UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
31 DECEMBER 2022

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2022

KPMG Professional Service
Zahran Business Center
Prince Sultan Street
P.O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
Headquarter in Riyadh

Crowe
AlAzem, AlSudairy, AlShaikh and Partners
For Professional Consulting
Member of Crowe Global
P.O.Box 10504 Riyadh 11443

Independent auditors' report

To the Shareholders of United Cooperative Assurance Company
Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **United Cooperative Assurance Company** (the "Company"), which comprise the statement of financial position as at 31 December 2022 and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising 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 ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") .

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the 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 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.

Material uncertainty related to Going Concern

We draw attention to Note 2(b) of the financial statements, which indicates that the Company incurred a net loss of SR 42.86 million during the year ended 31 December 2022 and, as of that date, the Company's accumulated losses amounted to SR 192.61 million which represents 48% of the share capital. These conditions along with other matters as set forth in note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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Independent auditors' report

To the Shareholders of United Cooperative Assurance Company (continued)

Key Audit Matter (continued)

Key audit matter	How the matter was addressed in our audit
Valuation of ultimate claim liability arising from insurance contract As at 31 December 2022, gross outstanding claims, claims incurred but not reported (IBNR) and other reserves amounted to SAR 121.62 million and SAR 37.11 million. The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the best-estimate of the ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling costs. The Company principally uses an external actuary ("management's expert") to provide them with the estimate of such liabilities. A range of methods were used to determine these provisions which were based on a number of explicit or implicit assumptions relating to the expected settlement amounts and settlement patterns of claims. We considered this as a key audit matter as the valuation of insurance contract liabilities require the use of significant judgement and estimates. *Refer to note 2(e) which which contains the disclosure of critical accounting judements, estimates and assumptions relating to the ultimate liability arising from claims under insurance contracts and note 3, which discloses accounting policies for claims.*	We performed the following procedures: ▪ understood, evaluated and tested key controls around the claims handling and provisioning process; ▪ test on a sample basis the amounts recorded for claims reported and paid; including comparing the gross outstanding claims amount to appropriate source documentation to evaluate the valuation of gross outstanding claim reserves; ▪ evaluated the competence, capabilities and objectivity of the management's actuarial expert based on their professional qualifications and experience and assessed their independence ▪ checked the completeness and accuracy of the underlying data used by the management in estimating the insurance contract liabilities; ▪ engaged our actuarial specialists to assess the methodology and reasonableness of the key assumptions and judgments used by the management in determining the insurance contract liabilities; and ▪ assessed the adequacy and appropriateness of the related disclosures in the financial statements

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Independent auditors' report

To the Shareholders of United Cooperative Assurance Company (Continued)

Key Audit Matter (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
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Impairment of goodwill

As of 31 December 2022, carrying value of the goodwill amounted to SR 78.4 million, which represents the fair value of the consideration paid in excess of the fair value of assets and liabilities acquired as described in note 24.

For impairment testing, assets are grouped into the smallest group of assets that generates cash flows from continuing use (cash-generating unit or CGU), which are largely independent of other assets or other CGUs.

Management engaged an independent expert to carry out an impairment exercise as at 31 December 2022 in respect of goodwill by determining a recoverable amount based on market multiple approach and the value-in-use derived from a discounted cashflow model, which was based on the most recent business plan prepared by the management.

We considered the impairment assessment of goodwill as a key audit matter due to significant judgments and assumptions made by the management in determining the appropriate carrying values.

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Our audit procedures included the following;

- Obtained an understanding of management's process and the methodology for the impairment assessment of goodwill;
- evaluated the appropriateness of the methodology used by an external specialist ("management's expert") to assess the impairment of goodwill and conclusion reached therein;
- evaluated the competence, capabilities and objectivity of the management's external expert based on their professional qualifications and experience and assessed their independence.
- Assessed the reliability and relevance of data used to calculate value-in-use calculations;
- engaged our specialist to assess the reasonableness of the key assumptions used in the value in use calculation; and
- assessed the adequacy and appropriateness of the related disclosures in the financial statements.

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Independent auditors' report

To the Shareholders of United Cooperative Assurance Company (Continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the 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 as endorsed in KSA, the applicable requirements of the 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 (ie the Board of Directors) are responsible for overseeing the Company's financial reporting process.

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Independent auditors' report

To the Shareholders of United Cooperative Assurance Company (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs that are endosred 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 of **United Cooperative Assurance Company** ("The Company").

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.

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Independent auditors' report

To the Shareholders of United Cooperative Assurance Company (Continued)

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

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 for 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.

Report on other Legal and Regulatory Requirements

We draw attention to note 2(b) of the financial statements which describes that the Company has not complied with the applicable requirements of Article 66 and Article 68(2) of the Implementing Regulations of the Cooperative Insurance Companies Control Law which prescribe the minimum solvency margin requirement for the Company and the measures to be implemented by Company in case the solvency margin falls below the specified requirements

For KPMG Professional Service

Naseer Ahmed Al Shutairy
License No. 454

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

Abdullah M. AlAzem
License No. 335

Jeddah, Kingdom of Saudi Arabia
Date: 30 March 2023
Corresponding to 08 Ramadan 1444H

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Notes	31 December 2022	2021
		SAR'000	
ASSETS			
Cash and cash equivalents	4	**83,980**	87,769
Premiums and reinsurers' receivable – net	5	**181,570**	156,051
Reinsurers' share of unearned premiums	21.2	**229,048**	91,978
Reinsurers' share of outstanding claims	13, 21.1	**19,744**	36,506
Reinsurers' share of claims incurred but not reported	13, 21.1	**33,408**	114,849
Deferred policy acquisition cost	7	**23,824**	10,571
Investments	6	**234,227**	250,526
Prepaid expenses and other assets	8	**80,604**	60,335
Property and equipment – net	9	**10,482**	9,122
Intangible assets	10	**12,715**	9,813
Right-of-use assets – net	23.1	**6,178**	7,089
Goodwill	24	**78,400**	78,400
Statutory deposit	16	**60,000**	60,000
Accrued commission income on statutory deposit		**6,712**	5,396
TOTAL ASSETS		**1,060,892**	978,405

Deputy Chief Financial Officer   Chief Executive Officer   Director

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION – (continued)
AS AT 31 DECEMBER 2022

	Notes	31 December 2022	31 December 2021
		SAR'000	
LIABILITIES			
Policyholders payable		**20,703**	24,100
Accrued and other liabilities	14	**97,320**	68,985
Reinsurers balances payable		**106,206**	95,067
Unearned premiums	21.2	**367,483**	185,439
Unearned reinsurance commission	11	**46,723**	15,683
Outstanding claims	13	**62,380**	83,964
Claims incurred but not reported	13	**59,238**	140,599
Premium deficiency reserve	21.1	**22,250**	25,378
Other technical reserves	21.1, 22	**14,855**	16,176
Employees' defined benefit obligations	26	**9,686**	10,029
Lease liabilities	23.2	**5,841**	6,187
Surplus from insurance operations		**37,053**	37,053
Zakat and income tax payable	29.2	**12,808**	14,846
Accrued commission income on statutory deposit payable to SAMA		**6,712**	5,396
TOTAL LIABILITIES		**869,258**	728,902
Fair value reserve on investments - insurance operations		**(13,999)**	(3,546)
TOTAL LIABILITIES AND INSURANCE OPERATIONS RESERVE		**855,259**	725,356
EQUITY			
Share capital	30	**400,000**	400,000
Accumulated losses		**(192,613)**	(149,752)
Fair value reserve on investments		**(5,979)**	(133)
Re-measurement reserve of employees' defined benefit obligations		**4,225**	2,934
TOTAL EQUITY		**205,633**	253,049
TOTAL LIABILITIES, INSURANCE OPERATIONS RESERVE AND EQUITY		**1,060,892**	978,405
COMMITMENTS AND CONTINGENCIES	17	**22,396**	22,396

Deputy Chief Financial Officer   Chief Executive Officer   Director

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	For the year ended 31 December 2022	2021
		SAR'000	
REVENUES			
Gross premiums written	21.2	**821,844**	409,756
Reinsurance premiums ceded			
- Local		**(62,929)**	(26,743)
- Foreign		**(441,036)**	(198,526)
	21.2	**(503,965)**	(225,269)
Reinsurance excess of loss expenses			
- Local		**(2,213)**	(1,874)
- Foreign		**(9,789)**	(7,333)
	21.2	**(12,002)**	(9,207)
Net premiums written		**305,877**	175,280
Changes in unearned premiums – net	12	**(44,974)**	(607)
Net premiums earned		**260,903**	174,673
Reinsurance commissions earned	11	**50,002**	44,202
TOTAL REVENUES		**310,905**	218,875
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	13	**356,370**	264,721
Reinsurers' share of claims paid	13	**(99,699)**	(90,807)
Net claims paid		**256,671**	173,914
Changes in outstanding claims – net		**(4,822)**	26,257
Changes in claims incurred but not reported – net		**80**	(17,735)
Net claims incurred	13	**251,929**	182,436
Premium deficiency reserve		**(3,127)**	(370)
Other technical reserves		**(1,321)**	2,798
Policy acquisition cost	7	**37,052**	23,082
Other underwriting expenses		**4,074**	3,296
TOTAL UNDERWRITING COSTS AND EXPENSES		**288,607**	211,242
NET UNDERWRITING RESULT		**22,298**	7,633

Deputy Chief Financial Officer

Chief Executive Officer

Director

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

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

	Notes	For the year ended 31 December 2022	2021
		SAR'000	
OTHER OPERATING (EXPENSES) / INCOME			
General and administrative expenses	18	**(87,362)**	(92,657)
Release of provision for doubtful receivables	5	**3,321**	9,158
Board remuneration		**(2,097)**	(1,972)
Investment income	19	**8,623**	9,356
Realized (loss) / gain on investments	6.1	**--**	(848)
Other income	20	**15,356**	3,659
TOTAL OTHER OPERATING EXPENSES – NET		**(62,159)**	(73,304)
LOSS FOR THE YEAR BEFORE ALLOCATION		**(39,861)**	(65,671)
NET INCOME ATTRIBUTED TO THE INSURANCE OPERATIONS		**--**	--
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS BEFORE ZAKAT AND INCOME TAX		**(39,861)**	(65,671)
Zakat	29.1	**(3,000)**	(7,600)
Income tax	29.1	**--**	(400)
		(3,000)	(8,000)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**(42,861)**	(73,671)
Loss per share (expressed in SAR per share)			
Weighted average number of ordinary shares outstanding (in thousands shares)		**40,000**	40,000
Basic and diluted loss per share for the year (SAR / shares)	32	**(1.07)**	(1.84)

Deputy Chief Financial Officer

Chief Executive Officer

Director

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	For the year ended 31 December	
		2022	2021
		SAR'000	
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**(42,861)**	(73,671)
Other comprehensive (loss) / income for the year			
Items that will not be reclassified to statement of income in subsequent periods			
Re-measurement gains on employees' defined benefit obligations	26.1	**1,291**	810
Items that are or may be reclassified to statements of income in subsequent periods			
Net change in fair value of available-for-sale investments	6	**(16,299)**	(16,433)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(57,869)**	(89,294)
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO THE INSURANCE OPERATIONS		**9,162**	6,471
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(48,707)**	(82,823)

Deputy Chief Financial Officer

Chief Executive Officer

Director

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

2022	**Share capital**	**Statutory reserve**	**Accumulated losses**	**Fair value reserve on investments**	**Re-measurement reserve of employees' defined benefit obligations**	**Total equity**
				SAR'000		
Balance as at 31 December 2021	**400,000**	**--**	**(149,752)**	**(133)**	**2,934**	**253,049**
Total comprehensive (loss) / income for the year						
Net loss for the year attributable to the shareholders	--	--	**(42,861)**	--	--	**(42,861)**
Re-measurement loss on employees' defined benefit obligations	--	--	--	--	**1,291**	**1,291**
Net change in fair values of available-for-sale investments	--	--	--	**(5,846)**	--	**(5,846)**
Total comprehensive loss for the year attributable to the shareholders	--	--	**(42,861)**	**(5,846)**	**1,291**	**(47,416)**
Balance as at 31 December 2022	**400,000**	**--**	**(192,613)**	**(5,979)**	**4,225**	**205,633**

2021	Share capital	Statutory reserve	Accumulated losses	Fair value reserve on investments	Re-measurement reserve of employees' defined benefit obligations	Total equity
				SAR'000		
Balance as at 31 December 2020	400,000	31,944	(108,025)	9,020	2,124	335,063
Total comprehensive (loss) / income for the year						
Net loss for the year attributable to the shareholders	--	--	(73,671)	--	--	(73,671)
Re-measurement gain on employees' defined benefit obligations	--	--	--	--	810	810
Statutory reserve transfer	--	(31,944)	31,944	--	--	--
Net change in fair values of available-for-sale investments	--	--	--	(9,153)	--	(9,153)
Total comprehensive loss for the year attributable to the shareholders	--	(31,944)	(41,727)	(9,153)	810	(82,014)
Balance as at 31 December 2021	400,000	--	(149,752)	(133)	2,934	253,049

Deputy Chief Financial Officer

Chief Executive Officer

Director

The accompanying notes from 1 to 36 form an integral part of these financial statements

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	For the year ended 31 December 2022	2021
		SAR'000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year before Zakat and income tax		**(39,861)**	(65,671)
Adjustments for non-cash items:			
Depreciation of property and equipment	9	**4,162**	3,973
Depreciation of right-of-use assets	23	**2,798**	3,206
Finance cost on lease liabilities	23	**238**	257
Loss on disposal of leases		**98**	83
Release for doubtful receivables	5	**(3,321)**	(9,158)
Realized gain on disposal of investments	6	**--**	848
Provision for employees' defined benefit obligations	26	**2,464**	2,730
Provision for other receivables	8	**2,000**	4,572
		(31,422)	(59,160)
Changes in operating assets and liabilities:			
Premiums and reinsurers' receivable		**(22,198)**	92,713
Reinsurers' share of unearned premiums	12	**(137,070)**	117,620
Reinsurers' share of outstanding claims		**16,762**	5,214
Reinsurers' share of claims incurred but not reported		**81,441**	11,415
Deferred policy acquisition costs		**(13,253)**	2,074
Prepaid expense and other assets		**(22,269)**	3,580
Accrued commission income on statutory deposit		**(1,316)**	(492)
Policyholders payable		**(3,397)**	18,704
Accrued and other liabilities		**28,335**	22,371
Reinsurers balances payable		**11,139**	(61,373)
Unearned premiums	12	**182,044**	(117,013)
Unearned reinsurance commission		**31,040**	(19,311)
Outstanding claims		**(21,584)**	21,043
Claims incurred but not reported		**(81,361)**	(29,150)
Premium deficiency reserve		**(3,128)**	(370)
Other technical reserves		**(1,321)**	2,798
Accrued commission income on statutory deposit payable to SAMA		**1,316**	492
		13,758	11,155
Employees' defined benefit obligations paid	26	**(1,516)**	(2,179)
Zakat and income tax paid	29	**(5,038)**	(14,904)
Net cash generated from / (used in) operating activities		**7,204**	(5,928)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments	6	**--**	20,559
Short term deposits		**--**	22,656
Purchase of property and equipment	9	**(5,522)**	(2,749)
Addition to Intangible assets		**(2,902)**	(5,215)
Net cash (used in) / generated from investing activities		**(8,424)**	35,251

Deputy Chief Financial Officer | Chief Executive Officer | Director

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

	Notes	For the year ended 31 December 2022	2021
		SAR'000	
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of lease liabilities	23	**(2,569)**	(3,289)
Net cash (used in) financing activities		**(2,569)**	(3,289)
Net changes (used in) / generate from cash and cash equivalents		**(3,789)**	26,034
Cash and cash equivalents, at the beginning of the year		**87,769**	61,735
Cash and cash equivalents, at the end of the year		**83,980**	87,769
NON-CASH INFORMATION			
Net change in fair value of available-for-sale investments	6	**(16,299)**	(16,433)
Re-measurement gain on employees' defined benefit obligations	26.1	**1,291**	810

Deputy Chief Financial Officer   Chief Executive Officer   Director

1. GENERAL

United Cooperative Assurance Company ("the Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030179955 dated 6 Jamad-al-Thani 1429H, corresponding to 6 June 2008. Registered Office address of the Company is Al-Mukmal Centre (1st and 4th floor), Prince Saud Al Faisal Street, Al Khalidiyah District, P. O. Box 5019, Jeddah 21422, Kingdom of Saudi Arabia.

The activities of the Company are to transact cooperative insurance and reinsurance operations and related activities in the Kingdom of Saudi Arabia. On 29 Rabi Al Thani 1429H (5 May 2008), the Company received a license number (NMT/19/200812) from the Saudi Central Bank ("SAMA") which is currently valid up to 29 Dhul Hijja 1445H corresponding to 6 July 2024 to engage in insurance business in Saudi Arabia. The Company started its operations on 1 January 2009.

On 11 February 2020 corresponding to 17 Jamad-ul-Thani 1441H, the Company has received SAMA approval upon the Company's request for the cancellation of its Reinsurance License. From the date of SAMA Approval, the Company has not assumed any reinsurance business.

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

Transfer to shareholders' operations	90%
Transfer to insurance operations	10%
	100%

In case of deficit arising from the insurance operations, the entire deficit is allocated and transferred to the shareholders' operations in full.

In accordance with Article 70 of SAMA implementing regulations, the Company proposes to distribute, subject to the approval of SAMA, its annual net policyholders' surplus directly to policyholders at a time, and according to criteria, as set by its Board of Directors.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

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

(b) Basis of presentation and measurement

These financial statements have been prepared under going concern basis and historical cost convention except for the measurement at fair value of investments held as available-for-sale (AFS) investment and employees' defined benefit obligations which is recognized at the present value of future obligations using the projected unit credit method. The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as current: cash and cash equivalents, premiums and reinsurers' receivable - net, reinsurers' share of unearned premiums, reinsurance share of outstanding claims, reinsurance share of claim incurred but not reported, deferred policy acquisition costs, prepaid expenses and other assets, policyholders payable, reinsurers balances payable, accrued and other liabilities, unearned premiums, unearned reinsurance commission, outstanding claims, claims incurred but not reported, premium deficiency reserve, other technical reserves and Zakat and income tax payable. All other financial statement line items would generally be classified as non-current unless stated otherwise.

2. BASIS OF PREPARATION – (continued)

(b) Basis of presentation and measurement – (continued)

The Company presents its statement of financial position broadly in order of liquidity. As required by Saudi Arabian Insurance Regulations "SAMA Implementing Regulations" the Company maintains separate books of accounts for "Insurance operations" and "Shareholders' operations". Accordingly, 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 physical custody of all assets related to the insurance operations and shareholders' operations are held by the Company. The statement of financial position, statement of income, statement of comprehensive income and statement of cash flows of the insurance operations and shareholders' operations which are presented in note 33 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 by IFRS as endorsed in KSA. SAMA Implementing Regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders' operations. In preparing the Company-level financial statements in compliance with IFRS as endorsed in KSA, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Inter-operation balances, transactions and unrealized gains or losses, if any, are eliminated in full during amalgamation. The accounting policies adopted for the insurance operations and shareholders' operations are uniform for like transactions and events in similar circumstances.

Going Concern

The Company incurred a net loss of SR 42.86 million (31 December 2021: SR 73.67 million) during the year ended 31 December 2022 and, as of that date, the Company's accumulated losses amounted to SR 192.61 million (31 December 2021: SR 149.75 million) which represents 48% of the share capital. Since the accumulated losses of the Company amounted to 48% of the share capital, the requirements of Article 4, Part 2 of 'CMA's Procedures and Instructions Related to Listed Companies with Accumulated Losses Reaching 20% or More of Their Share Capital' were also triggered and have been complied. Moreover, the solvency margin of the Company is below the minimum solvency margin prescribed by Article 66 of the Implementing Regulations of the Cooperative Insurance Companies Control Law and the requirements of implementing the measures prescribed by Article 68(2) of the Implementing Regulations of the Cooperative Insurance Companies Control Law have also not been followed. These events and conditions, indicate that a material uncertainty exists that may cast a significant doubt on the Company's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The management of the Company has prepared a detailed business plan for future prospects of the Company which is approved by the Board of Directors and has undertaken strategic initiatives that ensure healthy market penetration and retention levels while remaining in compliance with applicable regulatory requirements. The measure includes business growth, better pricing strategies, altering of business mix and retention of profitmaking portfolio which has resulted in an increase in gross premium written during the year ended 31 December 2022 due to new business underwritten in motor and engineering segments.

The Company on 6 December 2022 announced the signing of a non-binding Memorandum of Understanding (the "MOU") with the Saudi Enaya Cooperative Insurance Company to evaluate a potential merger between the two companies. The Company is in the process of conducting due diligence to assess the financial viability of the merger. Based on the above measures taken by the management, along with existing cash and cash equivalents and other liquid assets, the management and those charged with governance remain confident that going concern assumption is valid. Furthermore, the management does not have any intention to liquidate the Company or to cease the operations in the near future. Based on the above these financial statements have been prepared on going concern basis.

(c) 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 SAR have been rounded off to the nearest thousands, except where otherwise indicated.

2. BASIS OF PREPARATION – (continued)

(d) Fiscal year

The Company follows a fiscal year ending 31 December.

(e) Critical accounting judgments estimates and assumptions

The preparation of the Company's financial statements requires the use of estimates and judgements that affect the reported amount 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 judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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 period, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property and engineering claims. Management reviews its provisions for claims incurred on a monthly basis, and IBNR on a quarterly basis. The provision for outstanding claims as well as IBNR, premium deficiency reserves, and other technical reserves, as at 31 December, is also verified by an independent actuary. 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 the statement of financial position, for which the insured event has occurred prior to the date of the 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. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. These provisions are not discounted for the time value of money.

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. The actuary had also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

2. BASIS OF PREPARATION – (continued)

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

ii) Impairment of available-for-sale investments

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost. The determination of what is significant or prolonged requires judgment. A period of 12 months or longer is considered to be prolonged and a decline of 30% from the original cost is considered significant as per the Company's policy for equity instruments and mutual funds. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. In the case of sukuk investment classified as available-for-sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

iii) Premium deficiency reserve

Estimation of premium deficiency reserve is highly sensitive to a number of assumptions as to future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the Company's actuarial team and the independent actuary, consider the claims and premiums relationship which is expected to apply on a monthly basis, and ascertain, at the end of the financial year, whether a premium deficiency reserve is required.

iv) Fair value of financial instruments

The fair value for financial instruments traded in active markets at the reporting date 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.

v) Impairment of receivables

A provision for impairment of premium and reinsurance receivable 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 receivable. 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.

2. BASIS OF PREPARATION – (continued)

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

vi) Impairment of non-financial assets including goodwill

The Company assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. For goodwill, the Company tests annually whether goodwill has suffered any impairment. Recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. 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 the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations. Effects of such assumptions and inputs are discussed in note 24.

vi) Employees defined benefit obligations

The employees' defined benefits obligation is determined by an independent actuary using the projected unit credit method as recommended in IAS 19 "Employee benefits". The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using interest rates of sovereign debt instruments that are denominated in Saudi Riyals and have maturity periods approximating that of the Employees defined benefit obligations.

The present value of the defined benefit obligation depends on several factors that are determined by the actuary using assumptions such as discount rate, expected future salary increases, mortality rates and staff turnover etc. These estimates are subject to significant uncertainty due to their long-term nature and are reviewed at each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2021 except as explained below:

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

A number of new standards and amendments became applicable for the current reporting period i.e. for reporting periods beginning on or after 01 January 2022. The Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting amended standards which are described below:

Standard / Interpretation	***Description***
IAS 37	*Onerous Contracts – Cost of Fulfilling a Contracts (Amendments to IAS 37)*
Annual improvements	*Annual Improvements to IFRS Standards 2018–2020*
IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)*
IFRS 3	*Reference to the Conceptual Framework (Amendments to IFRS 3)*

The adoption of the amended standards and interpretations applicable to the Company did not have any significant impact on these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

(b) Standards issued but not yet effective

Standards and interpretation issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. However, United Cooperative Assurance Company Insurance Company ("the Company") has not early adopted the new standards in preparing the financial statements. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

Standard/ Interpretation	***Description***	***Effective from periods beginning on or after the following date***
IFRS 9	*Financial Instruments*	*See note below*
IFRS 17	*Insurance Contracts*	*See note below*
IAS 1	*Classification of Liabilities as Current or Non-current – Amendments to IAS 1*	*January 1, 2023*
IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	*January 1, 2023*
Narrow scope amendments to IAS 1, IFRS Practice Statement 2 and IAS 8	*The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.*	*January 1, 2023*
IAS 16	*Lease liability in a sale and leaseback – Amendments to IFRS 16*	*January 1, 2024*
IFRS 10 and IAS 28	*Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)*	*Available for optional adoption / effective date deferred indefinitely*

There are no other relevant IFRS or IFRS interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements.

The Company will apply IFRS 17 and IFRS 9 for the first time on 1 January 2023. Although, these standards will bring significant changes to the operational accounting for insurance and reinsurance contracts and financial instruments and presentation of financial statement.

IFRS 17 Insurance contracts

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

Structure and status of the Implementation project

IFRS 17 implementation project still in the process (validation process) implementation process which is managed internally through a dedicated IFRS 17 team and governed by a steering audit committee. The preparation for IFRS 17 has required significant changes to the Company's reporting systems. The Company will be ready to support the reporting requirements from the implementation date onwards.

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.

a) Contracts within/outside the scope of IFRS 17

The Company does not write any products that would fall entirely outside the scope of IFRS 17:

The Company does not issue or hold any contract that meets the definition of an insurance contract but has as their primary purpose the provision of services for a fixed fee. All insurance contracts issued by the Company except for self-insurance contracts meet the definition of insurance contracts for which IFRS 17 should be applied. Furthermore, taking into account the non-material share of these self-insurance contracts within the total portfolio and the existing market practice they can be treated under IFRS17.

All outwards reinsurance agreements held by the Company meet the definition of reinsurance contracts held according to IFRS 17 definition. At the date of assessment, the Company does not issue any inwards reinsurance agreement. No insurance contracts acquired by the entity in a transfer of insurance contracts or a business combination other than reinsurance contracts held was identified.

b) Combination/Unbundling of Contracts

During the assessment of the Company's portfolio no contracts that should be combined were identified. The company also does not issue or hold any contract that include an embedded derivative or an investment component.

c) Level of Aggregation

The Company identifies portfolios of insurance contracts. Each portfolio comprises contracts that are subject to similar risks and managed together, and is divided into three groups:

- 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 portfolio.

Contracts within a portfolio that would fall into different groups only because law or regulation specifically constrains the Company's practical ability to set a different price or level of benefits for policyholders with different characteristics are included in the same group. For reinsurance contracts, the risks that must be similar relate to those transferred from the underlying contract to the issuer of the reinsurance contract. When deciding whether these risks are similar, reference must be made to the risk profile of underlying contracts as well as the nature of the risks that are transferred.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b) Standards issued but not yet effective (continued)

c) Level of Aggregation (continued)

If risks covered are not similar enough between different treaties, they will not be classified into the same portfolio. It is possible for a portfolio to consist of a single reinsurance treaty if there are no other reinsurance treaties that are deemed to have similar risks and are managed together.

d) Measurement model

The Company applies the Premium Allocation Approach (PAA) to all the insurance contracts that it issues and reinsurance contracts that it holds. The Company applies the PAA as the coverage period of these contracts is one year or less. In case of contracts with more than one-year of coverage period, the Company had carried out the PAA eligibility test to confirm that PAA may be applied. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Company's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Company now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk. However as per the Company, the impact from discounting will not be significant.

e) Significant judgements and estimates

i. PAA eligibility assessment

The Company has calculated a Liability for remaining coverage (LRC) for those groups of insurance contracts written and reinsurance contracts held respectively where the coverage period was more than one year. The calculation was performed under both simplified approach i.e. Premium Allocation Approach (PAA) and General Measurement Model (GMM). Situations, which may cause the LRC under the PAA to differ from the LRC under the GMM:

- When the expectation of the profitability for the remaining coverage changes at a particular valuation date during the coverage period of a group of contracts;
- If yield curves change significantly from those in place at the Company's initial recognition;
- When the incidence of claims occurrence differs from the coverage units; and
- The effect of discounting under the GMM creates an inherent difference; this difference compounds over longer contract durations.

Upon analysis of the possible differences between LRC applying the PAA and GMM approach, respectively, the Company did not note any material difference for contracts with coverage period of more than one year. Hence, it has opted to report all such contracts using the PAA approach maintaining a consistent accounting treatment to the rest of the portfolio of insurance contracts issued and reinsurance contracts held that have a coverage period of up to one year.

ii. Discounting methodology

Insurance contract liabilities and Reinsurance contracts assets are calculated by discounting expected future cash flows at a discount rate that reflects the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. The Company applied a bottom-up approach to derive the applicable yield curve when determining the discount rate, where the curve is based on the European Insurance and Occupational Pensions Authority (EIOPA) volatility adjusted risk-free curve denominated in United States Dollars while applying certain adjustments for factors under IFRS 17.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b) Standards issued but not yet effective (continued)

e) Significant judgements and estimates (continued)

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

The risk adjustment for non-financial risk is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value of claims. The Company has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 75th percentile. That is, the Company has assessed its indifference to uncertainty for all product lines, as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 75th percentile confidence level less the mean of an estimated probability distribution of the future cash flows.

iv. Onerosity determination

The profitability of groups of contracts is assessed by actuarial valuation models that take into consideration existing and new business. Profitability is measured through the expected risk-adjusted combined ratio (including premiums, expenses and discounted risk adjusted claims). As per the requirements of the standard for contracts being measured under PAA, the Company assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. The Company also considers facts and circumstances to identify whether a group of contracts are onerous based on the key inputs.

v. Expected premium receipts adjustment

Insurance revenue will be adjusted with the amounts of expected receipts adjustment calculated on premiums not yet collected as at date of the statement of financial position.

vi. Significant financing component

The Company has assessed its Liability for Remaining Coverage (LRC) and concluded that no significant financing component exists within LRC. Therefore, the Company has not adjusted the carrying amount of the LRC to reflect the time value of money and the effect of financial risk using the discount rates.

vii. Non-performance risk

The Company measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer. 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 under reinsurance finance income / expenses in the consolidated statement of income.

viii. VAT treatment

Transaction-based taxes (such as premium taxes, value added taxes and goods & services taxes) and levies that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis. These are not included within insurance contract liabilities (LRC) as part of fulfilment cash flows within the boundary of insurance contracts. The Company will re-classify the premium related taxes amount within prepayments and other assets.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b) Standards issued but not yet effective (continued)

f) Accounting Policy Choices

i) Length of Cohorts

The Company has adopted annual cohorts to measure groups of insurance contracts issued and reinsurance contracts held. This means that the groups of contracts are identified at a more granular level.

ii) Use of OCI for insurance finance income / expenses (IFIE)

The Company has decided that the entire insurance finance income or expense for the period will be presented in the statement of income. The decision will reduce the volatility in profit or loss account and reduce accounting mismatch.

iii) Unwinding of discount on risk adjustment

The Company has decided that the entire risk adjustment will be presented in the insurance service results.

iv) Expense Attribution

The Company identifies expenses which are directly attributable towards acquiring insurance contracts (acquisition costs) and fulfilling / maintaining (other attributable expenses) such contracts and those expenses which are not directly attributable to the aforementioned contracts (non-attributable expenses). Acquisition costs, such as underwriting costs including other expenses except for initial commission paid, are no longer recognized in the statement of income when incurred and instead spread over the lifetime of the group of contracts based on the passage of time. Other attributable expenses are allocated to the groups of contracts using an allocation mechanism considering the activity-based costing principles. The Company has determined costs directly identified to the groups of contracts, as well as, costs where a judgement is applied to determine the share of expenses as applicable to that group.

On the other hand, non-directly attributable expenses, overheads and one-off exceptional expenses will typically be recognized in the consolidated statement of income immediately when incurred. The proportion of directly attributable and non-attributable costs at inception will change the pattern at which expenses are recognized.

v) Policyholder Surplus accounting

The company will treat policy holder surplus as part of insurance service expense and liability for incurred claim.

g) Presentation and disclosure

i) Presentation:

IFRS 17 significantly changes how insurance contracts and reinsurance contracts held will be presented and disclosed in the Company's financial statements. Under IFRS 17, the Company will present separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities. All rights and obligations arising from a portfolio of contracts will be presented on a net basis; therefore, balances, such as, insurance receivables and payables will no longer be presented separately. Any assets and liabilities recognized for cash flows arising before the recognition of the related group of contracts (including any assets for insurance acquisition cash flows) will also be presented in the same line item as the related portfolios of contracts.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b) Standards issued but not yet effective (continued)

g) Presentation and disclosure (continued)

i) Presentation (continued)

The Company disaggregates the total amount recognized in the statement of income and statement of comprehensive income as insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses. The insurance revenue for the period is the amount of expected premium receipts allocated to the period. The Company allocates the expected premium receipts to each period of insurance contract services based on the passage of time. However, if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then the allocation is made on the basis of the expected timing of incurred insurance service expenses.

The Company changes the basis of allocation between the two methods above as necessary, if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate. For the periods presented, all revenue has been recognized based on of the passage of time. The requirements in IFRS 17 to recognize insurance revenue over the coverage period is not expected to result in materially different revenue recognition compared with the Company's current practice of recognizing revenue when the related premiums are written.

Expenses that relate directly to the fulfilment of contracts will be recognized in statement of income as insurance service expenses, when they are incurred.

Expenses that do not relate directly to the fulfilment of contracts will be presented apart from the insurance service result. 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.

The Company presents separately income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

ii) Disclosures

IFRS 17 requires extensive new disclosures about amounts recognized in the financial statements, including detailed reconciliations of contracts. The Company shall disclose qualitative and quantitative information about:

- the amounts recognized in its financial statements that arise from insurance contracts;
- the significant judgements, and changes in those judgements, made when applying IFRS 17;
- the nature and extent of the risks that arise from insurance contracts; and
- reconciliations for changes in Liability for Remaining Coverage, Liability for Incurred Claims, and Loss Components for insurance contracts and for reinsurance contracts held.

Risk Framework

- Insurance risk and its concentration
- Reinsurance risk
- Market risk
    - o Currency risk
    - o Interest rate risk
    - o Equity price risk
- Liquidity risk (maturity analysis)
- Operations risk
- Credit risk

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b) Standards issued but not yet effective (continued)

g) Presentation and disclosure (continued)

Sensitivity analysis:
- Concentration of net insurance contract liabilities
- Weighted average term to settlement
- Inflation rate
- Change in exchange rates
- Change in interest / discount rates
- Changes in risk adjustment percentage
- Changes in LIC percentage

e) Transition

On transition date, 1 January 2022, the Company:

- has identified, recognized and measured each group of insurance contracts as if IFRS 17 had always been applied
- derecognized any existing balances that would not exist had IFRS 17 always been applied
- recognized any resulting net difference in equity.

Full Retrospective Approach
On transition to IFRS 17, the Company has applied the full retrospective approach unless impracticable. The Company has applied the full retrospective approach on transition to all contracts issued on or after 1 January 2022 except for long term engineering contracts which the Company has applied modified retrospective approach.

Transition Impact

The Company is in the process of assessing and validating the quantitative impact of applying the IFRS 17. Based on the preliminary assessment, the application of the Standard will result in an decrease in the Company's total equity as at 1 January 2022. The final impacts on total equity as at 1 January 2022 and 1 January 2023 are currently being estimated.

IFRS 9 Financial Instruments

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

1. Financial assets – Classification

The Company conducted a preliminary IFRS 9 Classification and Measurement assessment ("C&M") for the financial assets held as at December 31, 2021. 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, and for investment in equity instruments, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

1. Financial assets – Classification (continued)

The classification and measurement review exercise in the Company 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 new classification requirements are expected to have an impact on the Company's total equity at 1 January 2022.

2. Financial assets – Impairment

Under IFRS 9, the Expected credit loss ("ECL") allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss); unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss.

Lifetime expected credit losses represent ECL that would result from all possible default events over the expected life of the financial asset, whereas 12-month expected credit losses are those life expected credit losses expected to occur within 12 months of balance sheet date. Both lifetime ECLs and 12-month ECLs will be calculated on an individual basis depending on the nature of the underlying portfolio of financial instruments.

ECL is computed based on the parameters, namely Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) values. ECL is discounted to present value.

Probability of Default ('PD'): The probability of default is an estimate of the likelihood of default over a given time horizon.

Loss Given Default ('LGD'): Loss given default inputs are determined by class of financial instrument based on the historical experience of loss and recovery rates for similar financial instruments and other relevant industry data.

Exposure at Default ('EAD'): The exposure at default is an estimate of the exposure at a future default date.Forward looking estimate: While estimating the ECL, the Group will review macro-economic developments occurring in the economy and market it operates in. On a periodic basis, the Company will analyze the relationship between key economic trends with the estimate of PD.

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

Financial assets that are subject to impairment consist of the following:
- Cash and cash equivalent;
- Investment in debt Instruments;
- Statutory deposits; and
- Prepayments and other assets.

The Company's total equity is impacted by the IFRS 9 impairment requirements only to the extent of any loss allowances on financial assets measured at amortised cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

3. 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 FVTPL are recognised in the statement of income, whereas under IFRS 9 these fair value changes will generally be presented as follows:

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

There is no impact expected on financial liabilities as a result of the transition to IFRS 9.

4. Transition

The Company is in the process of assessing and validating the quantitative impact of applying the IFRS 9. Based on preliminary assessments, the application of the Standard will result in a decrease in the Company's total equity as at 1 January 2022.

The final impact on total equity as at 1 January 2022 and 1 January 2023 is currently being estimated.

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

a) Insurance contracts

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

a) Insurance contracts (continued)

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

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. The Company also issues comprehensive motor policies. Various extensions cover natural perils, personal accident benefits and agency repairs.

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

Engineering insurance covers two principal types:

(a) "Contractor's All Risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, bridges, sewage works and reservoirs.

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

b) Revenue recognition

Recognition of premium and commission revenue

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

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

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

Commission income
Commission income is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable.

Investment income
Investment income on debt instruments and Murabaha deposits are accounted for on an effective interest basis.

Dividend income
Dividend income on equity instruments classified under available-for-sale investments is recognized when the right to receive payment is established.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

c) Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment 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 judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date. The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Further, the Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

d) 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.

e) Reinsurance contracts held

In line with other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. All of the reinsurance is affected under treaty, facultative and excess-of-loss reinsurance contracts.

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 3(c) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. An asset or liability is recorded in the statement of financial position representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

f) Deferred policy acquisition costs

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

g) 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.

h) Premium and reinsurance receivables

Premium receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in “Provision for doubtful receivables” in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 5 fall under the scope of IFRS 4 “Insurance contracts”.

i) Investments

i. Available-for-sale investments

Available-for-sale investments (AFS) include equity and debt securities. Equity investments classified as available-for-sale investments are those which are neither classified as held for trading nor designated at fair value through income statement. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. Such investments are initially recorded at cost, being the fair value of the consideration given including transaction costs directly attributable to the acquisition of the investment and subsequently measured at fair value. Any unrealised gains or losses arising from changes in fair value are recognised through the statement of comprehensive income until the investments are derecognised or impaired whereupon any cumulative gains or losses previously recognised in equity are reclassified to statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

Dividend, commission income and foreign currency gain/loss on available-for-sale investments are recognized in the related statements of income or statement of comprehensive income - shareholder’s operations, as part of the net investment income / loss.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

i) Investments – (continued)

i. Available-for-sale investments (continued)

Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the related statement of comprehensive income, as impairment charges. Fair values of available-for-sale investments are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics. For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

ii. Held as fair value through statement of Income (FVSI)

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

An investment may be designated at FVSI by the management, at initial recognition, if it satisfies the criteria laid down by IAS 39 except for the equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured. Investments at FVSI are recorded in the statement of financial position at fair value. Changes in the fair value are recognised in the statement of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVSI investments. Special commission income and dividend income on financial assets held as FVSI are reflected as either trading income or income from FVSI financial instruments in the statement of income.

iii. Held to maturity

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

Reclassification:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

j) Financial Instruments

Recognition and measurement of financial instruments

Financial instruments are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. Subsequent to initial measurement, financial instruments are carried at amortized cost except for available for sale investments held to cover unit-linked liabilities and FVIS investments, which are carried at fair value.

De-recognition of financial instruments

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

k) Offsetting

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

l) Trade date accounting

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

m) Impairment of financial assets

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

Evidence of impairment may include:

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

m) Impairment of financial assets (continued)

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

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

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

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

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the statement of income under "Realized gain / (loss) on investments available for sale investments". The determination of what is 'significant' or 'prolonged' requires judgement. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

n) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets are not capitalized, and the related expenditure is reflected in the statement of income in the period in which the expenditure is incurred. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Further, capital work in progress is not amortized.

o) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred. Land is not depreciated. The cost of other items of property and equipment is depreciated on the straight line method to allocate the cost over estimated useful lives, as follows:

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

o) Property and equipment – (continued)

• Motor vehicle	4 years
• Furniture and fittings	4 years
• Computers and office equipment	4 years
• Leasehold improvements	3 years

The assets' residual values amennd 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.

Capital work-in-progress includes property that is being developed for future use. When commissioned, capital work-in-progress will be transferred to the respective category within property and equipment, and depreciated in accordance with the Company's policy. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in other income in the statement of income.

p) Leases

On initial recognition, at inception of the contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of use assets

Company applies cost model, and measure right of use (ROU) asset at cost.
- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any re-measurement of the lease liability for lease modifications

Generally, ROU asset would be equal to the lease liability. However, if there are additional costs such as Site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the ROU asset value.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment

Lease Liabilities

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

After the commencement date, Company measures the lease liability by:
- Increasing the carrying amount to reflect interest on the lease liability;
- Reducing the carrying amount to reflect the lease payments made; and
- Re-measuring the carrying amount to reflect any re-assessment or lease modification.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

p) Leases – (continued)

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

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

q) 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 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 cash-generating unit’s (CGU), fair value less costs to sell and its value in use and 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. When 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 to sell, recent market transactions are taken into account, if available. 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 subsidiaries 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 CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three to 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 of continuing operations are recognised in the statement of income. For assets, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of income.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

r) Employee benefits

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

Short term employee benefits
Short term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or any other benefits if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

s) Zakat and income tax

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

Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

Income tax
The income tax expense or credit for the period is the tax payable on the current period’s taxable income, based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

Withholding tax
The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Value Added Tax (VAT)
Output VAT related to revenue is payable to tax authorities on the earlier of:

(a) collection of receivables from customers; or
(b) delivery of services to customers.

Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales/services and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and a liability.
VAT that is not recoverable is charged to the statement of income as expense.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

t) Dividend distribution

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

u) Cash and cash equivalents

Cash and cash equivalents comprise of balances with banks.

v) 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.

w) Foreign currencies

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

x) Operating segments

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

- Medical
- Motor
- Energy and engineering insurance
- Other includes property, marine, aviation, accident and liability categories.

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

No inter-segment transactions occurred during the period. 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. Segment revenue, expense and results will then include those transfers between business segments which will then be eliminated at the level of the financial statements of the Company.

y) 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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

z) Fair values

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

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

aa) Accrued and other liabilities

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

bb) Provisions

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

cc) Statutory deposit

The statutory deposit shall be 15% percent of the paid-up capital. The Company has placed the statutory deposit amount in a bank designated by SAMA. SAMA shall be entitled to the earnings on statutory deposit which is payable by the Company to SAMA and appearing as ‘Accrued commission income on statutory deposit’.

dd) Surplus from insurance operations

Ten-percent (10%) of the net surplus from insurance operations shall be distributed to the policyholders directly, or in the form of reduction in premiums for the next year. The remaining ninety-percent (90%) of the net surplus shall be transferred to the shareholders

ee) 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. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognized in the statement of income. Impairment losses relating to goodwill cannot be reversed in future periods.

4. CASH AND CASH EQUIVALENTS

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

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Insurance operations		
Bank balances	**81,239**	87,067
Shareholders' operations		
Bank balances	**2,741**	702
Total	**83,980**	87,769

5. PREMIUMS AND REINSURERS' RECEIVABLE – NET

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Policyholders	**190,911**	173,797
Brokers and agents	**13,883**	7,255
Related parties (note 28)	**47,068**	48,582
Receivables from reinsurers	**6,972**	7,002
	258,834	236,636
Provision for doubtful receivables	**(77,264)**	(80,585)
Premiums and reinsurers' receivable – net	**181,570**	156,051

Movement in the provision for doubtful premiums and reinsurers' receivable during the year is as follows:

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Balance at the beginning of the year	**80,585**	89,743
Release of provision for the year	**(3,321)**	(9,158)
Balance at the end of the year	**77,264**	80,585

Ageing analysis of unimpaired net premiums and reinsurers' receivable is as follows:

		Past due including impaired			
As at 31 December 2022 ***Amount in SAR '000***	**Neither past due nor impaired**	**91 to 180 days**	**181 to 365 days**	**Above 365 days**	**Total**
Premium and reinsurers' receivable	**77,168**	**36,045**	**30,155**	**68,398**	**211,766**
Premium receivable – related parties	**6,522**	**13,438**	**6,962**	**20,146**	**47,068**
Provision for doubtful debts	**--**	**(6,393)**	**(8,295)**	**(62,576)**	**(77,264)**
Premiums and reinsurers' receivable, net	**83,690**	**43,090**	**28,822**	**25,968**	**181,570**

5. PREMIUMS AND REINSURERS' RECEIVABLE – NET – (continued)

As at 31 December 2021 *Amount in SAR '000*	Neither past due nor impaired	Past due including impaired 91 to 180 days	 181 to 365 days	 Above 365 days	Total
Premium and reinsurers' receivable	100,610	21,325	6,570	59,549	188,054
Premium receivable – related parties	3,071	8,623	10,266	26,622	48,582
Provision for doubtful debts	--	(4,006)	(5,128)	(71,451)	(80,585)
Premiums and reinsurers' receivable, net	103,681	25,942	11,708	14,720	156,051

During the year the Company is in the processing of recovering the disputed amount from certain clients.

Premium receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia. The Company's terms of business generally require amounts to be paid in accordance with credit terms agreed with the customers.

Five largest customers account for 15% (2021: five accounted for 49%) of outstanding premiums receivable as at 31 December 2022.

Management considers its external customers to be individual policyholders. One customer of the Company accounts for 26% of the gross premiums written for the year ended 31 December 2022 (2021: 19%). The total premiums attributable to the said customer was SAR 214.9 million for the year (2021: SAR 127.4 million), included mainly in the engineering segment. It is not the practice of the Company to obtain collateral over these balances, which are therefore, unsecured.

Reinsurers' receivable represents net claims due from reinsurers under facultative deals and treaty arrangements. These reinsurers are based inside and outside the Kingdom of Saudi Arabia.

6. INVESTMENTS

Available-for-sale investments

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Insurance operations (note 6.1)	**75,948**	86,401
Shareholders' operations (note 6.2)	**158,279**	164,125
	234,227	250,526

6.1 Insurance operations

Movement during the year is as follows:

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Opening balance	**86,401**	115,088
Disposals during the year	**--**	(20,559)
Realized loss on disposals of investments	**--**	(848)
Changes in fair value of investments	**(10,453)**	(7,280)
Closing balance	**75,948**	86,401

6. INVESTMENTS – (continued)

6.1 Insurance operations (continued)

	31 December 2022	31 December 2021
	SAR'000	SAR'000
These investments comprise of the following:		
Investment in sukuks	**75,712**	86,171
Investment in mutual funds	**236**	230
	75,948	86,401

6.2 Shareholders' operations

Movement during the year is as follows:

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Opening balance	**164,125**	173,278
Changes in fair value of investments	**(5,846)**	(9,153)
Closing balance	**158,279**	164,125
These investments comprise of the following:		
Investment in equity shares (note 6.3)	**6,621**	6,686
Investment in sukuks	**132,702**	137,219
Investment in mutual funds	**18,956**	20,220
	158,279	164,125

6.3 This includes 3.85% (31 December 2021: 3.85%) shareholding in Najm for Insurance Services Company, a Saudi Closed Joint Stock Company which is carried at cost. In the absence of reliable financial information, management believes that fair values cannot be ascertained reliably. Therefore, this investment has been carried at cost.

6.4 All investments are placed in the Kingdom of Saudi Arabia.

7. DEFERRED POLICY ACQUISITION COST

	2022	2021
	SAR'000	SAR'000
As at 1 January	**10,571**	12,645
Incurred during the year	**50,305**	21,008
Amortised during the year	**(37,052)**	(23,082)
As at 31 December	**23,824**	10,571

8. PREPAID EXPENSES AND OTHER ASSETS

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Insurance operations		
Deposit against letter of guarantees (note 17 and 29)	**22,396**	22,396
VAT receivables (note 29)	**12,273**	12,273
Claim recoveries	**13,271**	13,271
Prepaid expenses	**12,707**	6,592
Deferred third party administrator (TPA) fee	**2,832**	3,040
Accrued interest on investments	**690**	660
Advances to staff	**649**	209
Others	**20,722**	5,244
	85,540	63,685
Shareholders' operations		
Accrued interest	**1,020**	1,034
Others	**616**	188
	87,176	64,907
Provision against VAT receivable	**(6,572)**	(4,572)
Total	**80,604**	60,335

9. PROPERTY AND EQUIPMENT – NET

	Motor Vehicles	**Furniture and fittings**	**Computers and office equipment**	**Leasehold improvements**	**Capital work in progress**	**2022 Total**
2022			**SAR'000**			
Cost:						
As at 1 January	**393**	**9,222**	**20,068**	**9,352**	**1,204**	**40,239**
Additions	**40**	**127**	**675**	**53**	**4,627**	**5,522**
Disposal	**(154)**	**--**	**--**	**--**	**--**	**(154)**
As at 31 December	**279**	**9,349**	**20,743**	**9,405**	**5,831**	**45,607**
Depreciation:						
As at 1 January	**341**	**8,399**	**15,917**	**6,460**	**--**	**31,117**
Charge for the year	**38**	**334**	**2,374**	**1,416**	**--**	**4,162**
Disposal	**(154)**	**--**	**--**	**--**	**--**	**(154)**
As at 31 December	**225**	**8,733**	**18,291**	**7,876**	**--**	**35,125**
Net book value:						
At 31 December 2022	**54**	**616**	**2,452**	**1,529**	**5,831**	**10,482**

9. PROPERTY AND EQUIPMENT – NET (continued)

	Motor Vehicles	Furniture and fittings	Computers and office equipment	Leasehold improvements	Capital work in progress	2021 Total
2021			SAR'000			
Cost:						
As at 1 January	393	8,854	19,385	7,750	1,108	37,490
Additions	--	63	683	--	2,003	2,749
Transfers	--	305	--	1,602	(1,907)	--
As at 31 December	393	9,222	20,068	9,352	1,204	40,239
Depreciation:						
As at 1 January	311	8,099	13,502	5,232	--	27,144
Charge for the year	30	300	2,415	1,228	--	3,973
As at 31 December	341	8,399	15,917	6,460	--	31,117
Net book value:						
At 31 December 2021	52	823	4,151	2,892	1,204	9,122

9.1. Capital work in process includes ongoing cost incurred on office renovations.

10. INTANGIBLE ASSETS

The Company has an ongoing software development project for which it has incurred a cost of SAR 2.9 million in current year (2021: SAR 9.8 million) in terms of development cost.

11. UNEARNED REINSURANCE COMMISSION

	2022	2021
	SAR'000	SAR'000
As at 1 January	**15,683**	34,994
Commission received during the year	**81,042**	24,891
Commission earned during the year	**(50,002)**	(44,202)
As at 31 December	**46,723**	15,683

12. MOVEMENT IN UNEARNED PREMIUMS

	2022	2021
	SAR'000	SAR'000
Gross unearned premiums as at 1 January	**185,439**	302,452
Gross unearned premiums as at 31 December	**(367,483)**	(185,439)
Movement in gross unearned premiums	**(182,044)**	117,013
Reinsurers' share of unearned premiums as at 1 January	**(91,978)**	(209,598)
Reinsurers' share of unearned premiums as at 31 December	**229,048**	91,978
Movement in reinsurers' share of unearned premiums	**137,070**	(117,620)
Movement in unearned premiums – net	**(44,974)**	(607)

13. CLAIMS

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Gross claims paid	**356,370**	264,721
Outstanding claims at the end of the year	**62,380**	83,964
Claims incurred but not reported at the end of the year	**59,238**	140,599
	477,988	489,284
Outstanding claims at the beginning of the year	**(83,964)**	(62,921)
Claims incurred but not reported at the beginning of the year	**(140,599)**	(169,749)
Gross claims incurred	**253,425**	256,614
Reinsurance share of claims paid	**(99,699)**	(90,807)
Reinsurers' share of outstanding claims at the end of the year	**(19,744)**	(36,506)
Reinsurers' share of claims incurred but not reported at the end of the year	**(33,408)**	(114,849)
	(152,851)	(242,162)
Reinsurers' share of outstanding claims at the beginning of the year	**36,506**	41,720
Reinsurers' share of claims incurred but not reported at the beginning of the year	**114,849**	126,264
Reinsurers' share of claims	**(1,496)**	(74,178)
Net claims incurred	**251,929**	182,436

Claims Development Table

The following reflects the cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each financial position date, together with the cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims.

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company transfers much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Claims triangulation analysis is by accident years spanning a number of financial years is as follows:

As at 31 December 2022

Accident year	**2018 & earlier**	**2019**	**2020**	**2021**	**2022**	**Total**
			SAR' 000			
Estimate of ultimate claims cost:						
At the end of accident year	**2,107,544**	**148,124**	**235,192**	**299,043**	**360,503**	
One year later	**1,968,927**	**123,635**	**221,433**	**277,083**	**--**	
Two years later	**1,872,917**	**119,157**	**184,520**	**--**	**--**	
Three years later	**1,794,678**	**87,822**	**--**	**--**	**--**	
Four years later	**1,370,948**	**--**	**--**	**--**	**--**	
Current estimate of cumulative claims	**1,370,948**	**87,822**	**184,520**	**277,083**	**360,503**	**2,280,876**
Cumulative payments to date	**(1,366,615)**	**(86,182)**	**(182,826)**	**(256,146)**	**(267,489)**	**(2,159,258)**
Liability recognised in statement of financial position	**4,333**	**1,640**	**1,694**	**20,937**	**93,014**	**121,618**

13. CLAIMS – (continued)

As at 31 December 2021

Accident year	2017 & earlier	2018	2019	2020	2021	Total
			SAR' 000			
Estimate of ultimate claims cost:						
At the end of accident year	1,825,494	282,050	148,124	235,192	299,043	
One year later	1,718,664	250,264	123,635	221,433	--	
Two years later	1,626,362	246,555	119,157	--	--	
Three years later	1,555,261	239,417	--	--	--	
Four years later	2,186,471	--	--	--	--	
Current estimate of cumulative claims	2,186,471	239,417	119,157	221,433	299,043	3,065,521
Cumulative payments to date	(2,179,733)	(215,474)	(83,112)	(172,103)	(190,536)	(2,840,958)
Liability recognised in statement of financial position	6,738	23,943	36,045	49,330	108,507	224,563

14. ACCRUED AND OTHER LIABILITIES

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Insurance brokers	**25,879**	18,543
Withholding tax payable	**9,854**	6,933
Commission and incentives payable	**--**	4,472
Surveyor fee	**13,856**	9,465
Payables to hospitals	**39,002**	19,469
VAT payable	**1,562**	2,574
Accrued expenses	**524**	128
Garages payables	**797**	300
Supervision and inspection fee payable	**543**	509
Third party administrator (TPA) fees	**549**	733
CCHI fees payable	**128**	273
Others	**1,534**	3,417
	94,228	66,816
Shareholders' operations		
Accrued expenses	**2,751**	1,923
Other creditors	**341**	246
	3,092	2,169
Total	**97,320**	68,985

15. STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, 20% of the net income from shareholders' operations shall be set aside as a statutory reserve until this reserve amounts to 100% of share capital. As the Company has accumulated losses at year end, no transfer to statutory reserve has been made during the year. The reserve is not available for distribution to the shareholders until the liquidation of the Company.

16. STATUTORY DEPOSIT

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Shareholders' Operations		
Statutory deposit	**60,000**	60,000

In compliance with Article 58 of the Implementing Regulations of the Saudi Central Bank ("SAMA"), the Company deposited an amount equivalent to 15% of its paid up share capital, amounting to SAR 60 million in a bank designated by SAMA. This statutory deposit cannot be withdrawn without the consent of SAMA and commission accruing on this deposit is payable to SAMA.

In accordance with instructions received from SAMA vide their circular dated 1 March 2016, the Company has disclosed the commission due on the statutory deposit as an asset and a liability in these financial statements.

17. COMMITMENTS AND CONTINGENCIES

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Letters of guarantee issued in favour of ZATCA	**22,096**	22,096
Letters of guarantee issued in favour of non-government customers	**300**	300
	22,396	22,396

a. The Company has capital commitments outstanding as at 31 December 2022 amounting to SAR 16.61 million (31 December 2021: SAR 19.65 million) in respect of software development project.

b. As at 31 December 2022, the Company's bankers have given guarantees to non-government customers amounting to SAR SAR 0.3 million (2021: SAR 1.40 million) in respect of motor insurance and to ZATCA amounting to SAR 22.09 (2021: SAR 22.09 million) in respect of a disputed assessment order (also see note 29.3) which is deposited with a bank and is included in prepaid expenses and other assets (also see note 8).

c. Refer note 29.3 for the status of zakat and tax assessments.

18. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2022	31 December 2021
Insurance operations	**SAR'000**	SAR'000
Employee costs	**51,291**	53,169
Legal and professional fees	**2,774**	3,736
Office supplies	**7,371**	5,989
Depreciation	**4,162**	3,973
Provision for other receivables	**2,000**	4,572
Rent	**109**	901
Communication expenses	**2,484**	1,796
Depreciation of right-of-use assets (note 23)	**2,798**	3,206
Office expenses	**975**	821
Marketing and advertising	**75**	129
Professional services	**--**	2
Training and education	**656**	500
Utilities	**328**	284
Finance cost on lease liability	**238**	257
Investment expenses	**3**	27
Others	**8,938**	8,914
	84,202	88,276
Shareholders' operations		
Professional fees	**1,794**	3,507
Others	**1,366**	874
	3,160	4,381
Total	**87,362**	92,657

19. INVESTMENTS INCOME

Insurance operations	**31 December 2022**	31 December 2021
	SAR'000	SAR'000
Commission income on investments	**3,623**	4,364
	3,623	4,364
Shareholders' operations		
Dividend income	**187**	187
Commission income on investments	**4,813**	4,805
	5,000	4,992
Total	**8,623**	9,356

20. OTHER INCOME

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Share of surplus from Al Manafeth (note 20.1)	**504**	--
Share of surplus from Umrah and Hajj scheme (note 20.2)	**14,196**	404
Others	**656**	3,255
	15,356	3,659

20.1 This amount represents the Company's share in the surplus arising from the Al Manafeth Third Party Liability Insurance Fund (the "Fund"). The Company with twenty-four other insurance companies operating in the Kingdom of Saudi Arabia, entered into an agreement with 'The Company for Cooperative Insurance' (Tawuniya) effective from 1 January 2015, initially for three years, for participating in the insurance of foreign vehicles entering Kingdom of Saudi Arabia through all its borders except from the Kingdom of Bahrain. As per the agreement, Tawuniya will receive 4.25% of Fund's gross written premiums to cover the related indirect expense along with 15% management fee of the net results of the Fund's portfolio. The remaining results after the aforesaid distribution is due to be shared equally by Tawuniya and twenty-five insurance companies including the Company. The agreement is renewed for the years 2019 and 2020. During the year 2021, the arrangement for Al Manafeth Third party Liability portfolio has been changed from Tawuniya to Najm.

20.2 This amount represents the Company's share in the surplus arising from the Umrah scheme. The Company with twenty-seven other insurance companies operating in the Kingdom of Saudi Arabia, entered into an agreement with 'The Company for Cooperative Insurance' (Tawuniya) effective from 1 January 2020. The compulsory Umrah product is offered by the ministry and approved by SAMA for insurance of pilgrims coming from outside of the Kingdom of Saudi Arabia except for citizens of the Gulf Cooperation Council countries. This covers general accidents and health benefits of the pilgrims entering the Kingdom of Saudi Arabia to perform Umrah. The agreement terms are for 4 years starting from 1 January 2020 and it is renewable for another four years subject to the terms and conditions of the agreement.

21. TECHNICAL RESERVES

21.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Outstanding claims	**62,380**	83,964
Claims incurred but not reported	**59,238**	140,599
	121,618	224,563
Premium deficiency reserve	**22,250**	25,378
Other technical reserves	**14,855**	16,176
	158,723	266,117
Less:		
- Reinsurers' share of outstanding claims	**(19,744)**	(36,506)
- Reinsurers' share of claims incurred but not reported	**(33,408)**	(114,849)
	(53,152)	(151,355)
Net outstanding claims and reserves	**105,571**	114,762

21. TECHNICAL RESERVES (continued)

21.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	31 December 2022		
	Gross	**Reinsurance**	**Net**
		SAR'000	
Balance as at the beginning of the year	**185,439**	**(91,978)**	**93,461**
Premium written / (ceded) during the year	**821,844**	**(515,967)**	**305,877**
Premium earned during the year	**(639,800)**	**378,897**	**(260,903)**
Balance as at the end of the year	**367,483**	**(229,048)**	**138,435**

	31 December 2021		
	Gross	Reinsurance	Net
		SAR'000	
Balance as at the beginning of the year	302,452	(209,598)	92,854
Premium written / (ceded) during the year	409,756	(234,476)	175,280
Premium earned during the year	(526,769)	352,096	(174,673)
Balance as at the end of the year	185,439	(91,978)	93,461

22. OTHER TECHNICAL RESERVES

	31 December 2022 SAR'000	31 December 2021 SAR'000
Unallocated expense loss reserve	**5,655**	6,863
Reinsurance accrual reserve (note 22.1)	**9,200**	9,313
	14,855	16,176

22.1 A reinsurance accrual reserve has been determined to provide for the possible adverse adjustment to the reinsurance commission income in the future.

23. LEASES

23.1 RIGHT-OF-USE ASSETS – NET

Building	**31 December 2022 SAR'000**	31 December 2021 SAR'000
Cost:		
At beginning of the year	**11,423**	9,608
Additions during the year	**4,116**	4,768
Derecognize during the year	**(6,173)**	(2,953)
At end of the year	**9,366**	11,423
Accumulated depreciation:		
At beginning of the year	**4,334**	2,052
Depreciation charged during the year	**2,798**	3,206
Derecognize during the year	**(3,944)**	(924)
At end of the year	**3,188**	4,334
Net book value	**6,178**	7,089

23.2 LEASE LIABILTIES

	31 December 2022 SAR'000	31 December 2021 SAR'000
At beginning of the year	**6,187**	6,397
Additions during the year	**4,116**	4,768
Finance cost	**238**	257
Derecognize during the year	**(2,131)**	(1,946)
Payments during the year	**(2,569)**	(3,289)
At end of the year	**5,841**	6,187

24. GOODWILL

Effective 31 December 2008, the Company acquired the insurance operations of UCA Insurance Bahrain BSC ('the seller') in the Kingdom of Saudi Arabia for a total consideration of SAR 656.95 million with a goodwill of SAR 78.4 million. The goodwill amount payable to the seller was paid in full subsequent to 2008, after obtaining SAMA approvals.

As at 31 December 2022, an independent impairment study was conducted in accordance with the requirements of the International Accounting Standard (IAS 36) to review the carrying amounts of goodwill recognised. For the impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Management considers the overall insurance portfolios of the Company as one CGU. The management reviews goodwill annually for impairment testing.

The recoverable amount has been determined based on value in use. As at the reporting date, impairment testing based on expected discounted cash flows was performed. Value in use is based on the estimated future cash flows based on 5-year management's formal business plan projected up to the year 2026, discounted to their present value using the following key assumptions:

Key assumptions	**2022**	2021
EBITDA margin (average of next five years)	**5%**	**22%**
Discount rate	**18%**	**15%**
Terminal value growth rate	**2%**	**2%**

24. GOODWILL (continued)

The calculation of value-in-use is most sensitive to the assumptions on discount rate applied to cash flow projections and projected EBITDA margins.

Sensitivity to changes in key assumptions:

With regard to the assessment of the value-in-use, management believes that no reasonably possible change in any of the key assumptions above would cause the carrying value of the CGU including goodwill to materially exceed its recoverable amount. The implications of changes to the key assumptions are described below.

i) Projected EBITDA margin:

The projected EBITDA margin in the forecasted period has been estimated to be at an average of 5%. If all other assumptions kept the same; a reduction of margin by 4% would give a value-in-use equal to the current carrying amount.

ii) Discount rate:

The projected discount rate in the forecasted period has been estimated to be at an average of 18% (2021: 15%). If all other assumptions kept the same; an increase in discount rate by 9% (2021: 50%) would give a value-in-use equal to the current carrying amount.

iii) Terminal value growth rate:

If all other assumptions remain constant; a decrease in projected terminal value growth rate in the forecasted period to 0% would give a value-in-use which exceeds the carrying value by SAR 69.7 million (2021: SAR 376 million).

Based on the assumptions made, the value in use calculated above exceeded the carrying amount of goodwill and hence no impairment was recognized. Based on the management experts' assessment of value in use, the management believes that no reasonable possible change in any of the above assumptions would cause the carrying value to materially exceed its recoverable amount at the reporting date. The most significant assumptions used in determination of value in use calculations are weighted average cost of capital and long-term growth rate.

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

The fair values financial instruments are not significantly different from their carrying amounts included in the financial statements.

Determination of fair value and fair value hierarchy

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

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

25. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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.

The following table shows the fair values of financial assets, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation to fair value. The fair value is also the carrying value of these financial assets. During the year, there was no transfer between Level 1, 2 and 3.

31 December 2022

	Level 1	**Level 2**	**Level 3**	**Total**
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Financial assets measured at fair value				
Equity securities and mutual funds				
- Insurance operations	**236**	**--**	**--**	**236**
- Shareholders' operations	**4,698**	**18,956**	**--**	**23,654**
Debt securities				
- Insurance operations	**--**	**75,712**	**--**	**75,712**
- Shareholders' operations	**32,702**	**100,000**	**--**	**132,702**
	37,636	**194,668**	**--**	**232,304**

31 December 2021

	Level 1	Level 2	Level 3	Total
	SAR'000	SAR'000	SAR'000	SAR'000
Financial assets measured at fair value				
Equity securities and mutual funds				
- Insurance operations	230	--	--	230
- Shareholders' operations	4,763	20,220	--	24,983
Debt securities				
- Insurance operations	--	86,171	--	86,171
- Shareholders' operations	--	137,219	--	137,219
	4,993	243,610	--	248,603

Above table does not include available-for-sale investment amounting to SAR 1.9 million (2021: SAR 1.9 million) which is carried at cost as its fair value cannot be measured reliably.

There were no transfers made between Level 1, Level 2 and Level 3 during the year.

The valuation technique and methods adopted by the Company for fair valuation of level 2 and level 3 financial assets are as follows.

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
Unquoted sukuks	Fair value using portfolio manager's valuation	Not applicable	Not applicable

26. EMPLOYEES' DEFINED BENEFIT OBLIGATIONS

	31 December 2022 SAR'000	31 December 2021 SAR'000
Present value of defined benefit obligation	**9,686**	10,029

26.1 Movement of defined benefit obligation

	31 December 2022 SAR'000	31 December 2021 SAR'000
Opening balance	**10,029**	10,288
Charge to statement of income	**2,464**	2,730
Charge to statement of other comprehensive income	**(1,291)**	(810)
Payment of benefits during the year	**(1,516)**	(2,179)
Closing balance	**9,686**	10,029

26.2 Reconciliation of present value of defined benefit obligation

	31 December 2022 SAR'000	31 December 2021 SAR'000
Opening balance	**10,029**	10,288
Current service costs	**2,246**	2,543
Financial costs	**218**	187
Actuarial gain from experience adjustments	**(1,291)**	(810)
Benefits paid during the year	**(1,516)**	(2,179)
	9,686	10,029

26.3 Principal actuarial assumptions

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

	31 December 2022	31 December 2021
Valuation discount rate	**4.55%**	2.53%
Expected rate of increase in salary level across different age bands	**4.00%**	3.53%
Withdrawal rates	**17%**	24.3%

26. EMPLOYEES' DEFINED BENEFIT OBLIGATIONS – (continued)

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

	31 December 2022 SAR'000	31 December 2021 SAR'000
Valuation discount rate		
- Increase by 1%	**(582)**	(621)
- Decrease by 1%	**658**	710
Expected rate of increase in salary level across different age bands		
- Increase by 1%	**651**	695
- Decrease by 1%	**(587)**	(620)

	31 December 2022 SAR'000	31 December 2021 SAR'000
Projected future benefit payment (5 years)		
2022	**--**	1,883
2023	**1,512**	905
2024	**1,062**	850
2025	**1,092**	857
2026	**965**	746
2027	**1,326**	--

The average duration of the defined benefit plan obligation for 31 December 2022 is 6.21 year (31 December 2021: 7.09 years.)

27. OPERATING SEGMENTS

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

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the statement of income. Segment assets and liabilities comprise operating assets and liabilities. There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2021.

Segment assets do not include cash and cash equivalents, short-term deposits, net premiums and reinsurers' receivable, prepaid expenses and other assets, investments, property and equipment, right-of-use assets, intangible assets, goodwill, statutory deposit and accrued commission income on statutory deposit. Accordingly, they are included in unallocated assets. Segment liabilities do not include policyholders' payables, reinsurers' balance payable, lease liabilities, zakat and income tax payable, surplus from insurance operations, accrued and other liabilities, employees' defined benefit obligations and accrued commission income on statutory deposit payable to SAMA. 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. Segment performance is evaluated on the basis of underwriting results from each segment and therefore, operating expenses are not allocated to each segment and are monitored at the Company level.

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 years then ended, are as follows:

27. OPERATING SEGMENTS – (continued)

	As at 31 December 2022 SAR'000							
	Medical	Motor	Energy	Engineering	Others	Total insurance operations	Shareholders' operations	Total
Assets								
Reinsurers' share of unearned premiums	13	44,224	--	167,007	17,804	229,048	--	229,048
Reinsurers' share of outstanding claims	2,678	7,004	--	2,544	7,518	19,744	--	19,744
Reinsurers' share of claims incurred but not reported	216	5,045	11,292	7,309	9,546	33,408	--	33,408
Deferred policy acquisition costs	2,339	8,051	--	12,563	871	23,824	--	23,824
Unallocated assets						447,100	307,768	754,868
Total assets						753,124	307,768	1,060,892
Liabilities								
Unearned premiums	30,056	149,796	--	168,009	19,622	367,483	--	367,483
Unearned reinsurance commission	--	10,193	--	34,401	2,129	46,723	--	46,723
Outstanding claims	24,028	24,976	--	3,718	9,658	62,380	--	62,380
Claims incurred but not reported	5,388	22,672	11,463	7,801	11,914	59,238	--	59,238
Premium deficiency reserve	2,017	20,233	--	--	--	22,250	--	22,250
Other technical reserves	696	13,208	287	242	422	14,855	--	14,855
Unallocated liabilities and insurance operations reserve						259,718	22,612	282,330
Total liabilities and insurance operations reserve						832,647	22,612	855,259

27. OPERATING SEGMENTS – (continued)

	As at 31 December 2021 SAR'000							
	Medical	Motor	Energy	Engineering	Others	Total insurance operations	Shareholders' operations	Total
Assets								
Reinsurers' share of unearned premiums	--	15,752	--	54,912	21,314	91,978	--	91,978
Reinsurers' share of outstanding claims	795	7,613	--	5,901	22,197	36,506	--	36,506
Reinsurers' share of claims incurred but not reported	64	8,480	22,066	39,928	44,311	114,849	--	114,849
Deferred policy acquisition costs	3,955	3,602	--	1,513	1,501	10,571	--	10,571
Unallocated assets						414,656	309,845	724,501
Total assets						668,560	309,845	978,405
Liabilities								
Unearned premiums	50,708	52,521	--	55,946	26,264	185,439	--	185,439
Unearned reinsurance commission	--	3,007	--	8,722	3,954	15,683	--	15,683
Outstanding claims	21,885	28,884	--	6,905	26,290	83,964	--	83,964
Claims incurred but not reported	2,863	23,624	22,452	41,270	50,390	140,599	--	140,599
Premium deficiency reserve	5,825	18,974	--	--	579	25,378	--	25,378
Other technical reserves	690	12,168	561	1,118	1,639	16,176	--	16,176
Unallocated liabilities and insurance operations reserve						235,706	22,411	258,117
Total liabilities and insurance operations reserve						702,945	22,411	725,356

27. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2022					
	Medical SAR'000	**Motor SAR'000**	**Energy SAR'000**	**Engineering SAR'000**	**Others SAR'000**	**Total SAR'000**
REVENUES						
Gross premiums written						
- Individual	5,514	207,565	--	4	213	213,296
- Micro enterprises	22,672	10,669	--	43	973	34,357
- Small enterprises	27,809	30,560	--	386	11,409	70,164
- Medium enterprises	18,680	2,186	--	9,271	4,731	34,868
- Large enterprises	6,186	70,960	142,103	237,438	12,472	469,159
	80,861	321,940	142,103	247,142	29,798	821,844
Reinsurance premiums ceded						
- Local	--	(31,939)	-	(28,877)	(2,113)	(62,929)
- Foreign	(204)	(62,354)	(139,657)	(215,791)	(23,030)	(441,036)
	(204)	(94,293)	(139,657)	(244,668)	(25,143)	(503,965)
Reinsurance excess of loss expenses						
- Local	(1,024)	(616)	--	--	(573)	(2,213)
- Foreign	(4,088)	(2,940)	--	--	(2,761)	(9,789)
	(5,112)	(3,556)	--	--	(3,334)	(12,002)
Net premiums written	75,545	224,091	2,446	2,474	1,321	305,877
Changes in unearned premiums – net	20,665	(68,803)	--	32	3,132	(44,974)
Net premiums earned	96,210	155,288	2,446	2,506	4,453	260,903
Reinsurance commissions earned	--	15,259	1,682	27,130	5,931	50,002
TOTAL REVENUES	96,210	170,547	4,128	29,636	10,384	310,905
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	93,655	243,691	--	2,656	16,368	356,370
Reinsurers' share of claims paid	(11,380)	(72,793)	--	(2,173)	(13,353)	(99,699)
Net claims paid	82,275	170,898	--	483	3,015	256,671
Changes in outstanding claims – net	260	(3,299)	--	170	(1,953)	(4,822)
Changes in claims incurred but not reported - net	2,373	2,483	(214)	(850)	(3,712)	80
Net claims incurred	84,908	170,082	(214)	(197)	(2,650)	251,929
Premium deficiency reserve	(3,809)	1,261	--	--	(579)	(3,127)
Other technical reserves	7	1,040	(274)	(876)	(1,218)	(1,321)
Policy acquisition costs	7,766	17,998	(54)	9,701	1,641	37,052
Other underwriting expenses	1,572	1,020	710	592	180	4,074
TOTAL UNDERWRITING COSTS AND EXPENSES	90,444	191,401	168	9,220	(2,626)	288,607
NET UNDERWRITING RESULT	5,766	(20,854)	3,960	20,416	13,010	22,298

27. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2022					
	Medical SAR’000	**Motor SAR’000**	**Energy SAR’000**	**Engineering SAR’000**	**Others SAR’000**	**Total SAR’000**
OTHER OPERATING (EXPENSES) / INCOME						
General and administrative expenses						**(87,362)**
Provision of doubtful receivables						**3,321**
Board remuneration						**(2,097)**
Investments income						**8,623**
Realized gain on investments						**--**
Other income						**15,356**
TOTAL OTHER OPERATING EXPENSES – NET						**(62,159)**
LOSS FOR THE YEAR BEFORE ALLOCATION						**(39,861)**
Net income for the year attributable to insurance operations						**--**
Net loss for the year attributable to the shareholders before zakat and income tax						**(39,861)**
Zakat						**(3,000)**
Income tax						**--**
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS						**(42,861)**

***27.1 Additional information**

	For the year ended 31 December 2022				
	Medical SAR'000	**Motor SAR'000**	**Property and casualty SAR'000**	**Protection and savings SAR'000**	**Total SAR'000**
REVENUES					
Gross premiums written					
- Individual	**5,514**	**207,565**	**217**	**--**	**213,296**
- Micro enterprises	**22,672**	**10,669**	**1,016**	**--**	**34,357**
- Small enterprises	**27,809**	**30,560**	**11,795**	**--**	**70,164**
- Medium enterprises	**18,680**	**2,186**	**14,002**	**--**	**34,868**
- Large enterprises	**6,186**	**70,960**	**392,013**	**--**	**469,159**
	80,861	**321,940**	**419,043**	**--**	**821,844**

27. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2021					
	Medical SAR'000	Motor SAR'000	Energy SAR'000	Engineering SAR'000	Others SAR'000	Total SAR'000
REVENUES						
Gross premiums written						
- Individual	--	25,480	--	--	--	25,480
- Micro enterprises	15,540	10,328	--	725	5,492	32,085
- Small enterprises	56,079	36,444	829	683	9,838	103,873
- Medium enterprises	22,702	30,447	--	10,580	31,809	95,538
- Large enterprises	6,647	483	97,093	25,734	22,823	152,780
	100,968	103,182	97,922	37,722	69,962	409,756
Reinsurance premiums ceded						
- Local	(64)	(10,419)	--	(12,644)	(3,616)	(26,743)
- Foreign	(371)	(20,045)	(96,242)	(22,359)	(59,509)	(198,526)
	(435)	(30,464)	(96,242)	(35,003)	(63,125)	(225,269)
Reinsurance excess of loss expenses						
- Local	(1,026)	(429)	--	--	(419)	(1,874)
- Foreign	(1,906)	(2,430)	--	--	(2,997)	(7,333)
	(2,932)	(2,859)	--	--	(3,416)	(9,207)
Net premiums written	97,601	69,859	1,680	2,719	3,421	175,280
Changes in unearned premiums – net	(39,178)	37,528	--	1,249	(206)	(607)
Net premiums earned	58,423	107,387	1,680	3,968	3,215	174,673
Reinsurance commissions earned	--	10,793	1,564	20,205	11,640	44,202
TOTAL REVENUES	58,423	118,180	3,244	24,173	14,855	218,875
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	53,820	193,971	--	1,640	15,290	264,721
Reinsurers' share of claims paid	(17,858)	(58,953)	--	(683)	(13,313)	(90,807)
Net claims paid	35,962	135,018	--	957	1,977	173,914
Changes in outstanding claims – net	16,464	8,432	--	66	1,295	26,257
Changes in claims incurred but not reported - net	(85)	(16,869)	11	(845)	53	(17,735)
Net claims incurred	52,341	126,581	11	178	3,325	182,436
Premium deficiency reserve	3,090	(3,655)	--	--	195	(370)
Other technical reserves	(1,135)	3,926	17	(12)	2	2,798
Policy acquisition costs	5,497	11,439	--	3,157	2,989	23,082
Other underwriting expenses	1,120	778	490	556	352	3,296
TOTAL UNDERWRITING COSTS AND EXPENSES	60,913	139,069	518	3,879	6,863	211,242
NET UNDERWRITING RESULT	(2,490)	(20,889)	2,726	20,294	7,992	7,633

27. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2021					
	Medical SAR'000	Motor SAR'000	Energy SAR'000	Engineering SAR'000	Others SAR'000	Total SAR'000
OTHER OPERATING (EXPENSES) / INCOME						
General and administrative expenses						(92,657)
Provision of doubtful receivables						9,158
Board remuneration						(1,972)
Investments income						9,356
Realized gain on investments						(848)
Other income						3,659
TOTAL OTHER OPERATING EXPENSES – NET						(73,304)
LOSS FOR THE YEAR BEFORE ALLOCATION						(65,671)
Net income for the year attributable to insurance operations						--
Net loss for the year attributable to the shareholders before zakat and income tax						(65,671)
Zakat						(7,600)
Income tax						(400)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS						(73,671)

***27.2 Additional information**

*27.1 Additional information

	For the year ended 31 December 2021				
	Medical SAR'000	Motor SAR'000	Property and casualty SAR'000	Protection and savings SAR'000	Total SAR'000
REVENUES					
Gross premiums written					
- Individual	--	25,480	--	--	25,480
- Micro enterprises	15,540	10,328	6,217	--	32,085
- Small enterprises	56,079	36,444	11,350	--	103,873
- Medium enterprises	22,702	30,447	42,389	--	95,538
- Large enterprises	6,647	483	145,650	--	152,780
	100,968	103,182	205,606	--	409,756

28. RELATED PARTY TRANSACTIONS AND BALANCES

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

28 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

28.1 TRANSACTIONS WITH RELATED PARTIES

The following are the details of the significant related parties' transactions during the year:

	Nature of transactions	Amount of transactions for the year ended	
		31 December 2022	31 December 2021
		SAR'000	SAR'000
Major shareholders			
Haji Hussien Ali Reza	Premium written	**6,298**	5,732
	Payments received	**(1,978)**	(6,306)
	Claims paid	**(4,847)**	(2,780)
Saudi Bin Laden – Group	Premium written	**262,009**	30,489
	Payments received	**(263,089)**	(117,852)
	Claims paid	**(1,358)**	(140)
Construction Produce Company	Premium written	**9,504**	7,086
	Payments received	**(6,891)**	(23,226)
	Claims paid	**(1,162)**	(665)
Entities controlled, jointly controlled or significantly influenced by related parties			
United Commercial Agencies	Payment made on behalf of Company	**--**	693
	Payments received and claims paid	**--**	142
	Payments received and claims paid	**--**	12

28.2 RELATED PARTIES BALANCES

	Balance receivable / (payable) as at	
	31 December 2022	31 December 2021
	SAR'000	SAR'000
Premium receivable		
Haji Hussein Ali Reza	**4,306**	4,833
Saudi Bin Laden – Group	**37,434**	39,872
Construction Product Company	**5,269**	3,818
Law Office of Hassan Mahassni	**55**	55
	47,064	48,578
Other balances		
United Commercial Agencies	**4**	4
	4	4

Other balances are included in prepayments and other assets, policyholders payables and accrued expenses and other liabilities.

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

28. RELATED PARTY TRANSACTIONS AND BALANCES – (continued)

The following table shows the annual salaries, remuneration and allowances of the key management personnel for the year ended 31 December 2022 and 31 December 2021:

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Salaries and other allowances	**5,735**	4,866
End of service benefits	**335**	276
	6,070	5,142
Remuneration to those charged with governance	**2,097**	1,972

29. ZAKAT AND INCOME TAX

29.1 Components of zakat base

Significant components of zakat base of the Company attributable to the Saudi shareholders, which are subject to adjustment under zakat and income tax regulations, are shareholders' equity at the beginning of the year, adjusted net income and certain other items. Zakat base has been computed based on the Company's understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations, and the assessments to be raised by the Zakat, Tax and Custom Authority ("ZATCA") could be different from the declaration filed by the Company.

29. ZAKAT AND INCOME TAX – (continued)

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

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Share capital	**400,000**	400,000
Statutory deposit	**(60,000)**	(60,000)
Statutory reserve	**--**	31,944
Accumulated losses	**(149,752)**	(108,026)
Fair value reserve	**(5,979)**	(133)
End of services benefits	**2,934**	2,123
Actuarial gain	**1,292**	--
Investments	**(1,923)**	(1,923)
Other opening provisions	**92,378**	97,042
Goodwill	**(78,400)**	(78,400)
Property and equipment – net	**(23,197)**	(18,935)
Deferred policy acquisition cost	**(23,824)**	(10,571)
Lease liabilities	**5,841**	6,187
Right-of-use assets	**(6,178)**	(7,089)
	153,192	252,219
Loss for the year	**(39,861)**	(65,671)
Fines and penalties	**568**	--
Provision for doubtful debts	**(3,321)**	(9,158)
End of services benefits	**2,465**	2,730
Adjusted loss for the year	**(40,149)**	(72,099)
Zakat base	**113,043**	180,120
Attributable to Saudi Shareholders @ 99% (2021: 99%)	**111,913**	178,319
Opening Zakat provision for Saudi	**8,508**	--
Zakat Base	**121,605**	178,319
Zakat @ 2.578%	**3,134**	4,597
Income tax		
Attributable income to Non-Saudi Shareholder @ 1% (2021: 1%)	**--**	--
Income tax @ 20%	**--**	--
Zakat and income tax	**3,134**	4,597

29. ZAKAT AND INCOME TAX – (continued)

29.2 Provision for zakat and income tax

The movement in the zakat payable is as follows:

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Balance at the beginning of the year	**13,546**	20,850
Charge for the current year	**3,000**	7,600
Paid during the year	**(5,038)**	(14,904)
Balance at the end of the year	**11,508**	13,546

The movement in the income tax payable is as follows:

	31 December 2022	31 December 2021
	SAR'000	SAR'000
Balance at the beginning of the year	**1,300**	900
Charge for the current year	**--**	400
Balance at the end of the year	**1,300**	1,300
Total	**12,808**	14,846

29.3 Status of assessments

The Zakat is applicable on 99% of the shareholders while income tax on 1% of the shareholders. The Company has filed its zakat and income tax declarations for the years ended 31 December 2009 to 2020 and obtained restricted zakat and tax certificates.

Assessment years 2005, 2006, 2007 and 2008

During the year 2017, the Company received the zakat assessments for the years 2005 to 2008 from the ZATCA with regards to the insurance operations transferred from UCA Insurance Bahrain BSC claiming zakat liability amounting to SAR 6.01 million and withholding tax liability amounting to SAR 16.09 million. Management has filed an objection against the above assessments and is confident of receiving a favorable outcome. Further, the Company has issued a bank guarantee in favor of ZATCA amounting to SAR 22.09 million (2021: SAR 22.09 million) against such assessments (see note 17). Management is of the view that any additional liability as a result of these assessments will eventually be charged to the shareholders of the UCA Insurance Bahrain BSC.

Assessment years 2009 – 2011

The Company has filed its Zakat/tax declarations for the years ended 31 December 2009 to 2011 and obtained the necessary Zakat/tax certificates. The ZATCA issued the amended assessment based on the decision of the Preliminary Objection Committee and claimed additional Zakat and tax and withholding tax for a total of SR 27.1 million. The Company had finalized its Zakat, tax and withholding tax status for the said years.

Assessment years 2012 and 2013

During the year 2018, ZATCA had issued assessments for the years 2012 and 2013 claiming additional zakat and income tax liability amounting to SAR 15.84 million. The Company will escalate the case to the GSTC in order to assign a hearing session and will proceed for final settlement with the Dispute Resolution Committee and expect to settle about SAR 7.05 million.

29. ZAKAT AND INCOME TAX – (continued)

29.3 Status of assessments – (continued)

Assessment years 2014 to 2018

The Company has filed its Zakat/tax declarations for the years ended 31 December 2014 to 2018 and obtained the necessary Zakat/tax certificates.

ZATCA issued an assessment for the years 2014, 2015 and 2018 claiming additional Zakat and withholding tax liability in addition to the delay fine. The Company had finalized its Zakat, tax and withholding tax status for the said years.

Assessment years 2016 to 2017

ZATCA issued an assessment claiming additional Zakat, tax and delay fine for the years 2016 and 2017. The Company had finalized its Zakat, tax and withholding tax status for the said years.

Assessment years 2019 and 2020

During the year 2021, ZATCA has issued a final assessment for the years 2019 and 2020, which resulted in additional Zakat liability for the year 2019 of SR 1.46 million and credit balance for the year 2020 of SAR 1.732 million due to refund of Zakat on certain items. The Company has filed and objection for the said years against the ZATCA's amendments and waiting for ZATCA discussion. ZATCA rejected the Company's objection and accordingly the Company escalated the case to the Committee for Resolution of Tax Violations and Disputes ("CRTVD") through the General Secretariat of Tax Committee (GSTC) portal and hearing session has been assigned. The committee has issued its verdict in partially accepting the Company's objection and rejecting the remaining items which result in a total Zakat saving of SR 0.48 million due to the acceptance of the deferred policy acquisition cost. ZATCA filed an appeal against the CRTVD decision, the Company needs to reply to the appeal by 5th of March 2023.

VAT assessment

On 25 August 2020, the Company received an assessment from ZATCA to pay additional principal VAT of SAR 12.28 million for the years 2018 and 2019 as well as additional fines of SAR 20.25 million for those years. In order to avoid incurring additional fines the Company paid the principal VAT on 28 October 2020 without prejudice to its position and objected to the items issued for the evaluation. On 20 February 2021, the Company filed an appeal with the General Secretariat of Tax Committees (GSTC) against the decision of the ZATCA for which management is confident of a favorable outcome. The objected items are zero rated supplies, self-invoicing, and reinsurance commission.

The fines imposed on the assessments amounting to SAR 20.25 million for the years 2018 and 2019 were subsequently canceled as the Company has taken advantage of ZATCA's initiative to stabilize the economy and boost the private sector.

The Company has booked a provision against VAT on zero rated supplies. On other objected items, the Company is confident that these will be recovered through input claim in the VAT return and from reinsurer.

30. SHARE CAPITAL

As at 31 December 2022 and 31 December 2021, the authorised, subscribed and paid up share capital of the Company is SAR 400,000,000, divided into 40,000,000 shares of SAR 10 each.

31. 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.

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 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 400 million and accumulated losses of SAR 192.6 million (31 December 2021: paid-up share capital of SAR 400 million and accumulated losses of SAR 149.75 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.

32. BASIC AND DILUTED LOSS PER SHARE

Loss per share for the year has been calculated by dividing the net loss for the year by the weighted average number of issued and outstanding shares for the year. As the Company does not issued any convertible securities, dilution of earning per share is not applicable.

33. SUPPLEMENTARY INFORMATION

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

a) Statement of financial position

	31 December 2022			31 December 2021		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
			SAR'000			
ASSETS						
Cash and cash equivalents	**81,239**	**2,741**	**83,980**	87,067	702	87,769
Premiums and reinsurers' receivable – net	**181,570**	**--**	**181,570**	156,051	--	156,051
Reinsurers' share of unearned premiums	**229,048**	**--**	**229,048**	91,978	--	91,978
Reinsurers' share of outstanding claims	**19,744**	**--**	**19,744**	36,506	--	36,506
Reinsurers' share of claims incurred but not reported	**33,408**		**33,408**	114,849	--	114,849
Deferred policy acquisition costs	**23,824**	**--**	**23,824**	10,571	--	10,571
Investments	**75,948**	**158,279**	**234,227**	86,401	164,125	250,526
Due from insurance operations	**83,748**	**--**	**83,748**	37,315	--	37,315
Prepaid expenses and other assets	**78,968**	**1,636**	**80,604**	59,113	1,222	60,335
Property and equipment – net	**10,482**	**--**	**10,482**	9,122	--	9,122
Intangible assets	**12,715**	**--**	**12,715**	9,813	--	9,813
Right-of-use asset – net	**6,178**	**--**	**6,178**	7,089	--	7,089
Goodwill	**--**	**78,400**	**78,400**	--	78,400	78,400
Statutory deposit	**--**	**60,000**	**60,000**	--	60,000	60,000
Accrued commission income on statutory deposit	**--**	**6,712**	**6,712**	--	5,396	5,396
	836,872	**307,768**	**1,144,640**	705,875	309,845	1,015,720
Less: Inter-operations eliminations	**(83,748)**	**--**	**(83,748)**	(37,315)	--	(37,315)
TOTAL ASSETS	**753,124**	**307,768**	**1,060,892**	668,560	309,845	978,405

33. SUPPLEMENTARY INFORMATION – (continued)

a) Statement of financial position – (continued)

	31 December 2022			31 December 2021		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
			SAR'000			
LIABILITIES						
Policyholders payable	**20,703**	**--**	**20,703**	24,100	--	24,100
Accrued and other liabilities	**94,228**	**3,092**	**97,320**	66,816	2,169	68,985
Reinsurers balances payable	**106,206**	**--**	**106,206**	95,067	--	95,067
Unearned premiums	**367,483**	**--**	**367,483**	185,439	--	185,439
Unearned reinsurance commission	**46,723**	**--**	**46,723**	15,683	--	15,683
Outstanding claims	**62,380**	**--**	**62,380**	83,964	--	83,964
Claims incurred but not reported	**59,238**	**--**	**59,238**	140,599	--	140,599
Premium deficiency reserve	**22,250**	**--**	**22,250**	25,378	--	25,378
Other technical reserves	**14,855**	**--**	**14,855**	16,176	--	16,176
Due to shareholders' operations	**--**	**83,748**	**83,748**	--	37,315	37,315
Employees' defined benefit obligations	**9,686**	**--**	**9,686**	10,029	--	10,029
Lease liabilities	**5,841**	**--**	**5,841**	6,187	--	6,187
Surplus from insurance operations	**37,053**	**--**	**37,053**	37,053	--	37,053
Zakat and income tax payable	**--**	**12,808**	**12,808**	--	14,846	14,846
Accrued commission income on statutory deposit payable to SAMA	**--**	**6,712**	**6,712**	--	5,396	5,396
	846,646	**106,360**	**953,006**	706,491	59,726	766,217
Less: Inter-operations eliminations	**--**	**(83,748)**	**(83,748)**	--	(37,315)	(37,315)
	846,646	**22,612**	**869,258**	706,491	22,411	
Fair value reserve on investments - insurance operations	**(13,999)**	**--**	**(13,999)**	(3,546)	--	(3,546)
TOTAL LIABILITIES AND INSURANCE OPERATIONS RESERVE	**832,647**	**22,612**	**855,259**	702,945	22,411	725,356
EQUITY						
Share capital	**--**	**400,000**	**400,000**	--	400,000	400,000
Accumulated losses	**--**	**(192,613)**	**(192,613)**	--	(149,752)	(149,752)
Fair value reserve on investments	**--**	**(5,979)**	**(5,979)**	--	(133)	(133)
Re-measurement reserve of employees' defined benefit obligations	**4,225**	**--**	**4,225**	2,934	--	2,934
TOTAL EQUITY	**4,225**	**201,408**	**205,633**	2,934	250,115	253,049
TOTAL LIABILITIES, INSURANCE OPERATIONS RESERVE AND EQUITY	**836,872**	**224,020**	**1,060,892**	705,879	272,526	978,405

33. SUPPLEMENTARY INFORMATION – (continued)

b) Statement of income

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2022 Total**	Insurance operations	Share-holders' operations	2021 Total
			SAR'000			
REVENUES						
Gross premiums written	**821,844**	**--**	**821,844**	409,756	--	409,756
Reinsurance premiums ceded						
- Local	**(62,929)**	**--**	**(62,929)**	(26,743)	--	(26,743)
- Foreign	**(441,036)**	**--**	**(441,036)**	(198,526)	--	(198,526)
	(503,965)	**--**	**(503,965)**	(225,269)	--	(225,269)
Reinsurance excess of loss expenses						
- Local	**(2,213)**	**--**	**(2,213)**	(1,874)	--	(1,874)
- Foreign	**(9,789)**	**--**	**(9,789)**	(7,333)	--	(7,333)
	(12,002)	**--**	**(12,002)**	(9,207)	--	(9,207)
Net premiums written	**305,877**	**--**	**305,877**	175,280	--	175,280
Changes in unearned premiums – net	**(44,974)**	**--**	**(44,974)**	(607)	--	(607)
Net premiums earned	**260,903**	**--**	**260,903**	174,673	--	174,673
Reinsurance commissions earned	**50,002**	**--**	**50,002**	44,202	--	44,202
TOTAL REVENUES	**310,905**	**--**	**310,905**	218,875	--	218,875
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	**356,370**	**--**	**356,370**	264,721	--	264,721
Reinsurers' share of claims paid	**(99,699)**	**--**	**(99,699)**	(90,807)	--	(90,807)
Net claims paid	**256,671**	**--**	**256,671**	173,914	--	173,914
Changes in outstanding claims – net	**(4,822)**	**--**	**(4,822)**	26,257	--	26,257
Changes in claims incurred but not reported – net	**80**	**--**	**80**	(17,735)	--	(17,735)
Net claims incurred	**251,929**	**--**	**251,929**	182,436	--	182,436
Premium deficiency reserve	**(3,127)**	**--**	**(3,127)**	(370)	--	(370)
Other technical reserves	**(1,321)**	**--**	**(1,321)**	2,798	--	2,798
Policy acquisition costs	**37,052**	**--**	**37,052**	23,082	--	23,082
Other underwriting expenses	**4,074**	**--**	**4,074**	3,296	--	3,296
TOTAL UNDERWRITING COSTS AND EXPENSES	**288,607**	**--**	**288,607**	211,242	--	211,242
NET UNDERWRITING RESULT	**22,298**	**--**	**22,298**	7,633	--	7,633

33. SUPPLEMENTARY INFORMATION – (continued)

b) Statement of income – (continued)

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2022 Total**	Insurance operations	Share-holders' operations	2021 Total
			SAR'000			
OTHER OPERATING (EXPENSES) / INCOME						
General and administrative expenses	**(84,202)**	**(3,160)**	**(87,362)**	(88,276)	(4,381)	(92,657)
Release / (Provision) for doubtful receivables	**3,321**	**--**	**3,321**	9,158	--	9,158
Board remuneration	**--**	**(2,097)**	**(2,097)**	--	(1,972)	(1,972)
Investments income	**3,623**	**5,000**	**8,623**	4,364	4,992	9,356
Realized (loss) / gain on investments	**--**	**--**	**--**	(848)	--	(848)
Other income	**15,356**	**--**	**15,356**	3,659	--	3,659
TOTAL OTHER OPERATING (EXPENSES) / INCOME – NET	**(61,902)**	**(257)**	**(62,159)**	(71,943)	(1,361)	(73,304)
LOSS FOR THE YEAR BEFORE ALLOCATION	**(39,604)**	**(257)**	**(39,861)**	(64,310)	(1,361)	(65,671)
SHAREHOLDERS' ABSORPTION OF LOSS	**39,604**	**(39,604)**	**--**	64,310	(64,310)	--
LOSS FOR THE YEAR AFTER SHAREHOLDERS' APPROPRIATIONS BEFORE ZAKAT AND INCOME TAX	--	**(39,861)**	**(39,861)**	--	(65,671)	(65,671)
Zakat	**--**	**(3,000)**	**(3,000)**	--	(7,600)	(7,600)
Income tax				--	(400)	(400)
	--	**(3,000)**	**(3,000)**	--	(8,000)	(8,000)
NET LOSS FOR THE YEAR	**--**	**(42,861)**	**(42,861)**	--	(73,671)	(73,671)
Loss per share (Expressed in SAR per share)						
Weighted average number of ordinary shares outstanding (in thousands in shares)		**40,000**			40,000	
Basic and diluted loss per share for the year (SAR / shares)		**(1.07)**			(1.84)	

33. SUPPLEMENTARY INFORMATION – (continued)

c) Statement of comprehensive income

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2022 Total**	Insurance operations	Share-holders' operations	2021 Total
			SAR'000			
NET LOSS FOR THE YEAR	**--**	**(42,861)**	**(42,861)**	--	(73,671)	(73,671)
Other comprehensive loss						
Items that will not be reclassified to statement of income in subsequent periods						
Re-measurement gains on defined benefit obligations	**1,291**	**--**	**1,291**	810	--	810
Items that are or may be reclassified to statement of income in subsequent periods						
Available-for-sale investments:						
- Net change in fair value of available-for-sale investments	**(10,453)**	**(5,846)**	**(16,299)**	(7,280)	(9,153)	(16,433)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	**(9,162)**	**(48,707)**	**(57,869)**	(6,470)	(82,824)	(89,294)

33. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2022 Total**	Insurance operations	Share-holders' operations	2021 Total
			SAR'000			
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss for the year before Zakat and income tax	**--**	**(39,861)**	**(39,861)**	--	(65,671)	(65,671)
Adjustments for non-cash items:						
Depreciation of property and equipment	**4,162**	**--**	**4,162**	3,973	--	3,973
Depreciation of right-of-use assets	**2,798**	**--**	**2,798**	3,206	--	3,206
Finance cost on lease liabilities	**238**	**--**	**238**	257	--	257
Loss on disposal of lease	**98**	**--**	**98**	83	--	83
(Release of provision) / Provision for doubtful receivables	**(3,321)**	**--**	**(3,321)**	(9,158)	--	(9,158)
Realized loss / (gain) on disposal of investments	**--**	**--**	**--**	848	--	848
Provision for employees' defined benefit obligations	**2,464**	**--**	**2,464**	2,730	--	2,730
Provision for other receivables	**2,000**	**--**	**2,000**	4,572	--	4,572
	8,439	**(39,861)**	**(31,422)**	6,511	(65,671)	(59,160)
<u>Changes in operating assets and liabilities:</u>						
Premiums and reinsurers' receivable	**(22,198)**	**--**	**(22,198)**	92,713	--	92,713
Reinsurers' share of unearned premiums	**(137,070)**	**--**	**(137,070)**	117,620	--	117,620
Reinsurers' share of outstanding claims	**16,762**	**--**	**16,762**	5,214	--	5,214
Reinsurers' share of claims incurred but not reported	**81,441**	**--**	**81,441**	11,415	--	11,415
Deferred policy acquisition costs	**(13,253)**	**--**	**(13,253)**	2,074	--	2,074
Prepaid expenses and other assets	**(21,855)**	**(414)**	**(22,269)**	3,764	(184)	3,580
Accrued commission income on statutory deposit	**--**	**(1,316)**	**(1,316)**	--	(492)	(492)
Policyholders payables	**(3,397)**	**--**	**(3,397)**	18,704	--	18,704
Accrued and other liabilities	**27,412**	**923**	**28,335**	21,283	1,088	22,371
Reinsurers balances payable	**11,139**	**--**	**11,139**	(61,373)	--	(61,373)
Unearned premiums	**182,044**	**--**	**182,044**	(117,013)	--	(117,013)
Unearned reinsurance commission	**31,040**	**--**	**31,040**	(19,311)	--	(19,311)
Outstanding claims	**(21,584)**	**--**	**(21,584)**	21,043	--	21,043
Claims incurred but not reported	**(81,361)**	**--**	**(81,361)**	(29,150)	--	(29,150)
Premium deficiency reserve	**(3,128)**	**--**	**(3,128)**	(370)	--	(370)
Other technical reserves	**(1,321)**	**--**	**(1,321)**	2,798	--	2,798
Accrued commission income on statutory deposit payable to SAMA	**--**	**1,316**	**1,316**	--	492	492
Due to shareholders operations	**(46,429)**	**--**	**(46,429)**	(69,993)	--	(69,993)
Due from Insurance Operations	**--**	**46,429**	**46,429**	--	69,993	69,993
	6,681	**7,077**	**13,758**	5,928	5,227	11,155
Employees' defined benefit obligations paid	**(1,516)**	**--**	**(1,516)**	(2,179)	--	(2,179)
Zakat and income tax paid	**--**	**(5,038)**	**(5,038)**	--	(14,904)	(14,904)
Net cash used in operating activities	**5,165**	**2,039**	**7,204**	3,749	(9,677)	(5,928)

33. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows – (continued)

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2022 Total**	Insurance operations	Share-holders' operations	2021 Total
			SAR'000			
CASH FLOWS FROM INVESTING ACTIVITIES						
Short term deposits	**--**	**--**	**--**	22,656	--	22,656
Proceeds from sale of investments	**--**	**--**	**--**	20,559	--	20,559
Purchase of property and equipment	**(5,522)**	**--**	**(5,522)**	(2,749)	--	(2,749)
Addition to Intangible assets	**(2,902)**	**--**	**(2,902)**	(5,215)	--	(5,215)
Net cash generated / (Used in) from investing activities	**(8,424)**	**--**	**(8,424)**	35,251	--	35,251
CASH FLOWS FROM FINANCING ACTIVITIES						
Payments of lease liabilities	**(2,569)**	**--**	**(2,569)**	(3,289)	--	(3,289)
Net cash used in from financing activities	**(2,569)**	**--**	**(2,569)**	(3,289)	--	(3,289)
Net changes in cash and cash equivalents	**(5,828)**	**2,039**	**(3,789)**	35,711	(9,677)	26,034
Cash and cash equivalents, at the beginning of the year	**87,067**	**702**	**87,769**	51,356	10,379	61,735
Cash and cash equivalents, at the end of the year	**81,239**	**2,741**	**83,980**	87,067	702	87,769
NON-CASH INFORMATION						
Net change in fair value of available-for-sale investments	**(10,453)**	**(5,846)**	**(16,299)**	(7,280)	(9,153)	(16,433)
Re-measurement gains on employees' defined benefit obligations	**(1,291)**	**--**	**(1,291)**	810	--	810

34. RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organizational 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'. The Company is exposed to insurance, reinsurance, regulatory framework, credit, liquidity, foreign currency, commission rate, and market risks.

Risk management structure

A cohesive organizational 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 centralized oversight of Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

34. RISK MANAGEMENT – (continued)

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 function

Risk management processes throughout the Company are audited annually by the Internal Audit function which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Auditor 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 and financial management framework is to protect the Company from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

Risk management committee

The Board of Directors of the Company has constituted a Risk Management Committee, which oversees the risk management function of the Company and report to Board on a periodic basis. This committee operates under framework established by the Board of Directors.

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

34.1 Insurance risk management

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.

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities. The Company purchases reinsurance as part of its risk's mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non-proportional reinsurance is primarily facultative, and excess of loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess of loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 51% of total reinsurance assets at the reporting date.

Underwriting and retention policies and 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 market are closely observed, reacting were necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

34. RISK MANAGEMENT – (continued)

34.1 Insurance risk management – (continued)

(a) Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in Energy and Engineering.

The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For flood or earthquake risk, a complete city is classified as a single location. For fire and property risk a particular building and neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

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

(b) Independent actuarial review of claims and claims reserves

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

(c) Key assumptions

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the statement of financial position date. The details of estimation uncertainty of outstanding claims including claims incurred but not reported (IBNR) are given in note 2.

34. RISK MANAGEMENT – (continued)

34.1 Insurance risk management – (continued)

(d) Process used to decide on assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs. For details please refer note 2 and 3.

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

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 analysed 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, premium deficiency reserve and other reserves 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 year of the contracts and expectations of future events that are believed to be reasonable.

34. RISK MANAGEMENT – (continued)

34.1 Insurance risk management – (continued)

(e) Sensitivities

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

	2022 SAR'000		*2021 SAR'000*	
Outstanding claim net of reinsurance	**Effect of 10% increase**	**Effect of 10% decrease**	Effect of 10% increase	Effect of 10% decrease
	(4,264)	**4,264**	(4,746)	4,746

	2022 SAR'000		*2021 SAR'000*	
IBNR	**Effect of 15% increase**	**Effect of 15% decrease**	Effect of 15% increase	Effect of 15% decrease
	(3,875)	**3,875**	(3,862)	3,862
TOTAL	**(8,139)**	**8,139**	(8,608)	8,608

(f) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly medical, motor, fire and burglary, general accident and marine classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Fire and burglary

Fire and burglary insurance contracts, with the main peril being fire damage and other allied perils resulting there from, are underwritten either on replacement value or an indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, 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 treaties.

Motor

For motor insurance contracts, the main elements of risk are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles. The Company has a concentration in motor insurance which accounts for 25% (2021: 38%) of gross written premium. The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims. This risk is partially covered by proportional treaty as well as per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

34. RISK MANAGEMENT – (continued)

34.1 Insurance risk management – (continued)

General accident and workmen's compensation

For miscellaneous accident classes 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 and the potential court awards for liability classes are the main factors that influence the level of claims. The insurance risks mainly emanate from Saudi Arabia. An arrangement has been made with reinsurers through proportional treaties.

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.
The insurance risks mainly emanate from Saudi Arabia. An arrangement has been made with reinsurers through proportional treaties.

Medical

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. This risk is covered by proportional treaty.

The table below sets out the concentration of the outstanding claims and unearned premiums (in percentage terms) by class of business at the statement of financial position date:

2022	**Gross unearned premiums**	**Net unearned premiums**	**Gross outstanding claims**	**Net outstanding claims**
Medical	**8%**	**15%**	**39%**	**50%**
Motor	**41%**	**53%**	**40%**	**42%**
Engineering	**46%**	**31%**	**6%**	**3%**
Others	**5%**	**1%**	**15%**	**5%**
Total	**100%**	**100%**	**100%**	**100%**

2021	Gross unearned premiums	Net unearned premiums	Gross outstanding claims	Net outstanding claims
Medical	27%	54%	26%	44%
Motor	28%	39%	34%	45%
Engineering	30%	1%	8%	2%
Others	14%	5%	31%	9%
Total	100%	100%	100%	100%

34. RISK MANAGEMENT – (continued)

(g) Concentration of insurance risk

The Company does not have insurance contract covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risks that may involve significant litigation. The Company does not have any material claims where the amount and timing of payment is not resolved within one year of the reporting date.

(h) 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 Technical 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 preset requirements of the Company's Board of Directors 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.

The primary risk control measure in respect of the insurance risk is the transfer of risks to third parties via reinsurance. The reinsurance business ceded is placed on a proportional and non-proportional basis with retention limits varying by lines of business. The placements of reinsurance contracts are diversified so that the Company is not dependent on a single reinsurer or a reinsurance contract.

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.

34. RISK MANAGEMENT – (continued)

34.2 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 to 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 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 seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables. The Company 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.

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

As at 31 December 2022	**Insurance Operations**	**Shareholders' operations**	**Total**
	SAR'000	**SAR'000**	**SAR'000**
Cash and cash equivalents	**81,239**	**2,741**	**83,980**
Premiums and reinsurers' receivable – net	**181,570**	**--**	**181,570**
Reinsurers' share of outstanding claims	**19,744**	**--**	**19,744**
Reinsurers' share of claims incurred but not reported	**33,408**	**--**	**33,408**
Investments	**75,948**	**158,279**	**234,227**
Other receivables	**57,728**	**1,636**	**59,364**
Statutory deposit	**--**	**60,000**	**60,000**
Accrued commission income on statutory deposit	**--**	**6,712**	**6,712**
	449,637	**229,368**	**679,005**

As at 31 December 2021	Insurance Operations	Shareholders' operations	Total
	SAR'000	SAR'000	SAR'000
Cash and cash equivalents	87,067	702	87,769
Premiums and reinsurers' receivable – net	156,051	--	156,051
Reinsurers' share of outstanding claims	36,506	--	36,506
Reinsurers' share of claims incurred but not reported	114,849	--	114,849
Investments	86,401	164,125	250,526
Other receivables	41,589	1,222	42,811
Statutory deposit	--	60,000	60,000
Accrued commission income on statutory deposit	--	5,396	5,396
	522,463	231,445	753,908

34. RISK MANAGEMENT – (continued)

34.2 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 is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non-investment grade (satisfactory) or past due but not impaired.

Insurance operations' financial assets

		Non-investment grade		
	Investment grade	***Satisfactory***	***Past due but not impaired***	***Total***
		SAR' 000		
Cash and cash equivalents	**81,239**	**--**	**--**	**81,239**
Premiums and reinsurers' receivable – net	**--**	**181,570**	**--**	**181,570**
Reinsurance share of outstanding claims	**--**	**19,744**	**--**	**19,744**
Reinsurance share of claims incurred but not reported	**--**	**33,408**	**--**	**33,408**
Investments	**75,948**	**--**	**--**	**75,948**
Other receivables	**--**	**57,728**	**--**	**57,728**
As at 31 December 2022	**157,187**	**292,450**	**--**	**449,637**

		Non-investment grade		
	Investment grade	*Satisfactory*	*Past due but not impaired*	*Total*
		SAR' 000		
Cash and cash equivalents	87,067	--	--	87,067
Premiums and reinsurers' receivable – net	--	141,331	14,720	156,051
Reinsurance share of outstanding claims	--	36,506	--	36,506
Reinsurance share of claims incurred but not reported	--	114,849	--	114,849
Short term deposits	--	--	--	--
Investments	86,401	--	--	86,401
Other receivables	--	41,589	--	41,589
As at 31 December 2021	173,468	334,275	14,720	522,463

34. RISK MANAGEMENT – (continued)

34.2 Credit risk – (continued)

Shareholders' operations' financial assets

	Investment grade	Non-investment grade: Satisfactory	Non-investment grade: Past due but not impaired	Total
	SAR' 000			
Cash and cash equivalents	**2,741**	**--**	**--**	**2,741**
Investments	**158,279**	**--**	**--**	**158,279**
Other receivables	**--**	**1,636**	**--**	**1,636**
Statutory deposit	**60,000**	**--**	**--**	**60,000**
Accrued commission income on statutory deposit payable to SAMA	**6,712**	**--**	**--**	**6,712**
As at 31 December 2022	**227,732**	**1,636**	**--**	**229,368**

	Investment grade	Non-investment grade: Satisfactory	Non-investment grade: Past due but not impaired	Total
	SAR' 000			
Cash and cash equivalents	702	--	--	702
Investments	164,125	--	--	164,125
Other receivables	--	1,222	--	1,222
Statutory deposit	60,000	--	--	60,000
Accrued commission income on statutory deposit payable to SAMA	5,396	--	--	5,396
As at 31 December 2021	230,223	1,222	--	231,445

34.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. All assets of the Company are current, except for property and equipment, intangible assets and statutory deposit, which are non-current in nature. The Company's financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to insurance operations, amount due to related parties and certain other liabilities. All financial liabilities are non-commission bearing and are expected to be settled within 12 months from the date of statement of financial position, except for certain outstanding claims and employees' defined benefit obligations, which are non-current in nature.

34. RISK MANAGEMENT – (continued)

***34.3 Liquidity risk* (continued)**

Maturity profiles

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

As at 31 December 2022	**Up to one year SAR '000**	**More than one year but less than 5 years SAR' 000**	**Total SAR' 000**
Insurance operations' liabilities:			
Policyholders payable	**20,703**	**--**	**20,703**
Reinsurance payables	**106,206**	**--**	**106,206**
Accrued expenses and other liabilities	**91,039**	**--**	**91,039**
Outstanding claims	**62,380**	**--**	**62,380**
Claims incurred but not reported	**59,238**	**--**	**59,238**
Premium deficiency reserve	**22,250**	**--**	**22,250**
Other technical reserves	**14,855**	**--**	**14,855**
Lease liability	**5,841**	**--**	**5,841**
	382,512	**--**	**382,512**
Shareholders' financial liabilities			
Accrued expenses and other liabilities	**3,092**	**--**	**3,092**
Accrued commission on statutory deposit payable to SAMA	**6,712**	**--**	**6,712**
	9,804	**--**	**9,804**
Total	**392,316**	**--**	**392,316**

As at 31 December 2021	Up to one year SAR '000	More than one year but less than 5 years SAR' 000	Total SAR' 000
Insurance operations' liabilities:			
Policyholders payable	24,100	--	24,100
Reinsurance payables	95,067	--	95,067
Accrued expenses and other liabilities	66,814	--	66,814
Outstanding claims	83,964	--	83,964
Claims incurred but not reported	140,599	--	140,599
Premium deficiency reserve	25,378	--	25,378
Other technical reserves	16,176	--	16,176
Lease liability	6,187	--	6,187
	458,285	--	458,285
Shareholders' financial liabilities			
Accrued expenses and other liabilities	2,169	--	2,169
Accrued commission on statutory deposit payable to SAMA	5,396	--	5,396
	7,565	--	7,565
Total	465,850	--	465,850

34. RISK MANAGEMENT – (continued)

34.4 Liquidity risk – (continued)

Liquidity profile

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above. There are no differences between contractual and expected maturity of the financial liabilities of the Company. To manage the liquidity risk arising from financial liabilities mentioned above, the Company holds liquid assets comprising cash and cash equivalents, short term deposits and investment securities. These assets can be readily sold to meet liquidity requirements.

The assets with maturity less than one year are expected to realize as follows:

- Short term deposits are deposits placed with high credit rating financial institutions with maturity of less than three months from the date of placement with facility to be available on demand.
- Cash and bank balances are available on demand.
- Reinsurers share of outstanding claims mainly pertain to medical others segment and are generally realized within 6 to 9 months based on settlement of claims.

The liabilities with maturity less than one year are expected to settle as follows:

- Reinsurers' balances payable are settled on a periodic basis as per terms of reinsurance agreements.
- Majority of gross outstanding claims are expected to be settled within 12 months in accordance with statutory timelines for payment.
- The zakat and income tax payable and accrued expenses and other liabilities are expected to settle within 12 months from the year end date.
- Surplus from insurance operations is to be settled within 6 months of annual general meeting in which financial statements are approved.

34.5 Market risk

(a) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management assesses that there is minimal risk of significant losses due to exchange rate fluctuations and, consequently, the Company does not hedge its foreign currency exposure. The Company has transactions in Saudi Riyals and US Dollars which are pegged and hence there is no currency risk exposure to the Company.

(b) Commission rate risk

Commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. Floating rate instruments expose the Company to cash flow commission risk, whereas fixed commission rate instruments expose the Company to fair value interest risk. The Company is exposed to commission rate risk on certain of its investments, cash and cash equivalents, and time deposits. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its investments are denominated. The following table demonstrates the sensitivity of statement of Shareholders' comprehensive income to reasonably possible changes in commission rates, with all other variables held constant. The sensitivity of the statement of shareholders' 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 income for the year SAR'000**
2022	**50**	**664**
2021	50	686

34. RISK MANAGEMENT – (continued)

34.6 Market risk – (continued)

(c) 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 interest 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. These investments are managed by a professional fund manager in accordance with the guidelines approved by the Board of Directors. The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of shareholders' comprehensive income will be impacted.

The impact of hypothetical change of a 5% increase/decrease in the market prices of investments on Company's comprehensive income would be as follows:

	Fair value change	**Effect on Company's profit**
		SAR'000
31 December 2022	**+ / - 5%**	**+ / -11,571**
31 December 2021	+ / - 5%	+ / -12,526

The Company has an unquoted equity investment amounting to SAR 1.9 million (2021: SAR 1.9 million) carried at cost where the impact of changes in equity price risk will only be reflected when the investment is sold or deemed to be impaired and statement of income will be then impacted.

34.7 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Company's activities. The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

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

34. RISK MANAGEMENT – (continued)

34.8 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.

35. SUBSEQUENT EVENTS

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

Except for the above, there have been no significant subsequent events since the year end, that would require disclosures or adjustments in these financial statements.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors, on 28 Sha'ban, 1444AH corresponding to 20 March 2023.