SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

Financial Statements
And Independent Auditors’ Report
For the year ended 31 December 2022

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

Financial Statements and Independent Auditors' Report
For the year ended 31 December 2022

Crowe
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For Professional Consulting
Member of Crowe Global
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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Opinion

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

In our opinion, the accompanying financial statements 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 ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' 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 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.

Material Uncertainty related to Going Concern

We draw attention to note 3(c) in the financial statements, which indicates that the Company accumulated losses reached to SR 62.09 million being 62.09% of its capital (31 December 2021: SR 158.77 million being 63.51% of its capital). The solvency of the Company as of 31 December 2022 has reached -45.16% (2021: 73.52%). As stated in note 3(c), these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. On 16 August 2022, the Board of Directors recommended an increase in share capital through offering a rights issue with a total value of SR 200 million. Further, on 3 November 2022, Board of Directors have revised the increase in share capital through offering a right issue with a total value of SR 100 million rather than SR 200 million which approved by the shareholders in an extra-ordinary general meeting held on 15 December 2022. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITORS' REPORT (continued)
TO THE SHAREHOLDERS OF SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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 period. 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. For each matter below, a description of how our audit addressed the matter is provided in that context:

Key Audit Matter	How our audit addressed the key audit matters
Valuation of ultimate claim liabilities arising from insurance contracts As at 31 December 2022, outstanding claims including claims Incurred but Not Reported (IBNR), premium deficiency reserve and other technical reserves amounted to SR 159.36 million as disclosed in notes 8 and 14 to the financial statements. The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. The Company principally uses an external actuary ("management's expert") to provide them with the estimate of such liabilities. A range of methods were used to determine these provisions which were based on a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Due to the estimation uncertainty and subjectivity involved, assumptions used in the assessment of valuation of ultimate claim liabilities arising from insurance contracts and magnitude of the total balance, we have considered this as a key audit matter. Refer to notes 2 and 3 to the financial statements which explain the valuation methodology used by the Company and critical judgements and estimates.	We understood, evaluated and tested key controls around the claims handling and provision setting processes. We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences and assessing their relationship with the entity. We performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves. 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. In order to challenge management's methodologies and assumptions, we were assisted by our actuarial expert to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the actuarial report issued by management's expert, our actuarial expert performed the following: - Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practice and with prior periods. We sought sufficient justification for any significant differences.

INDEPENDENT AUDITORS' REPORT (continued)
TO THE SHAREHOLDERS OF SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
	- Assessed the reasonableness of key actuarial assumptions and judgements used by the Management in calculating the reserves. - Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions. - We assessed the adequacy and appropriateness of the related disclosures in the financial statements.

Other Information

The Board of Directors (the "BOD") is responsible for the other information. Other information comprises the information included in the Company's 2022 annual report but does not include financial statements and our auditors' report thereon. The annual report 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 do not and 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 other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

INDEPENDENT AUDITORS' REPORT (continued)
TO THE SHAREHOLDERS OF SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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 ISAs that are 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.

As part of an audit in accordance with ISA that are 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 management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

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INDEPENDENT AUDITORS' REPORT (continued)
TO THE SHAREHOLDERS OF SALAMA COOPERATIVE INSURANCE COMPANY
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Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Report on Other Legal and Regulatory Requirement

Based on the information that has been made available to us, and as disclosed in note 3, the Company's accumulated losses have reached 62.09% (2021: 63.51%) of its share capital and solvency margin has reached -45.16% as at 31 December 2022 (2021: 73.52%). Based on these conditions following regulations are applicable to the Company:

1. Article 150 of the Companies Law (Law) requires the Company executives or the auditors', upon knowledge thereof, to inform the chairman of the Board of Director (Board), who shall promptly inform the Board members. The Board shall, within 15 days from the date of notification, call for an extraordinary general assembly meeting within 45 days from the date of its knowledge of the losses, to decide whether to increase or decrease the Company's capital, in accordance with the provisions of the Law, to the extent where losses are decreased below half of the paid-in capital, or to dissolve the Company prior to the date set forth in its by-laws. As per the decision no 348 of The Ministry of Commerce, the above requirement of 15 and 45 days has been extended to 60 and 180 days respectively.
2. Under Article 68(d) of the Implementing Regulations for the Insurance Company, SAMA shall appoint an advisor to provide consultation and advice to the company or issue a cease and desist order to the Company and recommend the withdrawal of it license if the solvency margin falls below 25% and/or the Company fails to act appropriately to rectify its financial situation.

For Al Azem, Al Sudairy, Al Shaikh & Partners
For Professional Consulting

Abdullah M. Al Azem
Certified Public Accountant
License No. 335

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Certified Public Accountants

28 Sha'aban 1444H
corresponding to 20 March 2023

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Notes	31 December 2022	31 December 2021
		SR'000	
ASSETS			
Cash and cash equivalents	4	**134,765**	124,016
Term deposits	5	**239,076**	97,000
Premiums and reinsurers' receivable – net	6	**85,342**	54,672
Reinsurers' share of unearned premiums	14.2	**41,878**	25,555
Reinsurers' share of outstanding claims	8 & 14.1	**28,976**	19,975
Reinsurers' share of claims incurred but not reported	8 & 14.1	**13,493**	13,866
Deferred policy acquisition costs	7	**42,239**	27,707
Investments	9	**82,678**	168,453
Prepaid expenses and other assets	10	**31,481**	19,154
Right of use assets – net	13.1	**17,454**	18,231
Property and equipment – net	11	**5,154**	4,107
Intangible assets – net	12	**1,021**	418
Statutory deposit	15	**37,500**	37,500
Accrued commission on statutory deposit	15	**4,913**	3,887
TOTAL ASSETS		**765,970**	614,541
LIABILITIES			
Policyholders claims payable		**7,407**	11,421
Accrued expenses and other liabilities	17	**42,179**	35,982
Lease liabilities	13.2	**18,493**	20,335
Reinsurers' balances payable		**13,214**	984
Unearned premiums	14.2	**426,038**	228,830
Unearned reinsurance commission	18	**3,835**	4,351
Outstanding claims	14.1	**26,987**	22,859
Claims incurred but not reported	14.1	**121,358**	123,883
Premium deficiency reserves	14.1	**3,834**	6,700
Other technical reserves	14.1 & 19	**7,190**	7,892
Employee benefit obligations	20	**6,716**	7,895
Surplus distribution payable	25	**15,409**	15,409
Provision for zakat	24	**30,629**	27,629
Accrued commission income payable to SAMA	15	**4,913**	3,887
TOTAL LIABILITIES		**728,202**	518,057
SHAREHOLDERS' EQUITY			
Share capital	26	**100,000**	250,000
Statutory reserve		**-**	5,003
Accumulated losses		**(62,091)**	(158,767)
TOTAL SHAREHOLDERS' EQUITY		**37,909**	96,236
Re-measurement reserve of defined benefit obligations		**(141)**	248
TOTAL EQUITY		**37,768**	96,484
TOTAL LIABILITIES AND EQUITY		**765,970**	614,541
COMMITMENTS AND CONTINGENCIES	16	**10,200**	10,200

Chief Executive Officer

Chairman

Chief Financial Officer

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

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022	2021
		SR'000	
REVENUES			
Gross premiums written	14.2	**792,108**	467,531
Reinsurance premiums ceded			
- Local		**(3,358)**	(6,660)
- Foreign		**(75,161)**	(45,690)
	14.2	**(78,519)**	(52,350)
Excess of loss expenses			
- Local		**(2,870)**	(2,694)
- Foreign		**(8,769)**	(4,905)
	14.2	**(11,639)**	(7,599)
Net premiums written	14.2	**701,950**	407,582
Changes in unearned premiums, net		**(180,885)**	(8,243)
Net premiums earned	14.2	**521,065**	399,339
Reinsurance commissions	18	**9,279**	8,425
Other underwriting income		**14,223**	675
TOTAL REVENUES		**544,567**	408,439
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	8	**500,604**	390,048
Reinsurers' share of claims paid	8	**(48,279)**	(37,599)
Net claims paid		**452,325**	352,449
Changes in outstanding claims, net		**(4,873)**	(3,960)
Changes in claims incurred but not reported, net		**(2,152)**	93
Net claims incurred	8	**445,300**	348,582
Changes in premium deficiency reserve		**(2,866)**	6,700
Changes in other technical reserves		**(702)**	4,795
Policy acquisition costs	7	**30,714**	22,453
Other underwriting expenses		**67,431**	48,590
TOTAL UNDERWRITING COSTS AND EXPENSES		**539,877**	431,120
NET UNDERWRITING INCOME / (LOSS)		**4,690**	(22,681)

Chief Executive Officer

Chief Financial Officer

Chairman

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

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INCOME - Continued
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022	2021
		SR'000	
OTHER OPERATING (EXPENSES) / INCOME			
Allowance for doubtful debts	6	**(5,639)**	(7,016)
General and administrative expenses	28	**(75,704)**	(94,887)
Investment income		**7,192**	1,551
Commission from held to maturity investments		**1,865**	1,115
Commission income from term deposit		**11,047**	6,460
Realized loss on investments		**-**	(1,170)
Unrealized (loss) / gain on investments	9	**(1,172)**	10,123
Other income		**2,394**	95
TOTAL OTHER OPERATING EXPENSES		**(60,017)**	(83,729)
Net loss before zakat		**(55,327)**	(106,410)
Income attributed to the insurance operations		**-**	-
Loss for the year attributable to the shareholders before zakat		**(55,327)**	(106,410)
Zakat	24	**(3,000)**	(6,000)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**(58,327)**	(112,410)
Weighted average number of ordinary shares outstanding (thousands shares)		**10,000**	10,000
Basic and diluted loss per share (SR/share) – restated – 2021	29	**(5.83)**	(11.24)

Chief Executive Officer

Chief Financial Officer

Chairman

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

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022	2021
		SR'000	
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**(58,327)**	(112,410)
OTHER COMPREHENSIVE (LOSS) / INCOME			
Items that will not be reclassified to statements of income in subsequent years:			
Actuarial (losses) / gains on defined benefit obligation – related to Insurance operations	20	**(389)**	300
Total comprehensive loss for the year		**(58,716)**	(112,110)

Chief Executive Officer

Chief Financial Officer

Chairman

The accompanying notes from 1 to 34 form an integral part of these financial statement.

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

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

2022	**Share capital**	**Statutory reserve**	**Accumulated losses**	**Re-measurement reserve of defined benefit obligations – related to insurance operations**	**Total Equity**
	SR'000	**SR'000**	**SR'000**	**SR'000**	**SR'000**
Balance as at 1 January 2022	**250,000**	**5,003**	**(158,767)**	**248**	**96,484**
Transfer from statutory reserve – note 26	**-**	**(5,003)**	**5,003**	**-**	**-**
Reductions in share capital – note 26	**(150,000)**	**-**	**150,000**	**-**	**-**
	100,000	**-**	**(3,764)**	**248**	**96,484**
Total comprehensive loss for the year:					
Net loss for the year – Attributable to shareholders	**-**	**-**	**(58,327)**	**-**	**(58,327)**
Other comprehensive loss	**-**	**-**	**-**	**(389)**	**(389)**
Total comprehensive loss	**-**	**-**	**(58,327)**	**(389)**	**(58,716)**
Balance as at 31 December 2022	**100,000**	**-**	**(62,091)**	**(141)**	**37,768**

2021	Share capital	Statutory reserve	Accumulated losses	Re-measurement reserve of defined benefit obligations – related to insurance operations	Total Equity
	SR'000	SR'000	SR'000	SR'000	SR'000
Balance as at 1 January 2021	250,000	5,003	(46,357)	(52)	208,594
Total comprehensive loss for the year:					
Net loss for the year – Attributable to shareholders	-	-	(112,410)	-	(112,410)
Other comprehensive income	-	-	-	300	300
Total comprehensive loss	-	-	(112,410)	300	(112,110)
Balance as at 31 December 2021	250,000	5,003	(158,767)	248	96,484

Chief Executive Officer

Chief Financial Officer

Chairman

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

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022	2021
		SR'000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss attributed to shareholders before zakat		**(55,327)**	(106,410)
Adjustments for non-cash items:			
Depreciation of property and equipment	11	**2,682**	3,542
Amortization of intangible assets	12	**252**	4,121
Depreciation of right of use assets	13.1	**1,756**	3,853
Finance cost on lease liabilities	13.2	**2,128**	1,333
Allowance for doubtful debts	6	**5,639**	7,016
Unrealized loss / (gain) on investments at fair value through statement of income	9.a	**1,172**	(10,123)
Realized loss on investments at fair value through statement of income	9.a	**-**	1,170
Reversal of lease liability		**86**	-
Employee benefit obligations	20	**1,699**	1,710
		(39,913)	(93,788)
Changes in operating assets and liabilities:			
Premiums and reinsurers' receivable		**(36,309)**	(20,792)
Reinsurers' share of unearned premiums		**(16,323)**	(2,285)
Reinsurers' share of outstanding claims		**(9,001)**	935
Reinsurers' share of claims Incurred but not reported		**373**	(2,084)
Deferred policy acquisition costs		**(14,532)**	(6,687)
Prepaid expenses and other assets		**(12,327)**	23,078
Accrued commission on statutory deposit		**(1,026)**	(219)
Policyholders claims payable		**(4,014)**	(2,101)
Accrued expense and other liabilities		**6,197**	5,617
Reinsurers' balances payable		**12,230**	(3,445)
Unearned premiums		**197,208**	10,528
Unearned reinsurance commission		**(516)**	618
Outstanding claims		**4,128**	(4,895)
Claims incurred but not reported		**(2,525)**	2,177
Premium deficiency reserves		**(2,866)**	6,700
Other technical reserves		**(702)**	4,796
Accrued commission income payable to SAMA		**1,026**	219
		81,108	(81,628)
Zakat paid	24	**-**	(9,502)
Employee benefits paid	20	**(3,267)**	(3,216)
Net cash flows generated from / (used in) operating activities		**77,841**	(94,346)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	9	**(90,036)**	(8,838)
Proceeds from sale of investments	9	**169,656**	68,212
Placement of term deposits		**(870,401)**	(325,000)
Proceeds from term deposits		**728,325**	376,318
Purchase of held to maturity investments		**-**	(50,000)
Proceeds from held to maturity investments	9	**4,983**	-
Purchase of property and equipment	11	**(3,729)**	(499)
Purchase of intangible assets	12	**(855)**	-
Net cash flows (used in) / generated from investing activities		**(62,057)**	60,193
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liabilities	13.2	**(5,035)**	(1,077)
Net cash flows used in financing activities		**(5,035)**	(1,077)
Net change in cash and cash equivalents		**10,749**	(35,230)
Cash and cash equivalents, at the beginning of the year		**124,016**	159,246
Cash and cash equivalents, at the end of the year	4	**134,765**	124,016

Chief Executive Officer — Chief Financial Officer — Chairman

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

1. GENERAL

Salama Cooperative Insurance Company ("the Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry's Resolution number 1121K dated 29 Rabi Al-Thani 1428H (corresponding to 16 May 2007). The Company is registered in Jeddah under Commercial Registration No. 4030169661 dated 6 Jamad Al-Awwal I428H (corresponding to 23 May 2007).

The registered office address of the Company is:

Salama Tower;
Al Madinah Road
P.O. Box 4020;
Jeddah 21491;
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi Stock Exchange on 23 May 2007. The Company started its operations on 1 January 2008. The Company is fully owned by the general public and Saudi shareholders.

2. BASIS OF PREPARATION

a. Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia ("KSA"), and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA")

The financial statement is prepared under the going concern basis and the historical cost convention, except for the measurement of investments (excluding held-to-maturity) at their fair value and re-measurement of employee benefit obligations. The Company's statement of financial position is presented in order of liquidity. Except for property and equipment, right of use assets, intangible assets, statutory deposit investments, employee benefits obligations, outstanding claims, claims incurred but not reported, all other assets and liabilities are of short-term nature, unless, stated otherwise.

As required by the Saudi Arabian Insurance Regulations (the Implementation Regulations), the Company maintains separate books of accounts for "Insurance Operations" and "Shareholders' Operations". Accordingly, assets, liabilities, revenues and expenses clearly attributable to either operation, are recorded in the respective accounts.

Similarly, 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.

The statement of financial position, statements of income and statement of comprehensive income and cash flows of the insurance operations and shareholders' operations which are presented on pages 54 to 60 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, statements 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.

The inclusion of separate information of the insurance operations with the financial information of the Company in the statements of financial position, statement of income, statement of comprehensive income, statement of cash flows as well as certain relevant notes to the financial statements represents additional supplementary information required as required by the implementing regulations.

2. BASIS OF PREPARATION – (continued)

a) Basis of presentation – (continued)

During 2018, under the supervision of SAMA, the insurance companies' management prepared and adopted the illustrative financial statements for the insurance sector in the Kingdom of Saudi Arabia. In preparing the Company level financial statements in compliance with IFRS as endorsed in the Kingdom of Saudi Arabia and guidelines by SAMA, the balances and transactions of insurance operations are combined with those of shareholders' operations. Inter-operation balances and transactions, if any, are eliminated in full. The accounting policies adopted for the insurance 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 (SR), 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 31 December of each year.

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 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 reassessed 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 and Expected Loss Ratio 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.

2. BASIS OF PREPARATION – (continued)

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

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

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 25% 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) Fair value of financial instruments

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.

The fair values 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.

v) Useful lives of property and equipment

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews residual values and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

vi) Going concern

The Company’s management has made an assessment of the Company’s ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

e. Seasonality of operations

There are no seasonal changes that may affect insurance operations of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant 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 1 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 following is a brief on the other new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2022. The Company has opted not to early adopt these pronouncements and they do not have a significant impact on the financial statements of the Company.

Standard/ Interpretation	Description	Effective from periods beginning on or after the following date
A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	Amendments to 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. Amendments to 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 recognize such sales proceeds and related costs in the statement of income. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a Company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IAS 41, 'Agriculture' and the Examples accompanying IFRS 16, 'Leases'.	Annual periods beginning on or after 1 January 2022.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they are effective.

Standard/ Interpretation	**Description**	**Effective from periods beginning on or after the following date**
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 noncurrent, 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.	Deferred until accounting periods starting not earlier than 1 January 2024
Narrow scope amendments to IAS 1, IFRS 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.	Annual periods beginning on or after 1 January 2023
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.	Annual periods beginning on or after 1 January 2023
IFRS 17	Insurance contracts	See below
IFRS 9	Financial Instrument	See below

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

Structure and status of the implementation project (continued)

Key area of focus	Progress and summary of impact
Regulatory requirements with respect to IFRS 17	- 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.
Key areas remaining to be completed	*Operational and financial:* 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. *IFRS 17 testing:* 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

Significant Judgements and Accounting Policy Choices (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

Significant Judgements and Accounting Policy Choices (continued)

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 cash flows 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.
- Onerousity determination: Onerousity 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

Significant Judgements and Accounting Policy Choices (continued)

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.

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 2.3 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**
Changes in measurement of insurance contract liabilities	*Decrease by SR 3.6 million*
Changes in measurement of insurance contract assets	*Increase by SR 1.3 million*
Total Impact	***Decrease by SR 2.3 million***

Impact on Liabilities and Assets

	Impact on transition to IFRS 17 as at 01 January 2022
Liabilities	
Losses on insurance onerous contracts	*Increase by SR 10 million*
Risk Adjustment on LIC	*Increase by SR 7.2 million*
Discounting on LIC	*Decrease by SR 1.3 million*
Due to Reduction in technical reserves	*Decrease by SR 12.3 million*
Total Impact on Liabilities	***Increase by SR 3.6 million***
Assets	
Due to Reduction in technical reserves	*Decrease by SR 1.4 million*
Discounting on AIC	*Decrease by SR 0.41 million*
Losses on reinsurance onerous contracts	*Increase by SR 1.1 million*
Risk Adjustment on AIC	*Increase by SR 2 million*
Total Impact on Assets	***Increase by SR 1.3 million***

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 17 – Insurance Contracts (continued)

Transition Impact (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 9 – Financial Instruments (continued)

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.

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:

<u>Stage 1</u> - 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.
<u>Stage 2</u> - 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.
<u>Stage 3</u> 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.

ECL = Probability of default (PD) x Exposure at default (EAD) x Loss given default (LGD) x Discount factor (DF)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 9 – Financial Instruments (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 9 – Financial Instruments (continued)

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 SR 6.4 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.

Adjustments due to adoption of IFRS 9	***01 January 2022***
Impairment of financial assets	*SR (6.4) million*
Total Impact	*SR (6.4) million*

c) The significant accounting policies used in preparing these financial statements are set out below:

Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by assessing whether an insured event could cause the Company to pay significant additional benefits. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance contracts are principally divided into medical, marine, property, motor, engineering and accident and liability and are principally short-term insurance contracts.

Medical insurance is designed to compensate policy holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers with a large population to be covered under the policy.

Marine insurance is designed to compensate policyholders for damage and liability arising through loss or damage to marine craft/hull and accidents at sea resulting in the total or partial loss of cargoes. For marine insurance, the main risks are loss or damage to marine craft/hull and cargoes.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties. Customers could also receive compensation for the loss of earnings through loss of profit and business interruption. For property insurance contracts the main risks are fire, natural perils, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles.

The Company also issues comprehensive motor policies. Various extensions cover natural perils, personal accident benefits and agency repairs.

General accident insurance includes money, fidelity guarantee, personal accident, jeweler block, jewelry all risks and travel insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability, medical malpractice and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

Engineering insurance covers two principal types:

(a) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, bridges, sewage works and reservoirs.

(b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and Business Interruption following machinery breakdown and includes electronic equipment, boiler and deterioration of stocks insurance.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) The significant accounting policies used in preparing these financial statements are set out below (continued):

Surplus distribution payable
In accordance with the Implementing Regulations issued by SAMA, the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policy holders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

Leases
At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 2 to 11 years for offices. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the finance rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental financing rate. Generally, the Company uses its incremental financing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability. The lease liability is measured at amortized cost using the incremental financing cost. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) The significant accounting policies used in preparing these financial statements are set out below (continued):

Revenue Recognition

Recognition of premium
Premiums and commission are recorded in the statement of income based on straight line method over the insurance policy coverage period except for long term polices (construction and engineering) and marine cargo. Unearned premiums are calculated on a straight line method over the insurance policy coverage except for:

- Last three months premium at a reporting date is considered as unearned in respect of marine cargo;
- Pre-defined calculation for Engineering class of business for risks undertaken that extend beyond a single year. In accordance with this calculation, lower premiums are earned in the first year which gradually increases towards the end of the tenure of the policy; and

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 recognized over the period of risk.

Reinsurance assumed
The Company also assumes reinsurance risk in the normal course of business for medical insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognized as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. 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 derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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 recognized based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment 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.

Claims
Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of income as incurred. 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 ultimate liability may be in excess of or less than the amount provided. Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the statement of income for that year

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) The significant accounting policies used in preparing these financial statements are set out below (continued):

Salvage and subrogation

Some insurance contracts permit the Company to sell (usually damaged) assets acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of the asset.

Subrogation reimbursements are also considered as an allowance in the measurement of the outstanding claims liability. The allowance is the assessment of the amount that can be recovered from the third party.

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. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. 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 derecognized 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. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

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, to the extent that these costs are recoverable out of future premiums. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) The significant accounting policies used in preparing these financial statements are set out below (continued):

Premiums and reinsurance receivables
Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognized 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 as "Allowance for impairment of premium / reinsurance receivables" separately in the statement of income. Receivable balances are derecognized 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 6 fall under the scope of IFRS 4 "Insurance contracts".

Investments

a) Available-for-sale investments
Available-for-sale financial assets 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 amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) The significant accounting policies used in preparing these financial statements are set out below (continued):

b) 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.

Investments at FVSI are recorded in the statement of financial position at fair value. Changes in the fair value are recognized 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’.

c) 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 recognized at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in value. Amortized 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 recognized in the statement of income when the investment is derecognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) The significant accounting policies used in preparing these financial statements are set out below (continued):

De-recognition of financial instruments
The de-recognition 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.

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 recognized 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.

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.

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 an 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) The significant accounting policies used in preparing these financial statements are set out below (continued):

Impairment of financial assets
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 recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized 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 18 months or longer is considered to be prolonged and a decline of 25% from original cost is considered significant as per Company policy. In making this judgment, 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 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.

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 amortizes intangible assets with a limited useful life using straight-line method over the following periods:

Software	5 years
Licenses	4 years

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 recognized 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:

Motor vehicle	5 years
Furniture and fixtures	5 years
Computers and office equipment	3 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.

Capital work-in-progress includes property that is being developed for future use. When commissioned, capital work-in-progress will be transferred to the respective category within property and equipment, and depreciated in accordance with the Company’s policy.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

c) The significant accounting policies used in preparing these financial statements are set out below (continued):

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 levels for which there are separately identifiable cash flows (cash-generating units).

Employees benefit obligations
The Company operates an end of service benefit 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 the 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. Re-measurements (actuarial gains/ losses) as a result of experience adjustments and changes in actuarial assumptions are recognized in statement of comprehensive income.

Zakat
The Company is subject to zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat is computed on the Saudi shareholders' share of equity and net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis.

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

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.

Term deposits
Term deposits including Murabaha deposits are classified within loans and receivables category as per IAS 39. They are initially recognized at fair value including direct transaction costs and subsequently measured at amortized cost, less provision for impairment in value and are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

c) The significant accounting policies used in preparing these financial statements are set out below (continued):

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 provides compensation to policy holders for expenses incurred in treatment of a disease, illness or injury.
- Motor provides coverage against losses and liability related to motor vehicles.
- Other includes property, marine, engineering, accident and liability and miscellaneous categories.

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.

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. The reserve is not available for distribution.

Fair values

The fair values of financial assets 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 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 these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Accounts payable and accruals

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

Provisions

Provisions are recognized 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.

Provision for outstanding claims

Judgments by management are 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 judgment 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.

Premium deficiency reserve

Estimation of the premium deficiency is highly sensitive to a number of assumptions as to the future events and conditions. It is based on expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary considers the claims and premiums relationship which is expected to apply on month to month basis. Based on actuary's suggestion, the management has used different possibilities for projecting the expected trends in loss ratio. The key assumption used by the management is that past claims pattern are stable and will continue in future.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

c) The significant accounting policies used in preparing these financial statements are set out below (continued):

Going concern

During the year ended, the Company has incurred losses amounting to SR 58.33 million (31 December 2021: SR 112.41 million) that resulted in an increase of accumulated losses and reached to SR 62.09 million being 62.09% (31 December 2021: SR 158.77 being 63.51%) of its Capital. The Solvency margin of the Company as at 31 December 2022 is -45.16% (31 December 2021: 73.52%) which is below the minimum requirement of the Insurance implementation regulations. Under Article 68(d) of the Implementing regulations for the Insurance Company, SAMA shall appoint an advisor to provide consultation and advice to the Company or issue a cease and desist order to the Company and recommend the withdrawal of it license if the solvency margin falls below 25% and/or the Company fails to act appropriately to rectify its financial situation. However, on 20 November 2022, the Company have received SAMA approval related to increase in share capital as recommended by Board of Directors i.e. SR 100 million as stated below.

These events and conditions, indicate that a material uncertainty exists that may cast a significant doubt on the Company's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

On 17 March 2022, the Board of Directors recommended capital restructuring in line with Article 150 of the new Companies Law to cover the accumulated losses. The Board of Directors recommended to decrease the accumulated losses by netting-off with the share capital of SR 150 million and utilize the entire balance of SR 5 million from the statutory reserve. The Company have obtained approval from the related regulatory authorities in this regard.

The management of the Company has prepared a business plan which is approved by the Board of Directors and has undertaken strategic initiatives that will ensure healthy market penetration and retention levels while remaining in compliance with applicable regulatory requirements.

On 16 August 2022, the shareholders of the Company in an extra-ordinary general meeting approved the decrease in accumulated losses by netting-off with the share capital of SR 150 million and utilize the entire balance of SR 5 million from the statutory reserve. Further, on 16 August 2022, the Board of Directors recommended an increase in share capital through offering a right issue with a total value of SR 200 million. Furthermore, on 3 November 2022, Board of Directors have revised the increase in share capital through offering a right issue with a total value of SR 100 million rather than SR 200 million. On 15 December 2022, the shareholders of the Company in an extra-ordinary general meeting approved the increase in the share capital as recommended by Board and direct the Company to proceed with the capital increase procedures and obtain the approval of regulatory authorities.

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue its business for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following:

	Insurance operations	
	2022	2021
	SR'000	
Bank balance and cash	**134,733**	123,527
	Shareholders' operations	
	2022	2021
	SR'000	
Bank balances	**32**	489
Total cash and cash equivalents	**134,765**	124,016

5. TERM DEPOSITS

The term deposits represent deposits held with the commercial banks and earn commission at market rates. These term deposits are denominated in Saudi Arabian Riyals and have an original maturity of more than three-months and less than twelve-months. As of 31 December 2022, the deposit carrying commission rates ranges from 0.95% to 4.2% (2021: from 0.95% to 4.2%).

	Insurance operations	
	2022	2021
	SR'000	
Term deposits	**239,076**	97,000

6. PREMIUMS AND REINSURERS' RECEIVABLE – NET

Receivables comprise amounts due from the following:

	2022	2021
	SR'000	
Policyholders	**130,807**	92,983
Receivables from reinsurers	**4,558**	6,073
	135,365	99,056
Provision for doubtful receivables	**(50,023)**	(44,384)
Premiums and reinsurers' receivable – net	**85,342**	54,672

Movement in provision for doubtful debts during the year was as follows:

	2022	2021
	SR'000	
Balance at the beginning of the year	**44,384**	37,368
Provision for the year	**5,639**	7,016
Balance at the end of the year	**50,023**	44,384

The age analysis of unimpaired premiums receivable arising from insurance contracts is as follows:

	Up to three months	**Above three and up to six months**	**Above six and less than twelve months**	**Twelve months and above**	**Total**
			SR'000		
2022	**52,617**	**14,675**	**5,672**	**12,378**	**85,342**
2021	36,645	3,111	3,527	11,389	54,672

Past due but not impaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured. In respect of premiums receivable, the five largest customers' balances accounted for approximately 22% of this balance as at 31 December 2022 (31 December 2021: 21%). Premiums receivable comprise a large number of customers and insurance companies all within the Kingdom of Saudi Arabia.

7. DEFERRED POLICY ACQUISITION COSTS

	2022	2021
	SR'000	
Balance at the beginning of the year	**27,707**	21,020
Incurred during the year	**91,707**	64,244
Amortized during the year	**(77,175)**	(57,557)
Balance at the end of the year	**42,239**	27,707

Charge for the year

	2022	2021
	SR'000	
Policy acquisition costs	**30,714**	22,453
Other underwriting expenses*	**46,461**	35,104
Balance at the end of the year	**77,175**	57,557

*The above figures include third party administrator and Najm fees.

8. CLAIMS INCURRED

	2022	2021
	SR'000	SR'000
Gross claims paid	**500,604**	390,048
Gross outstanding claims including IBNR at the end of the year (see note (i) below)	**148,345**	146,742
	648,949	536,790
Gross outstanding claims including IBNR at the beginning of the year	**(146,742)**	(149,460)
Gross claims incurred	**502,207**	387,330
Reinsurers' share of claims paid	**(48,279)**	(37,599)
Reinsurers' share of outstanding claims at the end of the year (see note (ii) below)	**(42,469)**	(33,841)
	(90,748)	(71,440)
Reinsurers' share of outstanding claims at the beginning of the year	**33,841**	32,692
Reinsurers' share of claims	**(56,907)**	(38,748)
Net claims incurred	**445,300**	348,582

(i) Gross outstanding claims as at 31 December 2022 represent the provision for IBNR amounting to SR 148.34 million (2021: SR 146.74 million).

(ii) Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the reporting date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern.

CLAIM DEVELOPMENT TABLE

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.

8. CLAIMS INCURRED – (continued)

CLAIM DEVELOPMENT TABLE – (continued)

31 DECEMBER 2022

Accident year	2018 & earlier	2019	2020	2021	2022	Total
			SR'000			
Estimate of ultimate claims cost:						
At the end of accident year	**545,421**	**516,589**	**587,015**	**310,956**	**542,183**	
One year later	**538,820**	**512,304**	**437,879**	**379,739**	**-**	
Two years later	**748,796**	**587,202**	**300,133**	**-**	**-**	
Three years later	**1,033,943**	**437,185**	**-**	**-**	**-**	
Four years later	**1,332,618**	**-**	**-**	**-**	**-**	
Current estimate of cumulative claims	**1,332,618**	**437,185**	**300,133**	**379,739**	**542,183**	**2,991,858**
Cumulative payments to date	**(1,316,582)**	**(436,674)**	**(298,293)**	**(371,184)**	**(420,780)**	**(2,843,513)**
Liability recognised in statement of financial position	**16,036**	**511**	**1,840**	**8,555**	**121,403**	**148,345**

31 DECEMBER 2021

Accident year	2017 & earlier	2018	2019	2020	2021	Total
			SR'000			
Estimate of ultimate claims cost:						
At the end of accident year	584,477	517,900	589,837	446,386	402,959	
One year later	545,421	516,589	587,015	310,956	-	
Two years later	538,820	512,304	437,879	-	-	
Three years later	748,796	587,202	-	-	-	
Four years later	1,033,943	-	-	-	-	
Current estimate of cumulative claims	1,033,943	587,202	437,879	310,956	402,959	2,772,939
Cumulative payments to date	(1,029,750)	(565,413)	(430,523)	(294,281)	(306,230)	(2,626,197)
Liability recognised in statement of financial position	4,193	21,789	7,356	16,675	96,729	146,742

9. INVESTMENTS

Investments are classified as follows:

	Insurance operations	
	2022	2021
	SR'000	
- Held as FVSI (9-a)	**5,049**	42,600
- Held to maturity (9-c)	**10,000**	10,000
Total	**15,049**	52,600

	Shareholders' operations	
	2022	2021
	SR'000	
- Held as FVSI (9-a)	**15,706**	58,947
- Available for sale (9-b)	**1,923**	1,923
- Held to maturity (9-c)	**50,000**	54,983
Total	**67,629**	115,853

9. INVESTMENTS – (continued)

a) Fair value through statement of income

Movement in held as FVSI investment balance is as follows:

	Insurance operations	
	2022	2021
	SR'000	
Opening balance	**42,600**	103,021
Purchased during the year	**89,579**	2,998
Disposals during the year	**(127,059)**	(64,066)
	5,120	41,953
Changes in fair value	**(71)**	647
Closing balance	**5,049**	42,600

Details of held as FVSI investment balance is as follows:

	Source of Fair Value	2022	2021
		SR'000	
Investment in equity securities	Quoted	**-**	32,384
Local DPM* money market securities	NAV**	**5,049**	10,216
		5,049	42,600

	Shareholders' operations	
	2022	2021
	SR'000	
Opening balance	**58,947**	48,947
Purchases during the year	**457**	5,840
Disposals during the year	**(42,597)**	(5,316)
	16,807	49,471
Changes in fair value	**(1,101)**	9,476
Closing balance	**15,706**	58,947

Details of held as FVSI investment balance is as follows:

	Source of Fair Value	2022	2021
		SR'000	
Units in local real estate funds***	NAV**	**-**	9,394
Local DPM* money market securities	NAV**	**15,705**	15,705
Local DPM* equity securities	Quoted	**1**	33,848
Total		**15,706**	58,947

* Managed at the discretion of a local regulated financial institution ("DPM").

** NAV: Net Asset Value as announced by asset manager.

9. INVESTMENTS – (continued)

b) Available for sale investments

Movement in available-for-sale investment balance is as follows:

	Shareholders' operations	
	2022	2021
	SR'000	
Opening balance	**1,923**	1,923
Closing balance	**1,923**	1,923

(i) Unquoted available for sale investment, having a carrying value of SR 1.92 million (2021: SR 1.92 million) are measured at cost as its fair value cannot be reliably measured due to the absence of active market and unavailability of observable market prices for similar instruments.

c) Held to maturity investments

Movement in held to maturity investment balance is as follows:

	Insurance operations	
	2022	2021
	SR'000	
Opening balance	**10,000**	10,000
Closing balance	**10,000**	10,000

	Shareholders' operations	
	2022	2021
	SR'000	
Opening balance	**54,983**	4,983
Purchased during the year	**-**	50,000
Disposals during the year	**(4,983)**	-
Closing balance	**50,000**	54,983

10. PREPAID EXPENSES AND OTHER ASSETS

	Insurance operations	
	2022	2021
	SR'000	
Co-insurance income receivable	**13,732**	558
Advances to suppliers	**7,962**	6,268
Discount volume Incentive receivable	**1,995**	1,895
Advances to staff	**1,694**	2,619
Prepayments	**1,247**	1,504
Accrued commission	**1,122**	444
Deposits	**300**	300
Other receivables	**2,606**	5,193
	30,658	18,781

	Shareholders' operations	
	2022	2021
	SR'000	
Other receivable	**823**	373

11. PROPERTY AND EQUIPMENT- NET

	Motor Vehicle	Furniture and fixtures	Computers & Equipment	Capital work in progress	Total 2022	Total 2021
				SR'000		
Cost:						
1 January	**96**	**18,477**	**16,558**	**-**	**35,131**	34,632
Additions	**-**	**857**	**758**	**2,114**	**3,729**	499
31 December	**96**	**19,334**	**17,316**	**2,114**	**38,860**	35,131
Accumulated Depreciation:						
1 January	**80**	**15,338**	**15,606**	**-**	**31,024**	27,482
Charge for the year	**16**	**1,982**	**684**	**-**	**2,682**	3,542
31 December	**96**	**17,320**	**16,290**	**-**	**33,706**	31,024
Net book value						
31 December 2022	**-**	**2,014**	**1,026**	**2,114**	**5,154**	-
31 December 2021	16	3,139	952	-		4,107

12. INTANGIBLE ASSETS – NET

Software and license	**2022**	2021
	SR'000	
Cost:		
1 January	**835**	8,850
Additions during the year	**855**	-
Write-off	**-**	(8,015)
31 December	**1,690**	835
Accumulated Amortization:		
1 January	**417**	4,311
Charge for the year	**252**	1,751
Additional charge*	**-**	2,370
Write-off	**-**	(8,015)
31 December	**669**	417
Net book value:		
31 December 2022	**1,021**	
31 December 2021		418

*During 2021, as per the Board of Directors approval, the Company charged additional amortization to write off the SAP software. The Company has planned for one readymade core system which can help to achieve strategic advantage for which the SAP software is not considered to be the best option as per the Company.

13. LEASES

13.1 Right of use assets

	2022	2021
	SR'000	
1 January	**18,231**	21,927
Additions during the year	**1,720**	162
Depreciation charge for the year	**(1,756)**	(3,853)
Terminations	**(741)**	(5)
Net book value at 31 December	**17,454**	18,231

The depreciation expense was charged to the statement of income within general and administrative expenses.

13.2 Lease liability

	2022	2021
	SR'000	
1 January	**20,335**	19,922
Additions during the year	**1,720**	157
Finance cost	**2,128**	1,333
Payments during the year	**(5,035)**	(1,077)
Terminations	**(655)**	-
Net book value at 31 December	**18,493**	20,335

The weighted average incremental borrowing rate applied to lease liabilities was 4.14% (2021: 4.4%).

	2022	2021
	SR'000	
Less than one year	**3,158**	-
One year to five years	**10,491**	3,234
More than five year	**4,844**	17,101
Total lease liability	**18,493**	20,335

Total interest expense on lease liabilities for the year ended 31 December 2022 was SR 2.13 million (2021: SR 1.33 million).

14. TECHNICAL RESERVE

14.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	2022	2021
	SR'000	
Gross outstanding claims	**74,712**	57,225
Less: Realizable value of salvage and subrogation	**(47,725)**	(34,366)
Net outstanding claims	**26,987**	22,859
Claims incurred but not reported	**121,358**	123,883
Premium deficiency reserve	**3,834**	6,700
Other technical reserves	**7,190**	7,892
	159,369	161,334
Less:		
- Reinsurers' share of outstanding claims	**(28,976)**	(19,975)
- Reinsurers' share of claims incurred but not reported	**(13,493)**	(13,866)
	(42,469)	(33,841)
Net outstanding claims and reserves	**116,900**	127,493

14. TECHNICAL RESERVE – (continued)

14.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	2022		
	Gross	**Reinsurance**	**Net**
		SR'000	
Balance as at the beginning of the year	**228,830**	**(25,555)**	**203,275**
Premium written during the year	**792,108**	**(90,158)**	**701,950**
Premium earned during the year	**(594,900)**	**73,835**	**(521,065)**
Balance as at the end of the year	**426,038**	**(41,878)**	**384,160**

	2021		
	Gross	Reinsurance	Net
		SR'000	
Balance as at the beginning of the year	218,302	(23,270)	195,032
Premium written during the year	467,531	(59,949)	407,582
Premium earned during the year	(457,003)	57,664	(399,339)
Balance as at the end of the year	228,830	(25,555)	203,275

15. STATUTORY DEPOSIT

	2022	2021
	SR'000	
Statutory deposit	**37,500**	37,500

As required by Saudi Arabian Insurance Regulations, the Company has deposited an amount equivalent to 15% of its paid up capital amount of SR 37.5 million (2021: SR 37.5 million) in a bank designated by the Saudi Arabian Monetary Authority ("SAMA"). Accrued income on this deposit is payable to SAMA amounting to SR 4.9 million (2021: SR 3.9 million) and this deposit cannot be withdrawn without approval from SAMA.

During the year, the Company has reduced its share capital by SR 150 million but has not withdrawn the surplus statutory deposit of SAR 22.5 million as of 31 December 2022.

16. COMMITMENTS AND CONTINGENCIES

a. The Company's commitments and contingencies are as follows:

	2022	2021
	SR'000	
Letters of guarantee in favour of non-government customers	**700**	700
Letters of guarantee in favour of ZATCA	**9,500**	9,500
	10,200	10,200

b. The Company enters into insurance contracts 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 the pending and threatened legal proceedings, management does not believe that any such proceedings (including litigation) that are in progress at reporting date will have a material effect on its results and financial position, however management has made provisions to cover any eventualities.

   The Company's bankers have given guarantees to non-government customers amounting to SR 0.7 million (2021: SR 0.7 million) in respect of motor insurance and to Zakat, Tax and Customs Authority amounting to SR 9.5 million (2021: SR 9.5 million) in respect of zakat assessments for years 2008 to 2012. During the year, the Company have settled the liability from 2008 to 2012 and requested ZATCA to release the bank guarantee amounting to SR 9.5 million.

17. ACCRUED EXPENSES AND OTHER LIABILITIES

	2022	2021
	SR'000	
Payable to agents and brokers	**20,686**	12,032
Payable to government entities	**12,142**	2,770
Payable to suppliers	**7,917**	14,921
Payable to third party administrator	**710**	729
Accrued expenses	**525**	397
Other liabilities	**199**	5,133
	42,179	35,982

18. UNEARNED REINSURANCE COMMISSION

	2022	2021
	SR'000	
Balance at the beginning of the year	**4,351**	3,733
Commission received during the year	**8,763**	9,043
Commission earned during the year	**(9,279)**	(8,425)
	3,835	4,351

19. OTHER TECHNICAL RESERVES

	2022	2021
	SR'000	
Unallocated loss adjustment expense (ULAE)	**7,166**	7,376
Reinsurance accrual reserve	**24**	516
	7,190	7,892

20. EMPLOYEE BENEFIT OBLIGATIONS

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 is as follows:

20.1 The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value is as follows:

	2022	2021
	SR'000	
Present value of defined benefit obligation	**6,716**	7,895

20.2 Movement of defined benefit obligation

	2022	2021
	SR'000	
Opening balance	**7,895**	9,701
Charge to statement of income	**1,699**	1,710
Charge to other comprehensive income	**389**	(300)
Payment of benefits during the year	**(3,267)**	(3,216)
Closing balance	**6,716**	7,895

20. EMPLOYEE BENEFIT OBLIGATIONS – (continued)

20.3 Reconciliation of present value of defined benefit obligation

	2022	2021
	SR'000	
Opening balance	**7,895**	9,701
Current service costs	**1,486**	1,438
Financial costs	**213**	272
Actuarial gain from experience adjustments	**389**	(300)
Benefits paid during the year	**(3,267)**	(3,216)
	6,716	7,895

20.4 Principal actuarial assumptions

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

	2022	2021
Valuation discount rate	**5.15%**	3.40%
Expected rate of increase in salary level across different age bands	**3.00%**	1.00%

The impact of changes in sensitivities on present value of defined benefit obligation is as follows:

Valuation discount rate	**2022**	2021
	SR'000	SR'000
- Increase by 1%	**(612)**	(737)
- Decrease by 1%	**713**	867
Expected rate of increase in salary level across different age bands		
- Increase by 1%	**758**	923
- Decrease by 1%	**(659)**	(796)

The average duration of the defined benefit plan obligation at the end of the reporting period is 11 years (2021: 11 years).

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 statement.

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.

21. FAIR VALUES OF FINANCIAL INSTRUMENTS – (continued)

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.

Insurance Operations	**Level 1**	**Level 2**	**Level 3**	**Total**
		SR'000		
31 December 2022				
Financial assets measured at fair value				
- Investments held as FVSI	**-**	**-**	**5,049**	**5,049**
	-	**-**	**5,049**	**5,049**

Insurance Operations	Level 1	Level 2	Level 3	Total
		SR'000		
31 December 2021				
Financial assets measured at fair value				
- Investments held as FVSI	32,384	-	10,216	42,600
	32,384	-	10,216	42,600

Shareholders' Operations	**Level 1**	**Level 2**	**Level 3**	**Total**
		SR'000		
31 December 2022				
Financial assets measured at fair value				
- Investments held as FVSI	**1**	**-**	**15,705**	**15,706**
	1	**-**	**15,705**	**15,706**

Shareholders' Operations	Level 1	Level 2	Level 3	Total
		SR'000		
31 December 2021				
Financial assets measured at fair value				
- Investments held as FVSI	33,848	-	25,099	58,947
	33,848	-	25,099	58,947

22. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Company's Board of Directors in their function as chief operating decision maker in order to allocate resources to the segments and to assess its performance.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the Board is measured in a manner consistent with that in the income statement. Segment assets and liabilities comprise operating assets and liabilities.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2021.

Segment assets do not include cash and cash equivalents, short term deposits, net premiums and reinsurers' receivable, net, prepayments and other receivables, investments and property and equipment. Accordingly, they are included in unallocated assets. Segment liabilities do not include policyholders' claims, reinsurance payables, accruals and other payables and employees' end of service indemnities. Accordingly, they are included in unallocated liabilities.

These unallocated assets and liabilities are not reported to chief operating decision maker under related segments and are monitored on a centralized basis.

The segment information provided to the Company's Board of Directors for the reportable segments for the Company's total assets and liabilities at 31 December 2022 and 31 December 2021, its total revenues, expenses, and net income for the year then ended, are as follows:

	As at 31 December 2022					
	Medical	**Motor**	**Others**	**Insurance operations**	**Shareholders' operations**	**Total**
				SR'000		
Assets						
Reinsurers' share of unearned premiums	**-**	**34,054**	**7,824**	**41,878**	**-**	**41,878**
Reinsurers' share of outstanding claims	**-**	**(1,597)**	**30,573**	**28,976**	**-**	**28,976**
Reinsurers' share of claims incurred but not reported	**870**	**11,489**	**1,134**	**13,493**	**-**	**13,493**
Deferred policy acquisition costs	**9,569**	**30,491**	**2,179**	**42,239**	**-**	**42,239**
Unallocated assets				**528,487**	**110,897**	**639,384**
Total Assets				**655,073**	**110,897**	**765,970**
Liabilities						
Unearned premiums	**70,077**	**340,546**	**15,415**	**426,038**	**-**	**426,038**
Unearned reinsurance commission	**-**	**1,775**	**2,060**	**3,835**	**-**	**3,835**
Outstanding claims	**8,961**	**(15,602)**	**33,628**	**26,987**	**-**	**26,987**
Claims incurred but not reported	**8,436**	**111,270**	**1,652**	**121,358**	**-**	**121,358**
Premium deficiency reserves	**-**	**3,834**	**-**	**3,834**	**-**	**3,834**
Other technical reserves	**686**	**5,498**	**1,006**	**7,190**	**-**	**7,190**
Unallocated liabilities and surplus				**103,418**	**35,542**	**138,960**
Total Liabilities				**692,660**	**35,542**	**728,202**
Shareholders' Equity						
Share capital				**-**	**100,000**	**100,000**
Accumulated losses				**-**	**(62,091)**	**(62,091)**
Total Shareholders' Equity				**-**	**37,909**	**37,909**
Re-measurement reserve of defined benefit obligations – related to insurance operations				**(141)**	**-**	**(141)**
Total Equity				**(141)**	**37,909**	**37,768**
Total Liabilities and Equity				**692,519**	**73,451**	**765,970**

22. OPERATING SEGMENTS – (continued)

	As at 31 December 2021					
	Medical	Motor	Others	Insurance operations	Shareholders' operations	Total
				SR'000		
Assets						
Reinsurers' share of unearned premiums	-	16,829	8,726	25,555	-	25,555
Reinsurers' share of outstanding claims	-	(1,476)	21,451	19,975	-	19,975
Reinsurers' share of claims incurred but not reported	915	9,885	3,066	13,866	-	13,866
Deferred policy acquisition costs	4,547	20,700	2,460	27,707	-	27,707
Unallocated assets				369,336	158,102	527,438
Total Assets				456,439	158,102	614,541
Liabilities						
Unearned premiums	41,948	168,303	18,579	228,830	-	228,830
Unearned reinsurance commission	-	1,960	2,391	4,351	-	4,351
Outstanding claims	7,627	(13,630)	28,862	22,859	-	22,859
Claims incurred but not reported	10,751	108,154	4,978	123,883	-	123,883
Premium deficiency reserves	-	5,892	808	6,700	-	6,700
Other technical reserves	794	5,524	1,574	7,892	-	7,892
Unallocated liabilities and surplus				92,026	31,516	123,542
Total Liabilities				486,541	31,516	518,057
Shareholders' Equity						
Share capital				-	250,000	250,000
Statutory reserve				-	5,003	5,003
Accumulated losses				-	(158,767)	(158,767)
Total Shareholders' Equity				-	96,236	96,236
Re-measurement reserve of defined benefit obligations – related to insurance operations				248	-	248
Total Equity				248	96,236	96,484
Total Liabilities and Equity				486,789	127,752	614,541

22. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2022			
	Medical	**Motor**	**Others**	**Total**
		SR'000		
REVENUES				
Individual	-	571,506	879	572,385
Large	14,325	15,905	6,910	37,140
Medium	7,459	22,070	10,605	40,134
Small	9,623	11,581	5,619	26,823
Very Small	111,168	3,008	1,450	115,626
Gross premiums written	142,575	624,070	25,463	792,108
Reinsurance premiums ceded				
- Local	-	-	(3,358)	(3,358)
- Foreign	-	(62,269)	(12,892)	(75,161)
	-	(62,269)	(16,250)	(78,519)
Excess of loss expenses				
- Local	(1,910)	(594)	(366)	(2,870)
- Foreign	(5,222)	(2,405)	(1,142)	(8,769)
	(7,132)	(2,999)	(1,508)	(11,639)
Net premiums written	135,443	558,802	7,705	701,950
Changes in unearned premiums, net	(28,130)	(155,019)	2,264	(180,885)
Net premiums earned	107,313	403,783	9,969	521,065
Reinsurance commissions	-	4,651	4,628	9,279
Other underwriting income	4,745	-	9,478	14,223
TOTAL REVENUES	112,058	408,434	24,075	544,567
UNDERWRITING COSTS AND EXPENSES				
Gross claims paid	61,337	434,982	4,285	500,604
Reinsurers' share of claims paid	(3,848)	(43,162)	(1,269)	(48,279)
Net claims paid	57,489	391,820	3,016	452,325
Changes in outstanding claims, net	1,333	(1,853)	(4,353)	(4,873)
Changes in claims incurred but not reported, net	(2,270)	1,512	(1,394)	(2,152)
Net claims incurred	56,552	391,479	(2,731)	445,300
Changes in premium deficiency reserves	-	(2,057)	(809)	(2,866)
Changes in other technical reserves	(919)	294	(77)	(702)
Policy acquisition costs	7,977	19,202	3,535	30,714
Other underwriting expenses	9,185	57,925	321	67,431
TOTAL UNDERWRITING COSTS AND EXPENSES	72,795	466,843	239	539,877
NET UNDERWRITING INCOME / (LOSS)	39,263	(58,409)	23,836	4,690
OTHER OPERATING (EXPENSES) / INCOME				
Allowances for doubtful debts				(5,639)
General and administrative expenses				(75,704)
Investment income				7,192
Commission from held to maturity investments				1,865
Commission income from term deposit				11,047
Realized loss on investments				-
Unrealized gain on investments				(1,172)
Other income				2,394
TOTAL OTHER OPERATING EXPENSES				(60,017)
NET LOSS FOR THE YEAR BEFORE ZAKAT				(55,327)
Zakat				(3,000)
NET LOSS FOR THE YEAR				(58,327)
Net Income for the year attributable to insurance operations				-
Net loss for the year attributable to the shareholders				(58,327)

22. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2021			
	Medical	Motor	Others	Total
		SR'000		
REVENUES				
Individual	-	317,862	4,413	322,275
Large	18,298	6,537	8,114	32,949
Medium	9,097	16,549	8,731	34,377
Small	8,560	9,427	6,494	24,481
Very Small	50,395	1,106	1,948	53,449
Gross premiums written	86,350	351,481	29,700	467,531
Reinsurance premiums ceded				
- Local	-	-	(6,660)	(6,660)
- Foreign	-	(34,921)	(10,769)	(45,690)
	-	(34,921)	(17,429)	(52,350)
Excess of loss expenses				
- Local	(1,360)	(542)	(792)	(2,694)
- Foreign	(2,131)	(2,241)	(533)	(4,905)
	(3,491)	(2,783)	(1,325)	(7,599)
Net premiums written	82,859	313,777	10,946	407,582
Changes in unearned premiums, net	1,988	(7,692)	(2,539)	(8,243)
Net premiums earned	84,847	306,085	8,407	399,339
Reinsurance commissions	-	3,933	4,492	8,425
Other underwriting income	66	424	185	675
TOTAL REVENUES	84,913	310,442	13,084	408,439
UNDERWRITING COSTS AND EXPENSES				
Gross claims paid	68,881	318,510	2,657	390,048
Reinsurers' share of claims paid	(3,495)	(32,264)	(1,840)	(37,599)
Net claims paid	65,386	286,246	817	352,449
Changes in outstanding claims, net	(1,280)	(2,512)	(168)	(3,960)
Changes in claims incurred but not reported, net	(6,873)	5,651	1,315	93
Net claims incurred	57,233	289,385	1,964	348,582
Changes in premium deficiency reserves	-	5,892	808	6,700
Changes in other technical reserves	1,040	3,153	602	4,795
Policy acquisition costs	6,012	13,193	3,248	22,453
Other underwriting expenses	4,944	43,407	239	48,590
TOTAL UNDERWRITING COSTS AND EXPENSES	69,229	355,030	6,861	431,120
NET UNDERWRITING INCOME / (LOSS)	15,684	(44,588)	6,223	(22,681)
OTHER OPERATING (EXPENSES) / INCOME				
Allowances for doubtful debts				(7,016)
General and administrative expenses				(94,887)
Investment income				1,551
Commission from held to maturity investments				1,115
Commission income from term deposit				6,460
Realized loss on investments				(1,170)
Unrealized gain on investments				10,123
Other income				95
TOTAL OTHER OPERATING EXPENSES				(83,729)
NET LOSS FOR THE YEAR BEFORE ZAKAT				(106,410)
Zakat				(6,000)
NET LOSS FOR THE YEAR				(112,410)
Net Income for the year attributable to insurance operations				-
Net loss for the year attributable to the shareholders				(112,410)

23. RELATED PARTY TRANSACTIONS AND BALANCES

b. Related Party Transactions

Related parties represent major shareholders, directors and key management personnel [Key Management Personnel includes all directors, executive and non-executive, and senior management] 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.

	Nature of transactions	**Amount of transactions For the year ended 31 December**	
		2022	2021
		SR'000	
Major shareholder			
Salama IAIC – UAE*	Payment received on behalf	**-**	970
Entities controlled, jointly controlled or significantly influenced by member of board of directors			
Al Mamoon Insurance Brokers**	Commissions incurred	**771**	-
Ittihad Insurance Brokers**	Commissions incurred	**8**	-

** These transactions are from the date of appointment of related directors i.e. 11 September 2022.

c. Related Parties Balances

	2022	2021
	SR'000	
(Payable) / receivable to the related parties		
Salama IAIC – UAE	**-**	(970)
Al Mamoon Insurance Brokers	**(884)**	-
Ittihad Insurance Brokers	**(36)**	-
	(920)	(970)

As at 31 December 2022, the related party balance is included in accrued expenses and other liabilities.

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 Chief Financial Officer of the Company.

The following table shows the compensation of the key management personnel for the year ended 31 December 2022 and 31 December 2021:

	2022	2021
	SR'000	
Salaries and other allowances	**4,698**	1,395
End of service indemnities	**1,295**	1,180
	5,993	2,575
Remuneration to those charged with governance – Board of Directors	**204**	21
Remuneration to those charged with governance – Board Committees	**239**	45
	443	66

24. ZAKAT

a. Charge for the year

The Zakat charge for the year is calculated based on the following:

	2022	2021
	SR'000	
Equity	**96,236**	208,646
Opening provision and adjustments	**49,012**	45,511
Net book value of long term assets	**(65,154)**	(215,922)
	80,094	38,235
Adjusted loss for the year	**(49,688)**	(99,394)
Zakat base	**30,406**	(61,159)

Movements in provision during the year

	2022	2021
	SR'000	
Balance at the beginning of the year	**27,629**	31,131
Charge for the year	**3,000**	6,000
Paid during the year	**-**	(9,502)
Balance at the end of the year	**30,629**	27,629

b. Status of zakat assessments

The Company submitted the Zakat declarations for the year ended 31 December 2021 and obtained the necessary Zakat and tax certificate.

The ZATCA has issued assessments for the years from 2006 to 2012 with additional zakat liability amounting to SR 17.1 million which represents SR 9.3 million as zakat differences and SR 4.4 million as withholding tax differences and SR 3.4 million as withholding tax delay fines. The Company has settled the amount of withholding tax differences amounting to SR 4.4 million and partially settled the delay fines amounting to SR 3.1 million and accordingly issued a letter of guarantee amounting to SR 9.5 million on the favour of ZATCA for the zakat differences for the said years. During 2021, the Company have settled the liability from 2008 to 2012 and requested ZATCA to release the bank guarantee amounting to SR 9.5 million.

A settlement request was submitted to ZATCA to pay an amount of SR 3 million to close the case, but the Zakat disputes committee reached to a decision to settle an amount of SR 7.7 million to finalize the assessments for the said years. The ZATCA has rejected the Zakat disputes committee's decision with the completion of the hearing of the case raised to the Appeal Committee. The management expects that the volume of zakat liability will reach to SR 4.2 million and based on the objection and the information submitted to ZATCA and the committees.

The ZATCA has issued an assessment for the year 2014, which has requested an additional Zakat liability amounting to SR 1.2 million. The assessment was objected, and the objection was rejected by ZATCA. The case has been escalated to the Preliminary Committee of the Tax Committees and their decision is awaited. The management believes that the volume of zakat liability will reach to SR 1.2 million.

The ZATCA raised an assessment for the years from 2015 to 2018, which has requested an additional Zakat liability amounting to SR 14.1 million, and withholding tax liability for the years from 2014 to 2018, amounting to SR 7 million. During the year, the Company has settled the withholding tax differences to get the benefits of governmental revised 1st phase amnesty period (full exemption of penalty). The management believes that the volume of zakat liability will reach to SR 14.7 million.

During 2021, the Company received zakat assessments for the year 2019 and 2020 where ZATCA asking additional liability of SR 11.4 million. The Company objected and later reduced to SR 9.1 million. The Company made a payment of SR 2.3 million in order to object according to the zakat regulation. The objection has been referred to the General Secretariat of the Tax Committees and the case is still under discussion.

25. SURPLUS DISTRIBUTION PAYAPLE

	2022	2021
	SR'000	
Balance at the beginning of the year	**15,409**	15,409
Income attributed to the insurance operations	**-**	-
Closing balance	**15,409**	15,409

26. SHARE CAPITAL

The authorized and issued and fully paid share capital of the Company was SR 250 million divided into 25 million ordinary shares of SR 10 each.

On 16 August 2022, the shareholders of the Company in an extra-ordinary general meeting approved the decrease in accumulated losses by netting-off with the share capital of SR 150 million and utilize the entire balance of SR 5 million from the statutory reserve. Accordingly, the share capital, accumulated losses and statutory reserve have been reduced by SR 155 million, SR 150 million and SR 5 million respectively. The capital reduction is through reduction of 3 shares for every 5 shares held by the shareholder. The purpose of capital reduction is to restructure the capital position of the Company in line with the Companies Law. There will be no impact of capital reduction on the Company's financial obligations.

The authorized and issued and fully paid share capital of the Company as of 31 December 2022 is SR 100 million divided into 10 million ordinary shares of SR 10 each.

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 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. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares.

On 20 April 2022, the Company received a letter from the Saudi Central Bank (SAMA) regarding the decrease in the actual solvency margin of the Company below the required solvency margin according to the requirements of Article (66) of the Executive Regulations of the Insurance Companies Control Law. The letter instructed that the Company must comply with the requirements of Article (68) of the executive regulations of the Insurance Companies Control Law and submit a corrective plan to SAMA explaining the steps that the Company will take to improve its financial solvency and the necessary time period, within 15 working days from the date of the aforementioned letter above.

On 18 May 2022, the Company has submitted its response to SAMA regarding the corrective measures to improve the solvency margin at appropriate level.

In the opinion of the Board of Directors, the Company has not fully complied with the externally imposed capital requirements during the reported financial period. Further refer note 3 for information regarding Capital restricting.

28. GENERAL AND ADMINISTRATIVE EXPENSE

	Insurance operations	
	2022	2021
	SR'000	
Employees' costs	**40,005**	49,204
Bank charges	**11,813**	7,994
Depreciation and amortization (see note 11,12 & 13.1)	**4,690**	11,516
Information technology	**4,420**	6,003
Audit and professional fees	**4,259**	3,365
Financial cost on lease liabilities (see note 13.2)	**2,128**	1,333
Communication	**2,034**	2,020
Repair and maintenance	**1,037**	631
Marketing and advertisement	**737**	1,122
Fee and subscriptions	**424**	448
Office rent	**391**	1,273
Printing and stationary	**382**	388
Travelling	**226**	382
Withholding tax	**212**	5,078
Utilities	**204**	283
Training and development	**113**	146
Others	**1,663**	1,396
	74,738	92,582

	Shareholders' Operations	
	2022	2021
	SR'000	
Board expenses (see note a below)	**204**	1,515
Committee expenses (see note b below)	**239**	385
Others	**523**	405
	966	2,305

a) Board expenses represent allowances for attending board meetings and sub-committee meetings.

b) Committee expenses include fees of non-board members for attending committee meetings and other related sub-committee expenses.

29. BASIC AND DILUTED LOSS PER SHARE

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

30. SUPPLEMENTARY INFORMATION

a) Statement of financial position

	2022			2021		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
		SR'000			SR'000	
ASSETS						
Cash and cash equivalents	**134,733**	**32**	**134,765**	123,527	489	124,016
Term deposits	**239,076**	**-**	**239,076**	97,000	-	97,000
Premiums and reinsurers' receivable – net	**85,342**	**-**	**85,342**	54,672	-	54,672
Reinsurers' share of unearned premiums	**41,878**	**-**	**41,878**	25,555	-	25,555
Reinsurers' share of outstanding claims	**28,976**	**-**	**28,976**	19,975	-	19,975
Reinsurers' share of claims incurred but not reported	**13,493**	**-**	**13,493**	13,866	-	13,866
Deferred policy acquisition costs	**42,239**	**-**	**42,239**	27,707	-	27,707
Investments	**15,049**	**67,629**	**82,678**	52,600	115,853	168,453
Prepaid expenses and other assets	**30,658**	**823**	**31,481**	18,781	373	19,154
Right of use assets – net	**17,454**	**-**	**17,454**	18,231	-	18,231
Property and equipment - net	**5,154**	**-**	**5,154**	4,107	-	4,107
Intangible assets - net	**1,021**	**-**	**1,021**	418	-	418
Statutory deposit	**-**	**37,500**	**37,500**	-	37,500	37,500
Accrued commission on statutory deposit	**-**	**4,913**	**4,913**	-	3,887	3,887
Due from insurance operations	**37,446**	**-**	**37,446**	30,350	-	30,350
	692,519	**110,897**	**803,416**	486,789	158,102	644,891
(Less): Inter-operations eliminations	**(37,446)**	**-**	**(37,446)**	(30,350)	-	(30,350)
TOTAL ASSETS	**655,073**	**110,897**	**765,970**	456,439	158,102	614,541

30. SUPPLEMENTARY INFORMATION – (continued)

a) Statement of financial position – (continued)

	2022			2021		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
		SR'000			SR'000	
LIABILITIES						
Policyholders claims payable	**7,407**	**-**	**7,407**	11,421	-	11,421
Accrued expenses and other liabilities	**42,179**	**-**	**42,179**	35,982	-	35,982
Lease liabilities	**18,493**	**-**	**18,493**	20,335	-	20,335
Reinsurers' balances payable	**13,214**	**-**	**13,214**	984	-	984
Unearned premiums	**426,038**	**-**	**426,038**	228,830	-	228,830
Unearned reinsurance commission	**3,835**	**-**	**3,835**	4,351	-	4,351
Outstanding claims	**26,987**	**-**	**26,987**	22,859	-	22,859
Claims incurred but not reported	**121,358**	**-**	**121,358**	123,883	-	123,883
Premium deficiency reserves	**3,834**	**-**	**3,834**	6,700	-	6,700
Other technical reserves	**7,190**	**-**	**7,190**	7,892	-	7,892
Employee benefits obligation	**6,716**	**-**	**6,716**	7,895	-	7,895
Surplus distribution payable	**15,409**	**-**	**15,409**	15,409	-	15,409
Provision for zakat	**-**	**30,629**	**30,629**	-	27,629	27,629
Accrued commission income payable to SAMA	**-**	**4,913**	**4,913**	-	3,887	3,887
Due to shareholders' operations	**-**	**37,446**	**37,446**	-	30,350	30,350
	692,660	**72,988**	**765,648**	486,541	61,866	548,407
(Less): Inter-operations eliminations	**-**	**(37,446)**	**(37,446)**	-	(30,350)	(30,350)
TOTAL LIABILITIES	**692,660**	**35,542**	**728,202**	486,541	31,516	518,057
SHAREHOLDERS' EQUITY						
Share capital	**-**	**100,000**	**100,000**	-	250,000	250,000
Statutory reserve	**-**	**-**	**-**	-	5,003	5,003
Accumulated losses	**-**	**(62,091)**	**(62,091)**	-	(158,767)	(158,767)
TOTAL SHAREHOLDERS' EQUITY	**-**	**37,909**	**37,909**	-	96,236	96,236
Re-measurement reserve of defined benefit obligation	**(141)**	**-**	**(141)**	248	-	248
TOTAL EQUITY	**(141)**	**37,909**	**37,768**	248	96,236	96,484
TOTAL LIABILITIES AND EQUITY	**692,519**	**73,451**	**765,970**	486,789	127,752	614,541
COMMITMENTS AND CONTINGENCIES	**700**	**9,500**	**10,200**	700	9,500	10,200

30. 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
	SR'000	**SR'000**	**SR'000**	SR'000	SR'000	SR'000
REVENUES						
Gross premiums written	**792,108**	**-**	**792,108**	467,531	-	467,531
	792,108	**-**	**792,108**	467,531	-	467,531
Reinsurance premiums ceded						
- Local	**(3,358)**	**-**	**(3,358)**	(6,660)	-	(6,660)
- Foreign	**(75,161)**	**-**	**(75,161)**	(45,690)	-	(45,690)
	(78,519)	**-**	**(78,519)**	(52,350)	-	(52,350)
Excess of loss expenses						
- Local	**(2,870)**	**-**	**(2,870)**	(2,694)	-	(2,694)
- Foreign	**(8,769)**	**-**	**(8,769)**	(4,905)	-	(4,905)
	(11,639)	**-**	**(11,639)**	(7,599)	-	(7,599)
Net premiums written	**701,950**	**-**	**701,950**	407,582	-	407,582
Changes in unearned premiums, net	**(180,885)**	**-**	**(180,885)**	(8,243)	-	(8,243)
Net premiums earned	**521,065**	**-**	**521,065**	399,339	-	399,339
Reinsurance commissions	**9,279**	**-**	**9,279**	8,425	-	8,425
Other underwriting income	**14,223**	**-**	**14,223**	675	-	675
TOTAL REVENUES	**544,567**	**-**	**544,567**	408,439	-	408,439
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	**500,604**	**-**	**500,604**	390,048	-	390,048
Reinsurers' share of claims paid	**(48,279)**	**-**	**(48,279)**	(37,599)	-	(37,599)
Net claims paid	**452,325**	**-**	**452,325**	352,449	-	352,449
Changes in outstanding claims, net	**(4,873)**	**-**	**(4,873)**	(3,960)	-	(3,960)
Changes in claims incurred but not reported, net	**(2,152)**	**-**	**(2,152)**	93	-	93
Net claims incurred	**445,300**	**-**	**445,300**	348,582	-	348,582
Change premium deficiency reserves	**(2,866)**	**-**	**(2,866)**	6,700	-	6,700
Change other technical reserves	**(702)**	**-**	**(702)**	4,795	-	4,795
Policy acquisition costs	**30,714**	**-**	**30,714**	22,453	-	22,453
Other underwriting expenses	**67,431**	**-**	**67,431**	48,590	-	48,590
TOTAL UNDERWRITING COSTS AND EXPENSES	**539,877**	**-**	**539,877**	431,120	-	431,120
NET UNDERWRITING INCOME / (LOSS)	**4,690**	**-**	**4,690**	(22,681)	-	(22,681)

30. 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
	SR'000	**SR'000**	**SR'000**	SR'000	SR'000	SR'000
OTHER OPERATING (EXPENSES)/INCOME						
Allowance for doubtful debts	**(5,639)**	**-**	**(5,639)**	(7,016)	-	(7,016)
General and administrative expenses	**(74,738)**	**(966)**	**(75,704)**	(92,582)	(2,305)	(94,887)
Investment income	**5,070**	**2,122**	**7,192**	1,427	124	1,551
Commission from held to maturity investments	**327**	**1,538**	**1,865**	44	1,071	1,115
Commission income from term deposit	**11,047**	**-**	**11,047**	4,530	1,930	6,460
Realized loss on investments	**-**	**-**	**-**	(1,170)	-	(1,170)
Unrealized (loss) / gain on investments	**(71)**	**(1,101)**	**(1,172)**	647	9,476	10,123
Other income	**1,950**	**444**	**2,394**	95	-	95
TOTAL OTHER OPERATING (EXPENSES)/ INCOME	**(62,054)**	**2,037**	**(60,017)**	(94,025)	10,296	(83,729)
NET (LOSS) / INCOME FOR THE YEAR BEFORE ZAKAT	**(57,364)**	**2,037**	**(55,327)**	(116,706)	10,296	(106,410)
Zakat	**-**	**(3,000)**	**(3,000)**	-	(6,000)	(6,000)
NET (LOSS) / INCOME FOR THE YEAR AFTER ZAKAT	**(57,364)**	**(963)**	**(58,327)**	(116,706)	4,296	(112,410)
Transfer to shareholders	**57,364**	**(57,364)**	**-**	116,706	(116,706)	-
NET RESULT FROM INSURANCE OPERATIONS	**-**	**(58,327)**	**(58,327)**	-	(112,410)	(112,410)
Loss per share (Expressed in SR per share)						
Weighted average number of shares outstanding (thousands shares)	**-**	**10,000**	**10,000**	-	10,000	10,000
Basic and diluted loss per share (SR/share) – restated – 2021	**-**	**(5.83)**	**(5.83)**	-	(11.24)	(11.24)

30. 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
	SR'000	**SR'000**	**SR'000**	SR'000	SR'000	SR'000
Net loss for the year	**-**	**(58,327)**	**(58,327)**	-	(112,410)	(112,410)
Other comprehensive (loss) / income:						
Items that will not be reclassified to statement of income in subsequent periods						
Actuarial (losses) gains on defined benefit obligations	**(389)**	**-**	**(389)**	300	-	300
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	**(389)**	**(58,327)**	**(58,716)**	300	(112,410)	(112,110)
Less: income attributed to the insurance operations			**-**			(300)
Net loss attributed to the shareholders			**(58,716)**			(112,410)

31. 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
	SR'000	**SR'000**	**SR'000**	SR'000	SR'000	SR'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Net loss before zakat	**-**	**(55,327)**	**(55,327)**	-	(106,410)	(106,410)
Adjustments for non-cash items:						
Depreciation of property and equipment	**2,682**	**-**	**2,682**	3,542	-	3,542
Amortization of intangible assets	**252**	**-**	**252**	4,121	-	4,121
Depreciation of right of use assets	**1,756**	**-**	**1,756**	3,853	-	3,853
Finance cost on lease liabilities	**2,128**	**-**	**2,128**	1,333	-	1,333
Allowance for doubtful debts	**5,639**	**-**	**5,639**	7,016	-	7,016
Unrealized loss / (gain) on investments at FVTSI	**71**	**1,101**	**1,172**	(647)	(9,476)	(10,123)
Realized loss on investments at FVTSI	**-**	**-**	**-**	1,170	-	1,170
Reversal of lease liability	**86**	**-**	**86**			
Employee benefit obligations	**1,699**	**-**	**1,699**	1,710	-	1,710
	14,313	**(54,226)**	**(39,913)**	22,098	(115,886)	(93,788)
Changes in operating assets and liabilities:						
Premiums and reinsurers' receivable	**(36,309)**	**-**	**(36,309)**	(20,792)	-	(20,792)
Reinsurers' share of unearned premiums	**(16,323)**	**-**	**(16,323)**	(2,285)	-	(2,285)
Reinsurers' share of outstanding claims	**(9,001)**	**-**	**(9,001)**	935	-	935
Reinsurers' share of claims incurred but not reported	**373**	**-**	**373**	(2,084)	-	(2,084)
Deferred policy acquisition costs	**(14,532)**	**-**	**(14,532)**	(6,687)	-	(6,687)
Prepaid expenses and other assets	**(11,877)**	**(450)**	**(12,327)**	23,266	(188)	23,078
Accrued commission on statutory deposit	**-**	**(1,026)**	**(1,026)**	-	(219)	(219)
Policyholders claims payables	**(4,014)**	**-**	**(4,014)**	(2,101)	-	(2,101)
Accrued expenses and other liabilities	**6,197**	**-**	**6,197**	5,617	-	5,617
Reinsurers' balances payable	**12,230**	**-**	**12,230**	(3,445)	-	(3,445)
Unearned premiums	**197,208**	**-**	**197,208**	10,528	-	10,528
Unearned reinsurance commission	**(516)**	**-**	**(516)**	618	-	618
Outstanding claims	**4,128**	**-**	**4,128**	(4,895)	-	(4,895)
Claims incurred but not reported	**(2,525)**	**-**	**(2,525)**	2,177	-	2,177
Premium deficiency reserves	**(2,866)**	**-**	**(2,866)**	6,700	-	6,700
Other technical reserves	**(702)**	**-**	**(702)**	4,796	-	4,796
Accrued commission income payable to SAMA	**-**	**1,026**	**1,026**	-	219	219
	135,784	**(54,676)**	**81,108**	34,446	(116,074)	(81,628)
Zakat paid	**-**	**-**	**-**	-	(9,502)	(9,502)
Employee benefits paid	**(3,267)**	**-**	**(3,267)**	(3,216)	-	(3,216)
Net cash flows generated from / (used in) operating activities	**132,517**	**(54,676)**	**77,841**	31,230	(125,576)	(94,346)

30. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows – (continued)

	For the year ended 31 December					
	2022			2021		
	Insurance operations	**Share-holders' operation**	**Total**	Insurance operations	Share-holders' operations	Total
	SR'000	**SR'000**	**SR'000**	SR'000	SR'000	SR'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investments	**(89,579)**	**(457)**	**(90,036)**	(2,998)	(5,840)	(8,838)
Proceeds from sale of investments	**127,059**	**42,597**	**169,656**	62,896	5,316	68,212
Placement of term deposits	**(870,401)**	**-**	**(870,401)**	(125,000)	(200,000)	(325,000)
Proceeds from term deposits	**728,325**	**-**	**728,325**	176,318	200,000	376,318
Purchases of held to maturity investments	**-**	**-**	**-**	-	(50,000)	(50,000)
Proceeds from held to maturity investments	**-**	**4,983**	**4,983**	-	-	-
Purchase of property and equipment	**(3,729)**	**-**	**(3,729)**	(499)	-	(499)
Purchase of intangible assets	**(855)**	**-**	**(855)**	-	-	-
Net cash flows (used in) / generated from investing activities	**(109,180)**	**47,123**	**(62,057)**	110,717	(50,524)	60,193
CASH FLOWS FROM FINANCING ACTIVITIES						
Payment of lease liabilities	**(5,035)**	**-**	**(5,035)**	(1,077)	-	(1,077)
Due to shareholders' operations	**(7,096)**	**7,096**	**-**	(65,235)	65,235	-
Net cash flows (used in) / generated from financing activities	**(12,131)**	**7,096**	**(5,035)**	(66,312)	65,235	(1,077)
Net change in cash and cash equivalents	**11,206**	**(457)**	**10,749**	75,635	(110,865)	(35,230)
Cash and cash equivalents, beginning of the year	**123,527**	**489**	**124,016**	47,892	111,354	159,246
Cash and cash equivalents, end of the year	**134,733**	**32**	**134,765**	123,527	489	124,016
Non-cash transaction						
Addition to right of use asset through lease liabilities	**1,720**	**-**	**1,720**	157	-	157

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 continuing profitability 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 strategic planning process.

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.

31. RISK MANAGEMENT – (continued)

Risk management structure – (continued)

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 facing the Company and the way these risks are mitigated by management are summarized below:

Insurance risk

The risk under an insurance policy is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such policies is that the actual claims and benefit payments exceed the carrying amount of insurance reserves. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient resources are available to cover claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance policies as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements.

Certain portion of reinsurance business ceded is placed on a quota share basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

The insurance claim liabilities are sensitive to various assumptions mentioned in note 2.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors such as flood, environmental and economical, atmospheric disturbance and concentration of risk etc. The Company underwrites mainly motor and medical risks. These are regarded as short-term insurance contracts as 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

The Company's insurance risk exposure relating to contract holders is concentrated in Kingdom of Saudi Arabia.

The Company monitors concentration of risk primarily by class of business. The major concentration lies in motor and medical line of business.

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 assumption

The principal assumption underlying the estimates is the Company’s estimated ultimate loss ratio. The ultimate loss was determined using actuarial methods as far as applicable.

31. RISK MANAGEMENT – (continued)

Insurance risk – (continued)

Sensitivities

The Company believes that claim liabilities under insurance contract (Gross outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions. Sensitivity of loss for the year before Zakat to change in claim liabilities and IBNR based on an increase / decrease of 10% in outstanding claim reserve and increase / decrease of 15 % in IBNR is given below for each business segment.

	2022 SR'000		2021 SR'000	
Outstanding claim net of reinsurance	**Effect of 10% increase**	**Effect of 10% decrease**	Effect of 10% increase	Effect of 10% decrease
Motor	**1,401**	**(1,401)**	1,215	(1,215)
Medical	**(896)**	**896**	(763)	763
Others	**(306)**	**306**	(741)	741
	199	**(199)**	(289)	289

	2022 SR'000		2021 SR'000	
IBNR	**Effect of 15% increase**	**Effect of 15% decrease**	Effect of 15% increase	Effect of 15% decrease
Motor	**(14,967)**	**14,967**	(14,740)	14,740
Medical	**(1,135)**	**1,135**	(1,475)	1,475
Others	**(78)**	**78**	(287)	287
	(16,180)	**16,180**	(16,502)	16,502

Reinsurance risk

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

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. Reinsurers are selected using the following parameters and guidelines set by the Company's management. The criteria may be summarized as follows:

a) Minimum acceptable credit rating by recognized rating agencies (e.g. S&P) that is not lower than BBB.
b) Reputation of particular reinsurance companies.
c) Existing or past business relationship with the reinsurer.

The exception to this rule is in respect of local companies who do not carry any such credit rating. This, however, is limited to those companies registered and approved by the local Insurance Regulator. Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company and matched against a list of requirements pre-set by the Company's management before approving them for exchange of reinsurance business.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

31. RISK MANAGEMENT – (continued)

Regulatory framework risk

Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities.

The operations of the Company are also subject to regulatory requirements within the jurisdiction it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

Capital management risk

Capital requirements are set and regulated by the Saudi Central Bank. 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 maximize shareholders' value.

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. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares, if required in future. In the opinion of the Board of Directors, the Company has not fully complied with the externally imposed capital requirements during the reported financial year and have a solvency deficit of SR 145.16 million (2021: SR 26.48 million).

Financial risk

The Company's principal financial instruments are receivables arising from insurance contracts, cash and cash equivalents, term deposits, investments, other receivables, outstanding claims and policy holder claims, reinsurance payable and certain other assets and liabilities. The main risks arising from the Company's financial instruments are market risk, commission rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarized below.

Market risk
Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused either by factors specific to the individual security, the issuer of the security, or factors affecting all securities traded in the market.

The Company is exposed to market risk with respect to its FVIS investments. Market risk is managed by investing in reputed funds which maintain investments in diversified portfolios and equity shares and by continuous monitoring of developments in equity markets. In addition, the key factors that affect stock market movements are monitored, including analysis of the operational and financial performance of investees. A 100 basis point increase / (decrease) in net asset value of these funds can impact statement of insurance operations and accumulated surplus by SR 0.05 million (2021: SR 0.43 million) and statement of shareholder operations by SR 0.16 million (2021: SR 0.59 million).

Commission rate risk
Commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. Floating rate instruments expose the Company to cash flow commission risk, whereas fixed commission rate instruments expose the Company to fair value interest risk.

The Company is exposed to commission rate risk on certain of its investments, cash and cash equivalents, and time deposits. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its investments are denominated.

31. RISK MANAGEMENT – (continued)

Commission rate risk– (continued)

The Company is required to maintain a restricted deposit in accordance with insurance regulations in Saudi Arabia on which the Company does not earn any commission. Management limits commission rate risk of other financial instruments by monitoring changes in commission rates in the currencies in which its financial instruments are denominated.

Insurance Operations

Details of maturities of the major classes of commission bearing securities for insurance operations as at 31 December 2022 and 2021 are as follows:

	2022 SR'000			
	Less than 1 year	**1 to 5 years**	**over 5 years**	**Total**
Investments held to maturity (note 9)	**-**	**10,000**	**-**	**10,000**
	-	**10,000**	**-**	**10,000**

	2021 SR'000			
	Less than 1 year	1 to 5 Years	over 5 years	Total
Investments held to maturity (note 9)	-	10,000	-	10,000
	-	10,000	-	10,000

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

The effective interest rates for the commission bearing financial instruments were as follows:

	2022	2021
Saudi Riyal denominated financial assets	**3.21%**	2.15%

The following table demonstrates the sensitivity of statement of insurance operations to reasonably possible changes in interest rates, with all other variables held constant.

	2022	2021
	SR'000	SR'000
	Effect on profit	Effect on profit
Saudi Riyals:		
Increase in interest rates by 100 basis points	**2,391**	2,350
Decrease in interest rates by 100 basis points	**(2,391)**	(2,350)

31. RISK MANAGEMENT – (continued)

Financial risk – (continued)

Commission rate risk – (continued)

Details of maturities of the major classes of commission bearing securities for shareholders' operations as at 31 December 2022 and 2021 are as follows:

Shareholders Operations

	2022 SR'000			
	Less than 1 year	**1 to 5 years**	**over 5 years**	**Total**
Investments held to maturity	**-**	**-**	**50,000**	**50,000**
	-	**-**	**50,000**	**50,000**

	2021 SR'000			
	Less than 1 year	1 to 5 Years	over 5 years	Total
Investments held to maturity	-	4,983	50,000	54,983
	-	4,983	50,000	54,983

The maturities of deposits have been determined on the basis of the remaining period, at the reporting date, to the contractual maturity date. The effective interest rates for the commission bearing financial instruments were as follows:

	2022	2021
Saudi Riyal / Foreign currency denominated financial assets	**2.80%**	1.30%

The following table demonstrates the sensitivity of statement of insurance operations to reasonably possible changes in commission rates, with all other variables held constant.

	2022	2021
	SR'000	SR'000
	Effect on profit	Effect on profit
Saudi Riyals:		
Increase in commission rates by 100 basis points	**-**	887
Decrease in commission rates by 100 basis points	**-**	(887)

Currency risk

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 insurance operations and shareholders' operations primarily deal in Saudi Riyals and in US Dollar which is pegged to Saudi Riyals.

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. All of the Company's underwriting activities are carried out in Saudi Arabia. For all classes of financial assets held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the reporting date.

31. RISK MANAGEMENT – (continued)

Credit risk – (continued)

The Company seeks to limit its credit risk with respect to customers by following the credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts. Management estimates specific impairment provision on a case by case basis. In addition to specific provisions, the Company also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the overdue premiums receivable. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable banks.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

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

	2022	2021
	SR'000	
Insurance' Operations		
Cash and cash equivalents	**134,733**	123,527
Term deposits	**239,076**	97,000
Premiums receivable, net	**82,485**	50,294
Reinsurance receivables, net	**2,857**	4,378
Held to maturity investments	**10,000**	10,000
Other receivables	**27,933**	14,838
Reinsurers' share of outstanding claims including IBNR	**42,469**	33,841
	539,553	333,878

	2022	2021
Shareholders' Operations	**SR'000**	
Cash and cash equivalents	**32**	489
Other receivables	**823**	373
Held to maturity investments	**50,000**	54,983
	50,855	55,845

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

All of the Company's financial assets and financial liabilities are expected to be realised and settled, respectively within 12 months from the reporting date, except for statutory deposit, which has no term (see note 15), and held to maturity assets, which are expected to be held until their maturities as mentioned in commission rate risk disclosure above. All financial liabilities are non-interest bearing.

The table below summarizes the maturity profile of the financial assets and liabilities of the Company based on remaining expected obligations. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized liabilities. Repayments that are subject to notice are treated as if notice were to be given immediately.

31. RISK MANAGEMENT – (continued)

Liquidity risk (continued)

	As of 31 December 2022			As of 31 December 2021		
	SR'000			SR'000		
Assets- Insurance operations	**Less than one year**	**More than one year**	**Total**	Less than one year	More than one year	Total
Cash and cash equivalents	**134,733**	**-**	**134,733**	123,527	-	123,527
Term deposits	**239,076**	**-**	**239,076**	97,000	-	97,000
Premium and reinsures receivable - net	**85,342**	**-**	**85,342**	54,672	-	54,672
Reinsurers' share of unearned premiums	**41,878**	**-**	**41,878**	25,555	-	25,555
Reinsurers' share of outstanding claims	**28,976**	**-**	**28,976**	19,975	-	19,975
Reinsurers' share of IBNR	**13,493**	**-**	**13,493**	13,866	-	13,866
Investments	**15,049**	**-**	**15,049**	32,384	20,216	52,600
	558,547	**-**	**558,547**	366,979	20,216	387,195

	As of 31 December 2022			As of 31 December 2021		
	SR'000			SR'000		
Liabilities- Insurance operations	**Less than one year**	**More than one year**	**Total**	Less than one year	More than one year	Total
Policy holder claims payable	**7,407**	**-**	**7,407**	11,421	-	11,421
Reinsurers' balance payable	**13,214**	**-**	**13,214**	984	-	984
Accrued expenses and other liabilities	**42,179**	**-**	**42,179**	35,982	-	35,982
Gross outstanding claims	**26,987**	**-**	**26,987**	22,859	-	22,859
Claims incurred but not reported	**121,358**	**-**	**121,358**	123,883	-	123,883
Premium deficiency reserve	**3,834**	**-**	**3,834**	6,700	-	6,700
Other technical reserves	**7,190**	**-**	**7,190**	7,892	-	7,892
Surplus distribution payable	**15,409**	**-**	**15,409**	15,409	-	15,409
TOTAL LIABILITIES AND SURPLUS	**237,578**	**-**	**237,578**	225,130	-	225,130

	As of 31 December 2022			As of 31 December 2021		
	SR'000			SR'000		
Assets- Shareholders operations	**Less than one year**	**More than one year**	**Total**	Less than one year	More than one year	Total
Cash and cash equivalents	**32**	**-**	**32**	489	-	489
Investments	**1**	**67,628**	**67,629**	33,848	82,005	115,853
Statutory deposit	**-**	**37,500**	**37,500**	-	37,500	37,500
Accrued income on statutory deposit	**-**	**4,913**	**4,913**	-	3,887	3,887
TOTAL ASSETS	**33**	**110,041**	**110,074**	34,337	123,392	157,729

	As of 31 December 2022			As of 31 December 2021		
	SR'000			SR'000		
Liabilities- Shareholders operations	**Less than one year**	**More than one year**	**Total**	Less than one year	More than one year	Total
Accrued commission income payable to SAMA	**-**	**4,913**	**4,913**	-	3,887	3,887
TOTAL LIABILITIES AND SURPLUS	**-**	**4,913**	**4,913**	-	3,887	3,887

32. COMPARATIVE FIGURES

Certain of the prior year figures in the statement of financial position and statement of income have reclassified to conform to current year presentation. The reclassifications did not have any impact on the statement of changes in equity.

33. SUBSEQUENT EVENTS

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to 30 June 2022) (hereinafter referred as "the Law”) came into force on 26/6/1444 H (corresponding to 19 January 2023). For certain provisions of the Law, full compliance is expected not later than two years from 26/6/1444H (corresponding to 19 January 2023). The management is in process of assessing the impact of the New Companies Law and will amend its By-Laws for any changes to align the Articles to the provisions of the new Law. Consequently, the Company shall present the amended By-Laws to the shareholders in their Extraordinary / Annual General Assembly meeting for their ratification.

Except for the above, there were no subsequent events after the statement of financial position date which require adjustments to/or disclosure in the financial statements.

34. APPROVAL OF THE FINANCIAL STATEMENTS

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