

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

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PKF

Ibrahim Ahmed Al-Bassam & Co.
Certified Public Accountants
(Member of PKF International)



KPMG Professional Services

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Chubb Arabia Cooperative Insurance Company

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAAs) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), that is endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Chubb Arabia Cooperative Insurance Company

Key Audit Matter (continued)

Key audit matter	How the matter was addressed in our audit
<p><u>Valuation of ultimate claim liability arising from insurance contracts:</u></p> <p>As at 31 December 2022, the gross outstanding claims including claims Incurred but Not Reported (IBNR) and other technical reserves amounted to SR 213.8 million (2021: SR 132.7 million) as reported in Note 9 of the financial statements.</p> <p>The valuation of ultimate insurance contract liabilities is the key judgmental area for management given the level of subjectivity inherent in estimating the impact of claim events that have occurred for which the ultimate outcome remains uncertain.</p> <p>The Company uses a range of actuarial methodologies to estimate these claims. This requires significant judgments relating to factors and assumptions such as inflation, claims development pattern and regulatory requirements.</p> <p>Due to significance of amount involved and the exercise of significant judgment by management in the process for determination of ultimate insurance contract liabilities, we have determined it to be a key audit matter.</p> <p><i>Refer to note 2 (e)(i) which disclosed the key estimates and assumptions in relation to ultimate liability arising from claims under insurance contracts and note 3 which discloses accounting policies for claims.</i></p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> • We assessed the design and implementation and tested the operating effectiveness of key controls over management's processes for claims processing and payment, including controls over the completeness and accuracy of the claim estimates recorded; • On a sample basis, we tested the measurement of claims reserves on a case-by-case basis by comparing the outstanding claims to source documentation; • We evaluated the competence, capabilities and objectivity of the management's expert based in their professional qualifications and experiences and assessed their independence; • We engaged our internal expert to assess the methodologies and assumptions used by the management in determining the reserves for incurred but not reported claims. We have also reviewed the actuarial reserve report issued by the independent actuary; • We evaluated the completeness and accuracy of data used by management in their calculation of ultimate insurance contract liabilities and evaluated the results of liability adequacy test;

INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders
Chubb Arabia Cooperative Insurance Company

Other Information

Management is responsible for the other information. The other information comprises the information included in the Company's annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs that are endorsed in Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and Regulations for Companies and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

**PKF**

Ibrahim Ahmed Al-Bassam & Co.
Certified Public Accountants
(Member of PKF International)



KPMG Professional Services

INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders
Chubb Arabia Cooperative Insurance Company

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of managements use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

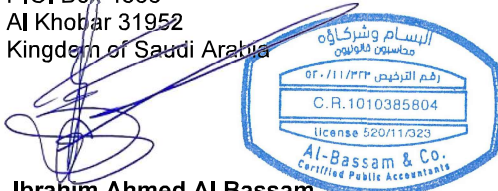
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Al-Bassam & Co.

P.O. Box 4636
Al Khobar 31952
Kingdom of Saudi Arabia



Ibrahim Ahmed Al Bassam
Certified Public Accountant
Licence No. 337

KPMG Professional Services

P.O. Box 4803
Al Khobar 31952
Kingdom of Saudi Arabia



Abdulaziz Abdullah Alnaim
Certified Public Accountant
Licence No. 394

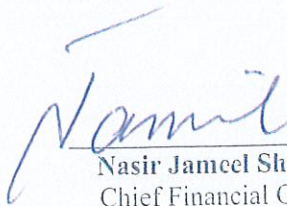
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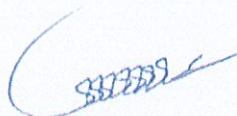
CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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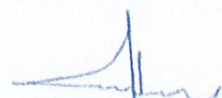
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

(All amounts expressed in Saudi Riyals unless otherwise stated)

	Notes	2022	2021
<u>ASSETS</u>			
Cash and cash equivalents	5	24,919,814	186,043,885
Premiums and reinsurance balances receivable – net	8	143,764,682	151,583,164
Reinsurers' share of unearned premiums	9.2	98,727,855	102,701,355
Reinsurers' share of outstanding claims	9.1	118,827,786	48,128,358
Reinsurers' share of claims incurred but not reported	9.1	50,198,832	48,309,514
Deferred policy acquisition costs	9.3	7,439,545	6,429,477
Investments held for trading	7a	94,229,911	102,150,678
Investments available for sale	7a	1,932,078	1,932,078
Prepaid expenses and other assets	11	27,227,396	23,397,934
Term deposits	6	243,331,053	57,236,755
Property and equipment	13	2,704,838	2,323,765
Intangible asset	12	4,407,414	2,798,598
Goodwill	15	43,774,750	43,774,750
Statutory deposit	14	30,000,000	30,000,000
Accrued income on statutory deposit	14	2,862,640	2,406,669
TOTAL ASSETS		894,348,594	809,216,980


Nasir Jameel Sheikh
Chief Financial Officer


Abdulaziz Elkhareiji
Chief Executive Officer

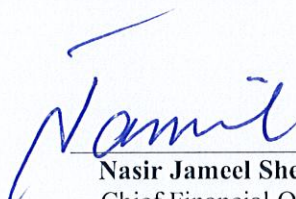

Eng. Nabil Yosuf Jokhdar
Chairman

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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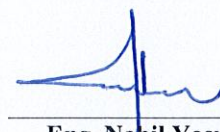
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2022

(All amounts expressed in Saudi Riyals unless otherwise stated)

	Notes	2022	2021
<u>LIABILITIES</u>			
Accounts payable		34,881,824	41,043,098
Accrued and other liabilities	18	12,669,597	12,751,559
Surplus distribution payable	19	2,024,445	2,180,026
Reinsurers' balances payable	17	93,622,626	85,044,497
Unearned premiums	9.2	137,670,475	137,001,880
Unearned reinsurance commission	16	8,266,618	9,130,990
Outstanding claims	9.1	139,465,009	60,486,403
Claims incurred but not reported	9.1	63,499,431	64,178,785
Additional premium reserves	9.1	4,069,544	2,824,722
Other technical reserves	9.1	6,795,630	5,193,211
End-of-service indemnities	20	11,782,946	10,968,262
Zakat and income tax	24	15,550,754	19,305,244
Accrued commission income payable to SAMA	14	2,862,640	2,406,669
TOTAL LIABILITIES		533,161,539	452,515,346
TOTAL EQUITY			
Share capital	25	300,000,000	300,000,000
Statutory reserve	26	40,867,123	39,927,701
Retained earnings		23,694,501	19,936,815
Re-measurement reserve on end-of-service indemnities		(3,374,569)	(3,162,882)
TOTAL EQUITY		361,187,055	356,701,634
TOTAL LIABILITIES AND EQUITY		894,348,594	809,216,980
COMMITMENTS AND CONTINGENCIES	29	-	-


Nasir Jameel Sheikh
Chief Financial Officer


Abdulaziz Elkhoreiji
Chief Executive Officer

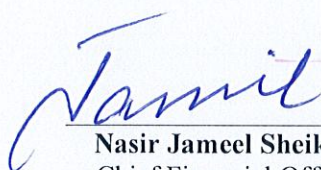

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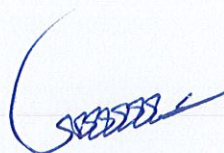
STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts expressed in Saudi Riyals unless otherwise stated)

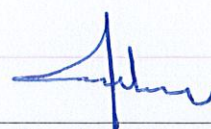
	Notes	2022	2021
REVENUES			
Gross premiums written	9.2, 28	303,677,133	290,581,787
Less: Reinsurance premiums ceded			
Local		(10,819,361)	(8,927,983)
Foreign		(182,797,773)	(173,056,337)
Excess of loss expenses		(7,318,019)	(5,610,667)
Net premiums written		102,741,980	102,986,800
Changes in unearned premiums		(668,595)	(6,167,913)
Changes in reinsurers' share of unearned premiums		(3,973,500)	2,637,415
Net premiums earned		98,099,885	99,456,302
Reinsurance commission income	16	28,113,128	25,818,077
NET REVENUES		126,213,013	125,274,379
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid		(55,701,885)	(88,676,479)
Expenses incurred related to claims		(1,642,276)	(1,859,719)
Reinsurers' share of gross claims paid		16,664,487	44,409,144
Net claims and other benefits paid		(40,679,674)	(46,127,054)
Changes in outstanding claims		(78,978,606)	(9,190,437)
Changes in reinsurers' share of outstanding claims		70,699,428	6,269,667
Changes in claims incurred but not reported		679,354	(22,304,348)
Changes in reinsurers' share of claims incurred but not reported		1,889,318	18,584,940
Net claims and other benefits incurred		(46,390,180)	(52,767,232)
Additional premium reserves		(1,244,822)	2,804,396
Other technical reserves		(1,602,419)	(1,310,672)
Policy acquisition costs	9.3	(19,796,937)	(16,518,956)
Other underwriting expenses		(7,077,549)	(5,243,518)
TOTAL UNDERWRITING COSTS AND EXPENSES		(76,111,907)	(73,035,982)
NET UNDERWRITING INCOME		50,101,106	52,238,397



Nasir Jameel Sheikh
Chief Financial Officer



Abdulaziz Elkhoreiji
Chief Executive Officer



Eng. Nabil Yosuf Jokhdar
Chairman

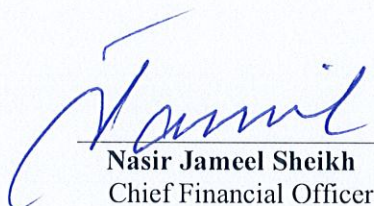
The accompanying notes 1 to 37 form an integral part of these financial statements.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

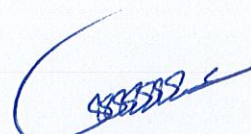
STATEMENT OF INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts expressed in Saudi Riyals unless otherwise stated)

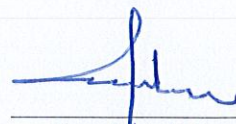
	Notes	2022	2021
OTHER (EXPENSES) / INCOME			
Reversal for impairment of doubtful debts	8	222,614	789,398
General and administrative expenses	22	(49,947,800)	(42,572,755)
Dividend	23	580,708	656,550
Interest and commission income	23	7,840,347	5,135,516
Realised (losses) / gains on disposal of investments held for trading	7	(100,833)	7,099
Unrealised losses on investments held for trading	7	(6,019,215)	(1,865,714)
Other income, net	11.1	10,719,130	928,503
TOTAL OTHER EXPENSES		(36,705,049)	(36,921,403)
Income before surplus, zakat and income tax		13,396,057	15,316,994
Income attributed to insurance operations		(1,544,486)	(1,781,366)
Income attributed to the shareholders before zakat and income tax		11,851,571	13,535,628
Zakat charge	24	(6,220,520)	(5,638,068)
Income tax charge	24	(933,943)	(735,297)
Net income attributed to shareholders		4,697,108	7,162,263
Earnings per share (expressed in SAR per share)			
Basic and diluted earnings per share	27	0.16	0.24
Weighted average number of outstanding shares	25	30,000,000	30,000,000



Nasir Jameel Sheikh
Chief Financial Officer



Abdulaziz Elkhareiji
Chief Executive Officer



Eng. Nabil Yosuf Jokhdar
Chairman

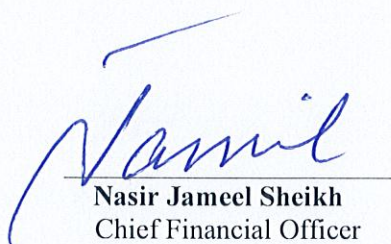
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CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

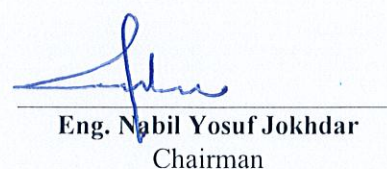
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts expressed in Saudi Riyals unless otherwise stated)

	Notes	2022	2021
Total income for the year		6,241,594	8,943,629
Other comprehensive income			
<i>Items that will not be reclassified subsequently to statement of income</i>			
Actuarial losses on end-of-service indemnities	20	(211,687)	(578,933)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,029,907	8,364,696
Net comprehensive income attributed to the insurance operations		(1,332,799)	(1,202,433)
Net comprehensive income attributable to the shareholders		4,697,108	7,162,263


Nasir Jameel Sheikh
Chief Financial Officer


Abdulaziz Elkhareiji
Chief Executive Officer


Eng. Nabil Yosuf Jokhdar
Chairman

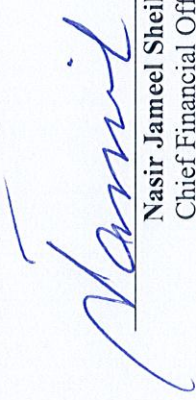
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CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
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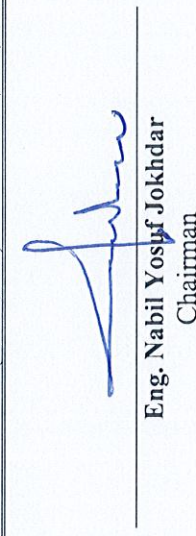
**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts expressed in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Re-measurement reserve on end-of-service indemnities	Total equity
Balance at 1 January 2022	300,000,000	39,927,701	19,936,815	(3,162,882)	356,701,634
Total comprehensive income for the year	-	-	4,697,108	-	4,697,108
Net income for the year attributable to shareholders	-	-	-	(211,687)	(211,687)
Actuarial losses on end of service indemnities	-	-	-	(211,687)	(211,687)
Total comprehensive income for the year	-	-	4,697,108	(211,687)	4,485,421
Transfer to statutory reserve	-	939,422	(939,422)	-	-
Balance at 31 December 2022	300,000,000	40,867,123	23,694,501	(3,374,569)	361,187,055
Balance at 1 January 2021	200,000,000	38,495,248	114,207,005	(2,583,949)	350,118,304
Total comprehensive income for the year	-	-	7,162,263	-	7,162,263
Net income for the year attributable to shareholders	-	-	-	(578,933)	(578,933)
Actuarial losses on end of service indemnities	-	-	-	(578,933)	(578,933)
Total comprehensive income for the year	-	-	7,162,263	(578,933)	6,583,330
Additional capital through bonus shares (note 25)	100,000,000	-	(100,000,000)	-	-
Transfer to statutory reserve	-	1,432,453	(1,432,453)	-	-
Balance at 31 December 2021	300,000,000	39,927,701	19,936,815	(3,162,882)	356,701,634


Nasir Jameel Sheikh
Chief Financial Officer


Abdulaziz Elkhareiji
Chief Executive Officer


Eng. Nabil Yosuf Jokhdar
Chairman

The accompanying notes 1 to 37 form an integral part of these financial statements.

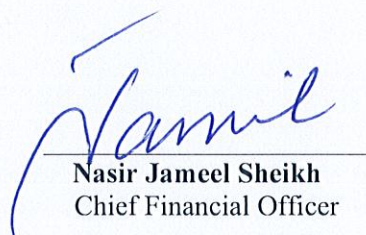
CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

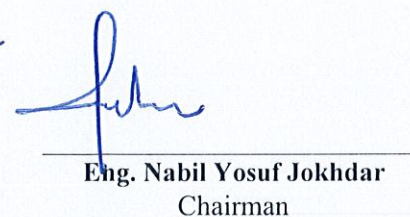
(All amounts expressed in Saudi Riyals unless otherwise stated)

	Notes	2022	2021
Cash flows from operating activities			
Net income before zakat and income tax for the year		13,396,057	15,316,994
Adjustments for:			
Depreciation on property and equipment	13	676,043	419,464
Depreciation on right-of-use-assets		-	1,078,499
Amortization of intangible asset	12	354,445	254,569
Gain on sale of property and equipment		-	(4,000)
Reversal of allowance for doubtful debts	8	(222,614)	(789,398)
Unrealised losses on investments held for trading	7c	6,019,215	1,865,714
Realised losses / (gains) on investments held for trading	7c	100,833	(7,099)
Interest on lease liabilities		-	3,563
Provision for end-of-service indemnities	20	1,717,289	1,445,390
		<u>22,041,268</u>	<u>19,583,696</u>
Changes in:			
Premiums and insurance balances receivable		8,041,096	(15,812,975)
Reinsurers' share of unearned premiums		3,973,500	(2,637,415)
Reinsurers' share of outstanding claims		(70,699,428)	(6,269,667)
Reinsurers' share of claims incurred but not reported		(1,889,318)	(18,584,940)
Deferred policy acquisition costs		(1,010,068)	(798,979)
Prepaid expenses and other assets		(4,310,130)	(8,002,145)
Accounts payable		(6,161,274)	16,503,482
Accrued and other liabilities		(81,962)	(7,364,910)
Reinsurers' balances payable		8,578,129	(994,412)
Unearned premiums		668,595	6,167,913
Unearned reinsurance commission		(864,372)	790,301
Outstanding claims		78,978,606	9,190,437
Claims incurred but not reported		(679,354)	22,304,348
Additional premium reserves		1,244,822	(2,804,396)
Other technical reserves		1,602,419	1,310,672
Cash generated from operating activities		<u>39,432,529</u>	<u>12,581,010</u>
Surplus paid to policyholders	19	(1,700,067)	(4,606,520)
Zakat and income tax paid	24	(10,908,953)	(6,604,857)
End-of-service indemnities paid	20	(1,114,292)	(393,040)
Net cash from operating activities		<u>25,709,217</u>	<u>976,593</u>

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Nasir Jameel Sheikh
Chief Financial Officer


Abdulaziz Elkhareiji
Chief Executive Officer


Eng. Nabil Yosuf Jokhdar
Chairman

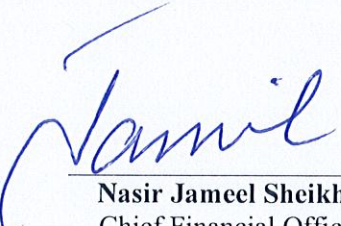
The accompanying notes 1 to 37 form an integral part of these financial statements.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

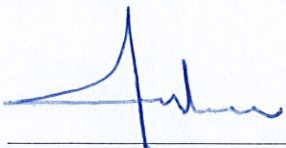
STATEMENT OF CASH FLOWS (COUNTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts expressed in Saudi Riyals unless otherwise stated)

	Notes	2022	2021
Cash flows from investing activities			
Purchase of investments held for trading	7	(15,093,565)	(20,551,547)
Proceeds from disposal of investments held for trading	7	16,894,284	18,183,683
Addition in term deposits	6	(580,242,768)	(57,236,755)
Proceeds from term deposits		394,148,470	124,348,532
Proceeds from disposal of property and equipment		-	4,000
Purchase of property and equipment	13	(1,057,116)	(1,836,788)
Purchase of intangible asset	12	(1,482,593)	(2,515,248)
Net cash (used in) / generated from investing activities		(186,833,288)	60,395,877
Cash flows from financing activities			
Statutory deposit		-	(10,000,000)
Payment under lease liabilities		-	(1,122,227)
Net cash used in financing activities		-	(11,122,227)
Net increase in cash and cash equivalents		(161,124,071)	50,250,243
Cash and cash equivalents at 1 January	5	186,043,885	135,793,642
Cash and cash equivalents at 31 December	5	24,919,814	186,043,885
NON-CASH TRANSACTIONS:			
Re-measurement reserve of end of service indemnities		(211,687)	(578,933)
Transferred to intangible assets from prepayments		480,668	-
Additional capital through bonus shares		-	100,000,000


Nasir Jameel Sheikh
Chief Financial Officer


Abdulaziz Elkhareiji
Chief Executive Officer


Eng. Nabil Yosuf Jokhdar
Chairman

The accompanying notes 1 to 37 form an integral part of these financial statements.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

(All amounts expressed in Saudi Riyals unless otherwise stated)

1. REPORTING ENTITY

CHUBB Arabia Cooperative Insurance Company (“the Company”) is a Saudi Joint Stock Company registered on 21 July 2009 (corresponding to 28 Rajab 1430H) under commercial registration number 2050066029 which was later amended to 2051043431 dated 21 July 2010 (corresponding to 9 Sha’aban 1431H), issued in Al-Khobar, Kingdom of Saudi Arabia. The Company has been licensed to conduct cooperative insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree number 60/M dated 11 October 2006 (corresponding to 18 Ramadan 1427H), pursuant to Council of Ministers resolution number 233 dated 9 October 2006 (corresponding to 16 Ramadan 1427H).

The activities of the Company are to transact cooperative insurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 8 December 2009 (corresponding to 21 Dhul-Hijjah, 1430H), the Company received the license from Saudi Central Bank (“SAMA”) to transact insurance business in the Kingdom of Saudi Arabia. Its principal lines of business include property, engineering, motor and casualty insurance.

Surplus from insurance operations is distributed in accordance with the Implementing Regulations issued by SAMA, whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders’ operations in full.

The registered address of the Company's head office is as follows P.O Box 2685 Al Khobar 31952, Kingdom of Saudi Arabia.

The Company’s principal place of business is in Al-Khobar, Kingdom of Saudi Arabia. Furthermore, the Company operates through various branches located in the Kingdom of Saudi Arabia with the following commercial registration numbers:

<u>No</u>	<u>Branch name</u>	<u>Location</u>	<u>Commercial Registration Number</u>
1	Regional Branch	Al Khobar	2051043431
2	Regional Branch	Jeddah	4030233953
3	Regional Branch	Riyadh	1010310552

Asset purchase agreement and transfer of insurance portfolio

The Company started its insurance operations on 1 February 2010. The Company acquired the insurance portfolio and the net assets of Ace Arabia Insurance Company BSC and International Insurance Company BSC with effect from 1 January 2009 as set forth in SAMA’s guidelines in this respect, following the approval on the transfer from the respective authorities in 2012.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

(All amounts expressed in Saudi Riyals unless otherwise stated)

2. BASIS OF PREPARATION

(a) Basis of presentation and measurement

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") and the Regulations for Companies in the Kingdom of Saudi Arabia.

The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as non-current: available for sale investments, property and equipment, intangible asset, goodwill, statutory deposit, accrued income on statutory deposit, provision for end-of-service indemnities, lease liabilities, certain engineering related unearned premiums, reinsurance share of unearned premiums, reinsurance unearned commission, deferred policy acquisition cost and accrued commission income payable to SAMA. All other financial statement line items would generally be classified as current unless, stated otherwise.

The Company presents its statement of financial position in order of liquidity. 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 statements accordingly under note 34. Assets, liabilities, revenues and expenses clearly attributable to either activity are 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.

The statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders' operations which are presented under note 34 to the financial statements have been provided as supplementary financial information and to comply with the requirements of the guidelines issued by SAMA implementing regulations and is not required under IFRSs. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders' operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders' operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company-level financial statements in compliance with IFRS, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Inter-operation balances, transactions and 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 financial statements are prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of investments held for trading and investments available for sale and end of service indemnities recognized at the present value of future obligation using the projected unit credit method.

(b) Functional and presentation currency

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

(c) Fiscal year

The Company follows a fiscal year ending 31 December.

(d) Seasonality of operations

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

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

(All amounts expressed in Saudi Riyals unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

(e) Critical accounting judgements estimates and assumptions

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

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In preparing these financial statements, the significant judgements made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2021. Following are the key accounting judgements and estimates that are critical in preparation of these financial statements:

i. *The ultimate liability arising from claims made under insurance contracts*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimates are made at the end of the reporting year both for the expected ultimate cost of claim reported and for the expected ultimate costs of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company. At the end of each reporting year, prior year claims estimates are reassessed for adequacy and changes are made to the provision. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. For some types of policies, IBNR claims form the majority of the liability in the statement of financial position. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is the Company's past claims settlement experience can be used to project future claims settlement and hence ultimate claims costs. As such, these methods extrapolate the settlement of paid and incurred losses, average costs per claim and claim numbers based on the observed settlement of earlier years and expected loss ratios. Historical claims settlement is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

(All amounts expressed in Saudi Riyals unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

(e) Critical accounting judgements estimates and assumptions (continued)

i. *The ultimate liability arising from claims made under insurance contracts (continued)*

Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future settlement. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims' settlement data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

ii. *Impairment of financial assets*

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

iii. *Fair value of financial instruments*

Fair values of available-for-sale investment and investment held for trading are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics. The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

(All amounts expressed in Saudi Riyals unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

(e) Critical accounting judgements estimates and assumptions (continued)

iv. *Impairment losses on premium and reinsurance receivables*

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgement. In making this judgement, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

v. *Deferred policy acquisition costs ("DAC")*

Certain acquisition costs related to the sale of policies are recorded as DAC and are amortized in the statement of income over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment/write-offs in the statement of income.

vi. *Useful life of property and equipment, intangible assets and right of use assets*

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

vii. *Goodwill impairment testing*

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

viii. *Zakat and income tax*

The Company is subject to Zakat in accordance with the Zakat, Tax and Customs Authority ("the ZATCA") regulations. Zakat and income tax is provided on an accrual basis. Zakat and income tax computation involves relevant knowledge and judgement of the Zakat rules and regulations to assess the impact of Zakat liability at a particular year end. This liability is considered as an estimate until the final assessment by ZATCA is carried out until which the Company retains exposure to additional Zakat liability. Tax on the profit or loss for the year comprises current tax. Tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

ix. *End of service indemnities*

The cost of end of service indemnities and the present value of the related obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, an end of service indemnities is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

(All amounts expressed in Saudi Riyals unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

(f) Critical accounting judgements estimates and assumptions (continued)

ix. End of service indemnities (continued)

In determining the appropriate discount rate, yield and duration of Saudi sovereign bonds obligation with at least an 'A' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the end of service indemnities is considered.

The rates assumed are based on the WHO Ultimate mortality tables, rated down one year. In the absence of any standard mortality tables in the region, these rates are generally used in Kingdom of Saudi Arabia in carrying out the actuarial valuation of end of service benefits (EOSB) schemes. If any other mortality table is used it will not make any significant difference in the results.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are summarised below. These policies have been consistently applied to each of the years presented except for the adoption of the amendments to existing standards as explained below in 4(a):

i. Insurance contracts

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur.

ii. Goodwill

Goodwill is initially measured at excess of the fair value of the consideration paid over the fair value of the identifiable assets and liabilities acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Goodwill is tested for impairment annually or as and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future years.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

(All amounts expressed in Saudi Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii. *Property and equipment*

Property and equipment are initially recorded at cost and are carried at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred. Depreciation is charged to the statement of income on a straight-line basis based on the following estimated useful lives:

<u>Category</u>	<u>No. of years</u>
Leasehold improvements	5
Furniture, fixtures and office equipment	4 – 10
Motor vehicles	4

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

The Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of income.

iv. *Intangible asset*

Intangible asset is initially recorded at cost and is carried at cost less accumulated amortisation and any accumulated impairment losses. The intangible asset comprises of software and related implementation costs. All these costs relating to the software package are deferred and amortized using the straight-line method over a period of five years. The amortization expense on intangible asset is recognised in the statement of income.

v. *Policy acquisition costs*

Commission paid to internal sales staff and incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are capitalised. The deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts to which they relate as premiums are earned.

vi. *Financial instruments*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments comprise financial assets and financial liabilities.

The Company's financial assets include cash and cash equivalents, short term deposits, term deposits, investments held for trading, investments available for sale, premiums and insurance balances receivable, reinsurer's share of outstanding claims, amounts due from policyholder/broker/related parties, amounts due from shareholders and other assets. Its financial liabilities consist of outstanding claims, reinsurance balances payable, accounts payable, amounts due to related parties, amounts due to shareholders' operations, statutory deposit commission income payable, accrued expenses and other liabilities.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

(All amounts expressed in Saudi Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

vii. Fair values measurement

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 to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

viii. Trade date accounting

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

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

(All amounts expressed in Saudi Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ix. Investments

All investments, excluding those held at fair value through statement of income (if any), are initially recognized at cost, being the fair value of the consideration given including transaction cost associated with the Investments.

Investments held for trading

Investments which are bought with the intention of resale in the short term are classified as trading investments. Such investments are measured and carried in the financial position at fair value. Unrealised gains and losses are included in the statement of income for the financial year.

Investments available for sale

These represent investments which are neither bought with the intention of being held to maturity nor for trading purposes. Such investments are stated at fair value. Changes in fair value are credited or charged to the statement of comprehensive income. Where there is objective evidence that investments may be impaired, the estimated recoverable amount of those investments is determined and any impairment loss for the difference between the recoverable amount and the carrying amount is recognized in the statement of income.

Determination of fair values of investments

For investments traded in active markets, fair value is determined by reference to quoted market bid prices. For unquoted equity investments, fair value is determined by reference to the market value of similar investments or is based on the expected discounted cash flows and other relevant factors. Cost is considered to be the fair value where there is no reliable fair value information is available for such investments.

Where partial holdings are sold, the related carrying values of such investments are accounted for on a weighted average basis.

x. De-recognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

The rights to receive cash flows from the asset have expired, or

The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

(a) The Company has transferred substantially all the risks and rewards of the asset, or

(b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

(All amounts expressed in Saudi Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xi. Impairment of financial assets

Financial assets carried at amortized cost

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

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of income.

Available-for-sale investments

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

The cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in statement of income is removed from shareholders' equity and recognized in the statement of income. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of income.

Financial assets carried at cost

Impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

xii. Offsetting financial assets and liabilities

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

xiii. Premiums and reinsurance receivable

Premiums receivable and reinsurance receivable are recognized when due and measured on initial recognition at the fair value of the considerations received or receivable and are stated at gross less allowance for any uncollectable amount (allowance for doubtful debts) and any impairment in value. Bad debts are written off as incurred. The carrying value of premiums receivable and reinsurance receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income. Premiums and reinsurance receivable are derecognized when the de-recognition criteria for financial assets have been met.

xiv. Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statement of income as they are consumed or expire with the passage of time.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xv. *Accounts payable and accruals*

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

xvi. *Impairment of non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGU, to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the statement of income.

xvii. *Provisions*

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of income net of any reimbursement.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xviii. Revenue recognition

Premium and reinsurance commissions

Premiums and commission are recorded in the statement of income over the terms of the policies to which they relate on a pro-rata basis. The portion of premiums, reinsurance share of premiums and reinsurance commissions that will be earned in the future is reported as unearned premiums and unearned reinsurance commissions, respectively, and is deferred based on the following methods:

- Premium written in last three months of the period in respect of marine cargo;
- Pre-defined calculation for engineering class of business for risks undertaken that extend beyond a single year. In accordance with this calculation, lower premiums are earned in the first year which gradually increase towards the end of the tenure of the policy; and
- Actual number of days for other lines of business.

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

Commission income

Commission income is recognised in the statement of income as it accrues and is calculated by using the EIR method. Fees and commission that are an integral part of the effective yield of the financial asset are recognised as an adjustment to the EIR of the instrument.

Investment income also includes dividends and is recognised when the right to receive payment is established.

xix. Claims

Gross claims consist of benefits and claims paid to policyholders and third parties, and related loss adjustor expenses, net of salvage and other recoveries.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not.

Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgement and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of income of that year.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Further, the Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xx. Reinsurance claims

Reinsurance claims are recognised according to the terms of the relevant contract when the related gross insurance claim is recognised.

xxi. Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets.

The Company's reinsurance program is affected through proportional, non-proportional and facultative placements based on the Company's net retention policy, treaty limits, nature and size of the risks.

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each statement of financial position date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premium and claims on assumed reinsurance are recognised as revenue and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Premium and claims are presented on a gross basis. Claims recoveries receivable from the reinsurers are recognised as an asset at the same time as the claims which give rise to the right of recovery are also recognised as a liability and are measured at the amount expected to be recovered.

xxii. Deferred policy acquisition costs ("DAC")

Those direct and indirect costs incurred during the financial year arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition DAC is amortised over the period in which the related revenue is earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the statement of income.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxii. *Deferred policy acquisition costs ("DAC") (continued)*

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of income. DAC is also considered in the liability adequacy test for each reporting year. DAC is derecognised when the related contracts are either settled or disposed of.

xxiii. *Salvage and subrogation reimbursement*

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

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

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

xxiv. *Unearned reinsurance commission income*

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight-line basis over the term of the expected premiums payable. Amortisation is recorded in the statement of income.

xxv. *Insurance contract liabilities*

Insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions. The liability is not discounted for the time value of money. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of income by setting up a provision for premium deficiency.

xxvi. *Statutory reserve*

In accordance with the Law on Supervision of Cooperative Insurance Companies and the by-laws of the Company, the Company shall set aside 20% of shareholders' net income in each year to the statutory reserve until it has built up a reserve equal to the share capital. This reserve is not available for dividend distribution.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxvii. *Liability adequacy test*

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

xxviii. *End-of-service indemnities*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company primarily has end of service indemnities, which qualify as defined benefit plans. Accruals to defined benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting year. Re-measurements, comprising actuarial gains and losses and the effect of the changes to the asset ceiling (if applicable), is reflected immediately in the statement of financial position with a charge or credit recognised in the comprehensive income in the year in which they occur. Re-measurement recognised in the statement of comprehensive income is reflected as a reserve in statement of equity and will not be reclassified to statement of income. Past service cost is recognised in statement of income in the year of a plan amendment.

xxix. *Foreign currency translation*

Transactions in foreign currencies are initially recorded at the spot exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate at the reporting date. All differences arising on non-trading activities are taken to the statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

xxx. *Cash and cash equivalents*

Cash and cash equivalents comprise of cash on hand, cash at banks and time deposits with original maturities of three months or less, which are subject to an insignificant risk of changes in value.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxxi. Zakat and taxes

Zakat and tax is provided in accordance with the Regulations of the Zakat, Tax and Customs Authority ("the ZATCA") in the Kingdom of Saudi Arabia. Zakat and income tax provision is charged to the statement of income. Zakat is computed on the Saudi shareholder's share of the Zakat base, while income tax is calculated on the foreign shareholder's share of adjusted net income. Income tax is charged to the statement of income. The Company is settling the Zakat and income tax annually to ZATCA.

Withholding tax

The Company withholds taxes on certain transactions with non-resident parties in the KSA, including dividend payments to the non-resident shareholders, as required under Saudi Arabian Income Tax Law.

Value added tax

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

xxxii. Dividend distribution

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

xxxiii. Mudaraba / Murabaha deposits

Mudaraba / Murabaha deposits, with original maturity of more than three months, having fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at Amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognized or impaired.

xxxiv. Cash flow statement

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxxv. Segmental reporting

An operating segment is a component of the Company that is engaged in business activities from which it earns revenue and incurs expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organised into business units based on their products and services and has five reportable operating segments as follows:

- Property insurance, which covers fire and allied perils, property all risks.
- Engineering, which provides coverage against the Contractors' All Risks (CAR), Erection All Risks (EAR), Machinery All Risks (MAR), etc.
- Motor insurance, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Casualty which provides coverage against the loss of money, personal accident, workmen's compensation, travel, general third-party liability and professional indemnity.
- Other classes cover any other classes of insurance not included above. Shareholders' operations of the Company are shown as unallocated operation in operating segments.

Segments performance is evaluated based on profit or loss which in certain aspects is measured differently from profit and loss in the financial statements.

No inter-segment transactions occurred during the year. If any transaction were to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

Shareholders' income is a non-operating segment. Income earned from time deposits and investments is the only revenue generating activity.

As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

xxxvi. Leases

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xxxviii. Leases (continued)

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The Company did not make any such adjustments during the periods presented.

xxxix. Right of use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

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4. a) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The application of these revised IFRSs did not have any material impact on the amounts reported for current and prior years. Following provides a summary of new standards and amendments that are effective for the first time for years commencing on 1 January 2022 (i.e. years ended 31 December 2022).

<u>Title</u>	<u>Description</u>	<u>Effective for annual years beginning on or after</u>	<u>Effective Date</u>
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022	The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual improvements to IFRS Standards 2018–2020	1 January 2022	IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements. IFRS 9: The amendment clarifies that in applying the ‘10 percent’ test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. IFRS 1: The amendment provides additional relief to a subsidiary that becomes a first-time adopter later than its parent in respect of accounting for cumulative translation difference.
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022	The amendments prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced before that asset is available for use. Additionally, the amendments also clarify the meaning of ‘testing whether an asset is functioning properly’.
IFRS 3	Reference to the conceptual Framework	1 January 2022	The amendment as a whole updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework.

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4. b) STANDARD ISSUED BUT NOT YET EFFECTIVE

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting year beginning on 1 January 2022 and is currently assessing their impact:

<u>Title</u>	<u>Description</u>	<u>Effective for annual years beginning on or after</u>	<u>Details</u>
IAS 1	Classification of liabilities as current or non-current	1 January 2023	The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification.
IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023	This amendment deals with assisting entities to decide which accounting policies to disclose in their financial statements
IAS 8	Amendment to definition of accounting estimate	1 January 2023	This amendments regarding the definition of accounting estimates to help entities to distinguish between accounting policies and accounting estimates.
IFRS 17	Insurance contracts	1 January 2023	Refer below
IFRS 9	Financial instruments	1 January 2023	Refer below

i) IFRS 17 – Insurance Contracts

Overview

This standard has been published on 18 May 2017, it establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 – Insurance contracts.

The new standard applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features provided the entity also issues insurance contracts. It requires to separate the following components from insurance contracts:

- embedded derivatives, if they meet certain specified criteria;
- distinct investment components; and
- any promise to transfer distinct goods or non-insurance services.

These components should be accounted for separately in accordance with the related standards (IFRS 9 and IFRS 15).

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4. b) STANDARD ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

i) IFRS 17 – Insurance Contracts (continued)

Structure and Status of the Implementation Project

The Company has significantly completed its implementation process which is managed internally through a dedicated IFRS 17 team and governed by a steering committee. The preparation for IFRS 17 has required significant changes to the Company's reporting systems. The Company continues to refine its models, methodologies, and systems as well as monitoring regulatory developments ahead of the IFRS 17 adoption on 1 January 2023. As part of the four-phase approach for the transition from IFRS 4 to IFRS 17 mandated by SAMA and concluded during the year ended 31 December 2022, the Company has submitted the operational gap assessment, financial impact assessment, implementation plan and multiple dry runs using the FY20, FY21 and June 2022 data to SAMA.

The Company is expected to apply the following significant accounting policies in the preparation of financial statement on the effective date of this Standard i.e. 1 January 2023:

a) Contracts within / outside the scope of IFRS 17

IFRS 17 defines an insurance contract as 'a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder'.

The Company issues insurance contracts in the normal course of business which are within the scope of IFRS 17, as they transfer significant insurance risk from the policyholders to the Company, considering the benefits payable after an insured event with benefits payable if the insured event did not occur. The Company does not write contracts with direct participation features.

b) 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.

c) Level of aggregation

Insurance contracts

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into annual cohorts and each annual cohort into three groups based on the profitability of contracts:

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

Contracts are considered as being managed together if they are evaluated together by the Board and senior management consistently in a single balance sheet and P&L as part of the Company's management reporting and if they share the same underwriting and claims management teams. To identify contracts with similar risks, the Company considers the nature of the risk, the underwriting approach and the pricing methodology. Contracts issued within the same year belong to the same annual cohort. Profitability of contracts is assessed based on onerosity testing.

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4. b) STANDARD ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

i) IFRS 17 – Insurance Contracts (continued)

c) Level of Aggregation (continued)

The following portfolios were defined by the Company:

Portfolio	Current reporting line
Property	Property
Engineering	Engineering
Motor Comprehensive - Corporate	Motor
Motor Comprehensive - Retail	Motor
Motor Third Party	Motor
Motor Manafeth	Motor
Casualty	Casualty
Other Liability	Casualty
Marine	Marine
Group Life	Term Life

Reinsurance contracts

The determination of groups of reinsurance contracts aligns with the definition of groups of insurance contracts with a more granular breakdown of portfolios based on the reinsurance type: facultative, proportional treaty and non-proportional treaty.

d) Measurement – Overview

Measurement model(s) by product

Under the IFRS 17 reporting standard, the General Measurement Model (GMM) is the default model to be used for the valuation of the insurance and reinsurance contract liabilities. The standard allows for the use of the Premium Allocation Approach (PAA) under certain circumstances. The PAA is intended to be a simpler approach in the measurement of the liability for remaining coverage which is more aligned with the current practice for determining the unearned premium less acquisition costs.

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.

The Company does not write any contracts with direct participation features hence does not apply the Variable Fee Approach (VFA).

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4. b) STANDARD ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

i) IFRS 17 – Insurance Contracts (continued)

e) Significant Judgements and Estimates (continued)

i. PAA eligibility assessment approach

Most groups of contracts automatically qualified for the PAA as the duration of each contract within the group was twelve months or less. For groups with contracts which duration exceeds twelve months, the Company performed a quantitative eligibility test by modelling possible future scenarios and reasonably expects that the measurement of the liability for remaining coverage does not materially differ from the measurement that would be produced by the general model. For new cohorts, the Company will conduct qualitative and quantitative eligibility test.

ii. Discounting methodology

Discount rates refer to the interest rates used in discounting cash flows to determine the present value of future cash flows. Discount rates are primarily used to adjust the estimates of future cash flows to reflect the time value of money and to accrete interest.

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 on a term structure of 1 to 30 years have been used for discounting LIC. There is no allowance for the time value of money for LFRC.

iii. Risk Adjustment methodology, including correlations and Confidence level selected

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 reflects its degree of risk aversion. The effects of the diversification benefits are determined using a correlation matrix technique.

The risk adjustment is determined based on the Value at Risk at a reserving class level with a level of confidence threshold of 75% except for products which present value of future cash flows exceeds the 75th percentile, in which case the 80th percentile is used.

To determine the risk adjustment 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.

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4. b) STANDARD ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

i) IFRS 17 – Insurance Contracts (continued)

e) Significant Judgements and Estimates (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 the impact of time value of money, risk adjustment and 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.

v. Provision for doubtful debts

The Company has developed expected credit losses (‘ECL’) calculations based on IFRS 9 simplified approach and applies the ECL on Insurance receivable balances. LFRC adjustment is recorded as an adjustment to LFRC with corresponding impact recorded in Insurance revenue.

vi. Reinsurer default provision

The method assigns a probability of default according to the weighted average credit rating (in proportion to the reinsurers’ shares) of the reinsurance panel, from which the recoveries are expected. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognized in profit or loss.

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4. b) STANDARD ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

i) IFRS 17 – Insurance Contracts (continued)

e) Significant Judgements and Estimates (continued)

vii. VAT treatment

The Company includes transaction-based taxes (Value added taxes) that arise directly from existing insurance contracts and attributed to them on a reasonable and consistent basis as part of the cash flows within the boundary and form part of LRC, however, it is paid directly and excluded from insurance service results.

viii. Liability for Remaining Coverage

For Insurance contracts issued, on initial recognition, the Company measures the LRC at the amount of premium received, less any acquisition cashflows paid.

ix. Liability for Incurred Claims

The Company estimates the liability for incurred claims and expenses as the fulfillment cash flows related to incurred claims and expenses. The fulfillment cash flows are an explicit, unbiased, and probability-weighted estimate of the present value of the future cash flows, within the contract boundary of a group of contracts, that will arise as the entity fulfill its obligation under the insurance contracts, including a risk adjustment for non-financial risk.

x. Insurance acquisition costs

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.

xi. Insurance revenue

For contracts measured under the PAA, the insurance revenue for each period is the amount of expected premium receipts for providing services in the period. The Company allocates the expected premium receipts to each period on the basis of passage of time. The company calculates expected receipts as a difference between contractual gross written premium and impairment measured using IFRS 9 simplified approach.

xii. Insurance service expenses

Insurance service expenses arising from insurance contracts are recognized in profit or loss generally as they are incurred. They include the following items:

- Incurred claims for the period;
- Other directly attributable expenses;
- Amortization of insurance acquisition cash flows;
- Changes that relate to future service- changes in FCF that result in onerous contracts and reversals of such losses;
- Changes that relate to past service- changes in FCF relating to the LIC.

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4. b) STANDARD ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

i) IFRS 17 – Insurance Contracts (continued)

f) Accounting policy choices

i) 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.

ii) 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.

iii) 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.

iv) 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.

vi) 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.

g) Presentation and disclosure

Presentation:

The new standard also introduces extended disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its insurance contracts particularly in the year of the adoption of the new standard.

In the statement of financial position, deferred acquisition costs and insurance related receivables will no longer be presented separately but as part of the insurance liabilities. This change in presentation will lead to a reduction in total assets, offset by a reduction in total liabilities.

The amounts presented in the statement of income need to include insurance service result, consisting of insurance revenue less insurance service expenses, and insurance finance income and expenses. Income or expenses from reinsurance contracts held need to be presented separately from the expenses or income from insurance contracts issued.

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4. b) STANDARD ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

i) IFRS 17 – Insurance Contracts (continued)

Transition Impact

Impact on Equity

The Company estimates that, on adoption of IFRS 17, the expected impact of these changes (before tax) is a reduction in the Company's total equity of SR 4.32 million at 1 January 2022. The impact on equity at 1 January 2023 is currently being estimated and shall be disclosed in the financial reporting for the period 1 January 2023 to 31 March 2023. The below assessment is a point in time estimate and is not a forecast. The actual effect of implementation of IFRS 17 of the Company could vary from this estimate.

Drivers of changes in equity	Impact on equity on transition to IFRS 17 on 1 January 2022 Increase / (decrease)
Loss component	(5,120,331)
Risk adjustment - net impact	(3,876,808)
Change in doubtful debt and default provision methodology	(3,684,958)
Deferment of other acquisition costs	5,088,494
Reversal of additional premium reserves	2,824,722
Discounting	413,591
Others	31,386
Total impact on equity	(4,323,904)

Drivers of changes in liabilities	Impact on transition to IFRS 17 on 1 January 2022 Increase / (decrease)
Loss component	5,120,331
Risk adjustment - net impact	23,579,800
Change in doubtful debt and default provision methodology	3,684,958
Deferment of other acquisition costs	(5,088,494)
Reversal of additional premium reserves	(2,824,722)
Discounting	(2,048,075)
Other drivers	(137,567)
Total impact on liabilities	22,286,231

Drivers of changes in assets	Impact on transition to IFRS 17 on 1 January 2022 increase / (decrease)
Risk adjustment	19,702,992
Discounting	(1,634,484)
Others	(106,181)
Total impact on assets	17,962,327

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4. **b) STANDARD ISSUED BUT NOT YET EFFECTIVE (CONTINUED)**

i) ***IFRS 17 – Insurance Contracts (continued)***

Transition Impact (continued)

Sources of uncertainties

Accounting policies, assumptions and judgements are subject to change until the Company finalizes its first financial statements under IFRS 17, therefore the total impact on equity is the best estimate at the time of the report but likely to change due to:

- Data limitations: The Company took several assumptions to accommodate for IFRS 17 calculations and lack of data availability at the granularity required by the Standards. Improvement in the Company's system is expected to resolve most of these data limitations and enhance the projections and models used,

- Policies and judgement: The Company is refining its policies and models in accordance with the latest market recommendations and industry practices,

- Actuarial assumptions: change from IFRS 4 to IFRS 17 is expected to modify the approach to several actuarial-related subjects such as reserving or pricing deficiencies which may require further adjustments to align assumptions and calculations with the Standards requirements.

ii) ***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. However, the Company has met the relevant criteria and has applied the temporary exemption from IFRS 9 for annual periods before 1 January 2023. Consequently, the Company will apply IFRS 9 for the first time on 1 January 2023.

a. Financial asset-classification

The Company conducted a preliminary IFRS 9 Classification and Measurement assessment ("C&M") for the financial assets held as at 31 December 2021 in response to SAMA's circular No. 239. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through statement of income ("FVSI"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. Except for financial assets that are designated at initial recognition as at FVSI, a financial asset is classified on the basis of both:

- a. the entity's business model for managing the financial asset; and
- b. the contractual cash flow characteristics of the financial asset.

The classification and measurement review consists of two parts:

-A business model assessment based on fact patterns discussed in the classification and measurement workshop and agreed with management; and

-A contractual cash flows characteristics assessment based on a thorough desk-based review of a sample of specifically selected contracts to provide a provisional conclusion on whether or not the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the "SPPI assessment"). The SPPI assessment was conducted on the following financial assets:

- Premium receivables
- Reinsurance receivables
- Investments

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4. b) STANDARD ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

ii) IFRS 9 FINANCIAL INSTRUMENTS (continued)

b. Financial assets- Impairment

IFRS 9 does not prescribe specific approaches used to estimate ECL, but emphasizes that the approach adopted must reflect:

- Probability weighted outcome;
- time value of money; and
- forward looking information.

Considering the nature and composition of the Company's portfolios, the Company has used "Simplified approach" for Premium Receivables and "General approach" for Reinsurance Receivables and Investment Portfolio. Deferred policy acquisition costs and prepaid expenses and other assets are excluded from the purview of IFRS 9 because they are largely prepaid in nature.

IFRS 9 impairment applies to financial instruments that are not measured at Fair Value through Statement of Income (FVSI). Equity instruments measured at Fair Value through Other Comprehensive Income (FVOCI) are also excluded from the purview of impairment.

Premium receivables

In order to define the event of default, it is assumed that defaults take place at greater than 365 days ageing. Vasicek single factor model has been developed for macroeconomic overlay. IMF's April 2022 forecast for KSA region is applied for estimating macroeconomic overlay. For applying the macroeconomic overlay, the Company has used GDP and inflation average consumer price changes as macroeconomic variables. For asset correlation computation, the Company has used the formula prescribed under Basel norms ("Basel formula"); and for probability weighted PD, the Company has used the base and best/worst case scenarios along with respective weightages. Overall, the ECL provisions for premium receivables is estimated at SR 12.25 million as at 1 January 2022.

Reinsurance receivables

The Company has deployed the rating methodology for reinsurance receivables. In arriving Probability of Default (PD) values, the Company has used S&P Global Rating Transition Matrix for Emerging Market for Corporates. Modifiers in same rating grade were given same PDs, i.e. AA+, AA- are assigned an equivalent PD as 'AA' and A+, A- are assigned an equivalent PD of 'A'. Additionally, the Company has imputed 'BB' rating as a surrogate for unrated counterparties. Loss Given Default (LGD) is assumed as per SAMA rules. Vasicek single factor model has been developed for macroeconomic overlay. For applying macroeconomic overlay, the Company has used GDP change as a macroeconomic variable. For asset correlation computation, the Company has used the Basel formula. For probability weighted PD, the Company has used base and best/worst case scenarios along with respective weightages. Overall, the ECL provision for reinsurance receivables is estimated at SR 286 as at 1 January 2022.

Investment portfolio including cash and cash equivalents

From investment portfolio, the Company has excluded Equities and Mutual funds for ECL computation. In case of unrated instruments, rating grade of issuer with one notch down is considered as final rating of the instrument. In case of cash the same was considered as stage 1. For arriving at Probability of Default (PD) values, the Company has used S&P Global Rating Transition Matrix for Emerging Market for Corporates. Vasicek single factor model is applied for macroeconomic overlay based on IMF's April 2022 forecast for KSA region. Overall, the total provisions for investment portfolio is estimated at SR 20,615 as at 1 January 2022.

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4. b) STANDARD ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

ii) IFRS 9 FINANCIAL INSTRUMENTS (continued)

Financial liabilities

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

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

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospective. The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- i. The determination of the business model within which a financial asset is held.
- ii. The designation and revocation of previous designated financial assets and liabilities as measured at FVTPL. This category includes debt instruments and certain equity instruments that were previously designated as held for trading.
- iii. Further, certain equity securities are classified as FVOCI. In general, cash and cash equivalents and term deposits held until maturity have been designated at amortized cost.

Estimated Change in the Company's total equity due to initial application of IFRS 9:

The Company estimates that on adoption of IFRS 9 the expected impact (before zakat and income tax) is an increase in the Company's total equity by SR 1.11 million as at 1 January 2022. The impact on total equity as at 1 January 2023 is currently being estimated and shall be disclosed in the condensed interim financial statements for the period ending 31 March 2023.

Estimated reduction in the Company's total equity	1 January 2022
Classification of financial assets (including impact of fair valuation)	1,138,440
Impairment of financial assets	(25,641)
Fair valuation of Najm shares (see note below)	-
Estimated impact of adoption of IFRS 9 before Zakat and income tax	1,112,799

The transition impact of the fair value of Najm shares cannot be reasonably estimated in the absence of reliable financial information as of the date of these financial statements.

iii) OVERALL IMPACT ON TOTAL EQUITY ON TRANSITION TO IFRS 17 and IFRS 9

The Company estimates that, on adoption of IFRS 17 and IFRS 9, the impact of these changes (before zakat and income tax) is a decrease in the Company's total equity by SR 3.21 million as at 1 January 2022.

Estimated reduction in the Company's total equity on transition to:	1 January 2022
IFRS 17	(4,323,904)
IFRS 9	1,112,799
Estimated impact of adoption of IFRS 17 and IFRS 9 before Zakat and income tax	(3,211,105)

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5. CASH AND CASH EQUIVALENTS

	Insurance operations		Shareholders' operations		Total	
	2022	2021	2022	2021	2022	2021
Cash at bank						
- Current accounts	16,179,107	11,555,000	740,707	2,667,046	16,919,814	14,222,046
- Time deposits	8,000,000	25,712,250	-	146,109,589	8,000,000	171,821,839
	24,179,107	37,267,250	740,707	148,776,635	24,919,814	186,043,885

Short term deposits are placed with local and licensed foreign banks in Kingdom of Saudi Arabia with original maturity of less than three months from the date of acquisition and earned commission income ranging 0.7% to 4.90% per annum (31 December 2021: 0.7 % to 1.35% per annum). The carrying amounts of the short-term deposits reasonably approximate to the fair value at the statement of financial position date. Bank balances are also placed with counterparties with sound credit ratings.

6. TERM DEPOSITS

Term deposits are placed with counterparties which have credit ratings of A- to A+ ratings under Standard and Poor's and Fitch ratings methodology. Term deposits are placed with local banks with a maturity of more than three months from the date of original placement and earn investment income at an average rate of 3.45% to 6.38% per annum (2021: 0.80% to 2.35% per annum). The carrying amounts of the term deposits approximate the fair value at the statement of financial position date.

The movements in term deposits during the year ended 31 December 2022 are as follows:

	Insurance operations		Shareholders' operations		Total	
	2022	2021	2022	2021	2022	2021
At the beginning of the year	-	25,333,510	57,236,755	99,015,022	57,236,755	124,348,532
Placed during the year	25,899,143	-	554,343,625	57,236,755	580,242,768	57,236,755
Matured during the year	-	(25,333,510)	(394,148,470)	(99,015,022)	(394,148,470)	(124,348,532)
At the end of the year	25,899,143	-	217,431,910	57,236,755	243,331,053	57,236,755

7. INVESTMENTS

a) Investments comprise the following:

	Insurance operations		Shareholders' operations		Total	
	2022	2021	2022	2021	2022	2021
Investments held for trading	37,168,786	39,755,154	57,061,125	62,395,524	94,229,911	102,150,678
Investments available for sale (d)	-	-	1,932,078	1,932,078	1,932,078	1,932,078
	37,168,786	39,755,154	58,993,203	64,327,602	96,161,989	104,082,756

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7. INVESTMENTS (CONTINUED)

b) Category wise analysis is as follows:

Insurance operations	Domestic		International		Total	
	2022	2021	2022	2021	2022	2021
Sukuks and bonds	18,036,909	20,014,283	9,363,212	9,146,135	27,400,121	29,160,418
Equity securities	9,768,665	10,594,736	-	-	9,768,665	10,594,736
	27,805,574	30,609,019	9,363,212	9,146,135	37,168,786	39,755,154

Shareholders' operations

	Domestic		International		Total	
	2022	2021	2022	2021	2022	2021
Sukuks and bonds	30,675,924	33,703,928	12,146,579	11,864,972	42,822,503	45,568,900
Equity securities	16,170,700	18,758,702	-	-	16,170,700	18,758,702
	46,846,624	52,462,630	12,146,579	11,864,972	58,993,203	64,327,602

Investments held for trading includes quoted securities of SAR 89.24 million and unquoted SAR 4.99 million (2021: quoted securities of SAR 97.18 million and unquoted SAR 4.97 million).

c) Movements in investments held for trading is as follows:

	Insurance operations		Shareholders' operations		Total	
	2022	2021	2022	2021	2022	2021
At the beginning of the year	39,755,154	40,105,314	62,395,524	61,536,115	102,150,678	101,641,429
Acquired during the year	6,862,169	8,405,791	8,231,396	12,145,756	15,093,565	20,551,547
Disposals during the year	(6,271,020)	(7,915,357)	(10,623,264)	(10,268,326)	(16,894,284)	(18,183,683)
Unrealised losses	(3,112,638)	(843,695)	(2,906,577)	(1,022,019)	(6,019,215)	(1,865,714)
Realised (losses) / gains	(64,879)	3,101	(35,954)	3,998	(100,833)	7,099
At the end of the year	37,168,786	39,755,154	57,061,125	62,395,524	94,229,911	102,150,678

As at the balance sheet date investments amounting to SAR 57.84 million (2021: SAR 68.10 million) are denominated in US Dollars.

The Company arranged through a financial institution inside the Kingdom of Saudi Arabia to invest in certain Sukuks, bonds and equity securities traded in active open market in US Dollars.

- d) This represents an investment in respect of the Company's shareholding in Najm for Insurance Services which provides loss determination services for motor class. This investment has been carried at cost in the absence of an active market also management does not have access to the most recent available information to determine the fair value. There has been no movement in this investment for the year ended 31 December 2022 and 2021.
- e) There has been no change in the classification in the investments held for trading and available for sale for the year ended 31 December 2022 and 2021.

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8. PREMIUMS AND REINSURANCE BALANCES RECEIVABLE - NET

	<u>2022</u>	<u>2021</u>
Policyholders	27,082,714	25,332,322
Brokers and agents	122,040,225	118,661,510
Receivables from insurance and reinsurance companies	2,964,822	4,422,305
Premiums and reinsurance receivables from related parties (note 21)	15,990	11,728,710
	<u>152,103,751</u>	<u>160,144,847</u>
Less: allowance for doubtful debts	(8,339,069)	(8,561,683)
Premiums and reinsurers' receivable – net	<u>143,764,682</u>	<u>151,583,164</u>

The movement in the allowance for doubtful debts is as follows:

	<u>2022</u>	<u>2021</u>
As at 1 January	8,561,683	9,351,081
Reversal for doubtful debts for the year	(222,614)	(789,398)
As at 31 December	<u>8,339,069</u>	<u>8,561,683</u>

The aging analysis of premiums and insurance balances receivable at the year-end is set out below:

<u>2022</u>		Neither past due nor impaired	Past due but not impaired	Past due and impaired			
	Total	Less than 30 days	31 – 60 days	61 – 90 days	91 – 180 days	181 – 360 days	More than 360 days
Premiums receivable	141,550,630	102,325,240	8,562,788	5,174,033	15,580,048	9,131,015	777,506
Receivables from reinsurance companies	2,199,661	179,583	-	243,032	1,580,531	-	196,515
Related parties (note 21)	14,391	-	-	-	7,537	6,854	-
As at 31 December 2022	<u>143,764,682</u>	<u>102,504,823</u>	<u>8,562,788</u>	<u>5,417,065</u>	<u>17,168,116</u>	<u>9,137,869</u>	<u>974,021</u>
<u>2021</u>							
Premiums receivable	136,227,869	104,145,826	8,285,681	3,811,981	11,539,849	7,351,529	1,093,003
Receivables from reinsurance companies	3,626,585	1,797,498	77,840	2,085	1,196,036	349,238	203,888
Related parties (note 21)	11,728,710	11,717,162	3,777	-	-	3,792	3,979
As at 31 December 2021	<u>151,583,164</u>	<u>117,660,486</u>	<u>8,367,298</u>	<u>3,814,066</u>	<u>12,735,885</u>	<u>7,704,559</u>	<u>1,300,870</u>

Premiums and insurance balances receivables comprise a large number of customers, brokers and agents and related parties mainly within the Kingdom of Saudi Arabia as well as reinsurance companies. The Company's terms of business generally require premiums to be settled within 30 days.

No individual, company or broker accounts for more than 43% of the premium's receivable as at 31 December 2022 (2021: 41%). In addition, the five largest customers/brokers account for 52% of the premium's receivable as at 31 December 2022 (2021: 55%).

Unimpaired premiums receivable, receivables from insurance and reinsurance companies and reinsurance receivables from related parties are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured.

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9. TECHNICAL RESERVES

9.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	<u>2022</u>	<u>2021</u>
Gross outstanding claims	142,730,745	63,911,487
Less: Realizable value of salvage and subrogation	(3,265,736)	(3,425,084)
	139,465,009	60,486,403
Claims incurred but not reported	63,499,431	64,178,785
Gross outstanding claims and reserves	202,964,440	124,665,188
Additional unexpired reserve	4,069,544	2,824,722
Additional premium reserve	4,069,544	2,824,722
Unallocated loss adjustment expense	6,795,630	5,193,211
Other technical reserves	6,795,630	5,193,211
	213,829,614	132,683,121
Less:		
- Reinsurers' share of outstanding claims	(118,827,786)	(48,128,358)
- Reinsurers' share of claims incurred but not reported	(50,198,832)	(48,309,514)
Net outstanding claims and reserves	44,802,996	36,245,249

9.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	Year ended 31 December 2022		
	Gross	Reinsurance	Net
Balance as at the beginning of the year	137,001,880	(102,701,355)	34,300,525
Premium written / (ceded) during the year	303,677,133	(200,935,153)	102,741,980
Premium earned during the year	(303,008,538)	204,908,653	(98,099,885)
Balance as at the end of the year	137,670,475	(98,727,855)	38,942,620
	Year-ended 31 December 2021		
	Gross	Reinsurance	Net
Balance as at the beginning of the year	130,833,967	(100,063,940)	30,770,027
Premium written / (ceded) during the year	290,581,787	(187,594,987)	102,986,800
Premium earned during the year	(284,413,874)	184,957,572	(99,456,302)
Balance as at the end of the year	137,001,880	(102,701,355)	34,300,525

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9. TECHNICAL RESERVES (CONTINUED)

9.3 Movement in deferred policy acquisition costs

	2022	2021
At 1 January	6,429,477	5,630,498
Incurred during the year	20,807,005	17,317,935
Amortized during the year	(19,796,937)	(16,518,956)
At 31 December	7,439,545	6,429,477

Deferred policy acquisition costs only relate to insurance operations, the company does not have any inwards reinsurance arrangements.

10. CLAIMS DEVELOPMENT

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims. The cumulative claims estimate and cumulative payments are in Saudi Riyals.

As required by IFRS, in setting claims provisions the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provision's adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherited in the estimation process, the actual overall claim provision may not always be in surplus.

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The IBNR estimate pertains to claims liability for the years beginning from year 2018 onwards whose claim experience has not been fully developed.

Claims triangulation analysis is by accident years spanning a number of financial years.

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10. CLAIMS DEVELOPMENT (CONTINUED)

a) Claims development table gross of reinsurance:

2022 - accident year	Before 2018	2018	2019	2020	2021	2022	Total
Estimate of ultimate claims cost gross of reinsurance:							
- At the end of the accident year	98,754,154	111,621,906	106,556,133	75,371,796	133,435,579	178,126,887	-
- One year later	88,674,458	62,972,496	71,584,578	73,598,381	112,445,457	-	-
- Two years later	62,664,757	56,139,790	61,866,242	61,705,397	-	-	-
- Three years later	59,567,145	56,265,878	55,197,188	-	-	-	-
- Four years later	57,725,843	54,502,154	-	-	-	-	-
- Five years later	73,915,862	-	-	-	-	-	-
Current estimate of cumulative claims	73,915,862	54,502,154	55,197,188	61,705,397	112,445,457	178,126,887	535,892,945
Cumulative payments to date	(66,520,086)	(49,825,295)	(52,233,069)	(51,744,604)	(75,192,970)	(37,412,481)	(332,928,505)
Gross outstanding claims and reserves, net	7,395,776	4,676,859	2,964,119	9,960,793	37,252,487	140,714,406	202,964,440
2021 - accident year	Before 2017	2017	2018	2019	2020	2021	Total
Estimate of ultimate claims cost gross of reinsurance:							
- At the end of the accident year	129,916,844	98,754,154	111,621,906	106,556,133	75,371,796	133,435,579	-
- One year later	115,778,583	88,674,458	62,972,496	71,584,578	73,598,381	-	-
- Two years later	87,013,180	62,664,757	56,139,790	61,866,242	-	-	-
- Three years later	71,111,489	59,567,145	56,265,878	-	-	-	-
- Four years later	69,793,209	57,725,843	-	-	-	-	-
- Five years later	74,378,626	-	-	-	-	-	-
Current estimate of cumulative claims	74,378,626	57,725,843	56,265,878	61,866,242	73,598,381	133,435,579	457,270,549
Cumulative payments to date	(66,520,086)	(55,790,755)	(49,041,218)	(50,796,472)	(49,910,632)	(60,546,198)	(332,605,361)
Gross outstanding claims and reserves, net	7,858,540	1,935,088	7,224,660	11,069,770	23,687,749	72,889,381	124,665,188

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10. CLAIMS DEVELOPMENT (CONTINUED)

b) Claims development table net of reinsurance:

2022 - accident year or underwriting year	Before 2018	2018	2019	2020	2021	2022	Total
Estimate of ultimate claims net of reinsurance:							
- At the end of the accident year	52,214,892	47,929,912	47,139,271	35,635,912	57,610,569	54,630,585	-
- One year later	44,392,945	38,906,740	36,213,382	30,612,476	52,898,557	-	-
- Two years later	39,163,596	34,499,586	35,600,895	29,506,272	-	-	-
- Three years later	37,822,802	35,367,983	33,735,190	-	-	-	-
- Four years later	37,394,140	34,822,150	-	-	-	-	-
- Five years later	48,290,328	-	-	-	-	-	-
Current estimate of cumulative claims	48,290,328	34,822,150	33,735,190	29,506,272	52,898,557	54,630,585	253,883,082
Cumulative payments to date	(45,836,828)	(34,235,006)	(32,655,461)	(27,604,603)	(49,730,635)	(29,882,727)	(219,945,260)
Gross outstanding claims and reserves, net	2,453,500	587,144	1,079,729	1,901,669	3,167,922	24,747,858	33,937,822
2021 - accident year or underwriting year	Before 2017	2017	2018	2019	2020	2021	Total
Estimate of ultimate claims net of reinsurance:							
- At the end of the accident year	63,166,954	52,214,892	47,929,912	47,139,271	35,635,912	57,610,569	-
- One year later	55,077,856	44,392,945	38,906,740	36,213,382	30,612,476	-	-
- Two years later	50,748,672	39,163,596	34,499,586	35,600,895	-	-	-
- Three years later	47,383,048	37,822,802	35,367,983	-	-	-	-
- Four years later	47,473,929	37,394,140	-	-	-	-	-
- Five years later	48,290,328	-	-	-	-	-	-
Current estimate of cumulative claims	48,290,328	37,394,140	35,367,983	35,600,895	30,612,476	57,610,569	244,876,391
Cumulative payments to date	(45,959,551)	(37,106,696)	(34,000,378)	(32,560,969)	(26,549,559)	(40,471,922)	(216,649,075)
Gross outstanding claims and reserves, net	2,330,777	287,444	1,367,605	3,039,926	4,062,917	17,138,647	28,227,316

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11. PREPAID EXPENSES AND OTHER ASSETS

	Insurance operations		Shareholders' operations		Total	
	2022	2021	2022	2021	2022	2021
Receivable- insurance arrangements (note 11.1)	9,566,153	113,199	-	-	9,566,153	113,199
Other accrued	2,026,901	2,090,301	-	-	2,026,901	2,090,301
VAT refundable	1,303,849	727,650	-	-	1,303,849	727,650
Prepaid insurance	533,161	283,773	-	-	533,161	283,773
Accrued interest	620,901	48,336	2,615,708	1,253,443	3,236,609	1,301,779
Advances	-	13,080	-	-	-	13,080
Prepaid for maintenance	147,079	147,079	-	-	147,079	147,079
Prepaid rent	13,836	10,000	-	-	13,836	10,000
Employees' receivables	233,878	214,421	-	-	233,878	214,421
Bank margin (note 24 and 29)	-	-	-	9,500,821	-	9,500,821
Advance tax (note 24)	6,824,881	6,824,881	343,852	343,852	7,168,733	7,168,733
Others	2,997,197	1,827,098	-	-	2,997,197	1,827,098
	24,267,836	12,299,818	2,959,560	11,098,116	27,227,396	23,397,934

- 11.1** This included receivables related to Hajj and Umrah co-insurance agreement for general accident insurance which is effective from 1 January 2020. The agreement relates to insurance of pilgrims who enter the Kingdom of Saudi Arabia.

12. INTANGIBLE ASSET

	Software	Capital work in progress	Total
Cost:			
At 1 January 2021	5,532,982	-	5,532,982
Addition	-	2,515,248	2,515,248
At 31 December 2021	5,532,982	2,515,248	8,048,230
Addition	1,003,750	478,843	1,482,593
Transferred from prepayments	-	480,668	480,668
Transfer	1,179,505	(1,179,505)	-
At 31 December 2022	7,716,237	2,295,254	10,011,491
Amortisation:			
At 1 January 2021	4,995,063	-	4,995,063
Charge for the year	254,569	-	254,569
At 31 December 2021	5,249,632	-	5,249,632
Charge for the year	354,445	-	354,445
At 31 December 2022	5,604,077	-	5,604,077
Carrying amount:			
At 31 December 2022	2,112,160	2,295,254	4,407,414
At 31 December 2021	283,350	2,515,248	2,798,598

Capital work in progress relates to new software under development, which is expected to be completed by the year 2024.

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13. PROPERTY AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
Cost:				
At 1 January 2021	1,269,790	5,121,538	351,553	6,742,881
Additions	-	1,836,788	-	1,836,788
Disposals	-	-	(20,000)	(20,000)
At 31 December 2021	1,269,790	6,958,326	331,553	8,559,669
Additions	576,768	480,348	-	1,057,116
At 31 December 2022	1,846,558	7,438,674	331,553	9,616,785
Accumulated Depreciation:				
At 1 January 2021	1,269,790	4,440,964	125,686	5,836,440
Charge for the year	-	359,232	60,232	419,464
Disposals	-	-	(20,000)	(20,000)
At 31 December 2021	1,269,790	4,800,196	165,918	6,235,904
Charge for the year	28,838	586,974	60,231	676,043
At 31 December 2022	1,298,628	5,387,170	226,149	6,911,947
Carrying amount:				
At 31 December 2022	547,930	2,051,504	105,404	2,704,838
At 31 December 2021	-	2,158,130	165,635	2,323,765

14. STATUTORY DEPOSIT

The statutory deposit represents 10% of the paid up share capital which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. Saudi Central Bank ("SAMA") is entitled to the earnings of this statutory deposit and it cannot be withdrawn without its consent. In accordance with the instruction received from SAMA vide their circular dated 1 March 2016, the Company has disclosed the commission earned on the statutory deposit as at 31 December 2022 as an asset and a liability in these financial statements.

15. GOODWILL

During the year 2008, the Company entered into a purchase agreement whereby it has purchased the insurance business operations in the Kingdom of Saudi Arabia of Ace Arabia Insurance Company B.S.C. (c) and International Insurance Company B.S.C. (c). The purchase price was based on a valuation study conducted in accordance with the due diligence and valuation guidelines issued by SAMA. In accordance with the SAMA letter of November 10, 2008 ("the Letter"), the value of combined goodwill was estimated at SAR 43.77 million. The amount has been paid in accordance with SAMA's instructions.

Goodwill was allocated to the operations of the entire Company which is considered as one CGU. The carrying amount of goodwill amounts to SAR 43.77 million and no impairment loss has been recognized in 2022 and 2021, as a result of the impairment review for the CGU.

As at the statement of financial position date, the management of the Company has assessed the carrying value of the goodwill. Based on their assessment, the management believes that there is no objective evidence or circumstances that indicate any impairment in the value of the goodwill. Therefore, no impairment is required to be recognised in respect of the goodwill in the statement of income of shareholders' operations.

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15. GOODWILL (CONTINUED)

In accordance with the requirements of the International Financial Reporting Standards as endorsed in Kingdom of Saudi Arabia, the Company's management has carried out an impairment test in respect of the above-mentioned goodwill. The management conducted the impairment exercise for the year ended 31 December 2022. The recoverable amount of the operations has been based on the value in use (VIU) calculation using cash flow projections based on financial budgets approved by the senior management covering a three-year period.

The key assumptions used for the VIU impairment calculation are:

- Investment market conditions – Investment market conditions are based on market research and published statistics. Management plans assume modest investment growth of 2% (2021: 2%), which is lower than the anticipated market growth forecast.
- Policy lapses – The Company has retained records of policy lapses since its inception and is therefore able to predict trends over the coming years. Management plans assume no change from recent experiences.
- Premiums – Earned premium income is based on average values achieved in the three years preceding the start of the budget year. An average growth rate of 14% (2021: 10%) per annum was applied.
- Expenses – Estimates are obtained from published indices of inflation and market research. The financial budget plans assume that expenses will broadly increase in line with inflation.
- Cost of Equity – The Company has used an average Cost of Equity of 16.3% (2021: 10.7%).

Sensitivity to changes in assumptions

With regard to the assessment of value in use for the identified CGU, management does not believe a reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to exceed its recoverable amount. The actual recoverable amount exceeds its carrying amount by SR 175.81 million (2021: SR 104.65 million).

Management recognised the fact that current market conditions reflect stable and profitable margins. Management believes even a reduction of 10% in the premium growth rate would not have any significant impact on the recoverable amount as compared to the carrying amount of the CGU.

Sensitivity to change in Cost of Equity

The 5% increase/ decrease in Cost of Equity will affect the recoverable amount by SR 18.59 million (2021: SR 21.99 million).

16. UNEARNED REINSURANCE COMMISSION

	2022	2021
At 1 January	9,130,990	8,340,689
Reinsurance commission received during the year	27,248,756	26,608,378
Reinsurance commission earned during the year	(28,113,128)	(25,818,077)
At 31 December	8,266,618	9,130,990

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17. REINSURERS' BALANCES PAYABLE

	<u>2022</u>	<u>2021</u>
Related parties (note 21)	19,521,835	12,989,029
Others	74,100,791	72,055,468
	<u>93,622,626</u>	<u>85,044,497</u>

18. ACCRUED AND OTHER LIABILITIES

	Insurance operations		Shareholders' operations		Total	
	2022	2021	2022	2021	2022	2021
Accrued bonus	2,998,105	3,880,707	-	-	2,998,105	3,880,707
Withholding tax payable	1,809,757	1,505,149	-	-	1,809,757	1,505,149
Stale cheques	1,008,013	1,438,477	-	-	1,008,013	1,438,477
Legal and professional fees	748,792	125,039	507,288	588,340	1,256,080	713,379
Accrued supervision fees	505,316	479,352	-	-	505,316	479,352
Survey fees payables	152,731	97,120	-	-	152,731	97,120
Manafeth fee payable	916,677	847,279	-	-	916,677	847,279
Remuneration of board and other committee's members	-	-	3,088,003	3,293,003	3,088,003	3,293,003
Other	930,915	459,593	4,000	37,500	934,915	497,093
	<u>9,070,306</u>	<u>8,832,716</u>	<u>3,599,291</u>	<u>3,918,843</u>	<u>12,669,597</u>	<u>12,751,559</u>

19. SURPLUS DISTRIBUTION PAYABLE

	<u>2022</u>	<u>2021</u>
Opening surplus distribution payable	2,180,026	5,005,180
Total income attributed to the insurance operations	1,544,486	1,781,366
Surplus paid to policy holders	(1,700,067)	(4,606,520)
Closing surplus distribution payable	<u>2,024,445</u>	<u>2,180,026</u>

20. END-OF-SERVICE INDEMNITIES

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under the projected unit credit method while the benefit payments obligation is discharged as and when it falls due. The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

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

	<u>2022</u>	<u>2021</u>
Present value of end of service benefits	<u>11,782,946</u>	<u>10,968,262</u>

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20. END-OF-SERVICE INDEMNITIES (CONTINUED)

20.2 Movement in defined benefit obligation

	2022	2021
1 January	10,968,262	9,336,979
Current service cost	1,433,790	1,249,191
Interest cost	283,499	196,199
	1,717,289	1,445,390
Actuarial losses / (gains) due to change in financial assumptions	210,879	(113,609)
Actuarial gains due to change in demographic assumptions	(559,087)	-
Actuarial losses due to change in experience adjustments	559,895	692,542
	211,687	578,933
Payments during the year	(1,114,292)	(393,040)
At 31 December	11,782,946	10,968,262

20.3 Principal actuarial assumptions

	2022	2021
Discount factor used	4.60%	2.35%
Long term salary increase rate	4.60%	2.35%
	WHO SA19-	WHO SA 19 -
Mortality rates	75%	75%
Weighted average duration of end of service benefits in years	5.07	8.21
Rates of employees turnover	Heavy	Moderate

20.4 Sensitivity analysis on present value of end of service benefits plan are as below:

	31 December 2022		31 December 2021	
	Percentage (%)	Amount	Percentage (%)	Amount
Discount rate				
Increase	+0.5%	11,491,354	+0.5%	10,534,189
Decrease	-0.5%	12,089,913	-0.5%	11,436,119
Expected changes in long term salary				
Increase	+0.5%	12,008,811	+0.5%	11,463,867
Decrease	-0.5%	11,566,250	-0.5%	10,504,158

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting year has been applied as when calculating the end-of-service indemnities recognised within the statement of financial position.

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21. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties represent shareholders, companies related to shareholders (“affiliates”) and key management personnel and the entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company’s management and the board of directors. The following are the details of major related parties’ transactions during the year and the related balances:

<i>Related parties</i>	<i>Nature of transactions</i>	2022	2021
Shareholders	Reinsurance premiums ceded	53,532,037	52,571,207
	Reinsurers’ share of gross claims paid	4,527,374	22,277,888
	Reinsurance commission income received / receivables	10,886,640	9,678,320
Affiliates / Others	Gross written premiums	791,954	538,610
	Rent	1,606,227	1,463,631
	Claim expenses paid / payable	3,185,403	3,204,827
	Other expenses	6,500	-
Board of Directors	Remuneration	1,425,000	1,425,000
	Meeting fees	1,613,000	1,538,000
	Travel expenses	413,702	53,137

Balances due from / to related parties are comprised of the following:

<i>Related parties</i>	Premiums and reinsurance receivables		Reinsurance payables	
	2022	2021	2022	2021
Chubb, Australia	15,990	11,549	-	-
Chubb American Insurance Co., USA	-	-	5,180,374	5,103,737
Chubb European Group London, UK	-	171,980	4,621,726	-
Chubb, Dubai	-	11,545,181	3,353,881	-
Chubb, South Africa	-	-	2,726,639	2,451,059
Chubb Insurance Hong kong	-	-	1,230,286	-
RFIB Group Limited, UK	-	-	494,925	1,846,979
Chubb European Group, France	-	-	441,344	45,174
Chubb European Group, Turkey	-	-	402,868	8,639
Chubb, Spain	-	-	219,490	1,017,921
ACE Mena, Bahrain	-	-	163,181	207,627
Chubb Switzerland	-	-	109,481	3,067
Chubb Tempest RE	-	-	94,111	1,522,110
ACE American Insurance, Bahrain	-	-	40,859	40,859
Chubb, Singapore	-	-	17,824	245,033
Others	-	-	424,846	496,824
Total	15,990	11,728,710	19,521,835	12,989,029

– Amounts due from / due to, pertain to transactions conducted with affiliates.

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21. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (CONTINUED)

Remuneration and compensation of the board members and executives

The following table shows the annual salaries, remuneration and allowances obtained by the board members and top executives for the year ended 31 December 2022 and 2021:

	BOD members (Executives)	BOD members (Non-Executive)	Key management
2022			
Salaries and compensation	-	-	4,070,689
End of service indemnities	-	-	325,897
Travel expenses	1,620	412,082	-
Annual remuneration and meeting fees	335,000	2,703,000	-
Total	336,620	3,115,082	4,396,586
	BOD members (Executives)	BOD members (Non-Executive)	Key management
2021			
Salaries and compensation	-	-	3,897,743
End of service indemnities	-	-	338,448
Travel expenses	21,000	21,000	-
Annual remuneration and meeting fees	351,250	2,611,750	-
Total	372,250	2,632,750	4,236,191

22. GENERAL AND ADMINISTRATIVE EXPENSES

	Insurance operations		Shareholders' operations		Total	
	2022	2021	2022	2021	2022	2021
Employees' cost	29,745,246	26,312,102	762,699	674,669	30,507,945	26,986,771
Information technology services	2,489,462	1,608,249	63,833	41,237	2,553,295	1,649,486
Rent	1,932,670	736,999	49,556	48,897	1,982,226	785,896
End of service indemnities (note 20)	1,674,356	1,409,255	42,933	36,135	1,717,289	1,445,390
Insurance	1,475,954	1,269,191	37,845	32,544	1,513,799	1,301,735
Professional fees	1,223,625	24,375	1,222,708	1,335,298	2,446,333	1,359,673
Depreciation and amortisation	1,004,727	1,708,718	25,761	43,814	1,030,488	1,752,532
Training costs	851,620	492,815	82,148	50,569	933,768	543,384
Utilities	753,760	749,946	19,327	19,230	773,087	769,176
Fees and subscriptions	283,919	145,238	7,280	3,724	291,199	148,962
Repairs and maintenance	107,691	78,908	2,761	2,023	110,452	80,931
Stationery	87,892	106,137	2,254	2,721	90,146	108,858
Promotion and advertising	19,389	9,290	5,497	239	24,886	9,529
Remuneration of the board of directors', meeting fee and related expenses	-	-	3,451,702	3,016,138	3,451,702	3,016,138
Others	2,380,851	2,066,388	140,334	547,906	2,521,185	2,614,294
	44,031,162	36,717,611	5,916,638	5,855,144	49,947,800	42,572,755

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23. DIVIDEND, INTEREST AND COMMISSION INCOME

	Insurance operations		Shareholders' operations		Total	
	2022	2021	2022	2021	2022	2021
Investment held for trading						
Special commission income	601,461	740,663	1,023,789	1,181,821	1,625,250	1,922,484
Dividend income	225,612	258,628	355,096	397,922	580,708	656,550
Cash and short-term deposits						
Interest income	783,613	416,274	5,431,484	2,796,758	6,215,097	3,213,032
	1,610,686	1,415,565	6,810,369	4,376,501	8,421,055	5,792,066

24. ZAKAT AND INCOME TAX

a) Zakat

Charge for the year

The zakat charge relating to Saudi shareholders and principal elements of zakat base are as following:

	2022	2021
Equity	210,000,000	140,000,000
Opening provisions and other adjustments	57,102,141	119,977,153
Book value of long term assets, net of related financing	(56,366,679)	(49,580,435)
	210,735,462	210,396,718
Income subject to zakat	9,377,240	8,578,465
Zakat base	220,112,702	218,975,183

	2022	2021
Charge and provision for the year	6,220,520	5,638,068

The difference between the financial results and zakatable income is mainly due to adjustments for certain costs based on relevant regulations.

b) Income tax

Charge for the year

Income tax relating to the non-Saudi shareholders' consists of:

	2022	2021
Charge and provision for the year	933,943	735,297

Income tax has been provided for based on the estimated taxable profit at the rate of 20% per annum.

The differences between the financial results and taxable income are mainly due to adjustments for certain costs/claims based on the relevant fiscal regulations.

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24. ZAKAT AND INCOME TAX (CONTINUED)

c) Movement in the provision for Zakat and income tax during the year

The movement in zakat and income tax provision is as follows:

	2022	2021
At the beginning of the year	19,305,244	19,536,736
Provision for the year:		
-Zakat	6,220,520	5,638,068
-Income tax	933,943	735,297
Paid during the year	(10,908,953)	(6,604,857)
At the end of the year	15,550,754	19,305,244

The following is the founding shareholding percentage:

	2022	2021
Shareholding subject to zakat	70	70
Shareholding subject to income tax	30	30

d) Zakat and income tax assessments

In 2015, ZATCA raised final assessments for the years ended 31 December 2009 to 2012 and claimed additional zakat and income tax liability including withholding tax amounting to SAR 13.79 million. The management has filed an appeal against these assessments and believes that the outcome of this appeal will be in the favor of the Company. However, the Company paid SAR 14.9 million (including delay penalties and withholding tax) and also had furnished a bank guarantee of SAR 3.3 million in favor of ZATCA to avoid any further delay penalties until the appeal against the assessments is finalized. In 2021, the Company received final decision from General Secretariat of Tax Committees (GSTC) – Appellate Committee with settlement amount of SR 12.78 million (SR 3.4 million refundable against income tax and WHT from the additional amount of SR 14.9 million paid and SR 1.2 million payable against additional zakat). During the period, the Company had paid an additional zakat liability of SR 1.2 million. Based on it, the Company has filed a settlement letter with ZATCA and waiting their concurrence to it.

The Company has also received a provisional assessment for the years 2013 to 2015 where ZATCA had requested for an additional zakat and income tax liability of SAR 6.2 million. The management has filed an appeal against this assessment. However, the Company had submitted an additional bank guarantee amounting to SAR 6.2 million to cover the full additional liability and to avoid delay penalties. Furthermore, the company had settled the additional Zakat and tax liability for mentioned years with an amount of SR 5.4 million as had been finally resolved. Based on final settlement and with ZATCA approval, all guarantees amounting to SR 9.5 million have been liquidated / returned during the current year.

Furthermore, in 2020, ZATCA raised final assessments for the years ended 31 December 2016 to 2018 and assessed additional zakat and income tax liability amounting to SAR 10.6 million. The management filed an appeal with the ZATCA and the ZATCA issued a revised assessment with the additional zakat and income tax liability amounting to SR 8.5 million. Subsequently, based on the appeal filed by the Company against the revised assessments, the Tax violation and Dispute Resolution Committee (TVDR) partially accepted the Company's contentions, cancelled the additional tax liability, and reduced the additional zakat liability to SR 7.1 million. The Company has filed appeal against TVDR's unfavorable rulings with the Tax Violation and Dispute Appellate Committee (TVDAC). The management believes that the outcome of these appeal will be in the favor of the Company.

ZATCA in 2020 also raised a withholding tax assessment for the years 2016 and 2017 amounting to SR 6.8 million. The Company filed an appeal against the above-mentioned assessment which has been rejected by TVDR. The management of the Company has filed an appeal with TVDAC against the TVDR decision. The decision of TVDAC is awaiting and the management of the Company. Additionally, in March 2021, the Company settled the additional WHT liability amounting to SR 6.8 million under the tax amnesty scheme of waiving the delay fine if the principal amount is paid. The Company will request a refund of this amount after favorable outcome of the case.

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24. ZAKAT AND INCOME TAX (CONTINUED)

d) Zakat and income tax assessments (continued)

Furthermore, during the year 2021, ZATCA has raised assessment for the years 2019 and 2020 with additional tax and zakat liability of SR 7.3 million. The management of the Company filed an appeal with TVDRC against the assessment. During the year, the TVDRC has decided the appeal partially in the favor of the Company reducing the amount to SR 7 million. Currently, the management of the Company is in the process of filling a reconsideration request with the General Secretariat of Zakat, Tax and Custom Committees ("GSTC") and believes that the outcome of the appeal will be in the favor of the Company.

The Company has filed zakat and tax returns up to year ended 31 December 2021.

25. SHARE CAPITAL

The authorised, issued and paid-up share capital is SAR 300 million at 31 December 2022 and 2021 consist of 30 million shares of SAR 10 each.

Shareholding structure of the Company as at 31 December 2022 and 2021 are as below.

Shareholder	Country	Shareholding percentage	
		2022	2021
Chubb International Holding Co.	USA	30	30
El-Khereiji Investment Company	Saudi Arabia	25	20
El-Khereiji Real Estate	Saudi Arabia	-	5
International Corporation For Trade and Contract Services	Saudi Arabia	5	5
General Public	Saudi Arabia	40	40
		100	100

In 2021, the share capital of the Company was increased from SR 200 million to SR 300 million by way of issuance of bonus shares by granting one share for every two shares owned which was approved by shareholders in Extra Ordinary General Assembly meeting held on 14 July 2021 corresponding to 4 Dul Hijjah 1442H. The increase in share capital was funded by capitalizing of SR 100 million from the retained earnings. The legal formalities were completed in the same year.

26. STATUTORY RESERVE

In accordance with the Company's by-laws, the Company shall allocate 20% of its net income from shareholders' operations each year to the statutory reserve until it has built up a reserve equal to the share capital. The reserve is not available for distribution.

27. EARNINGS PER SHARE

Earnings per share for the year has been calculated by dividing the net income for the year by the weighted average number of outstanding shares during the year. The earnings per share for the corresponding years were adjusted to reflect the impact of bonus issue.

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28. GROSS WRITTEN PREMIUM

31 December 2022						
Class	Individual	Very small	Small	Medium	Corporate	Total
Motor	12,187,480	1,351,451	1,571,830	5,653,591	35,891,963	56,656,315
Saving and protection (term life)	-	-	158,784	415,888	12,769,736	13,344,408
Property, casualty and others	385,742	1,636,826	7,896,456	6,172,772	217,584,614	233,676,410
Total	12,573,222	2,988,277	9,627,070	12,242,251	266,246,313	303,677,133

31 December 2021						
Class	Individual	Very small	Small	Medium	Corporate	Total
Motor	10,706,307	1,128,625	2,061,615	5,822,527	42,938,579	62,657,653
Saving and protection (term life)	-	-	134,794	614,421	7,292,031	8,041,246
Property, casualty and others	312,387	1,966,961	6,156,092	7,160,931	204,286,517	219,882,888
Total	11,018,694	3,095,586	8,352,501	13,597,879	254,428,767	290,581,787

29. COMMITMENTS AND CONTINGENCIES

The Company's commitments and contingencies are as follows:

	2022	2021
Letters of guarantee	-	9,500,821

a) Legal proceedings

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business relating to policyholders' insurance claims. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material impact on the Company's results or financial position.

b) Capital commitments

As on 31 December 2022, the Company has capital commitment related to new software amounting to SR 3.55 million (31 December 2021: SR 3.55 million).

30. 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.

The Company manages its capital to ensure that it is able to continue as going concern and comply with the regulators' capital requirements of the markets in which the Company operates while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital, reserves and retained earnings.

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30. CAPITAL MANAGEMENT (CONTINUED)

As per guidelines laid out by SAMA in Article 66 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained, the Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

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

The solvency margin as at 31 December 2022 is 183% (2021: 184%). Further, the Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at 31 December 2022 consists of paid-up share capital of SAR 300 million, statutory reserves of SAR 40.87 million and retained earnings of SAR 23.69 million (31 December 2021: paid-up share capital of SAR 300 million, statutory reserves of SAR 39.93 million and retained earnings of SAR 19.94 million) in the statement of financial position.

In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial year.

31. SEGMENTAL INFORMATION

For management purposes, the Company is organized into business segments classified as: Property, Engineering, Motor, Marine, Term life and Casualty. These segments are the basis on which the Company reports its primary segment information. The Company has started to present marine and term life as a separate segment which was previously presented as others in the annual financial statements for the year ended 31 December 2021.

Consistent with the Company's internal reporting process, operating segments have been approved by Board of Directors in their function as Chief Operating Decision Maker ("CODM") in order to allocate resources to the segments and to assess their performance.

Segment results do not include allowance for doubtful debts, general and administrative expenses, dividend, interest and commission income, unrealised losses on disposal of investments held for trading, realized gains on investments held for trading and other income, net.

Segment assets do not include cash and cash equivalents, premiums and insurance balances receivable, amounts due from related parties, investments held for trading, investments available for sale, prepayments and other assets, term deposits, property and equipment, intangible asset, goodwill, statutory deposit and statutory deposit commission income. Accordingly, they are included in unallocated assets.

Segment liabilities and accumulated surplus do not include accounts payables, accrued expenses and other liabilities, reinsurance balances payable, end of service indemnities, statutory deposit commission income payable, provision for Zakat and income tax and re-measurement reserve of defined benefit obligation. Accordingly, they are included in unallocated liabilities.

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

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

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31. SEGMENTAL INFORMATION (CONTINUED)

Operating segments (continued)

Statement of Financial Position as at 31 December 2022	Property	Engineering	Motor	Casualty	Marine	Term life	Total – Insurance operations	Shareholders' operations	Total
Assets									
Reinsurers' share of unearned premiums	60,054,628	17,855,535	-	14,419,208	2,301,526	4,096,958	98,727,855	-	98,727,855
Reinsurers' share of outstanding claims	103,055,304	8,530,972	1,202,304	2,126,732	2,910,486	1,001,988	118,827,786	-	118,827,786
Reinsurers' share of claims incurred but not reported	26,290,455	14,541,906	-	6,198,228	1,398,588	1,769,655	50,198,832	-	50,198,832
Deferred policy acquisition costs	1,902,662	1,141,910	1,830,431	1,483,907	210,432	870,203	7,439,545	-	7,439,545
Unallocated assets							262,391,806	356,762,770	619,154,576
Total assets							537,585,824	356,762,770	894,348,594
Liabilities									
Unearned premiums	64,229,367	20,461,421	19,546,939	23,830,556	3,185,698	6,416,494	137,670,475	-	137,670,475
Unearned reinsurance commission	4,232,207	2,416,158	-	1,171,226	447,016	11	8,266,618	-	8,266,618
Outstanding claims	113,172,174	10,089,913	7,934,835	2,888,896	4,075,191	1,304,000	139,465,009	-	139,465,009
Claims incurred but not reported	27,706,367	16,655,871	5,879,141	8,882,123	1,887,301	2,488,628	63,499,431	-	63,499,431
Additional premium reserves	3,160,889	819,347	-	-	-	89,308	4,069,544	-	4,069,544
Other technical reserves	3,761,382	1,345,451	610,487	640,247	243,344	194,719	6,795,630	-	6,795,630
Unallocated liabilities							151,382,147	22,012,685	173,394,832
Total liabilities							511,148,854	22,012,685	533,161,539

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31. SEGMENTAL INFORMATION (CONTINUED)

Operating segments (continued)

Statement of Financial Position as at 31 December 31, 2021	Property	Engineering	Motor	Casualty	Marine	Term life	Total – Insurance operations	Shareholders’ operations	Total
Assets									
Reinsurers’ share of unearned premiums	60,357,923	23,471,727	-	13,395,379	3,483,219	1,993,107	102,701,355	-	102,701,355
Reinsurers’ share of outstanding claims	32,352,446	10,398,685	86,142	1,850,025	3,248,006	193,054	48,128,358	-	48,128,358
Reinsurers’ share of claims incurred but not reported	26,329,574	8,785,161	1,843,931	9,196,689	1,317,572	836,587	48,309,514	-	48,309,514
Deferred policy acquisition costs	1,679,340	1,181,383	1,310,832	1,548,647	212,896	496,379	6,429,477	-	6,429,477
Unallocated assets							246,027,749	357,620,527	603,648,276
Total assets							<u>451,596,453</u>	<u>357,620,527</u>	<u>809,216,980</u>
Liabilities									
Unearned premiums	63,191,113	25,670,598	17,987,476	21,743,629	4,978,720	3,430,344	137,001,880	-	137,001,880
Unearned reinsurance commission	4,820,622	2,659,161	-	1,204,779	446,428	-	9,130,990	-	9,130,990
Outstanding claims	34,293,222	12,896,469	4,050,646	3,902,058	4,966,308	377,700	60,486,403	-	60,486,403
Claims incurred but not reported	28,858,727	10,305,182	8,945,836	13,095,909	1,816,349	1,156,782	64,178,785	-	64,178,785
Additional premium reserves	788,741	948,394	1,072,131	-	-	15,456	2,824,722	-	2,824,722
Other technical reserves	2,530,294	921,438	603,414	827,582	236,473	74,010	5,193,211	-	5,193,211
Unallocated liabilities							148,068,599	25,630,756	173,699,355
Total liabilities							<u>426,884,590</u>	<u>25,630,756</u>	<u>452,515,346</u>

Geographical segments

All the assets and liabilities of the Company are located in the Kingdom of Saudi Arabia except for certain investments held in countries domiciled in the Gulf Cooperation Council (“GCC”).

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31. SEGMENTAL INFORMATION (CONTINUED)

*Statement of income for the year ended 31
December 2022*

	Property	Engineering	Motor	Casualty	Marine	Life	Total
REVENUES							
Gross premiums written	124,705,044	32,056,588	56,656,315	59,030,799	17,883,979	13,344,408	303,677,133
Less: Reinsurance premiums ceded							
Local	(5,946,563)	(2,808,128)	-	-	(1,278,003)	(786,667)	(10,819,361)
Foreign	(108,645,881)	(22,211,198)	-	(34,477,895)	(10,504,620)	(6,958,179)	(182,797,773)
Excess of loss expenses	(4,187,268)	(885,779)	(860,889)	(623,112)	(738,471)	(22,500)	(7,318,019)
Net premiums written	5,925,332	6,151,483	55,795,426	23,929,792	5,362,885	5,577,062	102,741,980
Changes in unearned premiums	(1,038,254)	5,209,177	(1,559,463)	(2,086,927)	1,793,022	(2,986,150)	(668,595)
Changes in reinsurers' share of unearned premiums	(303,295)	(5,616,192)	-	1,023,829	(1,181,693)	2,103,851	(3,973,500)
Net premiums earned	4,583,783	5,744,468	54,235,963	22,866,694	5,974,214	4,694,763	98,099,885
Reinsurance commission income	15,584,717	6,092,469	-	3,352,762	3,079,240	3,940	28,113,128
NET REVENUES	20,168,500	11,836,937	54,235,963	26,219,456	9,053,454	4,698,703	126,213,013
UNDERWRITING COSTS AND EXPENSES							
Gross claims paid	(3,981,005)	(4,017,335)	(33,030,588)	(6,070,117)	(4,898,122)	(3,704,718)	(55,701,885)
Expenses incurred related to claims	(134,994)	(250,821)	(780,434)	(157,244)	(318,783)	-	(1,642,276)
Reinsurers' share of gross claims paid	3,183,748	2,804,300	6	4,019,065	3,939,738	2,717,630	16,664,487
Net claims and other benefits paid	(932,251)	(1,463,856)	(33,811,016)	(2,208,296)	(1,277,167)	(987,088)	(40,679,674)
Changes in outstanding claims	(78,878,952)	2,806,556	(3,884,189)	1,013,162	891,117	(926,300)	(78,978,606)
Changes in reinsurers' share of outstanding claims	70,702,858	(1,867,713)	1,116,162	276,707	(337,520)	808,934	70,699,428
Changes in claims incurred but not reported ("IBNR")	1,152,360	(6,350,689)	3,066,695	4,213,786	(70,952)	(1,331,846)	679,354
Changes in reinsurers' share of IBNR	(39,119)	5,756,745	(1,843,931)	(2,998,461)	81,016	933,068	1,889,318
Net claims and other benefits incurred	(7,995,104)	(1,118,957)	(35,356,279)	296,898	(713,506)	(1,503,232)	(46,390,180)
Additional premium reserve	(2,372,148)	129,047	1,072,131	-	-	(73,852)	(1,244,822)
Other technical reserves	(1,231,088)	(424,013)	(7,073)	187,335	(6,871)	(120,709)	(1,602,419)
Policy acquisition costs	(6,691,021)	(2,457,082)	(4,414,199)	(3,766,447)	(1,053,033)	(1,415,155)	(19,796,937)
Other underwriting expenses	(801,339)	(211,044)	(5,306,110)	(531,986)	(148,094)	(78,976)	(7,077,549)
TOTAL UNDERWRITING COSTS AND EXPENSES	(19,090,700)	(4,082,049)	(44,011,530)	(3,814,200)	(1,921,504)	(3,191,924)	(76,111,907)
NET UNDERWRITING INCOME	1,077,800	7,754,888	10,224,433	22,405,256	7,131,950	1,506,779	50,101,106

**OTHER OPERATING (EXPENSES)/
INCOME**

Reversal for doubtful debts	222,614
General and administrative expenses	(49,947,800)
Dividend	580,708
Interest and commission income	7,840,347
Realized losses on investments held for trading	(100,833)
Unrealised losses on disposal of investments held for trading	(6,019,215)
Other income, net	10,719,130
TOTAL OTHER EXPENSES	(36,705,049)
Income before surplus, Zakat and income tax	13,396,057
Income attributed to insurance operations	(1,544,486)
Income attributed to the shareholders' before Zakat and income tax	11,851,571
Zakat charge	(6,220,520)
Income tax charge	(933,943)
Net income attributed to shareholders	4,697,108

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31. SEGMENTAL INFORMATION (CONTINUED)

*Statement of income for the year ended 31
December 2021*

	Property	Engineering	Motor	Casualty	Marine	Life	Total
REVENUE							
Gross premiums written	121,655,359	28,764,980	62,657,653	51,172,569	18,289,980	8,041,246	290,581,787
Less: Reinsurance premiums ceded							
Local	(5,680,283)	(2,604,008)	-	-	(643,692)	-	(8,927,983)
Foreign	(107,810,705)	(20,540,342)	(142)	(28,902,363)	(11,334,060)	(4,468,725)	(173,056,337)
Excess of loss expenses	(2,517,400)	(477,614)	(907,482)	(716,666)	(969,005)	(22,500)	(5,610,667)
Net premiums written	5,646,971	5,143,016	61,750,029	21,553,540	5,343,223	3,550,021	102,986,800
Change in unearned premiums	(2,544,551)	1,759,648	(1,196,790)	(2,002,733)	(1,002,789)	(1,180,698)	(6,167,913)
Change in reinsurers' share of unearned premiums	2,773,674	(2,576,799)	(3,471)	982,319	722,740	738,952	2,637,415
Net premiums earned	5,876,094	4,325,865	60,549,768	20,533,126	5,063,174	3,108,275	99,456,302
Reinsurance commission income	14,647,170	5,015,992	298	2,831,561	3,319,111	3,945	25,818,077
NET REVENUES	20,523,264	9,341,857	60,550,066	23,364,687	8,382,285	3,112,220	125,274,379
UNDERWRITING COSTS AND EXPENSES							
Gross claims paid	(18,723,617)	(4,580,787)	(40,640,298)	(14,409,840)	(6,636,697)	(3,685,240)	(88,676,479)
Expenses incurred related to claims	(333,642)	(205,500)	(963,384)	(18,838)	(338,355)	-	(1,859,719)
Reinsurers' share of gross claims paid	18,008,294	4,146,497	233,284	13,666,162	6,050,394	2,304,513	44,409,144
Net claims and other benefits paid	(1,048,965)	(639,790)	(41,370,398)	(762,516)	(924,658)	(1,380,727)	(46,127,054)
Changes in outstanding claims	(4,410,132)	(6,555,964)	(2,118,610)	4,684,709	(1,149,756)	359,316	(9,190,437)
Changes in reinsurers' share of outstanding claims	3,651,704	6,190,746	209,127	(4,214,398)	607,941	(175,453)	6,269,667
Changes in IBNR	(6,744,221)	(5,138,189)	(2,984,647)	(6,247,709)	(671,674)	(517,908)	(22,304,348)
Changes in reinsurers' share of IBNR	5,950,936	4,255,147	1,398,421	5,779,874	711,922	488,640	18,584,940
Net claims and other benefits incurred	(2,600,678)	(1,888,050)	(44,866,107)	(760,040)	(1,426,225)	(1,226,132)	(52,767,232)
Additional premium reserve	1,599,004	1,159,152	(487,746)	309,421	-	224,565	2,804,396
Other technical reserves	(399,571)	(442,046)	(205,100)	(186,941)	(60,928)	(16,086)	(1,310,672)
Policy acquisition costs	(5,616,735)	(1,903,994)	(4,220,182)	(3,143,540)	(912,790)	(721,715)	(16,518,956)
Other underwriting expenses	(863,841)	(134,126)	(3,490,449)	(379,083)	(303,541)	(72,478)	(5,243,518)
TOTAL UNDERWRITING COSTS AND EXPENSES	(7,881,821)	(3,209,064)	(53,269,584)	(4,160,183)	(2,703,484)	(1,811,846)	(73,035,982)
NET UNDERWRITING INCOME	12,641,443	6,132,793	7,280,482	19,204,504	5,678,801	1,300,374	52,238,397
OTHER (EXPENSES) / INCOME							
Reversal for impairment of doubtful debts							789,398
General and administrative expenses							(42,572,755)
Dividend							656,550
Interest and commission income							5,135,516
Realized losses on investments held for trading							7,099
Un-realised gains on disposal of investments held for trading							(1,865,714)
Other income, net							928,503
TOTAL OTHER EXPENSES							(36,921,403)
Income before surplus, Zakat and income tax							15,316,994
Income attributed to insurance operations							(1,781,366)
Income attributed to the shareholders' before Zakat and income tax							13,535,628
Zakat charge							(5,638,068)
Income tax charge							(735,297)
Net income attributed to shareholders							7,162,263

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32. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The management assessed that cash, bank balances and short-term deposits, receivables from policyholders/ /brokers/insurance/reinsurance companies and related parties, accounts payable, reinsurance balances payable, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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.

During the year, there has been no transfer between level 1, level 2 and level 3.

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

Financial instrument carried at fair value

	31 December 2022				
	Carrying value	Level 1	Level 2	Level 3	Total
Insurance operations	37,168,786	34,997,727	2,171,059	-	37,168,786
Shareholders' operations	58,993,203	54,244,684	2,816,441	1,932,078	58,993,203
	96,161,989	89,242,411	4,987,500	1,932,078	96,161,989

Financial instrument carried at fair value

	31 December 2021				
	Carrying value	Level 1	Level 2	Level 3	Total
Insurance operations	39,755,154	37,590,842	2,164,312	-	39,755,154
Shareholders' operations	64,327,602	59,587,836	2,807,688	1,932,078	64,327,602
	104,082,756	97,178,678	4,972,000	1,932,078	104,082,756

During the year, there has been no transfer between level 1, level 2 and level 3.

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33. RISK MANAGEMENT

a) Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organisational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board of Directors ("BOD"). The Company is exposed to insurance, reinsurance, regulatory framework, credit, liquidity, foreign currency, commission rate, market risks and operational risk.

Risk management structure

A cohesive organisational structure is established within the Company in order to identify, assess, monitor and control risks.

Board of Directors

The apex of risk governance is the centralised oversight of the Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Risk Management Committee

The Company has a Risk Management Committee in place. The Committee meets to review the reports of the Risk Manager to give advice and make recommendations on Company's enterprise-wide risk management to the BOD. The risks of each area are managed by the respective Line Managers and Departmental Heads. The Company continues to develop its risk management capability to ensure that an effective framework exists to support the management of all types of risk both currently and in future under SAMA's implementing rules and regulations. Elements of this framework include the regular identification and assessment of the key risks and controls as well as clearly defined ownership of both the risks and controls.

Senior management

Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

Audit Committee and Internal Audit Department

Risk management processes throughout the Company are audited annually by the Internal Audit Department which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Audit Department discusses the results of all assessments with senior management and reports its findings and recommendations directly to the Audit Committee.

The primary objective of the Company's risk management framework is to protect the Company from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

The risks faced by the Company and the manner in which these risks are mitigated by management are summarized below:

b) Insurance risk

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under such contracts is the occurrence of the insured events and the severity of reported claims. The Company's risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in a single subset.

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33. RISK MANAGEMENT (CONTINUED)

b) Insurance risk (continued)

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities. Underwriting and retention policies, procedures and limits and clear underwriting authorities precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local markets are closely observed, reacting were necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company's liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary. The placements of reinsurance contracts are diversified so that the Company is not dependent on a single reinsurer or a reinsurance contract.

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

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

The Company has a large insurance portfolio resulting in stable claims development patterns which relatively reduces the risk of fluctuations in the estimated ultimate claims. The short-tailed nature of the business is associated with higher consistency of the reserve estimates. The Company continually review the adequacy of claims reserves by conducting back-testing analysis, assessing the sufficiency of data, monitoring claims backlogs and settlement patterns. In addition, the external actuary runs independent valuation models after due reconciliation with financial statements to validate reserve adequacy.

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33. RISK MANAGEMENT (CONTINUED)

b) Insurance risk (continued)

ii. Process used to decide on assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral reasonable estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from surveyors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods. The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve in result of liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as at the statement of financial position date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

iii. Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The company has limited its risk by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors. The Company underwrites mainly property, engineering, motor, casualty, and marine classes. These classes of insurance except for long tail engineering policies are generally regarded as annual insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

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33. RISK MANAGEMENT (CONTINUED)

b) Insurance risk (continued)

iii. Frequency and severity of claims (continued)

(i) Property

Property insurance contracts, with the main perils being fire, accidental damage and other allied perils resulting therefrom, are underwritten either on a replacement value or an indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties and the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional as well as non-proportional treaties.

(ii) Engineering

The engineering business includes long tail Erection All Risks ("EAR") and Contractor All Risk ("CAR") policies and annual policies for Machinery Break Down ("MBD"), Machinery All Risk, Electronic Data Processing, Deterioration of Stock and Business Interruption in conjunction with MBD. The long tail EAR/CAR policies cover various projects for the whole project period. Selection of the risks and proper underwriting are the criteria for this profitable line of business. These are amply covered under the engineering proportional and non-proportional treaties.

(iii) Motor

For motor insurance contracts, the main elements of risk are claims arising out of insured vehicles as well as damage to third parties' properties. Further, death claims compensation have been made in accordance with the laws as applicable in the Kingdom of Saudi Arabia.

This risk is covered by per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

(iv) Casualty

For casualty class of insurance such as loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten. The extent of loss or damage is the main factor that influences the level of claims.

(v) Marine

In marine insurance, the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

Reinsurance arrangements have been made with reinsurers through proportional treaties as well as non-proportional treaties.

iv. Concentration of insurance risk

The insurance risk exposure related to policyholders is mainly concentrated in the Kingdom of Saudi Arabia. However, through its underwriting strategy, the Company ensures that the portfolio is well diversified and not concentrated within few large clients. Its business is proportionally spread across all regions in the Saudi Arabia, and the Company targets both corporate and retail business. The insurance portfolio is not concentrated in a specific benefit level (different deductibles, annual limits and sub-limits).

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33. RISK MANAGEMENT (CONTINUED)

b) Insurance risk (continued)

iv. Concentration of insurance risk (continued)

The Company believes that the claim liabilities under insurance contracts outstanding at year-end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process.

An assumed 5% change in the claims' ratio, net of reinsurance, would impact net underwriting income as follows:

	<u>2022</u>	<u>2021</u>
Impact of change in claim ratio by 5%	<u>2,319,509</u>	<u>2,638,362</u>

c) Reinsurance risk

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

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

Reinsurers are selected using the following parameters and guidelines set by the Company's Board of Directors and Reinsurance Committee. The criteria may be summarized as follows:

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

Furthermore, the financial strength and managerial and technical expertise as well as historical performance of the reinsurers, wherever applicable, are thoroughly reviewed by the Company and agreed to pre-set requirements of the Company's Board of Directors and Reinsurance Committee before approving them for exchange of reinsurance business. As at 31 December 2022 and 2021, there is no significant concentration of reinsurance balances. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

d) Market risk

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

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

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33. RISK MANAGEMENT (CONTINUED)

d) Market risk (continued)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year. As the Saudi Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

Commission rate risk

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

The Company is exposed to commission rate risk on certain of its time deposits, term deposits and investments held for trading. The Company limits commission rate risk by monitoring changes in commission rates.

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

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in commission rates on the Company's income for the year, based on the floating rate financial assets and financial liabilities held as at 31 December:

	Change in basis points	Effect on statement of income
2022	±25	± 799,054
2021	±25	±759,470

Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from commission rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company limits market risk by maintaining a diversified portfolio and by monitoring developments in equity market. The Company does not have significant market risk.

Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the investment committee. The effect on the statement of income as a result of a change in the fair value of the held for trading investments at 31 December 2022 due to a reasonable possible change in the equity prices, with all other variables held as constant is as follows:

	2022		2021	
<i>Change in equity price</i>	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
+5	488,433	808,535	529,737	937,935
-5	(488,433)	(808,535)	(529,737)	(937,935)

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33. RISK MANAGEMENT (CONTINUED)

e) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum exposure to credit risk of the Company is the carrying value as disclosed in the statement of financial position.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- The Company seeks to manage its credit risk with respect to customers by following the Company's credit control policy and monitoring outstanding receivables on an on-going basis in order to reduce the Company's exposure to bad debts. The management estimates specific impairment provisions on a case by case basis. In addition to specific provisions, the Company also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the premium's receivable. The Company only enters into insurance and reinsurance contracts with recognised credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company's investment portfolio is managed by the investment committee in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.
- There are no significant concentrations of credit risk within the Company.

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

	Insurance operations		Shareholders' operations		Total	
	2022	2021	2022	2021	2022	2021
Cash and cash equivalents	24,179,107	37,267,250	740,707	148,776,635	24,919,814	186,043,885
Term deposits	25,899,143	-	217,431,910	57,236,755	243,331,053	57,236,755
Premiums and insurance balances receivable, net	143,764,682	151,583,164	-	-	143,764,682	151,583,164
Investments held for trading	37,168,786	39,755,154	57,061,125	62,395,524	94,229,911	102,150,678
Investments available for sale	-	-	1,932,078	1,932,078	1,932,078	1,932,078
Reinsurers' share of outstanding claims	118,827,786	48,128,358	-	-	118,827,786	48,128,358
Other assets	10,420,932	2,466,257	2,615,708	10,754,264	13,036,640	13,220,521
Statutory deposit	-	-	30,000,000	30,000,000	30,000,000	30,000,000
Accrued income on statutory deposit	-	-	2,862,640	2,406,669	2,862,640	2,406,669
	360,260,436	279,200,183	312,644,168	313,501,925	672,904,604	592,702,108

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33. RISK MANAGEMENT (CONTINUED)

e) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade ratings refers to companies with sound credit standing of AAA to BBB- (as per S&P) and/or AAAT to Baa3 (as per Moody's). Ratings below the mentioned threshold or unrated as taken as unrated.

	2022	2021	2022	2021
	Investment		Unrated	
	Grade			
Cash and cash equivalents	24,919,814	186,043,885	-	-
Premiums receivable – net	-	-	143,764,682	151,583,164
Reinsurers' share of outstanding claims	118,827,786	48,128,358	-	-
Investments	94,229,911	102,150,678	1,932,078	1,932,078
Term deposits	243,331,053	57,236,755	-	-
Other receivables	3,236,609	10,802,600	9,800,031	2,417,921
Statutory deposit	30,000,000	30,000,000	-	-
Accrued income on statutory deposit	2,862,640	2,406,669	-	-
	517,407,813	436,768,945	155,496,791	155,933,163

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits, available for sale and held for trading investments.

Maturity profiles

The tables below summarizes the maturity profile of the financial assets and financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

2022	Up to one year	More than one year	Total
INSURANCE OPERATIONS' FINANCIAL ASSETS			
Cash and cash equivalents	24,179,107	-	24,179,107
Term deposits	25,899,143	-	25,899,143
Investments held for trading	37,168,786	-	37,168,786
Premiums and insurance balances receivable	143,764,682	-	143,764,682
Reinsurers' share of outstanding claims	118,827,786	-	118,827,786
Other assets	10,420,932	-	10,420,932
	360,260,436	-	360,260,436

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33. RISK MANAGEMENT (CONTINUED)

e) Credit risk (continued)

Maturity profiles (continued)

2021	Up to one year	More than one year	Total
INSURANCE OPERATIONS' FINANCIAL ASSETS			
Cash and cash equivalents	37,267,250	-	37,267,250
Investments held for trading	39,755,154	-	39,755,154
Premiums and insurance balances receivable	151,583,164	-	151,583,164
Reinsurers' share of outstanding claims	48,128,358	-	48,128,358
Other assets	2,466,257	-	2,466,257
	279,200,183	-	279,200,183
SHAREHOLDERS FINANCIAL ASSETS			
	2022		
Cash and cash equivalents	740,707	-	740,707
Term deposits	217,431,910	-	217,431,910
Investments available for sale	1,932,078	-	1,932,078
Investments held for trading	57,061,125	-	57,061,125
Other assets	2,615,708	-	2,615,708
Statutory deposit	30,000,000	-	30,000,000
Accrued income on statutory deposit	2,862,640	-	2,862,640
	312,644,168	-	312,644,168
SHAREHOLDERS FINANCIAL ASSETS			
	2021		
Cash and cash equivalents	148,776,635	-	148,776,635
Term deposits	57,236,755	-	57,236,755
Investments available for sale	1,932,078	-	1,932,078
Investments held for trading	62,395,524	-	62,395,524
Other assets	10,754,264	-	10,754,264
Statutory deposit	30,000,000	-	30,000,000
Accrued income on statutory deposit	2,406,669	-	2,406,669
	313,501,925	-	313,501,925
INSURANCE OPERATIONS' FINANCIAL LIABILITIES			
	2022		
Gross outstanding claims	139,465,009	-	139,465,009
Reinsurance balances payable	93,622,626	-	93,622,626
Accounts payable	34,881,824	-	34,881,824
Accrued expenses and other liabilities	9,070,306	-	9,070,306
Surplus distribution payable	2,024,445	-	2,024,445
	279,064,210	-	279,064,210
SHAREHOLDERS' FINANCIAL LIABILITIES			
Accrued expenses and other liabilities	3,599,291	-	3,599,291
Accrued commission income payable	2,862,640	-	2,862,640
	6,461,931	-	6,461,931

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33. RISK MANAGEMENT (CONTINUED)

e) Credit risk (continued)

Maturity profiles (continued)

	2021		
	Up to one year	More than one year	Total
INSURANCE OPERATIONS' FINANCIAL LIABILITIES			
Gross outstanding claims	60,486,403	-	60,486,403
Reinsurance balances payable	85,044,497	-	85,044,497
Accounts payable	41,043,098	-	41,043,098
Accrued expenses and other liabilities	8,832,716	-	8,832,716
Surplus distribution payable	2,180,026	-	2,180,026
	197,586,740	-	197,586,740
SHAREHOLDERS' FINANCIAL LIABILITIES			
Accrued expenses and other liabilities	3,918,843	-	3,918,843
Accrued commission income payable	2,406,669	-	2,406,669
	6,325,512	-	6,325,512

Liquidity profile

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above.

f) Operational risk

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

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

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

g) Regulatory framework risk

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

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34. SUPPLEMENTARY INFORMATION

As required by the Implementing Regulations, the statement of financial position, statement of income and statement of cash flows are separately disclosed for both insurance operations and shareholders' operations are as follows:

a) Statement of financial position

	31 December 2022			31 December 2021		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Cash and cash equivalents	24,179,107	740,707	24,919,814	37,267,250	148,776,635	186,043,885
Premiums and insurance balances receivable - net	143,764,682	-	143,764,682	151,583,164	-	151,583,164
Reinsurers' share of unearned premiums	98,727,855	-	98,727,855	102,701,355	-	102,701,355
Reinsurers' share of outstanding claims	118,827,786	-	118,827,786	48,128,358	-	48,128,358
Reinsurers' share of claims incurred but not reported	50,198,832	-	50,198,832	48,309,514	-	48,309,514
Deferred policy acquisition costs	7,439,545	-	7,439,545	6,429,477	-	6,429,477
Investments held for trading	37,168,786	57,061,125	94,229,911	39,755,154	62,395,524	102,150,678
Investments available for sale	-	1,932,078	1,932,078	-	1,932,078	1,932,078
Prepaid expenses and other assets	24,267,836	2,959,560	27,227,396	12,299,818	11,098,116	23,397,934
Term deposits	25,899,143	217,431,910	243,331,053	-	57,236,755	57,236,755
Property and equipment	2,704,838	-	2,704,838	2,323,765	-	2,323,765
Intangible asset	4,407,414	-	4,407,414	2,798,598	-	2,798,598
Goodwill	-	43,774,750	43,774,750	-	43,774,750	43,774,750
Statutory deposit	-	30,000,000	30,000,000	-	30,000,000	30,000,000
Accrued income on statutory deposit	-	2,862,640	2,862,640	-	2,406,669	2,406,669
Amounts due from insurance operations	-	29,811,537	29,811,537	-	27,874,743	27,874,743
TOTAL ASSETS	537,585,824	386,574,307	924,160,131	451,596,453	385,495,270	837,091,723
Less: inter-operations elimination	-	(29,811,537)	(29,811,537)	-	(27,874,743)	(27,874,743)
TOTAL ASSETS AS PER STATEMENT OF FINANCIAL POSITION	537,585,824	356,762,770	894,348,594	451,596,453	357,620,527	809,216,980

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34. SUPPLEMENTARY INFORMATION (CONTINUED)

a) Statement of financial position (continued)

	31 December 2022			31 December 2021		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Accounts payable	34,881,824	-	34,881,824	41,043,098	-	41,043,098
Accrued and other liabilities	9,070,306	3,599,291	12,669,597	8,832,716	3,918,843	12,751,559
Surplus distribution payable	2,024,445	-	2,024,445	2,180,026	-	2,180,026
Reinsurers' balances payable	93,622,626	-	93,622,626	85,044,497	-	85,044,497
Unearned premiums	137,670,475	-	137,670,475	137,001,880	-	137,001,880
Unearned reinsurance commission	8,266,618	-	8,266,618	9,130,990	-	9,130,990
Outstanding claims	139,465,009	-	139,465,009	60,486,403	-	60,486,403
Claims incurred but not reported	63,499,431	-	63,499,431	64,178,785	-	64,178,785
Additional premium reserves	4,069,544	-	4,069,544	2,824,722	-	2,824,722
Other technical reserves	6,795,630	-	6,795,630	5,193,211	-	5,193,211
End-of-service indemnities	11,782,946	-	11,782,946	10,968,262	-	10,968,262
Zakat and income tax	-	15,550,754	15,550,754	-	19,305,244	19,305,244
Accrued commission income payable to SAMA	-	2,862,640	2,862,640	-	2,406,669	2,406,669
Amounts due to shareholders' operations and insurance operations	29,811,537	-	29,811,537	27,874,743	-	27,874,743
TOTAL LIABILITIES	540,960,391	22,012,685	562,973,076	454,759,333	25,630,756	480,390,089
Less: inter-operations elimination	(29,811,537)	-	(29,811,537)	(27,874,743)	-	(27,874,743)
TOTAL LIABILITIES AS PER STATEMENT OF FINANCIAL POSITION	511,148,854	22,012,685	533,161,539	426,884,590	25,630,756	452,515,346
TOTAL EQUITY						
Share capital	-	300,000,000	300,000,000	-	300,000,000	300,000,000
Statutory reserve	-	40,867,123	40,867,123	-	39,927,701	39,927,701
Retained earnings	-	23,694,501	23,694,501	-	19,936,815	19,936,815
Re-measurement reserve of end-of-service indemnities	(3,374,569)	-	(3,374,569)	(3,162,882)	-	(3,162,882)
TOTAL EQUITY	(3,374,569)	364,561,624	361,187,055	(3,162,882)	359,864,516	356,701,634
TOTAL LIABILITIES AND EQUITY	507,774,285	386,574,309	894,348,594	423,721,708	385,495,272	809,216,980

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34. SUPPLEMENTARY INFORMATION (CONTINUED)

b) Statement of income

	Year ended 31 December 2022			Year ended 31 December 2021		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
REVENUE						
Gross premiums written	303,677,133	-	303,677,133	290,581,787	-	290,581,787
Less: Reinsurance premiums ceded						
Local	(10,819,361)	-	(10,819,361)	(8,927,983)	-	(8,927,983)
Foreign	(182,797,773)	-	(182,797,773)	(173,056,337)	-	(173,056,337)
Excess of loss expenses	(7,318,019)	-	(7,318,019)	(5,610,667)	-	(5,610,667)
Net premiums written	102,741,980	-	102,741,980	102,986,800	-	102,986,800
Changes in unearned premiums	(668,595)	-	(668,595)	(6,167,913)	-	(6,167,913)
Changes in reinsurers' share of unearned premiums	(3,973,500)	-	(3,973,500)	2,637,415	-	2,637,415
Net premiums earned	98,099,885	-	98,099,885	99,456,302	-	99,456,302
Reinsurance commission income	28,113,128	-	28,113,128	25,818,077	-	25,818,077
NET REVENUES	126,213,013	-	126,213,013	125,274,379	-	125,274,379
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	(55,701,885)	-	(55,701,885)	(88,676,479)	-	(88,676,479)
Expenses incurred related to claims	(1,642,276)	-	(1,642,276)	(1,859,719)	-	(1,859,719)
Reinsurers' share of gross claims paid	16,664,487	-	16,664,487	44,409,144	-	44,409,144
Net claims and other benefits paid	(40,679,674)	-	(40,679,674)	(46,127,054)	-	(46,127,054)
Changes in outstanding claims	(78,978,606)	-	(78,978,606)	(9,190,437)	-	(9,190,437)
Changes in reinsurance share of outstanding claims	70,699,428	-	70,699,428	6,269,667	-	6,269,667
Changes in claims incurred but not reported ("IBNR")	679,354	-	679,354	(22,304,348)	-	(22,304,348)
Changes in reinsurance share of IBNR	1,889,318	-	1,889,318	18,584,940	-	18,584,940
Net claims and other benefits incurred	(46,390,180)	-	(46,390,180)	(52,767,232)	-	(52,767,232)
Additional premium reserves	(1,244,822)	-	(1,244,822)	2,804,396	-	2,804,396
Other technical reserves	(1,602,419)	-	(1,602,419)	(1,310,672)	-	(1,310,672)
Policy acquisition costs	(19,796,937)	-	(19,796,937)	(16,518,956)	-	(16,518,956)
Other underwriting expenses	(7,077,549)	-	(7,077,549)	(5,243,518)	-	(5,243,518)
TOTAL UNDERWRITING COSTS AND EXPENSES	(76,111,907)	-	(76,111,907)	(73,035,982)	-	(73,035,982)
NET UNDERWRITING INCOME	50,101,106	-	50,101,106	52,238,397	-	52,238,397

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34. SUPPLEMENTARY INFORMATION (CONTINUED)

b) Statement of income (continued)

	Year ended 31 December 2022			Year ended 31 December 2021		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
OTHER OPERATING (EXPENSES) / INCOME						
Reversal of allowance for impairment of doubtful debts	222,614	-	222,614	789,398	-	789,398
General and administrative expenses	(44,031,162)	(5,916,638)	(49,947,800)	(36,717,611)	(5,855,144)	(42,572,755)
Dividend	225,612	355,096	580,708	258,628	397,922	656,550
Interest and commission income	1,385,074	6,455,273	7,840,347	1,156,937	3,978,579	5,135,516
Realised gains / (losses) on disposal of investments held for trading	(64,879)	(35,954)	(100,833)	3,101	3,998	7,099
Unrealised losses on investments held for trading	(3,112,638)	(2,906,577)	(6,019,215)	(843,695)	(1,022,019)	(1,865,714)
Other income	10,719,130	-	10,719,130	928,503	-	928,503
TOTAL OTHER (EXPENSES) / INCOME	(34,656,249)	(2,048,800)	(36,705,049)	(34,424,739)	(2,496,664)	(36,921,403)
Income / (loss) before surplus, Zakat and income tax	15,444,857	(2,048,800)	13,396,057	17,813,658	(2,496,664)	15,316,994
Surplus transferred to shareholders	(13,900,371)	13,900,371	-	(16,032,292)	16,032,292	-
Net Income for the year before Zakat and tax	1,544,486	11,851,571	13,396,057	1,781,366	13,535,628	15,316,994
Zakat	-	(6,220,520)	(6,220,520)	-	(5,638,068)	(5,638,068)
Income tax	-	(933,943)	(933,943)	-	(735,297)	(735,297)
Net result from insurance operations after shareholders' transfer of	1,544,486	4,697,108	6,241,594	1,781,366	7,162,263	8,943,629
Weighted average number of outstanding shares		30,000,000			30,000,000	
Earnings per share for the year (restated)		0.16			0.24	

c) Statement of comprehensive income

	Year ended 31 December 2022			Year ended 31 December 2021		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Net result from insurance operations after shareholders' transfer of surplus to shareholders	1,544,486	4,697,108	6,241,594	1,781,366	7,162,263	8,943,629
Items that will not be reclassified to statement of income comprehensive income	(211,687)	-	(211,687)	(578,933)	-	(578,933)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,332,799	4,697,108	6,029,907	1,202,433	7,162,263	8,364,696

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34. SUPPLEMENTARY INFORMATION (CONTINUED)

d) Statement of cash flows

	31 December 2022			31 December 2021		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Cash flows from operating activities						
Net income before zakat and income tax for the year	1,544,486	11,851,571	13,396,057	1,781,366	13,535,628	15,316,994
Adjustments for:						
Depreciation on property and equipment	676,043	-	676,043	419,464	-	419,464
Depreciation on right of use assets	-	-	-	1,078,499	-	1,078,499
Amortization of intangible asset	354,445	-	354,445	254,569	-	254,569
Gain on sale of property and equipment	-	-	-	(4,000)	-	(4,000)
Reversal for doubtful debts	(222,614)	-	(222,614)	(789,398)	-	(789,398)
Unrealised losses on investments held for trading	3,112,638	2,906,577	6,019,215	843,695	1,022,019	1,865,714
Realised losses / (gains) on disposal of investments held for trading	64,879	35,954	100,833	(3,101)	(3,998)	(7,099)
Interest on lease liabilities	-	-	-	3,563	-	3,563
Provision for end-of-service indemnities	1,717,289	-	1,717,289	1,445,390	-	1,445,390
	7,247,166	14,794,102	22,041,268	5,030,047	14,553,649	19,583,696
Changes in:						
Premiums and insurance balances receivable	8,041,096	-	8,041,096	(15,812,975)	-	(15,812,975)
Reinsurers' share of unearned premiums	3,973,500	-	3,973,500	(2,637,415)	-	(2,637,415)
Reinsurers' share of outstanding claims	(70,699,428)	-	(70,699,428)	(6,269,667)	-	(6,269,667)
Reinsurers' share of claims incurred but not reported	(1,889,318)	-	(1,889,318)	(18,584,940)	-	(18,584,940)
Deferred policy acquisition costs	(1,010,068)	-	(1,010,068)	(798,979)	-	(798,979)
Prepaid expenses and other assets	(12,448,686)	8,138,556	(4,310,130)	(7,112,310)	(889,835)	(8,002,145)
Accounts payable	(6,161,274)	-	(6,161,274)	16,503,482	-	16,503,482
Accrued and other liabilities	237,590	(319,552)	(81,962)	(7,806,421)	441,511	(7,364,910)
Reinsurers' balances payable	8,578,129	-	8,578,129	(994,412)	-	(994,412)
Unearned premiums	668,595	-	668,595	6,167,913	-	6,167,913
Unearned reinsurance commission	(864,372)	-	(864,372)	790,301	-	790,301
Outstanding claims	78,978,606	-	78,978,606	9,190,437	-	9,190,437
Claims incurred but not reported	(679,354)	-	(679,354)	22,304,348	-	22,304,348
Additional premium reserves	1,244,822	-	1,244,822	(2,804,396)	-	(2,804,396)
Other technical reserves	1,602,419	-	1,602,419	1,310,672	-	1,310,672
Cash generated from / (used in) operating activities	16,819,423	22,613,106	39,432,529	(1,524,315)	14,105,325	12,581,010
Surplus paid to policyholders	(1,700,067)	-	(1,700,067)	(4,606,520)	-	(4,606,520)
Zakat and income tax paid	-	(10,908,953)	(10,908,953)	-	(6,604,857)	(6,604,857)
End-of-service indemnities paid	(1,114,292)	-	(1,114,292)	(393,040)	-	(393,040)
Net cash generated from / (used in) operating activities	14,005,064	11,704,153	25,709,217	(6,523,875)	7,500,468	976,593

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34. SUPPLEMENTARY INFORMATION (CONTINUED)

d) Statement of cash flows (continued)

	31 December 2022			31 December 2021		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Cash flows from investing activities						
Purchase of investments held for trading	(6,862,169)	(8,231,396)	(15,093,565)	(8,405,791)	(12,145,756)	(20,551,547)
Proceeds from disposal of investments held for trading	6,271,020	10,623,264	16,894,284	7,915,357	10,268,326	18,183,683
Additions in term deposits	(25,899,143)	(554,343,625)	(580,242,768)	-	(57,236,755)	(57,236,755)
Proceeds from term deposits	-	394,148,470	394,148,470	25,333,510	99,015,022	124,348,532
Proceeds from sale of property and equipment	-	-	-	4,000	-	4,000
Purchase of property and equipment	(1,057,116)	-	(1,057,116)	(1,836,788)	-	(1,836,788)
Purchase of intangibles assets	(1,482,593)	-	(1,482,593)	(2,515,248)	-	(2,515,248)
Net cash (used in) / generated from investing activities	(29,030,001)	(157,803,287)	(186,833,288)	20,495,040	39,900,837	60,395,877
Cash flows from financing activities						
Statutory deposits	-	-	-	-	(10,000,000)	(10,000,000)
Payment under lease liabilities	-	-	-	(1,122,227)	-	(1,122,227)
Interoperation balances	(1,936,794)	1,936,794	-	(14,846,109)	14,846,109	-
Net cash (used in) / from financing activities	(1,936,794)	1,936,794	-	(15,968,336)	4,846,109	(11,122,227)
Net (decrease) / increase in cash and cash equivalents	(13,088,143)	(148,035,928)	(161,124,071)	(1,997,171)	52,247,414	50,250,243
Cash and cash equivalents at 1 January	37,267,250	148,776,635	186,043,885	39,264,419	96,529,223	135,793,642
Cash and cash equivalents at 31 December	24,179,107	740,707	24,919,814	37,267,248	148,776,637	186,043,885
NON-CASH TRANSACTIONS:						
Re-measurement reserve of defined benefit obligation	(211,687)	-	(211,687)	(578,933)	-	(578,933)
Transferred to intangible assets from prepayments	480,668	-	480,668	-	-	-
Additional capital through bonus shares	-	-	-	-	100,000,000	100,000,000

CHUBB ARABIA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

(All amounts expressed in Saudi Riyals unless otherwise stated)

35. EVENTS AFTER THE REPORTING DATE

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to 30 June 2022) (hereinafter referred as "the Law") came into force on 26/6/1444H (corresponding to 19 January 2023). For certain provisions of the Law, full compliance is expected not later than two years from 26/6/1444H (corresponding to 19 January 2023). The management is in process of assessing the impact of the New Companies Law and will amend its articles of association for any changes to align the articles to the provisions of the Law.

Except for subsequent event mentioned above, there are no other significant subsequent event occurred between 31 December 2022 and the date of approval of these financial statements, which may have material impact on these financial statements.

36. COMPARATIVE FIGURES RECLASSIFICATIONS

During the year, management has reclassified the presentation of dividend income by presenting it separately from interest and commission income in the statement of income for better presentation. Accordingly, dividend income amounting to SR 656,550 for the year ended 31 December 2021 has been reclassified to confirm with current period presentation.

The above reclassifications did not have any effect on the statement of financial position, total comprehensive income and earnings per share.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the board of directors, on 24 Sha'ban 1444H, corresponding to 16 March 2023.