UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
31 DECEMBER 2021

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2021

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

Crowe
Al Azem, Al Sudairy, Al Shaikh & Partners
CPA's & Consultants
Member Crowe Global

P. O. Box 10504 Riyadh
11443 Kingdom of Saudi Arabia

Independent auditors' report

To the Shareholders of United Cooperative Assurance Company

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 2021 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 2021, 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 professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

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

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

Crowe
Al Azem, Al Sudairy, Al Shaikh & Partners
CPA's & Consultants
Member Crowe Global

P. O. Box 10504 Riyadh
11443 Kingdom of Saudi Arabia

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 the matter was addressed in our audit</th></tr>
<tr><td>

Valuation of ultimate claim liability arising from insurance contract

As at 31 December 2021, gross outstanding claims and reserves including claims incurred but not reported (IBNR), premium deficiency reserve (PDR) and other technical reserves amounted to SAR 266.12 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 2e 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.

</td><td>

We performed the following procedures in relation to claim liabilities:

- Obtained an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to claim processing and claim payment, including controls over the completeness and accuracy of the claim estimates recorded;
- On a sample basis, tested the measurement of claims reserves on a case-by-case basis by comparing the outstanding claims to source documentation;
- Assessed the competence, capabilities, and objectivity of management's external actuarial expert and company's staff involved in the insurance claim liability;
- Involved our expert to assess and challenge the key methods/models and assumptions, used in driving the value of the insurance liabilities by:

  Comparing the assumptions to expectations based on, current trends and our own industry knowledge;

  Evaluating the level of prudence applied and compared this to prior periods, and

  Applying their industry knowledge to benchmark the Company's reserving methodologies assumptions, and estimates of losses.

- Evaluated the completeness and accuracy of data used by management in their calculation of ultimate insurance contract liabilities and evaluated the results of liability adequacy test; and
- Evaluated the adequacy of the disclosures in the financial statements, including the disclosures of key assumptions and judgements.

</td></tr>
</table>

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

Crowe
Al Azem, Al Sudairy, Al Shaikh & Partners
CPA's & Consultants
Member Crowe Global

P. O. Box 10504 Riyadh
11443 Kingdom of Saudi Arabia

Independent auditors' report

To the Shareholders of United Cooperative Assurance Company (Continued)

Key Audit Matter (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill As of 31 December 2021, 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. There is a risk regarding the potential impairment of the carrying value of the goodwill given the judgements management are required to make in respect of the assumptions used to determine the recoverable amount. The key judgements include identification of cash generating units, growth rates in future cash flow forecasts both short term and long term, terminal value, discount rates applied to these forecasts and determining the impact of reasonably possible changes in these assumptions. We considered this as a key audit matter as the valuation of goodwill require the use of significant judgement and estimates.	Our audit procedures included, among others; ▪ Obtained an understanding of management's impairment assessment process and reviewed the robustness of management's budgeting process by comparing the actual financial results against previous projections. ▪ Evaluated the appropriateness of the methodology used by an independent specialist to assess the impairment of goodwill; ▪ Engaged our expert to assess the methodologies and assumptions used by the management in determining the impairment for goodwill; ▪ Assessed the appropriateness of the key assumptions used in the impairment test model including projected cash flows, terminal value of growth rates, margins and weighted average cost of capital (discount rate) etc; and ▪ Evaluated the adequacy of the disclosures in the financial statements, including the disclosures of key assumptions and judgements.

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

Crowe
Al Azem, Al Sudairy, Al Shaikh & Partners
CPA's & Consultants
Member Crowe Global

P. O. Box 10504 Riyadh
11443 Kingdom of Saudi Arabia

Independent auditors' report

To the Shareholders of United Cooperative Assurance Company (Continued)

Other Matter

The financial statements of the Company for the year ended 31 December 2020, were jointly audited by another auditors' who expressed an unmodified opinion thereon vide their report dated 31 March 2021.

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.

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, related safeguards.

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

Crowe
Al Azem, Al Sudairy, Al Shaikh & Partners
CPA's & Consultants
Member Crowe Global

P. O. Box 10504 Riyadh
11443 Kingdom of Saudi Arabia

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.

For KPMG Professional Service

Naseer Ahmed Al Shutairy
License No. 454

For Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountants

Salman B AlSudairy
License No. 283

Jeddah, Kingdom of Saudi Arabia
Date: 30 March 2022
Corresponding to 27 Sha'ban 1443AH

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	31 December 2021	31 December 2020
		SAR'000	
ASSETS			
Cash and cash equivalents	4	**87,769**	61,735
Short term deposits	4(ii)	**--**	22,656
Premiums and reinsurers' receivable – net	5	**156,051**	239,606
Reinsurers' share of unearned premiums	21.2	**91,978**	209,598
Reinsurers' share of outstanding claims	13, 21.1	**36,506**	41,720
Reinsurers' share of claims incurred but not reported	13, 21.1	**114,849**	126,264
Deferred policy acquisition cost	7	**10,571**	12,645
Investments	6	**250,526**	288,366
Prepaid expenses and other assets	8	**60,335**	68,487
Property and equipment – net	9	**9,122**	10,346
Intangible assets	10	**9,813**	4,598
Right-of-use assets – net	23.1	**7,089**	7,556
Goodwill	24	**78,400**	78,400
Statutory deposit	16	**60,000**	60,000
Accrued commission income on statutory deposit		**5,396**	4,904
TOTAL ASSETS		**978,405**	1,236,881

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 2021

	Notes	31 December 2021	31 December 2020
		SAR'000	
LIABILITIES			
Policyholders payable		**24,100**	5,396
Accrued and other liabilities	14	**68,985**	46,614
Reinsurers balances payable		**95,067**	156,440
Unearned premiums	21.2	**185,439**	302,452
Unearned reinsurance commission	11	**15,683**	34,994
Outstanding claims	13	**83,964**	62,921
Claims incurred but not reported	13	**140,599**	169,749
Premium deficiency reserve	21.1	**25,378**	25,748
Other technical reserves	21.1, 22	**16,176**	13,378
Employees' defined benefit obligations	26	**10,029**	10,288
Lease liabilities	23.2	**6,187**	6,397
Surplus from insurance operations		**37,053**	37,053
Zakat and income tax payable	29	**14,846**	21,750
Accrued commission income on statutory deposit payable to SAMA		**5,396**	4,904
TOTAL LIABILITIES		**728,902**	898,084
Fair value reserve on investments - insurance operations		**(3,546)**	3,734
TOTAL LIABILITIES AND INSURANCE OPERATIONS RESERVE		**725,356**	901,818
EQUITY			
Share capital	30	**400,000**	400,000
Statutory reserve	15,30	**--**	31,944
Accumulated losses		**(149,752)**	(108,025)
Fair value reserve on investments		**(133)**	9,020
Re-measurement reserve of employees' defined benefit obligations		**2,934**	2,124
TOTAL EQUITY		**253,049**	335,063
TOTAL LIABILITIES, INSURANCE OPERATIONS RESERVE AND EQUITY		**978,405**	1,236,881
COMMITMENTS AND CONTINGENCIES	17	**22,396**	23,496

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 2021

	Notes	For the year ended 31 December 2021	2020
		SAR'000	
REVENUES			
Gross premiums written	21.2	**409,756**	616,861
Reinsurance premiums ceded			
- Local		**(26,743)**	(30,604)
- Foreign		**(198,526)**	(380,697)
	21.2	**(225,269)**	(411,301)
Reinsurance excess of loss expenses			
- Local		**(1,874)**	(818)
- Foreign		**(7,333)**	(4,635)
	21.2	**(9,207)**	(5,453)
Net premiums written		**175,280**	200,107
Changes in unearned premiums – net	12	**(607)**	(67,675)
Net premiums earned		**174,673**	132,432
Reinsurance commissions earned	11	**44,202**	39,872
TOTAL REVENUES		**218,875**	172,304
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	13	**264,721**	151,457
Reinsurers' share of claims paid	13	**(90,807)**	(59,581)
Net claims paid		**173,914**	91,876
Changes in outstanding claims – net		**26,257**	130
Changes in claims incurred but not reported – net		**(17,735)**	(6,307)
Net claims incurred	13	**182,436**	85,699
Premium deficiency reserve		**(370)**	6,988
Other technical reserves		**2,798**	3,774
Policy acquisition cost	7	**23,082**	16,521
Other underwriting expenses		**3,296**	2,790
TOTAL UNDERWRITING COSTS AND EXPENSES		**211,242**	115,772
NET UNDERWRITING RESULT		**7,633**	56,532

Chief Financial Officer — Chief Executive Officer — Director

STATEMENT OF INCOME – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	For the year ended 31 December 2021	2020
		SAR'000	
OTHER OPERATING (EXPENSES) / INCOME			
General and administrative expenses	18	**(92,657)**	(86,806)
Release / (provided) of provision for doubtful receivables	5	**9,158**	(5,823)
Board remuneration		**(1,972)**	(1,441)
Investment income	19	**9,356**	10,382
Realized (loss) / gain on investments	6.1	**(848)**	4,246
Other income	20	**3,659**	7,030
TOTAL OTHER OPERATING EXPENSES – NET		**(73,304)**	(72,412)
LOSS FOR THE YEAR BEFORE ALLOCATION		**(65,671)**	(15,880)
NET INCOME ATTRIBUTED TO THE INSURANCE OPERATIONS		**--**	--
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS BEFORE ZAKAT AND INCOME TAX		**(65,671)**	(15,880)
Zakat	29	**(7,600)**	(27,900)
Income tax	29	**(400)**	(100)
		(8,000)	(28,000)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**(73,671)**	(43,880)
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	**(1.84)**	(1.10)

Chief Financial Officer

Chief Executive Officer

Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	For the year ended 31 December 2021	2020
		SAR'000	
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**(73,671)**	(43,880)
Other comprehensive loss			
Items that will not be reclassified to statement of income in subsequent periods			
Re-measurement gains on employees' defined benefit obligations	26.1	**810**	613
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	**(16,433)**	5,102
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(89,294)**	(38,165)
TOTAL COMPREHENSIVE INCOME / (LOSS) ATTRIBUTED TO THE INSURANCE OPERATIONS		**6,471**	(4,332)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(82,823)**	(42,497)

Chief Financial Officer

Chief Executive Officer

Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

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 (Note 30)	**--**	**(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**

2020	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 2019	400,000	31,944	(64,145)	7,637	1,511	376,947
Total comprehensive (loss) / income for the year						
Total loss for the year	--	--	(43,880)	--	--	(43,880)
Re-measurement gain on employees' defined benefit obligations	--	--	--	--	613	613
Net change in fair values of available-for-sale investments	--	--	--	1,383	--	1,383
Total comprehensive (loss) / income for the year attributable to the shareholders	--	--	(43,880)	1,383	613	(41,884)
Balance as at 31 December 2020	400,000	31,944	(108,025)	9,020	2,124	335,063

Chief Financial Officer　　Chief Executive Officer　　Director

UNITED COOPERATIVE ASSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	For the year ended 31 December 2021	2020
		SAR'000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year before Zakat and income tax		**(65,671)**	(15,880)
Adjustments for non-cash items:			
Depreciation of property and equipment	9	**3,973**	2,736
Depreciation of right-of-use assets	23	**3,206**	2,052
Finance cost on lease liabilities	23	**257**	187
Loss on disposal of leases		**83**	--
(Release) / provision for doubtful receivables	5	**(9,158)**	5,823
Realized (loss) / gain on disposal of investments	6	**848**	(4,246)
Provision for employees' defined benefit obligations	26	**2,730**	4,077
Provision for other receivables	8	**4,572**	--
		(59,160)	(5,251)
Changes in operating assets and liabilities:			
Premiums and reinsurers' receivable		**92,713**	(42,977)
Reinsurers' share of unearned premiums	12	**117,620**	(71,684)
Reinsurers' share of outstanding claims		**5,214**	3,861
Reinsurers' share of claims incurred but not reported		**11,415**	(13,383)
Deferred policy acquisition costs		**2,074**	(6,201)
Prepaid expense and other assets		**3,580**	(30,731)
Accrued commission income on statutory deposit		**(492)**	(1,080)
Policyholders payable		**18,704**	(8,023)
Accrued and other liabilities		**22,371**	(21,110)
Reinsurers balances payable		**(61,373)**	(21,973)
Unearned premiums	12	**(117,013)**	139,359
Unearned reinsurance commission		**(19,311)**	7,225
Outstanding claims		**21,043**	(3,731)
Claims incurred but not reported		**(29,150)**	7,076
Premium deficiency reserve		**(370)**	6,988
Other technical reserves		**2,798**	3,774
Accrued commission income on statutory deposit payable to SAMA		**492**	1,080
		11,155	(56,781)
Employees' defined benefit obligations paid	26	**(2,179)**	(2,651)
Zakat and income tax paid	29	**(14,904)**	(35,186)
Net cash used in operating activities		**(5,928)**	(94,618)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	6	**--**	(149,901)
Proceeds from sale of investments	6	**20,559**	61,831
Short term deposits		**22,656**	840
Purchase of property and equipment	9	**(2,749)**	(6,074)
Addition to Intangible assets		**(5,215)**	(4,598)
Net cash generated from / (used in) investing activities		**35,251**	(97,902)

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 – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021	2020
		For the year ended 31 December	
		SAR'000	
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of lease liabilities	23	**(3,289)**	(3,398)
Net cash used in financing activities		**(3,289)**	(3,398)
Net changes from / (used in) cash and cash equivalents		**26,034**	(195,918)
Cash and cash equivalents, at the beginning of the year		**61,735**	257,653
Cash and cash equivalents, at the end of the year		**87,769**	61,735
NON-CASH INFORMATION			
Net change in fair value of available-for-sale investments	6	**(16,433)**	5,102
Re-measurement gain on employees' defined benefit obligations	26.1	**810**	613

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").

(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, short term deposits, 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.

(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.

(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.

2. BASIS OF PREPARATION – (continued)

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

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.

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.

2. BASIS OF PREPARATION – (continued)

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

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) Going concern

On 8 November 2020 corresponding to 22 Rabi Al Awwal 1442H, the Company announced on Tadawul that as on 30 September 2020, the Company's accumulated losses reached 22% of its share capital. As of 31 December 2021, the Company's accumulated losses reached 37% of its share capital (2020: 27%). During the year, the Company incurred net loss amounting to SAR 73.7 million (2020: net loss of SAR 43.88 million) and has a negative operating cash flow of SAR 5.93 million (2020: 94.62 million). These conditions raised uncertainty on the Company's ability to continue as a going concern. However, management of the Company has prepared a business plan and has undertaken strategic initiatives that will ensure healthy market penetration and retention levels while remaining in compliance with applicable regulatory requirements. Furthermore, during 31 December 2021, the Company announced Board of Directors' recommendation to increase share capital by offering right shares amounting to SAR 300 million to support the growth plan of the Company. The management of the Company does not have any intention to liquidate the Company or to cease the operations in the near future therefore the going concern basis of preparation of the financial statements is appropriate. Accordingly, the financial statements have been prepared on the going concern basis.

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.

2. BASIS OF PREPARATION – (continued)

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

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 adopted by the Company for the preparation of these financial statements are in accordance with IFRS as endorsed in the KSA and are consistent with those used for the preparation of the annual financial statements for the year ended 31 December 2020 and new amended IFRS and interpretations issued by IFRS Interpretations Committee (IFRS IC) as mentioned in note 3(a) which had no significant impact on the financial position or financial performance of the Company.

The accounting policies used in the preparation of the financial statements are consistently applied to all the year presented unless stated otherwise.

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

The Company has adopted the following amendments, interpretations and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB) and are applicable from January 1, 2021.

Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest rate benchmark reform - Phase 2

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform. The Company did not identify a material impact as a result of this amendment.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

(b) Standards issued but not yet effective

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

Standard/ Interpretation	***Description***	***Effective from periods beginning on or after the following date***
IAS 37	Onerous contracts – cost of fulfilling a contract	January 1, 2022
IFRS Standards	Annual improvements to IFRS standards 2018 – 2020	January 1, 2022
IAS 16	Property, plant and equipment: proceeds before intended use	January 1, 2022
IFRS 3	Reference to the conceptual framework	January 1, 2022
IFRS 17	Insurance contracts	See below
IFRS 9	Financial Instrument	See below
IAS 1	Classification of liabilities as current or non-current (amendments to IAS 1)	January 1, 2023
IAS 8	Definition of Accounting Estimate – Amendment	January 1, 2023
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction`	January 1, 2023
IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
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

IFRS 9 - Financial Instruments

This standard was published on 24 July 2014 and has replaced IAS 39. The new standard addresses the following items related to financial instruments:

(a) Classification and measurement:

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss. A financial asset is measured at amortized cost if both:

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

The financial asset is measured at fair value through other comprehensive income and realized gains or losses would be recycled through profit or loss upon sale, if both conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and for sale; and
- the contractual terms of cash flows are SPPI.

IFRS 9 - Financial Instruments (Continued)

(a) Classification and measurement: (Continued)

Debt financial assets not meeting either of these categories are measured at fair value through profit or loss. Additionally, at initial recognition, an entity can use the option to designate a financial asset, both debt and equity instrument at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

For equity instruments that are not held for trading, an entity can also make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of the instruments (including realized gains and losses), dividends being recognized in statement of income.

Additionally, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in statement of income.

a) ***Impairment*:**

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the IFRS 9 approach, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

b) Hedge accounting:

IFRS 9 introduces new requirements for hedge accounting that align hedge accounting more closely with Risk Management. The requirements establish a more principles-based approach to the general hedge accounting model. The amendments apply to all hedge accounting with the exception of portfolio fair value hedges of interest rate risk (commonly referred to as "fair value macro hedges"). For these, an entity may continue to apply the hedge accounting requirements currently in IAS 39. This exception was granted largely because the IASB is addressing macro hedge accounting as a separate project.

Effective date

The published effective date of IFRS 9 was 1 January 2018. However, amendments to IFRS 4 – Insurance Contracts: Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts, published on 12 September 2016, changes the existing IFRS 4 to allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 before the IASB's new insurance contract standard (IFRS 17 – Insurance Contracts) becomes effective. The amendments introduce two alternative options:

1. apply a temporary exemption from implementing IFRS 9 until the earlier of

- the effective date of a new insurance contract standard; or
- annual reporting periods beginning on or after 1 January 2021. On 17 March 2020, the International Accounting Standards Board ("IASB") decided to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 from 1 January 2021 to 1 January 2023. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominately connected with insurance and have not applied IFRS 9 previously; or

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Adopt IFRS 9 but, for designated financial assets, remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contract standard is implemented. During the year, additional disclosures are required.

The Company has performed a detailed assessment beginning 1 January 2017: (1) The carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and (2) the total carrying amount of the Company's liabilities connected with insurance were compared to the total carrying amount of all its liabilities. Based on these assessments the Company determined that it is eligible for the temporary exemption. Consequently, the Company has decided to defer the implementation of IFRS 9 until the effective date of the new insurance contracts standard.

Impact assessment

As at 31 December 2021, the Company has total financial assets and insurance related assets amounting to SAR 768.26 million (31 December 2020: SAR 883.82 million) and SAR 409.9 million (31 December 2020: SAR 640.81 million), respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SAR 147.09 million (31 December 2020: SAR 106.89 million). Other financial assets consist of available for sale investments amounting to SAR 250.53 million (31 December 2020: SAR 281.79 million).

As at 31 December 2021 these debt securities are measured at fair value of SAR 223.4 million (31 December 2020: SAR 261 million) with changes in fair value during the year of SAR 16.23 million (31 December 2020: SAR 4.49 million). Other financial assets have a fair value of SAR 27.14 million (31 December 2020: SAR 27.35 million) as at 31 December 2021 with a fair value change during the year of SAR 0.2 million (31 December 2020: SAR 0.62 million).

The Company's financial assets have low credit risk as at 31 December 2021 and 31 December 2020. The above is based on high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9: However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

IFRS 17 – Insurance Contracts

Overview

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

IFRS 17 – Insurance Contracts (continued)

Measurement

In contrast to the requirements in IFRS 4, which permitted insurers to continue to use the accounting policies for measurement purposes that existed prior to January 2015, IFRS 17 provides the following different measurement models:

The General model is based on the following "building blocks":

a. the fulfilment cash flows (FCF), which comprise:

- probability-weighted estimates of future cash flows;
- an adjustment to reflect the time value of money (i.e. discounting) and the financial risks associated with those future cash flows;
- and a risk adjustment for non-financial risk.

b. the Contractual Service Margin (CSM). The CSM represents the unearned profit for a group of insurance contracts and will be recognized as the entity provides services in the future. The CSM cannot be negative at inception; any net negative amount of the fulfilment cash flows at inception will be recorded in profit or loss immediately. At the end of each subsequent reporting period the carrying amount of a group of insurance contracts is remeasured to be the sum of:

- the liability for remaining coverage, which comprises the FCF related to future services and the CSM of the group at that date; and
- the liability for incurred claims, which is measured as the FCF related to past services allocated to the group at that date.

The CSM is adjusted subsequently for changes in cash flows related to future services but the CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss. The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.

The Variable Fee Approach (VFA) is a mandatory model for measuring contracts with direct participation features (also referred to as 'direct participating contracts'). This assessment of whether the contract meets these criteria is made at inception of the contract and not reassessed subsequently. For these contracts, the CSM is also adjusted for in addition to adjustment under general model;

i) changes in the entity's share of the fair value of underlying items,
ii) changes in the effect of the time value of money and financial risks not relating to the underlying items.

In addition, a simplified Premium Allocation Approach (PAA) is permitted for the measurement of the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period for each contract in the group is one year or less. With the PAA, the liability for remaining coverage corresponds to premiums received at initial recognition less insurance acquisition cash flows. The general model remains applicable for the measurement of incurred claims. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid/received in one year or less from the date the claims are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

IFRS 17 – Insurance Contracts (continued)

Measurement (Continued)

Effective date

The IASB issued an Exposure Draft Amendments to IFRS 17 during June 2019 and received comments from various stakeholders. The IASB is currently re-deliberating issues raised by stakeholders. For any proposed amendments to IFRS 17, the IASB will follow its normal due process for standard-setting. The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4, is currently January 1, 2023. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. The Company intends to apply the standard on its effective date.

Transition

A retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

Presentation and Disclosures

The Company expects that the new standard will result in a change to the accounting policies for insurance contracts together with amendments to presentation and disclosures.

Impact

The Company has completed the design of IFRS 17 requirements. As of the date of the publication of these financial statements, the financial impact of adopting the standard has yet to be fully assessed by the Company. The Company has undertaken a Gap Analysis, and the key areas of Gaps are as follows:

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

IFRS 17 – Insurance Contracts (continued)

Impact Area	Summary of Impact
Financial Impact	Company is still assessing full financial impact
Data Impact / IT Systems	▪ Conceptual design of New chart of accounts has been developed for PAA/ GMM / VFA ▪ Actuarial and accounting data requirements have been developed at more granular level ▪ Discount rates will need to be stored for group of contracts and tracked for interest accretion calculation under GMM / VFA ▪ Embedded risk adjustment calculation in the actuarial system. Confidence interval numbers to be sourced for risk adjustment. ▪ Conceptual design for identification of key inputs for onerous contracts test as well as defining 'facts and circumstance' for PAA contracts has been developed ▪ Conceptual design for calculation and tracking of contractual service margin
Process Impact	▪ Conceptual design for Finance, actuarial, underwriting and IT processes has been built suitable for IFRS 17 together with new set of governance framework. New controls dealing with IFRS 17 will be developed during the implementation phase ▪ New reconciliation processes to be put in place between accounting, actuarial and underwriting data sources ▪ Conceptual design for new accounting policies each suitable for measurement model and technical decisions have been identified for each area ▪ Monitor terms and conditions attaching to insurance contracts ▪ Conceptual design for new expense allocation process, acquisition costs, claims settlement costs and underwriting costs has been put in place to identify profitability at a contract level. ▪ System to track coverage period for future products need to be put in Place
Impact on Policies & Control Frameworks	▪ New Steering committee for IFRS 17 has been established ▪ Project plan for design and implementation has been set up at activities level

The Company has started with their implementation process and have set up a steering implementation committee to monitor the implementation. The Company submitted IFRS 17 Phase 3 "Design of Implementation plan Plan" report to SAMA in May April 2021 to comply with the regulatory requirement for the design phase, where all the methodologies and policy decisions have been documented and concluded. SAMA has issued instructions to the Company for Phase 4 "Dry Runs" in July 2021 where the results of second dry run needs to be submitted by 31 May 2022. The Company was required to prepare the complete set of financial statement under IFRS 17 based on FY 2020 data, and provide comparison between IFRS 17 and IFRS 4 under the first dry run, which was due on November 30th, 2021. The Company has successfully submitted the results as per the 1st dry run. The results of the 2nd dry run need to be submitted by 31 May 2022 based upon the FY 2021.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

h) Premium and reinsurance receivables

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

i) Investments – (continued)

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.

j) 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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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:

• 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

For leases other than short-term leases or lease of low-value assets, the Company recognises a right of use of asset and a lease liability at the lease commencement date. The right of use is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses and adjusted with certain re-measurements of lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using SIBOR plus risk and depreciated using the lease term.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payment made. It is remeasured when there is a change in the future lease payments arising from the change in an index or rate, a change in the estimate of the amount expected to be payable under residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or termination option is reasonably not to be exercised.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

q) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill – are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

r) Employees' 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.

s) Zakat and income tax

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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.

z) Fair values

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

For financial assets where there is no active market, fair value is determined by reference to the market value of a similar financial assets or where the fair values cannot be derived from active market, they are determined using a variety of valuation techniques. The inputs of 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.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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 AND SHORT-TERM DEPOSITS

i. CASH AND CASH EQUIVALENTS

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

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Insurance operations		
Bank balances	**87,067**	51,356
Shareholders' operations		
Bank balances	**702**	10,379
Total	**87,769**	61,735

4. CASH AND CASH EQUIVALENTS AND SHORT-TERM DEPOSITS (continued)

ii. SHORT TERM DEPOSITS

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Insurance operations		
Short term deposits	--	22,656

a. Short term deposits represent deposits with local commercial banks registered in Saudi Arabia that have investment grade credit rating and have an original maturity of more than three months from the date of acquisition.

b. These deposits earn commission at an average rate of Nil per annum as at 31 December 2021 (2020: 2.35%).

5. PREMIUMS AND REINSURERS' RECEIVABLE – NET

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Policyholders	**173,797**	162,637
Brokers and agents	**7,255**	3,510
Related parties (note 28)	**48,582**	156,398
Receivables from reinsurers	**7,002**	6,804
	236,636	329,349
Provision for doubtful receivables	**(80,585)**	(89,743)
Premiums and reinsurers' receivable – net	**156,051**	239,606

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

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Balance at the beginning of the year	**89,743**	83,920
Provision for the year	**--**	5,823
Release of provision for the year	**(9,158)**	--
Balance at the end of the year	**80,585**	89,743

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

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

	Neither past due nor impaired	**Past due including impaired**			
As at 31 December 2021 *Amount in SAR '000*		**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**

	Neither past due nor impaired	Past due but including impaired			
As at 31 December 2020 *Amount in SAR '000*		91 to 180 days	181 to 365 days	Above 365 days	Total
Premium and reinsurers' receivable	78,462	15,730	20,356	58,403	172,951
Premium receivable – related parties	94,969	13,243	14,593	33,593	156,398
Provision for doubtful debts	-	(4,334)	(7,788)	(77,621)	(89,743)
Premiums and reinsurers' receivable – net	173,431	24,639	27,161	14,375	239,606

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 28% (2020: five accounted for 49%) of outstanding premiums receivable as at 31 December 2021.

Management considers its external customers to be individual policyholders. One customer of the Company accounts for 15% of the gross premiums written for the year ended 31 December 2021 (2020: 19%). The total premiums attributable to the said customer was SAR 39.7 million for the year (2020: 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 2021	31 December 2020
	SAR'000	SAR'000
Insurance operations (note 6.1)	**86,401**	115,088
Shareholders' operations (note 6.2)	**164,125**	173,278
	250,526	288,366

6. INVESTMENTS – (continued)

6.1 Insurance operations

Movement during the year is as follows:

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Opening balance	**115,088**	227
Purchases during the year	**--**	111,142
Disposals during the year	**(20,559)**	--
Realized loss on disposals of investments	**(848)**	--
Changes in fair value of investments	**(7,280)**	3,719
Closing balance	**86,401**	115,088

These investments comprise of the following:

Investment in sukuks	**86,171**	114,859
Investment in mutual funds	**230**	229
	86,401	115,088

6.2 Shareholders' operations

Movement during the year is as follows:

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Opening balance	**173,278**	190,721
Purchases during the year	**--**	38,759
Disposals during the year	**--**	(61,831)
Realized gain on disposals of investments	**--**	4,246
Changes in fair value of investments	**(9,153)**	1,383
Closing balance	**164,125**	173,278
These investments comprise of the following:		
Investment in equity shares (note 6.3)	**6,686**	6,580
Investment in sukuks	**137,219**	146,149
Investment in mutual funds	**20,220**	20,549
	164,125	173,278

6.3 This includes 3.85% (31 December 2020: 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

	31 December 2021	31 December 2020
	SAR'000	SAR'000
As at 1 January	12,645	6,444
Incurred during the year	21,008	22,722
Amortised during the year	(23,082)	(16,521)
As at 31 December	10,571	12,645

8. PREPAID EXPENSES AND OTHER ASSETS

	31 December 2021	31 December 2020
Insurance operations	SAR'000	SAR'000
Deposit against letter of guarantees (note 17 and 29)	22,396	23,496
VAT receivables (note 29)	12,273	12,273
Claim recoveries	13,271	9,700
Prepaid expenses	6,592	8,517
Deferred third party administrator (TPA) fee	3,040	2,544
Accrued interest on investments	660	830
Advances to staff	209	718
Others	5,244	9,371
	63,685	67,449
Shareholders' operations		
Accrued interest	1,034	1,038
Others	188	--
	64,907	68,487
Provision against VAT receivable	(4,572)	--
Total	60,335	68,487

9. PROPERTY AND EQUIPMENT – NET

	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. PROPERTY AND EQUIPMENT – NET (continued)

	Motor Vehicles	Furniture and fittings	Computers and office equipment	Leasehold improvements	Capital work in progress	2020 Total
2020			SAR'000			
Cost:						
As at 1 January	393	8,663	17,906	5,502	--	32,464
Additions	--	40	2,181	--	3,853	6,074
Transfer	--	497	--	2,248	(2,745)	--
Disposals	--	(346)	(702)	--	--	(1,048)
As at 31 December	393	8,854	19,385	7,750	1,108	37,490
Depreciation:						
As at 1 January	280	8,310	11,907	4,959	--	25,456
Charge for the year	31	135	2,297	273	--	2,736
Disposals	--	(346)	(702)	--	--	(1,048)
As at 31 December	311	8,099	13,502	5,232	--	27,144
Net book value:						
At 31 December 2020	82	755	5,883	2,518	1,108	10,346

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 9.8 million in current year (2020: SAR 4.6 million) in terms of development cost.

11. UNEARNED REINSURANCE COMMISSION

	31 December 2021	31 December 2020
	SAR'000	SAR'000
As at 1 January	**34,994**	27,769
Commission received during the year	**24,891**	47,097
Commission earned during the year	**(44,202)**	(39,872)
As at 31 December	**15,683**	34,994

12. MOVEMENT IN UNEARNED PREMIUMS

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Gross unearned premiums as at 1 January	**302,452**	163,093
Gross unearned premiums as at 31 December	**(185,439)**	(302,452)
Movement in gross unearned premiums	**117,013**	(139,359)
Reinsurers' share of unearned premiums as at 1 January	**(209,598)**	(137,914)
Reinsurers' share of unearned premiums as at 31 December	**91,978**	209,598
Movement in reinsurers' share of unearned premiums	**(117,620)**	71,684
Movement in unearned premiums – net	**(607)**	(67,675)

13. CLAIMS

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Gross claims paid	264,721	151,457
Outstanding claims at the end of the year	83,964	62,921
Claims incurred but not reported at the end of the year	140,599	169,749
	489,284	384,127
Outstanding claims at the beginning of the year	(62,921)	(66,652)
Claims incurred but not reported at the beginning of the year	(169,749)	(162,673)
Gross claims incurred	256,614	154,802
Reinsurance recoveries	(90,807)	(59,581)
Reinsurers' share of outstanding claims at the end of the year	(36,506)	(41,720)
Reinsurers' share of claims incurred but not reported at the end of the year	(114,849)	(126,264)
	(242,162)	(227,565)
Reinsurers' share of outstanding claims at the beginning of the year	41,720	45,581
Reinsurers' share of claims incurred but not reported at the beginning of the year	126,264	112,881
Reinsurers' share of claims	(74,178)	(69,103)
Net claims incurred	182,436	85,699

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 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

13. CLAIMS – (continued)

As at 31 December 2020

Accident year	2016 & earlier	2017	2018	2019	2020	Total
			SAR'000			
Estimate of ultimate claims cost:						
At the end of accident year	1,514,974	310,521	282,050	148,124	235,192	
One year later	1,453,296	265,368	250,264	123,635	--	
Two years later	1,381,404	244,958	246,555	--	--	
Three years later	1,314,220	241,040	--	--	--	
Four years later	1,232,194	--	--	--	--	
Current estimate of cumulative claims	1,232,194	241,040	246,555	123,635	235,192	2,078,616
Cumulative payments to date	(1,218,118)	(206,388)	(209,860)	(83,782)	(127,798)	(1,845,946)
Liability recognised in statement of financial position	14,076	34,652	36,695	39,853	107,394	232,670

14. ACCRUED AND OTHER LIABILITIES

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Insurance brokers	**18,543**	13,076
Withholding tax payable	**6,933**	7,956
Commission and incentives payable	**4,472**	6,444
Surveyor fee	**9,465**	5,779
Payables to hospitals	**19,469**	5,545
VAT payable	**2,574**	2,007
Accrued expenses	**128**	608
Garages payables	**300**	528
Supervision and inspection fee payable	**509**	497
Third party administrator (TPA) fees	**733**	222
CCHI fees payable	**273**	89
Others	**3,417**	2,782
	66,816	45,533
Shareholders' operations		
Accrued expenses	**1,923**	740
Other creditors	**246**	341
	2,169	1,081
Total	**68,985**	46,614

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 2021	31 December 2020
	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 2021	31 December 2020
	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**	1,400
	22,396	23,496

a. The Company has capital commitments outstanding as at 31 December 2021 amounting to SAR 19.9 million (31 December 2020: SAR 19.65 million) in respect of software development project.

b. As at 31 December 2021, the Company's bankers have given guarantees to non-government customers amounting to SAR SAR 0.3 million (2020: SAR 1.40 million) in respect of motor insurance and to the Zakat, Tax and Custom Authority (ZATCA) amounting to SAR 22.09 (2020: 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 for the status of zakat and tax assessments.

18. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Insurance operations		
Employee costs	**53,169**	55,616
Legal and professional fees	**3,736**	4,330
Office supplies	**5,989**	4,137
Depreciation	**3,973**	2,736
Provision for other receivables	**4,572**	--
Rent	**901**	2,292
Communication expenses	**1,796**	2,101
Depreciation of right-of-use assets (note 23)	**3,206**	2,052
Office expenses	**821**	1,767
Marketing and advertising	**129**	696
Professional services	**2**	603
Training and education	**500**	462
Utilities	**284**	361
Finance cost on lease liability	**257**	187
Investment expenses	**27**	34
Others	**8,914**	7,898
	88,276	85,272
Shareholders' operations		
Professional fees	**3,507**	867
Others	**874**	667
	4,381	1,534
Total	**92,657**	86,806

19. INVESTMENTS INCOME

Insurance operations	**31 December 2021**	31 December 2020
	SAR'000	SAR'000
Commission income on deposits	**--**	560
Commission income on investments	**4,364**	3,849
	4,364	4,409
Shareholders' operations		
Dividend income	**187**	535
Commission income on investments	**4,805**	5,438
	4,992	5,973
Total	**9,356**	10,382

20. OTHER INCOME

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Share of surplus from Al Manafeth (note 20.1)	**-**	1,167
Share of surplus from Umrah and Hajj scheme (note 20.2)	**404**	4,318
Others	**3,255**	1,545
	3,659	7,030

20.1 This 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 thereby surplus from Manafeth is made part of gross premium written.

20.2 This 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 2021	31 December 2020
	SAR'000	SAR'000
Outstanding claims	**83,964**	62,921
Claims incurred but not reported	**140,599**	169,749
	224,563	232,670
Premium deficiency reserve	**25,378**	25,748
Other technical reserves	**16,176**	13,378
	266,117	271,796
Less:		
- Reinsurers' share of outstanding claims	**(36,506)**	(41,720)
- Reinsurers' share of claims incurred but not reported	**(114,849)**	(126,264)
	(151,355)	(167,984)
Net outstanding claims and reserves	**114,762**	103,812

21. TECHNICAL RESERVES (continued)

21.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	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**

	31 December 2020		
	Gross	Reinsurance	Net
		SAR'000	
Balance as at the beginning of the year	163,093	(137,914)	25,179
Premium written / (ceded) during the year	616,861	(416,754)	200,107
Premium earned during the year	(477,502)	345,070	(132,432)
Balance as at the end of the year	302,452	(209,598)	92,854

22. OTHER TECHNICAL RESERVES

	31 December 2021 SAR'000	31 December 2020 SAR'000
Unallocated expense loss reserve	**6,863**	6,508
Reinsurance recapture provision (note 22.1)	**--**	1,583
Reinsurance accrual reserve (note 22.2)	**9,313**	5,287
	16,176	13,378

22.1 During the current year the management reclassified the balance of SAR 1.583 million within provision for receivable.

22.2 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 2021 SAR'000**	31 December 2020 SAR'000
Cost:		
At beginning of the year	**9,608**	--
Additions during the year	**4,768**	9,608
Derecognize during the year	**(2,953)**	--
At end of the year	**11,423**	9,608
Accumulated depreciation:		
At beginning of the year	**2,052**	--
Depreciation charged during the year	**3,206**	2,052
Derecognize during the year	**(924)**	--
At end of the year	**4,334**	2,052
Net book value	**7,089**	7,556

23.2 LEASE LIABILTIES

	31 December 2021 SAR'000	31 December 2020 SAR'000
At beginning of the year	**6,397**	-
Additions during the year	**4,768**	9,608
Finance cost	**257**	187
Derecognize during the year	**(1,946)**	--
Payments during the year	**(3,289)**	(3,398)
At end of the year	**6,187**	6,397

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.

The Company tests whether goodwill has suffered any impairment on an annual basis. Determining whether goodwill is impaired requires an estimation of the recoverable amount based on a value in use calculation using discounted cash flows (DCF) projections from financial budgets prepared by the management for next five years. Cash flows beyond five years' period are extrapolated using the estimated long-term growth rate.

The assumptions used in arriving at the recoverable amount using the DCF involve a considerable degree of estimation on the part of management. Actual conditions may differ from assumptions and thus actual cash flows may be different to those expected with a potential material effect on the recoverability of amounts. The budgeted growth rate for gross premiums to be written in the forecast period has been estimated to be at compound annual growth rate of 17%. The weighted average cost of capital and long-term growth rate has been estimated at 15% and 2%, respectively.

24. GOODWILL (continued)

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.

A sensitivity analysis has been performed and an addition of 1% to the weighted average cost of capital and a reduction of 0.5% in the long-term growth rate have insignificant impact on the results of the impairment tests.

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;

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 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

25. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

31 December 2020

	Level 1 SAR'000	Level 2 SAR'000	Level 3 SAR'000	Total SAR'000
Financial assets measured at fair value				
Equity securities and mutual funds				
- Insurance operations	229	--	--	229
- Shareholders' operations	25,206	--	--	25,206
Debt securities				
- Insurance operations	114,859	--	--	114,859
- Shareholders' operations	40,055	106,094	--	146,149
	180,349	106,094	--	286,443

Above table does not include available-for-sale investment amounting to SAR 1.9 million (2020: 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 2021 SAR'000	31 December 2020 SAR'000
Present value of defined benefit obligation	**10,029**	10,288

26.1 Movement of defined benefit obligation

	31 December 2021 SAR'000	31 December 2020 SAR'000
Opening balance	**10,288**	9,475
Charge to statement of income	**2,730**	4,077
Charge to statement of other comprehensive income	**(810)**	(613)
Payment of benefits during the year	**(2,179)**	(2,651)
Closing balance	**10,029**	10,288

26. EMPLOYEES' DEFINED BENEFIT OBLIGATIONS – (continued)

26.2 Reconciliation of present value of defined benefit obligation

	31 December 2021 SAR'000	31 December 2020 SAR'000
Opening balance	**10,288**	9,475
Current service costs	**2,543**	3,856
Financial costs	**187**	221
Actuarial gain from experience adjustments	**(810)**	(613)
Benefits paid during the year	**(2,179)**	(2,651)
	10,029	10,288

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 2021	31 December 2020
Valuation discount rate	**2.53%**	2.11%
Expected rate of increase in salary level across different age bands	**3.53%**	3.11%
Withdrawal rates	**24.3%**	14.14%

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

Valuation discount rate	**31 December 2021 SAR'000**	31 December 2020 SAR'000
- Increase by 1%	**(621)**	(626)
- Decrease by 1%	**710**	714
Expected rate of increase in salary level across different age bands		
- Increase by 1%	**695**	699
- Decrease by 1%	**(620)**	(626)

	31 December 2021 SAR'000	31 December 2020 SAR'000
Projected future benefit payment (5 years)		
2021	**--**	1,717
2022	**1,883**	1,394
2023	**905**	838
2024	**850**	740
2025	**857**	719
2026	**746**	--

The average duration of the defined benefit plan obligation for 31 December 2021 is 7.09 year (31 December 2020: 6.51 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 2020.

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 2021 and 31 December 2020, its total revenues, expenses, and net income for the years then ended, are as follows:

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)

	As at 31 December 2020 SAR'000							
	Medical	Motor	Energy	Engineering	Others	Total insurance operations	Shareholders' operations	Total
Assets								
Reinsurers' share of unearned premiums	9,672	31,837	--	140,588	27,501	209,598	--	209,598
Reinsurers' share of outstanding claims	5,653	3,844	--	5,549	26,674	41,720	--	41,720
Reinsurers' share of claims incurred but not reported	1,650	18,679	21,396	39,762	44,777	126,264	--	126,264
Deferred policy acquisition costs	1,576	5,640	--	3,731	1,698	12,645	--	12,645
Unallocated assets						518,655	327,999	846,654
Total assets						908,882	327,999	1,236,881
Liabilities								
Unearned premiums	21,202	106,134	--	142,870	32,246	302,452	--	302,452
Unearned reinsurance commission	--	7,512	--	23,408	4,074	34,994	--	34,994
Outstanding claims	10,279	16,810	--	6,487	29,345	62,921	--	62,921
Claims incurred but not reported	4,536	50,693	21,771	41,949	50,800	169,749	--	169,749
Premium deficiency reserve	2,734	22,630	--	--	384	25,748	--	25,748
Other technical reserves	1,825	8,242	544	1,130	1,637	13,378	--	13,378
Unallocated liabilities and insurance operations reserve						264,841	27,735	292,576
Total liabilities and insurance operations reserve						874,083	27,735	901,818

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)**

***27.1 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**

27. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2020					
	Medical SAR'000	Motor SAR'000	Energy SAR'000	Engineering SAR'000	Others SAR'000	Total SAR'000
REVENUES						
Gross premiums written						
- Individual	67	145,928	--	--	249	146,244
- Micro enterprises	9,971	10,909	--	870	7,473	29,223
- Small enterprises	21,031	41,226	--	5,425	16,226	83,908
- Medium enterprises	10,271	31,683	--	93,141	41,737	176,832
- Large enterprises	169	4,849	121,539	20,666	33,431	180,654
	41,509	234,595	121,539	120,102	99,116	616,861
Reinsurance premiums ceded						
- Local	(3,462)	(11,729)	--	(10,720)	(4,693)	(30,604)
- Foreign	(15,615)	(58,029)	(119,446)	(104,807)	(82,800)	(380,697)
	(19,077)	(69,758)	(119,446)	(115,527)	(87,493)	(411,301)
Reinsurance excess of loss expenses						
- Local	--	(353)	--	--	(465)	(818)
- Foreign	--	(1,993)	--	--	(2,642)	(4,635)
	--	(2,346)	--	--	(3,107)	(5,453)
Net premiums written	22,432	162,491	2,093	4,575	8,516	200,107
Changes in unearned premiums – net	(4,604)	(62,903)	--	368	(536)	(67,675)
Net premiums earned	17,828	99,588	2,093	4,943	7,980	132,432
Reinsurance commissions earned	--	9,725	1,776	15,266	13,105	39,872
TOTAL REVENUES	17,828	109,313	3,869	20,209	21,085	172,304
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	22,097	114,994	--	5,076	9,290	151,457
Reinsurers' share of claims paid	(11,459)	(37,036)	--	(3,832)	(7,254)	(59,581)
Net claims paid	10,638	77,958	--	1,244	2,036	91,876
Changes in outstanding claims – net	2,711	(2,656)	--	278	(203)	130
Changes in claims incurred but not reported – net	(4,040)	(1,601)	--	(627)	(39)	(6,307)
Net claims incurred	9,309	73,701	--	895	1,794	85,699
Premium deficiency reserve	(5,343)	12,286	--	-	45	6,988
Other technical reserves	(2,416)	4,222	506	782	680	3,774
Policy acquisition costs	1,916	8,494	--	2,445	3,666	16,521
Other underwriting expenses	660	659	608	450	413	2,790
TOTAL UNDERWRITING COSTS AND EXPENSES	4,126	99,362	1,114	4,572	6,598	115,772
NET UNDERWRITING RESULT	13,702	9,951	2,755	15,637	14,487	56,532

27. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2020					
	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						(86,806)
Reversal of provision for doubtful receivables						(5,823)
Board remuneration						(1,441)
Investments income						10,382
Realized gain on investments						4,246
Other income						7,030
TOTAL OTHER OPERATING EXPENSES – NET						(72,412)
LOSS FOR THE YEAR BEFORE ALLOCATION						(15,880)
Net loss for the year attributable to insurance operations						--
Net income for the year attributable to the shareholders' before zakat and income tax						(15,880)
Zakat						(27,900)
Income tax						(100)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS						(43,880)

***27.2 Additional information**

	For the year ended 31 December 2020				
	Medical SAR'000	Motor SAR'000	Property and casualty SAR'000	Protection and savings SAR'000	Total SAR'000
REVENUES					
Gross premiums written					
- Individual	67	145,928	249	--	146,244
- Micro enterprises	9,971	10,909	8,343	--	29,223
- Small enterprises	21,031	41,226	21,651	--	83,908
- Medium enterprises	10,271	31,683	134,878	--	176,832
- Large enterprises	169	4,849	175,636	--	180,654
	41,509	234,595	340,757	--	616,861

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 2021	31 December 2020
		SAR'000	SAR'000
Major shareholders			
Haji Hussien Ali Reza	Premium written	**5,732**	5,650
	Payments received	**(6,306)**	(7,201)
	Claims paid	**(2,780)**	(617)
Saudi Bin Laden – Group	Premium written	**30,489**	114,167
	Payments received	**(117,852)**	(103,530)
	Claims paid	**(140)**	(263)
Construction Produce Company	Premium written	**7,086**	7,163
	Payments received	**(23,226)**	(5,457)
	Claims paid	**(665)**	(257)
Entities controlled, jointly controlled or significantly influenced by related parties			
United Commercial Agencies	Payment made on behalf of Company	**693**	(150)
Law Office of Hassan Mahassni	Premium written	**--**	654
	Payments received and claims paid	**142**	(589)
Middle East Group	Premium written	**--**	12
	Payments received and claims paid	**12**	(1)

28.2 RELATED PARTIES BALANCES

	Balance receivable / (payable) as at	
	31 December 2021	31 December 2020
	SAR'000	SAR'000
Premium receivable		
Haji Hussein Ali Reza	**4,833**	8,187
Saudi Bin Laden – Group	**39,872**	127,375
Construction Product Company	**3,818**	20,623
Law Office of Hassan Mahassni	**55**	197
Middle East Group	**--**	16
	48,578	156,398
Other balances		
United Commercial Agencies	**4**	697
UCA Workshop	**--**	(3)
	4	694

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 2021 and 31 December 2020:

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Salaries and other allowances	**4,866**	5,231
End of service benefits	**276**	214
	5,142	5,445
Remuneration to those charged with governance	**1,972**	1,441

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 2021 SAR'000	31 December 2020 SAR'000
Share capital	**400,000**	400,000
Statutory deposit	**(60,000)**	(60,000)
Statutory reserve	**31,944**	31,944
Accumulated losses	**(108,026)**	(64,145)
Fair value reserve	**(133)**	9,020
End of services benefits	**2,123**	15,110
Investments	**(1,923)**	(1,923)
Other opening provisions	**97,042**	90,131
Goodwill	**(78,400)**	(78,400)
Property and equipment – net	**(18,935)**	(14,944)
Deferred policy acquisition cost	**(10,571)**	(12,645)
Lease liabilities	**6,187**	6,397
Right-of-use assets	**(7,089)**	(7,556)
	252,219	312,989
Loss for the year	**(65,671)**	(15,880)
Provision for doubtful debts	**(9,158)**	5,823
End of services benefits	**2,730**	4,077
Other	**--**	--
Adjusted loss for the year	**(72,099)**	(5,980)
Zakat base	**180,120**	307,009
Attributable to Saudi Shareholders @ 99% (2020: 99%)	**178,319**	303,939
Zakat @ 2.578%	**4,597**	7,836
Income tax		
Attributable income to Non-Saudi Shareholder @ 1% (2020: 1%)	**--**	--
Income tax @ 20%	**--**	--
Zakat and income tax	**4,597**	7,836

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 2021	31 December 2020
	SAR'000	SAR'000
Balance at the beginning of the year	**20,850**	28,136
Charge for the current year	**7,600**	7,900
Charge for the prior years	**--**	20,000
Paid during the year	**(14,904)**	(35,186)
Balance at the end of the year	**13,546**	20,850

The movement in the income tax payable is as follows:

	31 December 2021	31 December 2020
	SAR'000	SAR'000
Balance at the beginning of the year	**900**	800
Charge for the current year	**400**	100
Balance at the end of the year	**1,300**	900
Total	**14,846**	21,750

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 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 (2020: 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 2012 and 2013

During 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 2019 and 2020

During the year, 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.

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’s tax consultant is confident of a favorable outcome.

30. SHARE CAPITAL

As at 31 December 2021 and 31 December 2020, 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.

The Company transferred the amount of statutory reserve amounting to SAR 32 million to the accumulated losses as approved by the General assembly meeting dated 18 August 2021.

	31 December 2021 SAR’000	31 December 2020 SAR’000
Balance at the beginning of the year	**31,944**	31,944
Transfer to accumulated losses	**(31,944)**	--
Balance at the end of the year	--	31,944

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 2021 consists of paid-up share capital of SAR 400 million, statutory reserve of SAR Nil and accumulated losses of SAR 149.72 million (31 December 2020: paid-up share capital of SAR 400 million, statutory reserve of SAR 31.94 million and accumulated losses of SAR 108.03 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 2021			31 December 2020		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
			SAR'000			
ASSETS						
Cash and cash equivalents	**87,067**	**702**	**87,769**	51,356	10,379	61,735
Short term deposits	**--**	**--**	**--**	22,656	--	22,656
Premiums and reinsurers' receivable – net	**156,051**	**--**	**156,051**	239,606	--	239,606
Reinsurers' share of unearned premiums	**91,978**	**--**	**91,978**	209,598	--	209,598
Reinsurers' share of outstanding claims	**36,506**	**--**	**36,506**	41,720	--	41,720
Reinsurers' share of claims incurred but not reported	**114,849**		**114,849**	126,264	--	126,264
Deferred policy acquisition costs	**10,571**	**--**	**10,571**	12,645	--	12,645
Investments	**86,401**	**164,125**	**250,526**	115,088	173,278	288,366
Due from insurance operations	**37,315**	**--**	**37,315**	--	32,675	32,675
Prepaid expenses and other assets	**59,113**	**1,222**	**60,335**	67,449	1,038	68,487
Property and equipment – net	**9,122**	**--**	**9,122**	10,346	--	10,346
Intangible assets	**9,813**	**--**	**9,813**	4,598	--	4,598
Right-of-use asset – net	**7,089**	**--**	**7,089**	7,556	--	7,556
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	**--**	**5,396**	**5,396**	--	4,904	4,904
	705,875	**309,845**	**1,015,720**	908,882	360,674	1,269,556
Less: Inter-operations eliminations	**(37,315)**	**--**	**(37,315)**	--	(32,675)	(32,675)
TOTAL ASSETS	**668,560**	**309,845**	**978,405**	908,882	327,999	1,236,881

33. SUPPLEMENTARY INFORMATION – (continued)

a) Statement of financial position – (continued)

	31 December 2021			31 December 2020		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
			SAR'000			
LIABILITIES						
Policyholders payable	**24,100**	**--**	**24,100**	5,396	--	5,396
Accrued and other liabilities	**66,816**	**2,169**	**68,985**	45,533	1,081	46,614
Reinsurers balances payable	**95,067**	**--**	**95,067**	156,440	--	156,440
Unearned premiums	**185,439**	**--**	**185,439**	302,452	--	302,452
Unearned reinsurance commission	**15,683**	**--**	**15,683**	34,994	--	34,994
Outstanding claims	**83,964**	**--**	**83,964**	62,921	--	62,921
Claims incurred but not reported	**140,599**	**--**	**140,599**	169,749	--	169,749
Premium deficiency reserve	**25,378**	**--**	**25,378**	25,748	--	25,748
Other technical reserves	**16,176**	**--**	**16,176**	13,378	--	13,378
Due to shareholders' operations	**--**	**37,315**	**37,315**	32,675	--	32,675
Employees' defined benefit obligations	**10,029**	**--**	**10,029**	10,288	--	10,288
Lease liabilities	**6,187**	**--**	**6,187**	6,397	--	6,397
Surplus from insurance operations	**37,053**	**--**	**37,053**	37,053	--	37,053
Zakat and income tax payable	**--**	**14,846**	**14,846**	--	21,750	21,750
Accrued commission income on statutory deposit payable to SAMA	**--**	**5,396**	**5,396**	--	4,904	4,904
	706,491	**59,726**	**766,217**	903,024	27,735	930,759
Less: Inter-operations eliminations	**--**	**(37,315)**	**(37,315)**	(32,675)	--	(32,675)
	706,491	**22,411**	**728,902**	870,349	27,735	898,084
Fair value reserve on investments - insurance operations	**(3,546)**	**--**	**(3,546)**	3,734	--	3,734
TOTAL LIABILITIES AND INSURANCE OPERATIONS RESERVE	**702,945**	**22,411**	**725,356**	874,083	27,735	901,818
EQUITY						
Share capital	**--**	**400,000**	**400,000**	--	400,000	400,000
Statutory reserve	**--**	**--**	**--**	--	31,944	31,944
Accumulated losses	**--**	**(149,752)**	**(149,752)**	--	(108,025)	(108,025)
Fair value reserve on investments	**--**	**(133)**	**(133)**	--	9,020	9,020
Re-measurement reserve of employees' defined benefit obligations	**2,934**	**--**	**2,934**	2,124	--	2,124
TOTAL EQUITY	**2,934**	**250,115**	**253,049**	2,124	332,939	335,063
TOTAL LIABILITIES, INSURANCE OPERATIONS RESERVE AND EQUITY	**705,879**	**272,526**	**978,405**	876,207	360,674	1,236,881

33. SUPPLEMENTARY INFORMATION – (continued)

b) Statement of income

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2021 Total**	Insurance operations	Share-holders' operations	2020 Total
			SAR'000			
REVENUES						
Gross premiums written	**409,756**	**--**	**409,756**	616,861	--	616,861
Reinsurance premiums ceded						
- Local	**(26,743)**	**--**	**(26,743)**	(30,604)	--	(30,604)
- Foreign	**(198,526)**	**--**	**(198,526)**	(380,697)	--	(380,697)
	(225,269)	**--**	**(225,269)**	(411,301)	--	(411,301)
Reinsurance excess of loss expenses						
- Local	**(1,874)**	**--**	**(1,874)**	(818)	--	(818)
- Foreign	**(7,333)**	**--**	**(7,333)**	(4,635)	--	(4,635)
	(9,207)	**--**	**(9,207)**	(5,453)	--	(5,453)
Net premiums written	**175,280**	**--**	**175,280**	200,107	--	200,107
Changes in unearned premiums – net	**(607)**	**--**	**(607)**	(67,675)	--	(67,675)
Net premiums earned	**174,673**	**--**	**174,673**	132,432	--	132,432
Reinsurance commissions earned	**44,202**	**--**	**44,202**	39,872	--	39,872
TOTAL REVENUES	**218,875**	**--**	**218,875**	172,304	--	172,304
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	**264,721**	**--**	**264,721**	151,457	--	151,457
Reinsurers' share of claims paid	**(90,807)**	**--**	**(90,807)**	(59,581)	--	(59,581)
Net claims paid	**173,914**	**--**	**173,914**	91,876	--	91,876
Changes in outstanding claims – net	**26,257**	**--**	**26,257**	130	--	130
Changes in claims incurred but not reported – net	**(17,735)**	**--**	**(17,735)**	(6,307)	--	(6,307)
Net claims incurred	**182,436**	**--**	**182,436**	85,699	--	85,699
Premium deficiency reserve	**(370)**	**--**	**(370)**	6,988	--	6,988
Other technical reserves	**2,798**	**--**	**2,798**	3,774	--	3,774
Policy acquisition costs	**23,082**	**--**	**23,082**	16,521	--	16,521
Other underwriting expenses	**3,296**	**--**	**3,296**	2,790	--	2,790
TOTAL UNDERWRITING COSTS AND EXPENSES	**211,242**	**--**	**211,242**	115,772	--	115,772
NET UNDERWRITING RESULT	**7,633**	**--**	**7,633**	56,532	--	56,532

33. SUPPLEMENTARY INFORMATION – (continued)

b) Statement of income – (continued)

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2021 Total**	Insurance operations	Share-holders' operations	2020 Total
			SAR'000			
OTHER OPERATING (EXPENSES) / INCOME						
General and administrative expenses	**(88,276)**	**(4,381)**	**(92,657)**	(85,272)	(1,534)	(86,806)
Release / (Provision) for doubtful receivables	**9,158**	**--**	**9,158**	(5,823)	--	(5,823)
Board remuneration	**--**	**(1,972)**	**(1,972)**	--	(1,441)	(1,441)
Investments income	**4,364**	**4,992**	**9,356**	4,409	5,973	10,382
Realized (loss) / gain on investments	**(848)**	**--**	**(848)**	--	4,246	4,246
Other income	**3,659**	**--**	**3,659**	7,030	--	7,030
TOTAL OTHER OPERATING (EXPENSES) / INCOME – NET	**(71,943)**	**(1,361)**	**(73,304)**	(79,656)	7,244	(72,412)
LOSS FOR THE YEAR BEFORE ALLOCATION	**(64,310)**	**(1,361)**	**(65,671)**	(23,124)	7,244	(15,880)
SHAREHOLDERS' ABSORPTION OF LOSS	**64,310**	**(64,310)**	**--**	23,124	(23,124)	--
LOSS FOR THE YEAR AFTER SHAREHOLDERS' APPROPRIATIONS BEFORE ZAKAT AND INCOME TAX	**--**	**(65,671)**	**(65,671)**	--	(15,880)	(15,880)
Zakat	**--**	**(7,600)**	**(7,600)**	--	(27,900)	(27,900)
Income tax	**--**	**(400)**	**(400)**	--	(100)	(100)
	--	**(8,000)**	**(8,000)**	--	(28,000)	(28,000)
NET LOSS FOR THE YEAR	**--**	**(73,671)**	**(73,671)**	--	(43,880)	(43,880)
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)		**(1.84)**			(1.10)	

33. SUPPLEMENTARY INFORMATION – (continued)

c) Statement of comprehensive income

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2021 Total**	Insurance operations	Share-holders' operations	2020 Total
			SAR'000			
NET LOSS FOR THE YEAR	**--**	**(73,671)**	**(73,671)**	--	(43,880)	(43,880)
Other comprehensive loss						
Items that will not be reclassified to statement of income in subsequent periods						
Re-measurement gains on defined benefit obligations	**810**	**--**	**810**	613	--	613
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	**(7,280)**	**(9,153)**	**(16,433)**	3,719	1,383	5,102
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	**(6,470)**	**(82,824)**	**(89,294)**	4,332	(42,497)	(38,165)

33. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2021 Total**	Insurance operations	Share-holders' operations	2020 Total
			SAR'000			
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss for the year before Zakat and income tax	**--**	**(65,671)**	**(65,671)**	--	(15,880)	(15,880)
Adjustments for non-cash items:						
Depreciation of property and equipment	**3,973**	**--**	**3,973**	2,736	--	2,736
Depreciation of right-of-use assets	**3,206**	**--**	**3,206**	2,052	--	2,052
Finance cost on lease liabilities	**257**	**--**	**257**	187	--	187
Loss on disposal of lease	**83**	**--**	**83**	--	--	--
(Release of provision) / Provision for doubtful receivables	**(9,158)**	**--**	**(9,158)**	5,823	--	5,823
Realized loss / (gain) on disposal of investments	**848**	**--**	**848**	--	(4,246)	(4,246)
Provision for employees' defined benefit obligations	**2,730**	**--**	**2,730**	4,077	--	4,077
Provision for other receivables	**4,572**	**--**	**4,572**			
	6,511	**(65,671)**	**(59,160)**	14,875	(20,126)	(5,251)
Changes in operating assets and liabilities:						
Premiums and reinsurers' receivable	**92,713**	**--**	**92,713**	(42,977)	--	(42,977)
Reinsurers' share of unearned premiums	**117,620**	**--**	**117,620**	(71,684)	--	(71,684)
Reinsurers' share of outstanding claims	**5,214**	**--**	**5,214**	3,861	--	3,861
Reinsurers' share of claims incurred but not reported	**11,415**	**--**	**11,415**	(13,383)	--	(13,383)
Deferred policy acquisition costs	**2,074**	**--**	**2,074**	(6,201)	--	(6,201)
Prepaid expenses and other assets	**3,764**	**(184)**	**3,580**	(30,764)	33	(30,731)
Accrued commission income on statutory deposit	**--**	**(492)**	**(492)**	--	(1,080)	(1,080)
Policyholders payables	**18,704**	**--**	**18,704**	(8,023)	--	(8,023)
Accrued and other liabilities	**21,283**	**1,088**	**22,371**	(21,424)	314	(21,110)
Reinsurers balances payable	**(61,373)**	**--**	**(61,373)**	(21,973)	--	(21,973)
Unearned premiums	**(117,013)**	**--**	**(117,013)**	139,359	--	139,359
Unearned reinsurance commission	**(19,311)**	**--**	**(19,311)**	7,225	--	7,225
Outstanding claims	**21,043**	**--**	**21,043**	(3,731)	--	(3,731)
Claims incurred but not reported	**(29,150)**	**--**	**(29,150)**	7,076	--	7,076
Premium deficiency reserve	**(370)**	**--**	**(370)**	6,988	--	6,988
Other technical reserves	**2,798**	**--**	**2,798**	3,774	--	3,774
Accrued commission income on statutory deposit payable to SAMA	**--**	**492**	**492**	--	1,080	1,080
Due to shareholders operations	**(69,993)**	**--**	**(69,993)**	(818)	--	(818)
Due from Insurance Operations	**--**	**69,993**	**69,993**	--	818	818
	5,928	**5,227**	**11,155**	(37,820)	(18,961)	(56,781)
Employees' defined benefit obligations paid	**(2,179)**	**--**	**(2,179)**	(2,651)	--	(2,651)
Zakat and income tax paid	**--**	**(14,904)**	**(14,904)**	--	(35,186)	(35,186)
Net cash used in operating activities	**3,749**	**(9,677)**	**(5,928)**	(40,471)	(54,147)	(94,618)

33. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows – (continued)

	For the year ended 31 December					
	Insurance operations	**Share-holders' operations**	**2021 Total**	Insurance operations	Share-holders' operations	2020 Total
	SAR'000					
CASH FLOWS FROM INVESTING ACTIVITIES						
Short term deposits	**22,656**	**--**	**22,656**	840	--	840
Purchases of investments	**--**	**--**	**--**	(111,142)	(38,759)	(149,901)
Proceeds from sale of investments	**20,559**	**--**	**20,559**	--	61,831	61,831
Purchase of property and equipment	**(2,749)**	**--**	**(2,749)**	(6,074)	--	(6,074)
Addition to Intangible assets	**(5,215)**	**--**	**(5,215)**	(4,598)	--	(4,598)
Net cash (used in) / generated from investing activities	**35,251**	**--**	**35,251**	(120,974)	23,072	(97,902)
CASH FLOWS FROM FINANCING ACTIVITIES						
Payments of lease liabilities	**(3,289)**	**--**	**(3,289)**	(3,398)	--	(3,398)
Net cash (used in) / generated from financing activities	**(3,289)**	**--**	**(3,289)**	(3,398)	--	(3,398)
Net changes in cash and cash equivalents	**35,711**	**(9,677)**	**26,034**	(164,843)	(31,075)	(195,918)
Cash and cash equivalents, at the beginning of the year	**51,356**	**10,379**	**61,735**	216,199	41,454	257,653
Cash and cash equivalents, at the end of the year	**87,067**	**702**	**87,769**	51,356	10,379	61,735
<u>NON-CASH INFORMATION</u>						
Net change in fair value of available-for-sale investments	**(7,280)**	**(9,153)**	**(16,433)**	3,719	1,383	5,102
Re-measurement gains on employees' defined benefit obligations	**810**	**--**	**810**	613	--	613

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

	2021 SAR'000		*2020 SAR'000*	
Outstanding claim net of reinsurance	**Effect of 10% increase**	**Effect of 10% decrease**	Effect of 10% increase	Effect of 10% decrease
	(4,746)	**4,746**	(2,120)	2,120
	2021 SAR'000		*2020 SAR'000*	
IBNR	**Effect of 15% increase**	**Effect of 15% decrease**	Effect of 15% increase	Effect of 15% decrease
	(3,862)	**3,862**	(6,523)	6,523
TOTAL	**(8,608)**	**8,608**	(8,643)	8,643

(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% (2020: 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:

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%**

2020	Gross unearned premiums	Net unearned premiums	Gross outstanding claims	Net outstanding claims
Medical	7%	12%	16%	22%
Motor	35%	80%	27%	61%
Engineering	47%	3%	10%	4%
Others	11%	5%	47%	13%
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 2021 and 2020, 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 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**
Short term deposits	**--**	**--**	**--**
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**

As at 31 December 2020	Insurance Operations	Shareholders operations	Total
	SAR '000	SAR '000	SAR '000
Cash and cash equivalents	51,356	10,379	61,735
Short term deposits	22,656	--	22,656
Premiums and reinsurers' receivable – net	239,606	--	239,606
Reinsurers' share of outstanding claims	41,720	--	41,720
Reinsurers' share of claims incurred but not reported	126,264	--	126,264
Investments	115,088	166,698	281,786
Other receivables	44,115	1,038	45,153
Statutory deposit	--	60,000	60,000
Accrued commission income on statutory deposit	--	4,904	4,904
	640,805	243,019	883,824

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	**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	**--**	**57,093**	**--**	**57,093**
As at 31 December 2021	**173,468**	**349,779**	**14,720**	**537,967**

		Non-investment grade		
	Investment grade	*Satisfactory*	*Past due but not impaired*	*Total*
		SAR' 000		
Cash and cash equivalents	51,536	--	--	51,356
Premiums and reinsurers' receivable – net	--	173,431	66,175	239,606
Reinsurance share of outstanding claims	--	41,720	--	41,720
Reinsurance share of claims incurred but not reported	--	126,264	--	126,264
Short term deposits	22,656	--	--	22,656
Investments	115,088	--	--	115,088
Other receivables	--	58,932	--	58,932
As at 31 December 2020	189,100	400,347	66,175	655,622

34. RISK MANAGEMENT – (continued)

34.2 Credit risk – (continued)

Shareholders' operations' financial assets

		Non-investment grade		
	Investment grade	***Satisfactory***	***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**

		Non-investment grade		
	Investment grade	*Satisfactory*	*Past due but not impaired*	*Total*
		SAR' 000		
Cash and cash equivalents	10,379	--	--	10,379
Investments	173,278	--	--	173,278
Other receivables	--	1,038	--	1,038
Statutory deposit	60,000	--	--	60,000
Accrued commission income on statutory deposit payable to SAMA	4,904	--	--	4,904
As at 31 December 2020	248,561	1,038	--	249,599

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 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**	**--**	**27,110**
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**

As at 31 December 2020	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	5,396	-	5,396
Reinsurance payables	156,440	-	156,440
Accrued expenses and other liabilities	45,533	-	45,533
Outstanding claims	62,921	-	62,921
Claims incurred but not reported	169,749	-	169,749
Premium deficiency reserve	25,748	-	25,748
Other technical reserves	13,378	-	13,378
	479,165	-	479,165
Shareholders' financial liabilities			
Accrued expenses and other liabilities	1,081	-	1,081
Accrued commission on statutory deposit payable to SAMA	4,904	-	4,904
	5,985	-	5,985
Total	485,150	-	485,150

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.

34.4 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
2021	**50**	**686**
2020	50	731

34. RISK MANAGEMENT – (continued)

34.5 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 2021	**+ / - 5%**	**+ / -12,526**
31 December 2020	+ / - 5%	+ / - 14,418

The Company has an unquoted equity investment amounting to SAR 1.9 million (2020: 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.

34.6 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)

34.7 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. IMPACT OF COVID-19

In response to the spread of the Covid-19 in the Kingdom of Saudi Arabia where the Company operates and its resulting disruptions to the social and economic activities in those markets over the last two years, management continues to proactively assess its impacts on its operations. In particular, the Company is closely monitoring the current surge in cases due to the outbreak of a new variant - Omicron. The preventive measures taken by the Company in April 2020 are still in effect including the creation of ongoing crisis management teams and processes, to ensure the health and safety of its employees, customers and the wider community as well as to ensure the continuity of its operations. Employee health continues to be a key area of focus with programs being implemented to assist with increasing awareness, identification, support and monitoring of employee health. A majority of the employees of the Company have been fully vaccinated for at least two doses of vaccine and the management is working on a plan to encourage booster shots in line with the government initiatives related to Covid-19.

The management of the Company believes that any potential lockdown measures being reintroduced will not materially affect the underlying demand for the Company's insurance products and forecast.

Based on these factors, management believes that the Covid-19 pandemic has had no material effect on the Company's reported financial results for the year ended 31 December 2021 including the significant accounting judgements and estimates.

The Company continues to monitor the surge of the new variant closely although at this time management is not aware of any factors that are expected to change the impact of the pandemic on the Company's operations during 2022 or beyond.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors, on 18 Sha'baan 1442H, corresponding to 21 March 2022.