision for end-of-service indemnities	1,085	-	1,085	1,482	-	1,482
	934	(8,266)	(7,332)	2,539	(63,695)	(61,156)
<i><u>Changes in operating assets and liabilities:</u></i>						
Premiums receivable	(4,736)	-	(4,736)	(6,979)	-	(6,979)
Reinsurers' balance receivable	-	-	-	421	-	421
Reinsurers' share of outstanding claims	-	-	-	119	-	119
Deferred policy acquisition costs	901	-	901	(3,696)	-	(3,696)
Prepaid expenses and other assets	(12,543)	(1,292)	(13,835)	(4,697)	(162)	(4,859)
Accrued and other liabilities	(10,490)	(349)	(10,839)	20,933	(2,749)	18,184
Unearned premiums	(173)	-	(173)	41,223	-	41,223
Outstanding claims	(8,356)	-	(8,356)	7,499	-	7,499
Claims incurred but not reported	7,927	-	7,927	2,771	-	2,771
Premium deficiency reserve	(15,248)	-	(15,248)	19,982	-	19,982
Other technical reserves	38	-	38	65	-	65
Due to insurance operations	-	(17,135)	(17,135)	-	40,671	40,671
Due from Shareholders' operations	17,135	-	17,135	(40,671)	-	(40,671)
Cash (used in) / generated from operating activities	(24,611)	(27,042)	(51,653)	39,509	(25,935)	13,574
End-of-service indemnities paid	(526)	-	(526)	(740)	-	(740)
Zakat paid	-	-	-	-	(2,737)	(2,737)
Net cash flows (used in) / generated from operating activities	(25,137)	(27,042)	(52,179)	38,769	(28,672)	10,097

SAUDI ENAYA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

32. SUPPLEMENTARY INFORMATION (continued)

d) Statement of cash flows Statement – (continued)

For the year ended 31 December	2022			2021		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
	SAR '000					
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of investments	-	666	666	-	74,161	74,161
Placement in short term murabha deposit	-	(135,353)	(135,353)	-	(89,550)	(89,550)
Proceeds from maturity of short term murabha deposit	-	77,908	77,908	-	51,669	51,669
Decrease in statutory deposit	-	(12,000)	(12,000)	-	-	-
Purchase of property and equipment	(704)	-	(704)	(471)	-	(471)
Proceeds from the sale of property and equipment	(244)	-	(244)	(308)	-	(308)
Purchase of intangible assets	(244)	-	(244)	(308)	-	(308)
Net cash flows (used in) / generated from investing activities	(948)	(68,779)	(69,727)	(748)	36,280	35,532
CASH FLOWS FROM FINANCING ACTIVITIES						
Issuance of right shares	-	130,000	130,000	-	-	-
Transaction cost of capital movement	-	(9,704)	(9,704)	-	-	-
Payment of lease liabilities	(800)	-	(800)	(1,703)	-	(1,703)
Net cash flows (used in) / generated from financing activities	(800)	120,296	119,496	(1,703)	-	(1,703)
Net change in cash and cash equivalents	(26,885)	24,475	(2,410)	36,318	7,608	43,926
Cash and cash equivalents, beginning of the year	49,959	109,193	159,152	13,641	101,585	115,226
Cash and cash equivalents, end of the year	23,074	133,668	156,742	49,959	109,193	159,152

33. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to current year presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors, on 9 March 2023 corresponding to 17 Shabaan 1444H