

SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REVIEW REPORT (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2023**

SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS’
REVIEW REPORT (UNAUDITED)**
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2023

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF SALAMA COOPERATIVE INSURANCE COMPANY

INTRODUCTION

We have reviewed the accompanying interim condensed statement of financial position of Salama Cooperative Insurance Company (the "Company") as at 31 March 2023 and the related interim condensed statement of income and comprehensive income for the three-month period then ended, and the interim condensed statements of changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed financial statements"). Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", that is endorsed in the Kingdom of Saudi Arabia. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

**INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS
(CONTINUED)****TO THE SHAREHOLDERS OF SALAMA COOPERATIVE INSURANCE COMPANY****EMPHASIS OF MATTER**

We draw attention to note 3 in the accompanying interim condensed financial statements, which indicates that the Company accumulated losses reached to SR 64.14 million being 64.14% of its capital (31 December 2022: SR 76.78 million being 76.78% of its capital). The solvency of the Company as of 31 March 2023 and 31 December 2022 is below the minimum requirement of the Insurance implementation regulations. Under Article 68(d) of the Implementing regulations for the Insurance Company. As stated in note 3, 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 conclusion is not modified in respect of this matter.

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



Abdullah M. Al Azem
Certified Public Accountant
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For Al-Bassam & Co.



Ahmed A. Mohandis
Certified Public Accountant
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Jeddah: 18 Dhul Hijjah 1444H
Corresponding to: 06 July 2023



SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2023

(All amounts in Saudi Riyals '000 unless otherwise stated)

		As at 31 March 2023 (Unaudited)	As at 31 December 2022 (Restated & Unaudited)	1 January 2022 (Restated & Unaudited)
	Note			
ASSETS				
Reinsurance contract assets	16	80,341	75,029	63,348
Cash and cash equivalents	5	120,196	134,765	124,016
Term deposits	6	208,522	239,043	96,825
Investments	7	122,270	121,922	204,174
Prepaid expenses and other assets	8	42,467	30,009	18,360
Right of use assets – net	11.1	21,367	17,454	18,231
Property and equipment – net	9	4,692	5,154	4,107
Intangible assets – net	10	938	1,021	418
Statutory deposit		37,500	37,500	37,500
Accrued commission income on statutory deposit		5,499	4,913	3,887
TOTAL ASSETS		643,792	666,810	570,866
LIABILITIES				
Insurance contract liabilities	16	465,330	509,009	355,489
Surplus distribution payable		16,413	15,409	15,409
Accrued expenses and other liabilities	12	26,405	20,785	23,950
Lease liabilities	11.2	20,156	18,493	20,335
Employee benefit obligations		6,543	6,716	7,895
Provision for zakat	18	29,942	30,629	27,629
Accrued commission income payable to SAMA		5,499	4,913	3,887
TOTAL LIABILITIES		570,288	605,954	454,594
SHAREHOLDERS' EQUITY				
Share capital	19	100,000	100,000	250,000
Statutory reserve		-	-	5,003
Accumulated losses		(64,135)	(76,783)	(174,089)
Fair value reserve for investments		37,780	37,780	35,110
TOTAL SHAREHOLDERS' EQUITY		73,645	60,997	116,024
Re-measurement reserve of employees benefit obligations - related to insurance operations		(141)	(141)	248
TOTAL EQUITY		73,504	60,856	116,272
TOTAL LIABILITIES AND EQUITY		643,792	666,810	570,866



Chief Financial Officer



Chief Executive Officer



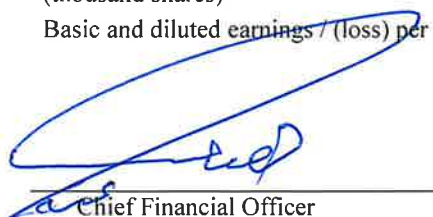
Chairman

The accompanying notes 1 to 25 form an integral part of these interim condensed financial statements.

SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF INCOME (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Three-month period ended 31 March 2023 (Unaudited)	Three-month period ended 31 March 2022 (Unaudited) (Restated)
Notes		
Insurance revenue from contracts	201,776	125,983
Insurance service expense		
Incurred claims and other directly attributable expenses	(259,579)	(168,312)
Insurance acquisition cash flows amortization	(28,347)	(19,465)
Reversals of losses and (loss) on onerous contracts	3,347	(10,844)
Changes that relate to past service - adjustments to the LIC	99,048	80,769
Insurance service expenses total	(185,531)	(117,852)
Expenses / (income) from reinsurance contracts held		
Allocation of reinsurance premiums	(21,761)	(15,325)
Amounts recoverable from reinsurers for incurred claims	17,073	5,043
Net expense from reinsurance contracts held	(4,688)	(10,282)
Insurance service result	11,557	(2,151)
Investment income		
Commission income	-	-
Dividends on investments	-	-
Other investment income	5,552	8,421
Net investment income	5,552	8,421
Finance (expenses) / income from insurance contracts issued	(1,859)	160
Finance income from reinsurance contracts held	537	29
Net insurance finance (expenses) / income	(1,322)	189
Net insurance and investment result	15,787	6,459
Other income	6,022	348
Other operating expenses	(8,504)	(8,794)
(Provision for) / reversal of expected credit losses	(157)	296
Income / (loss) for the period before zakat attributable to the shareholders'	13,148	(1,691)
Zakat	(500)	(1,500)
Net income / (loss) for the period attributable to the shareholders'	12,648	(3,191)
Weighted average number of ordinary shares outstanding (thousand shares)	10,000	10,000
Basic and diluted earnings / (loss) per share (SR/share) – restated	1.26	(0.32)


Chief Financial Officer


Chief Executive Officer


Board Member

The accompanying notes 1 to 25 form an integral part of these interim condensed financial statements.

SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Three-month period ended 31 March 2023 (Unaudited)	Three-month period ended 31 March 2022 (Unaudited) (Restated)
Note		
Net income / (loss) for the period attributable to the shareholders	12,648	(3,191)
<i>Items that will not be reclassified to the interim condensed statement of income in subsequent periods</i>		
Other comprehensive income / (loss)	-	-
Total comprehensive income / (loss) for the period	12,648	(3,191)



Chief Financial Officer

Chief Executive Officer

Board Member

The accompanying notes 1 to 25 form an integral part of these interim condensed financial statements.

SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Notes	Share capital	Statutory reserve	Fair value reserve for investments	Accumulated losses	Re-measurement reserve of employees benefit obligations	Total
2023							
Balance at 1 January 2023 (Restated & Unaudited)		100,000	-	37,780	(76,783)	(141)	60,856
Comprehensive income for the period:							
Net income for the period attributable to the shareholders'		-	-	-	12,648	-	12,648
Other comprehensive income / (loss)		-	-	-	-	-	-
Unrealized changes in fair value of investments measured at FVOCI, net		-	-	-	-	-	-
Total comprehensive income for the period attributable to Shareholders'		-	-	-	12,648	-	12,648
Balance at 31 March 2023 (Unaudited)		100,000	-	37,780	(64,135)	(141)	73,504



Chief Financial Officer



Chief Executive Officer



Board Member

The accompanying notes 1 to 25 form an integral part of these interim condensed financial statements.

SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Notes	Share capital	Statutory reserve	Fair value reserve for investments	Accumulated losses	Re-measurement reserve of employees benefit obligations	Total
Balance at 1 January 2022 (Audited)		250,000	5,003	-	(158,767)	248	96,484
Transition impact IFRS-17	4	-	-	-	(9,185)	-	(9,185)
Transition impact IFRS-09	4	-	-	35,110	(6,137)	-	28,973
Balance at 1 January 2022 (Restated & Unaudited)		250,000	5,003	35,110	(174,089)	248	116,272
Comprehensive loss for the period:							
Net loss for the period attributable to the shareholders'					(3,191)	-	(3,191)
Unrealized changes in fair value of investments measured at FVOCI, net		-	-	-	-	-	-
Total comprehensive loss for the period attributable to Shareholders'		-	-	-	(3,191)	-	(3,191)
Balance at 31 March 2022 (Restated & Unaudited)		250,000	5,003	35,110	(177,280)	248	113,081


Chief Financial Officer


Chief Executive Officer


Board Member

The accompanying notes 1 to 25 form an integral part of these interim condensed financial statements.

SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023
(All amounts in Saudi Riyals '000 unless otherwise stated)

	Three-month period ended 31 March 2023 (Unaudited)	Three-month period ended 31 March 2022 (Unaudited) (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss) for the period before zakat	13,148	(1,691)
Adjustments for non-cash:		
Depreciation and amortization	664	835
Depreciation of right-of-use assets	1,070	1,100
Finance cost on lease liabilities	276	-
Unrealized loss on investment measured at fair value through statement of income	-	26
Realized gain on investment	(424)	(5,897)
Provision for / (reversal of) expected credit losses	157	(296)
Employees benefit obligations	(173)	(1,774)
	14,718	(7,697)
Changes in operating assets and liabilities:		
Insurance contract liabilities	(43,679)	14,161
Reinsurance contract assets	(5,312)	4,210
Prepaid expenses and other assets	(12,458)	(2,766)
Accrued expenses and other liabilities	5,620	5,393
Surplus distribution payable	1,004	-
	(40,107)	13,301
Zakat paid	(1,187)	-
Net cash (used in) / generated from operating activities	(41,294)	13,301
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions in investments	-	(2,852)
Proceeds from sale of investments	76	79,061
Term deposits	30,364	(72,311)
Additions in property and equipment	(119)	(4,311)
Net cash generated from / (used in) investing activities	30,321	(413)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of lease liabilities	(3,596)	(2,868)
Net cash used in financing activities	(3,596)	(2,868)
Net change in cash and cash equivalents	(14,569)	10,020
Cash and cash equivalents, beginning of the period	134,765	124,016
Cash and cash equivalents, end of the period	120,196	134,036


Chief Financial Officer


Chief Executive Officer


Board Member

The accompanying notes 1 to 25 form an integral part of these interim condensed financial statements.

SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023**

(All amounts in Saudi Riyals '000 unless otherwise stated)

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 1428H (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

The interim condensed financial statements of the Company as at and for the three-months period ended 31 March 2023 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”). This is the first set of the Company’s interim condensed financial statements in which IFRS 17 and IFRS 9, that are endorsed in Kingdom of Saudi Arabia have been applied and the resultant changes to the significant judgments, estimates and accounting policies are described in note 3.

The Company’s statement of interim condensed financial position is not presented using a current / non-current classification. However, the following balances would generally be classified as non-current: investments, property and equipment, intangible asset, statutory deposit, accrued income on statutory deposit, provision for end-of-service indemnities, certain engineering related insurance and reinsurance contracts and accrued commission income payable to SAMA. All other financial statement line items would generally be classified as current unless, stated otherwise.

As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for insurance operations and shareholders’ operations and presents the financial information accordingly. Assets, liabilities, revenues and expenses clearly attributable to either activity is recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

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

The interim condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements as of and for the year ended 31 December 2022. The interim condensed financial statements may not be considered indicative of the expected results for the full year. Comparative information was restated due to the adoption of IFRS 17 and IFRS 9. The impact of restatements / reclassifications has been presented in note 4.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023
(All amounts expressed in Saudi Riyals'000 unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

(b) Seasonality of operations

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

(c) Critical accounting judgments, estimates and assumptions

The preparation of interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses, and the accompanying disclosures, and the disclosure of contingent liabilities. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

In preparing these interim condensed financial statements, the significant judgments, estimated and assumptions made by management in applying the Company's accounting policies and the key sources of estimation uncertainty including the risk management policies were the same as those that applied to the annual financial statements as at and for the year ended 31 December 2022 except for points (i) to (vi) below, which changed upon adoption of IFRS 17 and IFRS 9.

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

i) Estimates of future cash flows to fulfil insurance contracts

In estimating future cash flows, the Company incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experiences, updated to reflect current expectations of future events. The estimates of future cash flows reflect the Company's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

The estimates of these future cash flows are based on probability-weighted expected future cash flows. The Company estimates which cash flows are expected and the probability that they will occur as at the measurement date. In making these expectations, the Company uses information about past events, current conditions and forecasts of future conditions. The Company's estimate of future cash flows is the mean of a range of scenarios that reflect the full range of possible outcomes. Each scenario specifies the amount, timing and probability of cash flows. The probability-weighted average of the future cash flows is calculated using a deterministic scenario representing the probability-weighted mean of a range of scenarios.

When estimating future cash flows, the Company considers current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not considered until the change in legislation is substantively enacted.

Where estimates of expenses-related cash flows are determined at the portfolio level or higher, they are allocated to groups of contracts on a systematic basis. The Company has determined that this method results in a systematic and rational allocation. Similar methods are consistently applied to allocate expenses of a similar nature. Expenses of an administrative policy maintenance nature are allocated to groups of contracts on a systematic basis. The Company performs regular expense studies to determine the extent to which fixed and variable overheads are directly attributable to fulfill the insurance contracts as per the requirements of IFRS 17 and guidelines received from local regulator.

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Other costs that are incurred in fulfilling the contracts include claims handling, maintenance and administration costs, and recurring commissions payable on instalment premiums receivable within the contract boundary. Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads. Cash flows are attributed to acquisition activities, other fulfilment activities and other activities at local entity level using activity-based costing techniques. Cash flows attributable to acquisition and other fulfilment activities are allocated to groups of contracts using methods that are systematic and rational and are consistently applied to all costs that have similar characteristics. Other costs are recognised in profit or loss as they are incurred.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023
(All amounts expressed in Saudi Riyals'000 unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

(c) Critical accounting judgments, estimates and assumptions (continued)

i) Estimates of future cash flows to fulfil insurance contracts (continued)

When estimating future cash flows, the Company considers current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not considered until the change in legislation is substantively enacted.

Where estimates of expenses-related cash flows are determined at the portfolio level or higher, they are allocated to groups of contracts on a systematic basis. The Company has determined that this method results in a systematic and rational allocation. Similar methods are consistently applied to allocate expenses of a similar nature. Expenses of an administrative policy maintenance nature are allocated to groups of contracts on a systematic basis. The Company performs regular expense studies to determine the extent to which fixed and variable overheads are directly attributable to fulfill the insurance contracts as per the requirements of IFRS 17 and guidelines received from local regulator.

ii) Discounting methodology

Discount rates are primarily used to adjust the estimates of future cash flows to reflect the time value of money and other financial risks to accrete interest on the liability for incurred claims.

The Company adopts a bottom-up approach. Cash flows are discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts. The Company determines the risk-free rates using EIOPA rates denominated in USD and adjusted for the country risk premium. There rates are adjusted to reflect the liquidity characteristics of the group of insurance contracts. Discount rates range from 3.9% to 6.0% have been used for discounting liability for incurred claims ("LIC"). There is no allowance for the time value of money for liability for remaining coverage ("LRC").

iii) Risk adjustment for non-financial risks

Risk adjustments for non-financial risk are determined to reflect the compensation that the individual issuing entity would require for bearing non-financial risk, and are allocated to groups of contracts based on an analysis of the risk profiles of the groups. Risk adjustments for non-financial risk reflect the diversification benefits from contracts issued by the entity, in a way that is consistent with the compensation that it would require and that reflects its degree of risk aversion, and the effects of the diversification benefits are determined using a correlation matrix technique.

Bootstrapping and Mack's Chain Ladder methods are considered for the estimation of the risk adjustment. To determine the risk adjustments for non-financial risk for reinsurance contracts, the Company applies these techniques both gross and net of reinsurance and derives the amount of risk being transferred to the reinsurer as the difference between the two results.

The confidence level approach is used and the risk adjustment is calculated at the 75th percentile (the target confidence level) where applicable, keeping the level of confidence in a range from 70th to 80th otherwise.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023
(All amounts expressed in Saudi Riyals'000 unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

(c) Critical accounting judgments, estimates and assumptions (continued)

iv) Onerosity determination

For contracts measured using the PAA, the Company shall assume that no contracts in a portfolio of insurance contracts are onerous at initial recognition unless facts and circumstances indicate otherwise.

The Company performs the assessment of onerous contracts based on benchmark prices where available and on a combined ratio approach based on expected claims and expenses with an allowance for directly attributable expenses, on an annual and underwriting year basis, in conjunction with updated information on product profitability. Furthermore, the assessment shall be repeated if "facts and circumstances" indicate that there are significant changes in product pricing, product design, results of similar contracts it has recognized, forecasts or environmental factors.

If at any time before and during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Company recognizes a loss in profit or loss and increases the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. The fulfilment cash flows are discounted at current rates. The methodology and fact and circumstances are reviewed by the established profitability assessment Committee at regular intervals.

v) Impairment of premiums receivable accounted for under IFRS 17

The Company has developed impairment methodology for premiums receivable balances based on provision matrix approach. The premiums receivable balances have been reclassified to insurance contract liabilities in line with the requirements of IFRS 17. To measure the impairment, premiums receivable has been grouped based on shared credit risk characteristics for respective policyholder base portfolio and the days past due. The historical loss rates are adjusted to reflect current and forward- looking information on macroeconomic factors affecting the ability of the customers to settle the receivables (based on IFRS 9 simplified approach). The Company has identified the Gross domestic product and the inflation rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

vi) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2022 except as explained below:

a) New IFRS Standards, IFRIC interpretations and amendments thereof, adopted by the Company:

A number of new or amended standards became applicable for the current reporting period and the Company had to change its accounting policies as a result of adopting the following standards:

- a) IFRS 17 Insurance contracts ("IFRS 17"), and
- b) IFRS 9 Financial Instruments ("IFRS 9").

The new accounting policies related the adoption of these new standards are disclosed below and impact of the adoption is disclosed in note 4.

A number of other amendments became applicable for the current reporting period i.e. for reporting periods beginning on or after 1 January 2023. The Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments which are described below, as they have no material impact on the Company's interim condensed financial statements.

SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023

(All amounts expressed in Saudi Riyals'000 unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) New IFRS Standards, IFRIC interpretations and amendments thereof, adopted by the Company (Continued):

<u>Interpretation</u>	<u>Description</u>
IAS 1	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
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.

Certain new interpretations issued but not yet effective up to the date of issuance of the Company's interim condensed financial statements are listed below. The listing is of interpretations issued, which the Company reasonably expects to be applicable at a future date. Management is in the process of assessing the impact of such new interpretations on its financial statements. The Company intends to adopt these interpretations when they are effective.

<u>Interpretation</u>	<u>Description</u>	<u>Effective from periods beginning on or after the following date</u>
IAS 1	Classification of liabilities as current or non-current and Non-current Liabilities with Covenants (Amendments to IAS 1)	1 January 2024
IFRS 16	Lease liability in a sale and leaseback – Amendments to IFRS 16	1 January 2024
IFRS 10 and IAS 28	Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Available for optional adoption / effective date deferred indefinitely

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023
(All amounts expressed in Saudi Riyals'000 unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) IFRS 17 – Insurance contracts

IFRS 17 replaces IFRS 4 Insurance Contracts and is effective for annual periods beginning on or after 1 January 2023.. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with direct participation features (“DPF”). The Company has applied the full retrospective approach to each group of insurance contracts.

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Cash flows from insurance contracts are split into Liability for Incurred Claims (“LIC”) and Liability for Remaining Coverage (“LRC”).

Unit of account and measurement model

The Company has the following portfolio:

- Property
- Engineering
- Motor standard – corporate
- Motor standard – retail
- Motor third party
- Motor manafeth
- Casualty
- Marine
- Group life and
- Others

The Company does not issue any contracts with direct participating features. Each portfolio is further disaggregated into groups of contracts that are issued within a calendar year (annual cohorts) and are:

- i) contracts that are onerous at initial recognition;
- ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or
- iii) a group of remaining contracts. These groups represent the level of aggregation at which insurance contracts are initially recognised and measured. Such groups are not subsequently reconsidered.

The Company recognises a group of reinsurance contracts held it has entered into from the earlier of the following:

For reinsurance contracts that provide proportionate coverage, at the later of:

- i) the beginning of the coverage period of the group of reinsurance contracts and
- ii) the initial recognition of any underlying contract.

All other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the group of reinsurance contracts;

However, if the Company entered into the reinsurance contract held at or before the date when an onerous group of underlying contracts is recognised prior to the beginning of the coverage period of the group of reinsurance contracts held, the reinsurance contract held, in this case, is recognised at the same time as the group of underlying insurance contracts is recognised.

Only contracts that individually meet the recognition criteria by the end of the reporting period are included in the groups. When contracts meet the recognition criteria in the groups after the reporting date, they are added to the groups in the reporting period in which they meet the recognition criteria, subject to the annual cohort’s restriction. Composition of the groups is not reassessed in subsequent periods.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) IFRS 17 – Insurance Contracts (continued)

Measurement

The general measurement model (GMM), also known as the building block approach, is the default model to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts.

The liability for remaining coverage includes:

- Fulfilment cash flows which are comprised of:
- Discounted estimates of future cash flows.; and
- A risk adjustment which is the compensation required for bearing uncertainty; and
- Contractual service margin which is the unearned profit that is recognized as services are provided.

The premium allocation approach (“PAA”) is a simplified approach for the measurement of the liability for remaining coverage, that an entity may choose to use when the premium allocation approach provides a measurement which is not materially different from that under the general measurement model or if the coverage period of each contract in the group of insurance contracts is one year or less.

The Company uses the PAA to simplify the measurement of groups of contracts on the following bases:

The Company applies the Premium Allocation Approach (PAA) to all the insurance contracts that it issues and reinsurance contracts that it holds, as groups are either composed of contracts with coverage period of one year or less, including coverage arising from all premiums within the contract boundary, or for contracts longer than one year, the Company has modelled possible future scenarios and reasonably expects that the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the GMM model.

Insurance contracts

The coverage period of all group of contracts, except for groups of the acquired contracts in engineering group of contracts is one year or less and are therefore eligible to be measured under the PAA.

The coverage period for term life contracts is one year or less. Once the selected term has ended, the insurance contract is terminated and a policyholder could potentially obtain new coverage on the new terms, subject to successful underwriting. All insurance contracts in this segment offer fixed and guaranteed death benefits over the contractual term.

Testing is completed on both:

- the product level then groups are formed based on the product and the terms of the product, and
- the portfolio level then groups are formed on a portfolio level.

Where the potential deviation is below financial statement materiality, the associated portfolio / product is deemed eligible for the PAA.

The upper bound is derived by simulating the maximum potential difference between PAA and GMM for thousands of combinations of input assumptions (term, volatility, expected claims and expense ratio, acquisition expense ratio, risk adjustment) for contracts. It is derived as follows:

- i) Simulate differences between PAA and GMM for several thousand contracts with various cash-flow assumptions;
- ii) Derive a generic curve of the maximum deviation normalized by GWP for each contract duration and level of reasonable shock applied'
- iii) Apply the curve to the projected distribution of premium by contract duration to derive the portfolio potential deviation.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) IFRS 17 – Insurance Contracts (continued)

Measurement (continued)

Insurance contracts (continued)

The resulting upper-bound curves are then applied to all IFRS 17 portfolios. This effectively ensures that portfolios with a low volume of business but which are likely to be eligible for the PAA are demonstrated to be eligible without requiring a bespoke cashflow projection based on detailed actuarial assumptions and judgement.

For portfolios that have failed the upper-bound PAA eligibility test, a best estimate of the potential deviation between the PAA and the GMM is determined for a hypothetical representative contract. The hypothetical representative contract is identified based on the current contract wording and projected distribution of coverage periods, and is assumed to have GWP equal to the projected GWP of the entire portfolio. Where the potential deviation is below financial statement materiality, the associated portfolio is deemed eligible for the PAA.

Groups of insurance contracts issued are initially recognised from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from the policyholder is due or actually received, if there is no due date; and
- when the Company determines that a group of contracts becomes onerous and facts and circumstances indicate that the group to which an insurance contract will belong is onerous.

The carrying amount of a group of insurance contracts issued at the end of each reporting period is the sum of:

- i) the LRC; and
- ii) the LIC, comprising the fulfilment cash flows (“FCF”) related to past service allocated to the group of contracts at the reporting date.

The carrying amount of a group of reinsurance contracts held at the end of each reporting period is the sum of:

- i) the remaining coverage; and
- ii) the incurred claims, comprising the FCF related to past service allocated to the group of contracts at the reporting date.

For insurance contracts issued, at each of the subsequent reporting dates, the LRC is:

- a) increased for premiums received in the period, excluding amounts that relate to premium receivables included in the LIC;
- b) decreased for insurance acquisition cash flows paid in the period;
- c) decreased for the amounts of expected premium receipts recognised as insurance revenue for the services provided in the period;
- d) increased for the amortisation of insurance acquisition cash flows in the period recognised as insurance service expenses; and
- e) increased for any adjustment to the financing component, where applicable.

For reinsurance contracts held, at each of the subsequent reporting dates, the remaining coverage is:

- a) increased for ceding premiums paid in the period; and
- b) decreased for the expected amounts of ceding premiums recognised as reinsurance expenses for the services received in the period.

The Company estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. Fulfilment cash flows comprise estimates of future cash flows, an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows, and a risk adjustment.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) IFRS 17 – Insurance Contracts (continued)

Measurement (continued)

Insurance contracts (continued)

The Company's objective in estimating future cash flows is to determine the expected value of a range of scenarios that reflects the full range of possible outcomes. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value. If there are significant interdependencies between cash flows that vary based on changes in market variables and other cash flows, then the Company uses stochastic modelling techniques to estimate the expected present value. Stochastic modelling involves projecting future cash flows under a large number of possible economic scenarios for market variables such as interest rates and equity returns. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgement and estimation, which are covered in Note 3.

The fulfilment cash flows are adjusted for the time value of money and the effect of financial risk (using current estimates) if the liability for incurred claims is also adjusted for the time value of money and the effect of financial risk.

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 estimates of claims liability. The allowance is the amount that can reasonably be recovered from the disposal of the asset.

Onerous contract assessment

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Company recognises a loss in insurance service expense and increases the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows, determined under the GMM, that relate to remaining coverage (including the risk adjustment for non-financial risk) exceed the carrying amount of the liability for remaining coverage. A loss component will be established for the amount of the loss recognised. Subsequently, the loss component will be remeasured at each reporting date as the difference between the amounts of the fulfilments cash flows determined under the GMM relating to the future service and the carrying amount of the LRC without the loss component.

Where the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses.

The Company calculates the loss-recovery component by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held. The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

When underlying insurance contracts are included in the same group with insurance contracts issued that are not reinsured, the Company applies a systematic and rational method of allocation to determine the portion of losses that relates to underlying insurance contracts.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) IFRS 17 – Insurance Contracts (continued)

Contract boundary

The Company uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts.

Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or the Company has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation ends when:

i) the Company has the practical ability to reprice the risks of the particular policyholder or change the level of benefits so that the price fully reflects those risks; or

ii) both of the following criteria are satisfied:

-the Company has the practical ability to reprice the contract or a portfolio of contracts so that the price fully reflects the reassessed risk of that portfolio; and

-the pricing of premiums up to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

In assessing the practical ability to reprice, risks transferred from the policyholder to the Company, such as insurance and financial risks, are considered; other risks, such as lapse or surrender and expense risk, are not included.

Cash flows outside the insurance contracts boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

Combination / unbundling of contracts

While identifying a contract in the scope of IFRS 17, the Company has to assess whether embedded derivatives, investment components and goods and services components need to be separated and accounted for under another standard. The Company does not issue any insurance contracts that contain embedded derivatives or distinct investment components. The Company does not underwrite contracts which require to separate the goods and services components.

De-recognition and contract modification

The Company derecognises a contract when it is extinguished i.e. when the specified obligations in the contract expire or are discharged or cancelled. The Company also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the Company treats the changes in cash flows caused by the modification as changes in the estimates of fulfilment cash flows. There were no instances of modification or derecognition identified during the three-month period ended 31 March 2023.

Insurance acquisition costs and directly attributable expenses

Insurance acquisition cash flows are the costs that are directly associated with selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) and that are directly attributable to a portfolio of insurance contracts.

Directly attributable expenses are the costs that can be fully or partially attributed to the fulfillment of the groups of insurance contracts. The Company allocates the attributable costs based on a number of drivers.

Both acquisition and attributable costs fall under the insurance service expense. While the non-attributable costs are reported under other operating expenses. The Company amortises the insurance acquisition costs over the contract period.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) IFRS 17 – Insurance Contracts (continued)

Other operating expenses

Other operating expenses include non-attributable expenses which are administrative expenses and are not linked to insurance contracts.

Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts for providing coverage in the period. The Company allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. The impact of seasonality is not considered material in relation to recording the insurance revenue.

Insurance revenue is adjusted to allow for policyholders' default on future premiums. The default probability is derived from the expected loss model prescribed under IFRS 9.

Insurance service expenses

Insurance service expenses include the following:

- i) incurred claims for the period.
- ii) other incurred directly attributable expenses.
- iii) insurance acquisition cash flows amortization.
- iv) changes that relate to past service – changes in the FCF relating to the LIC.
- v) changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses.

Presentation

Groups of insurance contracts that are assets and those that are liabilities, and groups of reinsurance contracts that are assets and those that are liabilities, are presented separately in the notes to the interim condensed financial statements. The Company recognised in the statement of income (a) an insurance service result, comprising insurance revenue and insurance service expenses, and (b) insurance finance income or expenses.

The Company does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

Net expenses from reinsurance contracts

Net expenses from reinsurance contracts comprise reinsurance expenses less amounts recovered from reinsurers. The Company recognises reinsurance expenses as it receives coverage or other services under groups of reinsurance contracts. For contracts measured under the PAA, the Company recognises reinsurance expenses based on the passage of time over the coverage period of a group of contracts .

Income and expenses from reinsurance contracts are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts, other than insurance finance income or expenses, are presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result.

Ceding commissions that are not contingent on claims of the underlying contracts issued reduce ceding premiums and are accounted for as part of reinsurance expenses. Ceding commissions that are contingent on claims of the underlying contracts issued reduce incurred claims recovery.

Timing for reinsurance revenue is over the period of the policies.

Insurance finance income and expenses

Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance and reinsurance contracts arising from the effects of the time value of money, financial risk, and changes therein.

The Company includes all insurance finance income or expenses for the period in the statement of income.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) IFRS 17 – Insurance Contracts (continued)

Changes to classification, recognition and measurement

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

- Deferral of acquisition costs – Under IFRS 17, insurance acquisition cash flows are costs directly attributable to selling or underwriting a portfolio of insurance contracts. An entity may elect to capitalize and amortize these costs over the coverage period based on the expected timing of incurred insurance service expense of the related group. It is similar to IFRS 4's deferred acquisition costs .
- Discount rate – Under IFRS 17, the liability for incurred claims is discounted at a rate that reflects the characteristics of the liabilities and the duration of each portfolio. The Company has established discount yield curves using risk-free rates adjusted to reflect the appropriate illiquidity characteristics of the applicable insurance contracts. Under IFRS 4, claims liabilities were discounted using a rate that reflected the estimated market yield of the underlying assets backing these claims liabilities at the reporting date. The changes in discounting methodology did not have a significant impact on transition. 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 services are more than 12 months apart.
- Risk Adjustment -Under IFRS 17, the liability for incurred claims includes an explicit risk adjustment for non-financial risk ("risk adjustment") which replaces the risk margin under IFRS 4. The IFRS 4 risk margin reflected the inherent uncertainty in the net discounted claim liabilities estimates, whereas the IFRS 17 risk adjustment is the compensation required for bearing the uncertainty that arises from non-financial risk. Similar to the risk margin, the risk adjustment includes the benefit of diversification, therefore the two methodologies are fairly aligned. As a result, the changes in methodology did not have a significant impact on transition.
- Onerous contracts – IFRS 17 requires the identification of groups of onerous contracts at a more granular level than the liability adequacy test performed under IFRS 4. For onerous contracts, the loss component based on projected profitability is recognized immediately in Net income, resulting in earlier recognition compared to IFRS 4. Onerous contracts did not have a significant impact on transition to IFRS 17.

Accounting policy choices

Length of cohorts

IFRS 17 places an upper limit of 12 months on the length of cohorts so that no group for level of aggregation purposes may contain contracts issued more than one year apart. The Company has elected to use annual cohorts.

Use of OCI for insurance finance income or expense (IFIE)

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effect of the time value of money and changes in the time value of money, and the effect of financial risk and changes in financial risk. In reference to the presentation in statement of income, the Company will present the entire insurance finance income or expenses in profit or loss.

Expense attribution

The process of classification and allocation of expenses is consistent with market practices. All general and administrative expenses and other underwriting expenses are split into other acquisition cash flows (LRC), directly attributable, partially and not directly attributable expenses.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) IFRS 17 – Insurance Contracts (continued)

Accounting policy choices (continued)

Deferral of acquisition cost

In reference to the recognition of acquisition costs, the Company has decided to capitalize and amortize the acquisition cost over the contract period instead of immediately recognizing it as an expense.

Policyholder surplus accounting

The Company does not make any allowance for surplus distribution when determining onerosity. Currently, the amount is determined on a retrospective basis only, allocated to group of contracts based on the Company's defined allocation policy and presented as part of LIC.

Changes to presentation and disclosure

Statement of financial position

Presentation is driven by portfolios which are composed of groups of contracts covering similar risks and which are managed together. Portfolios of insurance and reinsurance contracts are presented separately between:

- 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; and
- Portfolios of reinsurance contracts held that are liabilities.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) IFRS 17 – Insurance Contracts (continued)

Changes to presentation and disclosure (continued)

Line items under IFRS 17	Line items under IFRS 4, now combined under one-line item under IFRS 17
Insurance contract liabilities	<ul style="list-style-type: none"> - Premiums receivable - Deferred policy acquisition costs - Unearned premiums - Outstanding claims - Claims incurred but not reported - Premium deficiency reserve - Due to agents, brokers and third-party administrator - Policyholders payable - Najm, manafeth, SAMA fee within prepaid expenses and other assets - Survey fee, actuarial fee and Elm fee payables, within accrued expenses and other liabilities
Reinsurance contract assets	<ul style="list-style-type: none"> - Reinsurers' share of unearned premiums - Reinsurers' share of outstanding claims - Reinsurers' share of claims incurred but not reported - Minimum Deposit premium (XOL), within prepaid expenses and other assets - XOL reinstatement payable, within accrued expenses and other liabilities - VAT on reinsurance commission - Payable to reinsurers, within due to reinsurers, agents, brokers and third-party administrator - Due from reinsurers - XOL claims recoverable, within Due from reinsurers - Unearned reinsurance commission

Statement of comprehensive income

The line item descriptions in the statement of income have been changed significantly compared to presentation in the latest annual financial statements .

Insurance revenue under IFRS 17 includes gross written premium, gross movement in unearned premiums and expected credit losses on receivables from policy holders.

Insurance service expense under IFRS 17 includes gross claims paid, changes in outstanding claims, changes in incurred but not reported claims, changes in loss component, policy acquisition costs, attributable expenses and the impact of release in the risk adjustment including the time value impact of past services. The changes in premium deficiency reserve is eliminated and instead changes in loss component is taken.

Net income / (expenses) from reinsurance contracts held under IFRS 17 includes reinsurance premium ceded, changes in reinsurer's share of unearned premiums, reinsurance commission earned, reinsurance share of paid claims, reinsurance share of outstanding claims, reinsurance share of changes in claims incurred but not reported, change in reinsurance accrual reserve, expected credit losses on reinsurance receivables and the impact of loss adjustment the risk adjustment for non-financial risk.

Insurance service results are presented without the impact of discount unwinding and changes in discount rates which are shown separately under net insurance financial result .

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) IFRS 17 – Insurance Contracts (continued)

Changes to presentation and disclosure (continued)

Statement of comprehensive income (continued)

IFRS 17 resulted in presentation changes to IFRS 4's underwriting expenses since expenses are classified either as insurance acquisition cash flows and fulfilment cash flows within insurance service expense or as other expenses when they are not directly attributable to insurance contracts. As a result, a portion of expenses classified as underwriting expenses under IFRS 4 are now presented as other expenses under IFRS 17 in the line other operating expenses. The following previously reported line items are no longer disclosed: direct premiums written, net earned premiums, net claims incurred, and underwriting expenses.

The impact of transition to IFRS 17 on retained earnings is given in note 4.

c) 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. For transition to IFRS 9, the Company applied a retrospective approach to be in line with transition option adopted under IFRS 17 while applying the relevant practical expedients under IFRS 9.

Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL).

Financial assets at amortized cost

Debt Instruments:

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by collecting contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) IFRS 9 – Financial Instruments (continued)

Financial assets (continued)

Financial assets at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in Other Comprehensive Income (OCI). Interest income and foreign exchange gains and losses are recognized in the statement of income.

For an equity investment that is not held for trading, the Company may irrecoverably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by- instrument basis on initial recognition.

Financial assets at FVTPL

All other financial assets are classified measured at FVTPL. In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Business model assessment

The Company assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the application of those policies in practice.
- whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets.
- how the performance of the portfolio is evaluated and reported to the Company's management.
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.
- how managers of the business are compensated- e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume, and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

For the purpose of the assessment of whether contractual cash flows are solely payments of principal and interest, principal is the fair value of the financial asset on initial recognition. Interest is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g., liquidity risk and administrative costs), along with profit margin.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) IFRS 9 – Financial Instruments (continued)

Financial assets (continued)

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and

the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- *Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in condensed interim statement of income and presented in other gains/(losses) together with foreign exchange gains and losses.

- *FVOCI:* Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in condensed interim statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to condensed interim statement of income and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- *FVTPL:* Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in the interim condensed interim statement of income and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company classifies all equity investments at FVTPL, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, transaction costs are made part of the cost at initial recognition and subsequent fair value gains and losses (unrealized) are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. The Company has designated its investment in Najm for Insurance Services Company, a Saudi Closed Joint Stock Company, as FVOCI.

Dividends, when representing a return on such investments, continue to be recognized in the statement of income as 'Dividend income' when the Company's right to receive payments is established.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) IFRS 9 – Financial Instruments (continued)

Financial assets (continued)

Impairment

Overview of Expected Credit Loss “ECL” principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss); unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss. Lifetime expected credit losses represent ECL that would result from all possible default events over the expected life of the financial asset whereas 12 month expected credit losses are those life expected credit losses expected to occur within 12 months of balance sheet date. Both lifetime ECLs and 12-month ECLs will be calculated on an individual basis depending on the nature of the underlying portfolio of financial instruments.

The Company recognizes loss allowances for ECL on the following financial instruments that are not measured at fair value:

- Financial assets that are debt instruments
- Deposits and bank balances
- Other receivables balances

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers debt securities to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. The measurement of ECL for other receivables is carried out using the simplified ECL impairment model and is determined by using a matrix which uses historical credit loss experience of the Group.

Staging of financial assets

The Company categorizes its investments portfolio classified as FVTPL, amortized cost and FVOCI into stage 1, stage 2 and stage 3 as described below:

Stage 1 - Performing financial assets for which there has been no significant deterioration in credit quality since initial recognition;

Stage 2 - Underperforming financial assets for which there has been a significant deterioration in credit quality since initial recognition, but which are not credit-impaired; and

Stage 3 - Non-performing financial assets for which there has been a significant deterioration in credit quality since initial recognition and which have become credit-impaired.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) IFRS 9 – Financial Instruments (continued)

Financial assets (continued)

Impairment (continued)

Credit impaired financial asset

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

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event (more than 90 days);
- it is becoming probable that the borrower or issuer will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

In assessing whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Definition of default

In assessing whether an issuer is in default, the Company considers indicators that are:

- qualitative- e.g., breaches of covenant.
- quantitative- e.g., overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

ECL methodology and measurement

ECL is computed based on the parameters namely Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) values. ECL is discounted by an appropriate rate to get the Present Value of ECL.

For the investment portfolio, a generalized approach is used, where assets are classified under 3 different stages based on the SICR criteria: Stage 1, Stage 2, and Stage 3 where 12-month ECL is computed for Stage 1 and lifetime ECL for Stage 2 and Stage 3. For other receivable portfolio, a simplified approach is used, for which staging is not required, based on a lifetime ECL computation.

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) IFRS 9 – Financial Instruments (continued)

Financial assets (continued)

Impairment (continued)

Probability of Default ('PD')

The probability of default is an estimate of the likelihood of default over a given time horizon.

Loss Given Default ('LGD')

Loss given default inputs are determined by class of financial instrument based on historical experience of loss and recovery rates for similar financial instruments and other relevant industry data.

Exposure at Default ('E AD')

The exposure at default is an estimate of the exposure at a future default date.

Forward looking estimate

While estimating the ECL, the Company reviews macro-economic developments occurring in the economy and market it operates in. On a periodic basis, the Company analyzes the relationship between key economic trends with the estimate of PD. The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on reports from economic experts and consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters. The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is not material, hence not recognized.

Derecognition of financial assets

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) IFRS 9 – Financial Instruments (continued)

Financial liabilities

Classification and derecognition of financial liabilities

The Company classifies its financial liabilities, other than financial guarantees if any, as measured at Amortized cost. Amortized cost is calculated by considering any discount or premium and costs that are an integral part of the Effective Interest Rate ("EIR"). A liability is classified at FVTPL if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the statement of income. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Classification and subsequent measurement of financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective profit method.

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the statement of income.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going concern

The accumulated losses of the Company has reached to SR 64.14 million being 64.14% (31 December 2022: SR 76.78 being 76.78%) of its Capital. The Solvency margin of the Company as at 31 March 2023 and 31 December 2022 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 its 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. Further, on 18 May 2023, the Company has received the approval of the Saudi Central Bank (SAMA) to extend the approval previously granted to the Company regarding the capital increase by offering rights issue for a period of three months, from the date of issuance of said approval.

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. On 12 February 2023, the Company has submitted the Capital increase application with the Capital Market Authority ("CMA").

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 interim condensed financial statements continue to be prepared on the going concern basis.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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4. TRANSITIONAL NOTE

EXPLANATION TO TRANSITION TO IFRS 17, IFRS 9 AND OTHER CHANGES

Reconciliation of interim condensed statement of financial position as at 1 January 2022:

1 January 2022	IFRS 17			IFRS 9		Post-adoption of IFRS 17 & IFRS 9
	Pre-adoption of IFRS 17 & IFRS 9	Re- classific ation	Re- measur ement	Re- classifi cation	Re- measurem ent	
Assets						
Reinsurance contract assets	-	58,440	3,226	-	1,682	63,348
Cash and cash equivalents	124,016	-	-	-	-	124,016
Term deposits	97,000	-	-	-	(175)	96,825
Investments	168,453	-	-	794	34,927	204,174
Prepaid expenses and other assets	19,154	-	-	(794)	-	18,360
Right of use assets – net	18,231	-	-	-	-	18,231
Property and equipment – net	4,107	-	-	-	-	4,107
Intangible assets – net	418	-	-	-	-	418
Statutory deposit	37,500	-	-	-	-	37,500
Accrued commission income on statutory deposit	3,887	-	-	-	-	3,887
Premiums and reinsurers’ receivable – net	54,672	(54,672)	-	-	-	-
Reinsurers’ share of unearned premiums	25,555	(25,555)	-	-	-	-
Reinsurers’ share of outstanding claims	19,975	(19,975)	-	-	-	-
Reinsurers’ share of claims incurred but not reported	13,866	(13,866)	-	-	-	-
Deferred policy acquisition costs	27,707	(27,707)	-	-	-	-
Total Assets	614,541	(83,335)	3,226	-	36,434	570,866

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4. TRANSITIONAL NOTE (CONTINUED)

	IFRS 17			IFRS 9		Post-adoption of IFRS 17 & IFRS 9
	Pre-adoption of IFRS 17 & IFRS 9	Re- classification	Re- measur- ement	Re- classific- ation	Re- measure- ment	
1 January 2022						
Liabilities						
Insurance contract liabilities	-	335,617	12,412	-	7,460	355,489
Surplus distribution payable	15,409	-	-	-	-	15,409
Accrued expenses and other liabilities	35,982	(12,032)	-	-	-	23,950
Lease liabilities	20,335	-	-	-	-	20,335
Employee benefits obligations	7,895	-	-	-	-	7,895
Provision for zakat	27,629	-	-	-	-	27,629
Accrued commission income payable to SAMA	3,887	-	-	-	-	3,887
Policyholders claims payable	11,421	(11,421)	-	-	-	-
Reinsurers' balances payable	984	(984)	-	-	-	-
Unearned premiums	228,830	(228,830)	-	-	-	-
Unearned reinsurance commission	4,351	(4,351)	-	-	-	-
Outstanding claims	22,859	(22,859)	-	-	-	-
Claims incurred but not reported	123,883	(123,883)	-	-	-	-
Premium deficiency reserves	6,700	(6,700)	-	-	-	-
Other technical reserves	7,892	(7,892)	-	-	-	-
Total Liabilities	518,057	(83,335)	12,412	-	7,460	454,594
Shareholders' Equity						
Share capital	250,000	-	-	-	-	250,000
Statutory reserve	5,003	-	-	-	-	5,003
Accumulated losses	(158,767)	-	(9,186)	-	(6,136)	(174,089)
Fair value reserve for investments	-	-	-	-	35,110	35,110
Total Shareholders' Equity	96,236	-	(9,186)	-	28,974	116,024
Re-measurement reserve of employees benefit obligations - related to insurance operations	248	-	-	-	-	248
Total Equity	96,484	-	(9,186)	-	28,974	116,272
Total Liabilities and Equity	614,541	(83,335)	3,226	-	36,434	570,866

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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4. TRANSITIONAL NOTE (CONTINUED)

Reconciliation of interim condensed statement of financial position as at 31 December 2022:

31 December 2022	IFRS 17		IFRS 9		Post-adoption of IFRS 17 & IFRS 9
	Pre-adoption of IFRS 17 & IFRS 9	Re-classification	Re-measurement	Re-classification	Re-measurement
Assets					
Reinsurance contract assets	-	70,156	3,174	-	1,699
Cash and cash equivalents	134,765	-	-	-	-
Term deposits	239,076	-	-	-	(33)
Investments	82,678	-	-	1,472	37,772
Prepaid expenses and other assets	31,481	-	-	(1,472)	-
Right of use assets – net	17,454	-	-	-	-
Property and equipment - net	5,154	-	-	-	-
Intangible assets - net	1,021	-	-	-	-
Statutory deposit	37,500	-	-	-	-
Accrued commission on statutory deposit	4,913	-	-	-	-
Premiums and reinsurers' receivable – net	85,342	(85,342)			
Reinsurers' share of unearned premiums	41,878	(41,878)	-	-	-
Reinsurers' share of outstanding claims	28,976	(28,976)			
Reinsurers' share of claims incurred but not reported	13,493	(13,493)			
Deferred policy acquisition costs	42,239	(42,239)			
Total Assets	765,970	(141,772)	3,174	-	39,438
					666,810

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4. TRANSITIONAL NOTE (CONTINUED)

	IFRS 17			IFRS 9		Post-adoption of IFRS 17 & IFRS 9
	Pre-adoption of IFRS 17 & IFRS 9	Re- classification	Re- measure ment	Re- classifi cation	Re- measureme nt	
31 December 2022						
Liabilities						
Insurance contract liabilities	-	489,485	21,148	-	(1,624)	509,009
Surplus distribution payable	15,409	-	-	-	-	15,409
Accrued expenses and other liabilities	42,179	(21,394)	-	-	-	20,785
Lease liabilities	18,493	-	-	-	-	18,493
Employee benefits obligations	6,716	-	-	-	-	6,716
Provision for zakat	30,629	-	-	-	-	30,629
Accrued commission income payable to SAMA	4,913	-	-	-	-	4,913
Policyholders claims payable	7,407	(7,407)	-	-	-	-
Reinsurers' balances payable	13,214	(13,214)	-	-	-	-
Unearned premiums	426,038	(426,038)	-	-	-	-
Unearned reinsurance commission	3,835	(3,835)	-	-	-	-
Outstanding claims	26,987	(26,987)	-	-	-	-
Claims incurred but not reported	121,358	(121,358)	-	-	-	-
Premium deficiency reserves	3,834	(3,834)	-	-	-	-
Other technical reserves	7,190	(7,190)	-	-	-	-
Total Liabilities	728,202	(141,772)	21,148	-	(1,624)	605,954
Shareholders' Equity						
Share capital	100,000	-	-	-	-	100,000
Accumulated losses	(62,091)	-	(17,974)	-	3,282	(76,783)
Fair value reserve for investments	-	-	-	-	37,780	37,780
Total Shareholders' Equity	37,909		(17,974)		41,062	60,997
Re-measurement reserve of employees benefit obligations - related to insurance operations	(141)	-	-	-	-	(141)
Total Equities	37,768		(17,974)	-	41,062	60,856
Total Liabilities and Equities	765,970	(141,772)	3,174	-	39,438	666,810

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4. TRANSITIONAL NOTE (CONTINUED)

Reclassification impact on interim condensed statement of income on adoption of IFRS 17

The line-item descriptions in the interim condensed statement of income have been changed significantly compared with prior year. Previously, the company reported the following line items:

- Gross premium written
- Reinsurance premiums ceded – local
- Reinsurance premiums ceded – international
- Other underwriting income
- Changes in unearned premiums – net
- Gross claims paid
- Reinsurer's share of claims paid
- Changes in outstanding claims
- Changes in claims incurred but not reported
- Changes in premium deficiency reserve
- Changes in claims handling reserves
- Reinsurance share of changes in outstanding claims
- Reinsurance share of changes in claims incurred but not reported
- Policy acquisition costs
- Other underwriting expenses
- Allowance for doubtful receivables
- General and administrative expenses

Instead, IFRS 17 requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Allocation of reinsurance premiums
- Amounts recoverable from reinsurers

Transition impact on net income for the period 31 March 2022

The impact on the net income for the three-month period ended 31 March 2022 attributable to the shareholders, in line with the requirements of IFRS 17 and IFRS 9, is as follows:

	For the three-month period ended 31 March 2022
Net loss attributable to the shareholders, as previously reported	(8,325)
<u><i>Increase / (decrease) in the Company's net income</i></u>	
Loss component (IFRS 17)	(10,425)
Risk adjustment, net (IFRS 17)	6,171
Discounting, net (IFRS 17)	-
Impairment of premiums receivable (IFRS 17)	-
Impairment on financial assets (IFRS 9)	296
Others (IFRS 17)	9,092
Impact of initial application of IFRS 17 and IFRS 9	5,134
Net loss attributable to the shareholders, restated	(3,191)

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4. TRANSITIONAL NOTE (CONTINUED)

Re-classification and Re-measurement impact on the interim condensed statement of financial position on adoption of IFRS 17

Impact on Equity:

(amounts in SAR '000)

**Impact on equity on transition
to IFRS 17 on 1 January 2022**

Drivers of changes in Equity

Changes in measurement of insurance contract liabilities	(12,412)
Changes in measurement of reinsurance contract assets	3,226
Total Impact	(9,186)

Impact on Insurance Contract Liabilities:

**Impact on liabilities on
transition to IFRS 17 on 1
January 2022**

Drivers of changes

Risk adjustment	(6,150)
Discounting	1,504
Loss Component on onerous contracts	(7,504)
Re-measurement adjustments	(262)
Total Impact	(12,412)

Impact on Reinsurance Contract Assets:

**Impact on assets on transition
to IFRS 17 on 1 January 2022**

Drivers of Changes

Risk adjustment	3,449
Re-measurement adjustments	(222)
Discounting	(1)
Total Impact	3,226

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	Insurance operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Cash and bank balances	120,151	134,733
	Shareholders' operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Bank balances	45	32
Total cash and cash equivalents	120,196	134,765

6. 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 March 2023, the deposit carrying commission rates ranges from 0.95% to 4.2% (31 December 2022: from 0.95% to 4.2%).

	Insurance operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Term deposits	208,522	239,043

7. INVESTMENTS

Investments are classified as follows:

	Insurance operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Held as FVSI (7a)	5,049	5,049
Held at amortized cost (7c)	11,820	11,121
<i>Total – Insurance operations</i>	16,869	16,170
	Shareholders' operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Held as FVSI (7a)	15,705	15,706
Held as FVOCI (7b)	39,703	39,703
Held at amortized cost (7c)	49,993	50,343
<i>Total – Shareholders' operations</i>	105,401	105,752
Total	122,270	121,922

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7. INVESTMENTS (CONTINUED)

a) Fair value through statement of income

Movement in fair value through statement of income investment balance is as follows

	Insurance operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Opening balance	5,049	42,600
Purchase during the period / year	-	89,579
Disposals during the period / year	-	(127,059)
	5,049	5,120
Changes in fair value	-	(71)
Closing balance	5,049	5,049

Details of held as fair value through statement of income investment balance is as follows:

	Source of fair value	31 March 2023	31 December 2022
		(Unaudited)	(Unaudited & restated)
Investment in equity securities	Quoted	-	-
Local DPM* money market securities	NAV**	5,049	5,049
		5,049	5,049

	Shareholders' operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Opening balance	15,706	58,947
Purchase during the period / year	-	457
Disposals during the period / year	(1)	(42,597)
	15,705	16,807
Changes in fair value	-	(1,101)
Closing balance	15,705	15,706

Details of held as FVSI investment balance is as follows:

	Source of fair value	31 March 2023	31 December 2022
		(Unaudited)	(Unaudited & restated)
Units in local real estate funds***	NAV**	-	-
Local DPM* money market securities	NAV**	15,705	15,705
Local DPM* equity securities	Quoted	-	1
		15,705	15,706

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7. INVESTMENTS (CONTINUED)

b) Fair value through other comprehensive income

Movement in fair value through other comprehensive income balance is as follows:

	Shareholders' operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Opening balance	39,703	37,033
Change in fair value	-	2,670
Closing balance	39,703	39,703

- (i) Investments at FVOCI represents equity investment of 3.45% holding (31 December 2022: 3.45%) in Najm for Insurance Services Company (Najm), a Saudi Closed Joint Stock Company. Najm shares are un-quoted and are carried at fair value. The Company has determined the fair value of its investment in Najm, which was previously carried at initial cost of SR 1.9 million until 31 December 2022, to be SR 37.03 million at as 1 January 2022 and SR 39.7 million as at 31 December 2022. Accordingly, the required adjustments to bring the carrying value of such investment to its fair value, in accordance with the requirements of IFRS 9, have been recorded in the opening equity as of 1 January 2022 and 31 December 2022.

c) Held at amortized cost

Movement in investment held at amortized cost is as follows:

	Insurance operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Opening balance	11,122	10,444
Reclassification of commission	699	678
	11,821	11,122
Provision for expected credit losses	(1)	(1)
Closing balance	11,820	11,121

	Shareholders' operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Opening balance	50,350	55,333
Maturity during the period / year	(350)	(4,983)
	50,000	50,350
Provision for expected credit losses	(7)	(7)
Closing balance	49,993	50,343

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8. PREPAID EXPENSES AND OTHER ASSETS

	Insurance operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Co-insurance income receivable	19,754	13,732
Advance to suppliers	8,537	7,962
Discount volume incentives receivable	2,495	1,995
Prepayments	3,343	1,247
Advances to staff	2,012	1,693
Deposits	2,286	300
Other receivables	2,616	2,607
	41,043	29,536

	Shareholders' operations	
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Other receivables	1,424	473
	42,467	30,009

9. PROPERTY AND EQUIPMENT – NET

	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Property and equipment – cost	38,978	38,860
Property and equipment – accumulated depreciation	(34,286)	(33,706)
	4,692	5,154

10. INTANGIBLE ASSETS – NET

	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Intangible assets – cost	1,690	1,690
Intangible assets – accumulated amortization	(752)	(669)
	938	1,021

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11. LEASES

	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
11.1 Right of use assets – net		
Opening balance	17,454	18,231
Additions during the period / year	4,983	1,720
Depreciation for the period / year	(1,070)	(1,756)
Terminations	-	(741)
Closing balance	21,367	17,454
	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
11.2 Lease liabilities		
Opening balance	18,493	20,335
Additions during the period / year	4,983	1,720
Finance costs during the period / year	276	2,128
Payments during the period / year	(3,596)	(5,035)
Terminations	-	(655)
Closing balance	20,156	18,493

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
Suppliers and other creditors	13,757	14,921
Payable to government entities	11,877	2,770
Accrued expenses	542	397
Other payables	229	2,697
	26,405	20,785

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13. COMMITMENTS AND CONTINGENCIES

The Company's commitments and contingencies are as follows:

	31 March 2023	31 December 2022
	(Unaudited)	(Unaudited & restated)
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

- a) 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 (2022: SR 0.7 million) in respect of motor insurance and to Zakat, Tax and Customs Authority amounting to SR 9.5 million (2022: 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.

14. 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 advantageous 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.

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14. 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, 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	Fair value			
	Level 1	Level 2	Level 3	Total
	SR'000			
31 March 2023 (Unaudited)				
Financial assets measured at fair value				
- Investments held as FVSI	-	-	5,049	5,049
	-	-	5,049	5,049
31 December 2022 (Unaudited & Restated)				
Financial assets measured at fair value				
- Investments held as FVSI	-	-	5,049	5,049
	-	-	5,049	5,049
Shareholders' Operations				
	Fair value			
	Level 1	Level 2	Level 3	Total
	SR'000			
31 March 2023 (Unaudited)				
Financial assets measured at fair value				
- Investments held as FVSI	-	-	15,705	15,705
- Investments held as FVOCI	-	-	39,703	39,703
	-	-	55,408	55,408
31 December 2022 (Unaudited & Restated)				
Financial assets measured at fair value				
- Investments held as FVSI	1	-	15,705	15,706
- Investments held as FVOCI	-	-	39,703	39,703
	1	-	55,408	55,409

Significant unobservable inputs used in the valuation of level 3 investment include fair value estimates from reputable third party valuer who use technique such as discounted cash flows and other sophisticated models.

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15. 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 chief executive officer 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 chief executive officer is measured in a manner consistent with that in the income statement. Segment assets and liabilities comprise operating assets and liabilities.

Segment assets do not include cash and cash equivalents, short term deposits, long term deposits, due from shareholders' operations, investments except unit linked investments, accrued commission income, prepaid expenses & other assets, property and equipment and intangible assets. Accordingly, these are included in unallocated assets.

Segment liabilities do not include accrued and other liabilities, due to shareholders' operations, end-of-service indemnities and accrual loss thereon, and insurance operations' surplus. Accordingly, these 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.

Segments do not include shareholders' assets and liabilities and equity hence, these are presented under unallocated assets / liabilities accordingly.

The segment information provided to the Company's chief executive officer for the reportable segments for the Company's total assets and liabilities as at 31 March 2023 and 31 December 2022, its total revenues, expenses, and net income for the year then ended, are as follows:

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15. OPERATING SEGMENTS (CONTINUED)

Financial Position

An analysis of the amounts presented on the balance sheet for insurance contracts and reinsurance contracts has been included in the table below:

	Medical	Motor	Others	Total
As at 31 March 2023 (Unaudited)				
Assets				
Reinsurance contract assets	(96)	38,845	41,592	80,341
Unallocated assets	-	-	-	563,451
Total Assets	(96)	38,845	41,592	643,792
Liabilities and Equity				
Insurance contract liabilities	63,135	347,759	54,436	465,330
Unallocated liabilities and shareholders' equity	-	-	-	178,462
Total Liabilities and shareholders' equity	63,135	347,759	54,436	643,792
	Medical	Motor	Others	Total
As at 31 December 2022 (Unaudited)				
Assets				
Reinsurance contract assets	4,587	30,666	39,776	75,029
Unallocated assets	-	-	-	591,781
Total Assets	4,587	30,666	39,776	666,810
Liabilities and Equity				
Insurance contract liabilities	61,459	402,888	44,662	509,009
Unallocated liabilities and shareholders' equity	-	-	-	157,801
Total Liabilities and shareholders' equity	61,459	402,888	44,662	666,810

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15. OPERATING SEGMENTS (CONTINUED)

Segmental profit and loss

	For the three- month period ended 31 March 2023			
	(Unaudited)			
	(Restated)			
	Medical	Motor	Others	Total
Insurance revenue from contracts	35,073	159,203	7,500	201,776
Insurance service expenses				
Incurred claims and other directly attributable expenses*	(31,229)	(225,930)	(2,420)	(259,579)
Insurance acquisition cash flows amortization	(8,793)	(17,853)	(1,701)	(28,347)
Reversals of losses and (loss) on onerous contracts	144	3,203	-	3,347
Changes that relate to past service - adjustments to the LIC	15,503	87,486	(3,941)	99,048
Insurance service expenses total	(24,375)	(153,094)	(8,062)	(185,531)
Expenses / (income) from reinsurance contracts held				
Allocation of reinsurance premiums	(2,378)	(16,079)	(3,304)	(21,761)
Amounts recoverable from reinsurance for incurred claims	(2,084)	16,434	2,723	17,073
Net expenses / (income) from reinsurance contracts held	(4,462)	355	(581)	(4,688)
Insurance service result	6,236	6,464	(1,143)	11,557
Investment income				
Other investment income – unallocated	-	-	-	5,552
Net investment income	-	-	-	5,552
Finance expenses from insurance contracts issued	(201)	(1,197)	(461)	(1,859)
Finance income from reinsurance contracts held	22	133	382	537
Net insurance finance expenses	(179)	(1,064)	(79)	(1,322)
Net insurance and investment result	6,057	5,400	(1,222)	15,787
Other income				6,022
Other operating expenses				(8,504)
Provision for expected credit losses				(157)
Income for the period before zakat attributable to the shareholders'				13,148
Zakat				(500)
Net income for the period attributable to the shareholders'				12,648

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15. OPERATING SEGMENTS (CONTINUED)

Segmental profit and loss (continued)

	For the three- month period ended 31 March 2022			
	(Unaudited) (Restated)			
	Medical	Motor	Others	Total
Insurance revenue from contracts	21,688	96,663	7,632	125,983
Insurance service expenses				
Incurred claims and other directly attributable expenses*	(33,909)	(131,874)	(2,529)	(168,312)
Insurance acquisition cash flows amortization	(4,422)	(13,540)	(1,503)	(19,465)
Reversals of losses and (loss) on onerous contracts	(151)	(11,875)	1,182	(10,844)
Changes that relate to past service - adjustments to the LIC	17,927	39,052	23,790	80,769
Insurance service expenses total	(20,555)	(118,237)	20,940	(117,852)
Expenses / (income) from reinsurance contracts held				
Allocation of reinsurance premiums	(575)	(11,004)	(3,746)	(15,325)
Amounts recoverable from reinsurance	2,775	13,426	(11,158)	5,043
Net expenses / (income) from reinsurance contracts held	2,200	2,422	(14,904)	(10,282)
Insurance service result	3,333	(19,152)	13,668	(2,151)
Investment income				
Other investment income – unallocated	-	-	-	8,421
Net investment income	-	-	-	8,421
Finance expenses from insurance contracts issued	11	16	133	160
Finance (income) / expenses from reinsurance contracts held	(1)	(5)	35	29
Net insurance finance expenses	10	11	168	189
Net insurance and investment result	3,343	(19,141)	13,836	6,459
Other income				348
Other operating expenses				(8,794)
Reversal of expected credit losses				296
Loss for the period before zakat attributable to the shareholders'				(1,691)
Zakat				(1,500)
Net loss for the period attributable to the shareholders				(3,191)

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16. INSURANCE AND REINSURANCE CONTRACTS

16.1 Insurance contracts

As at 31 March 2023 (Unaudited)

	Liability for remaining coverage (LRC)		Liability for incurred claims (LIC)		Total
	Excluding loss component	Loss component	Estimates of present value of FCF	Risk adjustment for non-financial risk	
<u>Insurance contracts</u>					
Insurance contracts liabilities – opening	347,074	21,624	134,409	5,902	509,009
Insurance contracts assets – closing	-	-	-	-	-
Opening balance – net (Unaudited)	347,074	21,624	134,409	5,902	509,009
<u>Insurance revenue</u>	201,776	-	-	-	201,776
<u>Insurance service expenses</u>					
Incurred claims and other expenses	-	-	(259,331)	(248)	(259,579)
Insurance acquisition cash flows amortization	(28,347)	-	-	-	(28,347)
Losses and reversals of losses on onerous contracts	-	3,347	-	-	3,347
Changes that relate to past service - adjustments to the LIC	-	-	97,989	1,061	99,050
Insurance service expenses	(28,347)	3,347	(161,342)	813	(185,529)
Finance expense from insurance contracts	-	-	(1,776)	(83)	(1,859)
Total changes in the statement of income	173,429	3,347	(163,118)	730	14,388
Transfer from LRC to LIC	(25,981)	-	25,981	-	-
<u>Cash flows</u>					
Premium received	(165,668)	-	-	-	(165,668)
Claims paid	-	-	168,274	-	168,274
Insurance acquisition cash flows	18,721	-	7,964	-	26,685
Total cash (outflows) / inflows	(146,947)	-	176,238	-	29,291
Insurance contracts liabilities - closing	294,611	18,277	147,270	5,172	465,330
Insurance contracts assets – closing	-	-	-	-	-
Closing balance – net (Unaudited)	294,611	18,277	147,270	5,172	465,330

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16. INSURANCE AND REINSURANCE CONTRACTS (CONTINUED)

16.1 Insurance contracts (continued)

As at 31 December 2022 (Unaudited)

	Liability for remaining coverage (LRC)		Liability for incurred claims (LIC)		Total
	Excluding loss component	Loss component	Estimates of present value of FCF	Risk adjustment for non-financial risk	
<u>Insurance contracts</u>					
Insurance contracts liabilities – opening	170,321	14,985	164,033	6,150	355,489
Insurance contracts assets – closing	-	-	-	-	-
Opening balance – net (Unaudited)	170,321	14,985	164,033	6,150	355,489
<u>Insurance revenue</u>	589,261	-	-	-	589,261
<u>Insurance service expenses</u>					
Incurred claims and other expenses	-	-	(673,031)	(2,757)	(675,788)
Insurance acquisition cash flows amortization	(98,144)	-	-	-	(98,144)
Losses and reversals of losses on onerous contracts	-	(6,639)	-	-	(6,639)
Changes that relate to past service - adjustments to the LIC	-	-	137,433	3,089	140,522
Insurance service expenses	(98,144)	(6,639)	(535,598)	332	(640,049)
Finance expense from insurance contracts	-	-	758	(84)	674
Total changes in the statement of income	491,117	(6,639)	(534,840)	248	(50,114)
Transfer from LRC to LIC	25,989	-	(25,989)	-	-
<u>Cash flows</u>					
Premium received	(748,724)	-	-	-	(748,724)
Claims paid	-	-	500,414	-	500,414
Insurance acquisition cash flows	106,843	-	38,061	-	144,904
Total cash (outflows) / inflows	(641,881)	-	538,475	-	(103,406)
Insurance contracts liabilities - closing	347,074	21,624	134,409	5,902	509,009
Insurance contracts assets – closing	-	-	-	-	-
<u>Closing balance – net (Unaudited)</u>	<u>347,074</u>	<u>21,624</u>	<u>134,409</u>	<u>5,902</u>	<u>509,009</u>

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16. INSURANCE AND REINSURANCE CONTRACTS (CONTINUED)

16.2 Reinsurance contracts assets

	As at 31 March 2023 (Unaudited)				
	Assets for remaining coverage		Assets for incurred claims		Total
	Excluding loss component	Loss component	Estimates of present value of FCF	Risk adjustment for non-financial risk	
<u>Reinsurance contracts</u>					
Reinsurance contracts assets– opening	28,335	2,125	42,657	1,912	75,029
Insurance contracts liabilities – closing	-	-	-	-	-
Opening balance – net (Unaudited)	28,335	2,125	42,657	1,912	75,029
Allocation of reinsurance premium	(21,761)	-	-	-	(21,761)
<u>Amounts recoverable from reinsurance</u>					
Recoveries of incurred claims and other insurance service expenses	-	-	31,391	42	31,433
Recoveries and reversals of recoveries of losses on onerous underlying contracts	-	(320)	-	-	(320)
Changes that relate to past service - adjustments to the LIC	-	-	(14,074)	34	(14,040)
Amount recoverable from reinsurance – net	-	(320)	17,317	76	17,073
Finance income from reinsurance contracts – net	-	-	508	30	538
Total changes in the statement of income	(21,761)	(320)	17,825	106	(4,150)
Transfer from ARC to AIC	(1,130)	-	1,130	-	-
<u>Cash flows</u>					
Premiums ceded and acquisition cash flows paid	24,305	-	-	-	24,305
Fixed commission received	(1,940)	-	-	-	(1,940)
Recoveries from reinsurance	-	-	(12,903)	-	(12,903)
Total cash inflows / (outflows)	22,365	-	(12,903)	-	9,462
Reinsurance contracts assets- closing	27,809	1,805	48,709	2,018	80,341
Insurance contracts liabilities – closing	-	-	-	-	-
<u>Closing balance – net (Unaudited)</u>	27,809	1,805	48,709	2,018	80,341

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16. INSURANCE AND REINSURANCE CONTRACTS (CONTINUED)

16.2 Reinsurance contracts assets (continued)

As at 31 December 2022 (Unaudited)

	Assets for remaining coverage		Assets for incurred claims		Total
	Excluding loss component	Loss component	Estimates of present value of FCF	Risk adjustment for non-financial risk	
<u>Reinsurance contracts</u>					
Reinsurance contracts assets– opening	20,220	1,569	39,679	1,880	63,348
Insurance contracts liabilities – closing	-	-	-	-	-
Opening balance – net (Unaudited)	20,220	1,569	39,679	1,880	63,348
Allocation of reinsurance premium	(65,788)	-	-	-	(65,788)
<u>Amounts recoverable from reinsurance</u>					
Recoveries of incurred claims and other insurance service expenses	-	-	78,803	531	79,334
Recoveries and reversals of recoveries of losses on onerous underlying contracts	-	556	-	-	556
Changes that relate to past service - adjustments to the LIC	-	-	(20,663)	(524)	(21,187)
Amount recoverable from reinsurance – net	-	556	58,140	7	58,703
Finance income from reinsurance contracts – net	-	-	(332)	25	(307)
Total changes in the statement of income	(65,788)	556	57,808	32	(7,392)
Transfer from ARC to AIC	1,806	-	(1,806)	-	-
<u>Cash flows</u>					
Premiums ceded and acquisition cash flows paid	79,601	-	-	-	79,601
Fixed commission received	(7,504)	-	-	-	(7,504)
Recoveries from reinsurance	-	-	(53,024)	-	(53,024)
Total cash inflows / (outflows)	72,097	-	(53,024)	-	19,073
Reinsurance contracts assets- closing	28,335	2,125	42,657	1,912	75,029
Insurance contracts liabilities – closing	-	-	-	-	-
Closing balance – net (Unaudited)	28,335	2,125	42,657	1,912	75,029

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (CONTINUED)**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2023**

(All amounts in Saudi Riyals '000 unless otherwise stated)

17. RELATED PARTY TRANSACTIONS AND BALANCES**a. 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 three-month period ended	
		31 March 2023	31 March 2022
		SR'000	
<u>Major shareholder</u>			
Salama IAIC – UAE*	Payment received on behalf	-	-
<u>Entities controlled, jointly controlled or significantly influenced by member of board of directors</u>			
Al Mamoon Insurance Brokers	Commissions incurred	69	-
Ittihad Insurance Brokers	Commissions incurred	39	-

* No transactions are disclosed for the comparative period as these are from the date of appointment of related directors i.e. 11 September 2022.

b. Related Parties Balances

	31 March 2023	31 December 2022
(Payable) / receivable to the related parties	(Unaudited)	(Unaudited & restated)
Al Mamoon Insurance Brokers	(904)	(884)
Ittihad Insurance Brokers	(53)	(36)
	(957)	(920)

As at 31 March 2023, 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 period

	31 March 2023	31 March 2022
	(Unaudited)	(Unaudited)
Salaries and other allowances	1,098	1,139
End of service indemnities	56	911
	1,154	2,050
Remuneration and those charged with governance – Board of Directors	24	56
Remuneration and those charged with governance – Board Committees	45	39

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18. ZAKAT**a. Charge for the period / year**

The differences between the financial and the Zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

Movements in provision during the period / year	31 March 2023 (Unaudited)	31 December 2022 (Unaudited & restated)
Balance at the beginning of the period / year	30,629	27,629
Charge for the period / year	500	3,000
Paid during the period / year	(1,187)	-
Balance at the end of the period / year	29,942	30,629

b. Status of zakat assessments

The Company submitted the Zakat declarations for the year ended 31 December 2022 and obtained the necessary Zakat 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.

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19. 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 March 2023 and 31 December 2022 is SR 100 million divided into 10 million ordinary shares of SR 10 each.

20. 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.

21. GROSS WRITTEN PREMIUM**For the three- month period ended 31 March 2023**

(Unaudited)

Breakdown of GWP

	Medical	Motor	Others	Total
Individual	-	106,720	900	107,620
Large	5,155	1,067	3,745	9,967
Medium	1,840	4,838	2,792	9,470
Small	2,414	6,062	1,613	10,089
Very small	27,728	458	516	28,702
Total	37,137	119,145	9,566	165,848

For the three- month period ended 31 March 2022

(Unaudited)

Breakdown of GWP

	Medical	Motor	Others	Total
Individual	-	101,361	1,358	102,719
Large	4,090	1,353	3,673	9,116
Medium	1,195	2,111	1,698	5,004
Small	2,785	3,384	1,652	7,821
Very small	21,867	250	273	22,390
Total	29,937	108,459	8,654	147,050

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22. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share from shareholders' income / (loss) is calculated by dividing net income / (loss) for the period by weighted average number of ordinary shares outstanding during the period.

23. SUBSEQUENT EVENTS

Except for subsequent event mentioned elsewhere in these interim condensed financial statements, there are no other significant subsequent event occurred between 31 March 2023 and the date of approval of these interim condensed financial statements, which may have material impact on these interim condensed financial statements.

24. COMPARATIVE FIGURES RECLASSIFICATIONS

Certain comparative figures for the current period / year 2022 have been reclassified, due to the reason mentioned in note 1, to conform with the presentation in the current year.

25. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements have been approved by the Board of Directors on 21 June 2023, corresponding to 03 Dhul Hijjah 1444H.