

**UNITED COOPERATIVE ASSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**CONDENSED INTERIM FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REVIEW REPORT**

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2023

United Cooperative Assurance Company
(A Saudi Joint Stock Company)
Condensed Interim Financial Statements
For the three-month period ended 31 March 2023

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KPMG Professional Services
Zahran Business Center
Prince Sultan Street
P.O. Box 55078 Jeddah 21534
Kingdom of Saudi Arabia

Headquarter in Riyadh



AlAzem, AlSudairy, AlShalsh and Partners
For Professional Consulting
P.O. Box 10504 Riyadh 11443

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

Independent auditor's report on review of condensed interim financial statements

To the shareholders of United Cooperative Assurance Company – A Joint Stock Company

Report on the review of the Condensed Interim Financial Statements

Introduction

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements as at and for the three-month period ended 31 March 2023 of United Cooperative Assurance Company are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.



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Independent auditor's report on review of condensed interim financial statements (Continued)

To the shareholders of United Cooperative Assurance Company – A Joint Stock Company

Emphasis of matter

We draw attention to Note 2(b) of the condensed interim financial statements, which indicates that the Company incurred a net loss of SR 9.9 million during the three-month period ended 31 March 2023 and, as of that date, the Company's accumulated losses amounted to SR 195.81 million which represents 49% of the share capital. These conditions along with other matters as set forth in note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

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

For KPMG Professional Services

Nasser Ahmed Al Shutairy
Certified Public Accountant
License No. 454

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

Abdullah M. AlAzem
Certified Public Accountant
License No. 335



Jeddah, Kingdom of Saudi Arabia
Date: 9 July 2023
corresponding to 21 Dhul Hijjah 1444H



United Cooperative Assurance Company
(A Saudi Joint Stock Company)
Condensed statement of financial position
As at March 31, 2023
(All amounts in Saudi Riyals thousands unless otherwise stated)

		March 31, 2023 (Unaudited) SR 000	December 31, 2022 (Unaudited) SR 000 (Restated - Note 3)
	Note		
<u>ASSETS</u>			
Cash and cash equivalents	4	93,462	83,964
Investments	5	271,157	292,809
Prepaid expenses and other assets		58,596	50,623
Reinsurance contract assets	6	145,263	147,386
Property and equipment		10,705	8,771
Intangible assets		14,239	12,715
Right of use assets		5,499	6,178
Goodwill		78,400	78,400
Statutory deposit	7	59,989	59,989
Accrued income on statutory deposit		7,203	6,711
TOTAL ASSETS		744,513	747,546
<u>LIABILITIES AND EQUITY</u>			
<u>LIABILITIES</u>			
Accrued expenses and other liabilities		17,077	16,533
Insurance contract liabilities	6	446,275	439,815
Zakat and income tax payable	8	12,889	12,808
Lease liability		4,854	5,841
Employees defined benefits liability		10,024	9,686
Accrued income on statutory deposit		7,203	6,712
TOTAL LIABILITIES		498,322	491,395
<u>EQUITY</u>			
Share capital	9	400,000	400,000
Fair value on investments		37,780	37,780
Re-measurement reserve on employee defined benefit obligations		4,225	4,225
Accumulated losses		(195,814)	(185,854)
TOTAL EQUITY		246,191	256,151
TOTAL LIABILITIES AND EQUITY		744,513	747,546
COMMITMENTS AND CONTINGENCIES	11	22,396	22,396


Senior Financial Controller


Deputy Chief Executive Officer


Director

The accompanying notes 1 to 21 form an integral part of these condensed interim financial statements.

United Cooperative Assurance Company
(A Saudi Joint Stock Company)
Condensed statement of income
For the three-month period ended March 31, 2023
(All amounts in Saudi Riyals thousands unless otherwise stated)

		March 31, 2023 (Unaudited) (SR 000)	March 31, 2022 (Unaudited) (SR 000) <i>(Restated - Note 3)</i>
	Note		
Insurance revenue	12	196,651	105,260
Insurance service expenses	12	(157,545)	(81,931)
Net expenses from reinsurance contracts	12	(52,872)	(39,825)
Insurance service result		(13,766)	(16,496)
Net gains on investments measured at FVTPL		729	900
Commission income on investments		2,000	1,191
Dividend income		--	47
Investment return		2,729	2,138
Net finance income from insurance contracts	13	795	732
Net finance expense from reinsurance contracts	13	226	327
Net financial result		(10,016)	(13,299)
Other income		6,498	341
Other operating expenses		(6,361)	(6,628)
Net loss for the period attributable to the shareholders before zakat and income tax		(9,879)	(19,586)
Zakat	8.2	(81)	(1,900)
Income tax	8.2	--	(100)
NET LOSS FOR THE PERIOD ATTRIBUTABLE TO THE SHAREHOLDERS		(9,960)	(21,586)
Loss per share (Basic and diluted) (expressed in SAR per share)	9	(0.25)	(0.54)



Senior Financial Controller



Deputy Chief Executive Officer



Director

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United Cooperative Assurance Company
(A Saudi Joint Stock Company)
Condensed statement of comprehensive income
For the three-month period ended March 31, 2023
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	March 31, 2023 (Unaudited) SR 000	March 31, 2022 (Unaudited) SR 000 <i>(Restated - Note 3)</i>
Net loss for the period attributable to the shareholders	(9,960)	(21,586)
Other comprehensive income <i>Items</i>	--	--
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO THE SHAREHOLDERS	(9,960)	(21,586)

 _____ Senior Financial Controller	 _____ Deputy Chief Executive Officer	 _____ Director
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The accompanying notes 1 to 21 form an integral part of these condensed interim financial statements.

United Cooperative Assurance Company
(A Saudi Joint Stock Company)
Condensed statement of changes in equity
For the three-month period ended March 31, 2023
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Fair value reserve on investments	Accumulated losses	Re-measurement reserve of defined benefit obligation	Total
Balance at 1 January 2022, as previously reported		400,000	(133)	(149,752)	2,934	253,049
Adjustment on initial application of IFRS 17, net of tax		--	--	18,645	--	18,645
Adjustment in other comprehensive income on initial application of IFRS 17 (Refer note 3.2.4)		--	35,242	735	--	35,977
Adjustment in other comprehensive income on initial application of IFRS 9 (Refer note 3.3.4)		--	35,242	19,380	--	54,622
Balance as at 1 January 2022 (Restated)		400,000	35,109	(130,372)	2,934	307,671
Total comprehensive income (restated*)						
Loss for the period		--	--	(21,586)	--	(21,586)
Other comprehensive loss for the period		--	--	--	--	--
Total comprehensive loss for the period (restated*)		--	--	(21,586)	--	(21,586)
Restated balance at 31 March 2022 (Unaudited)		400,000	35,109	(151,958)	2,934	286,085
Balance at 1 January 2023 (Unaudited)		400,000	37,780	(185,854)	4,225	256,151
Total comprehensive income:						
Loss for the period		--	--	(9,960)	--	(9,960)
Other comprehensive income for the period		--	--	--	--	--
Total comprehensive income for the period		--	--	(9,960)	--	(9,960)
Balance at 31 March 2023 (Unaudited)		400,000	37,780	(195,814)	4,225	246,191

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Senior Financial Controller

5498

Deputy Chief Executive Officer

Director

United Cooperative Assurance Company
(A Saudi Joint Stock Company)
Condensed statement of cash flows
For the three-month period ended March 31, 2023
(All amounts in Saudi Riyals thousands unless otherwise stated)

		March 31, 2023 (Unaudited) SR 000	March 31, 2022 (Unaudited) SR 000 <i>(Restated - Note 3)</i>
	Note		
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the period attributable to the shareholders before zakat and income tax		(9,879)	(19,586)
Adjustments for non-cash items:			
Depreciation of property and equipment		1,111	1,079
Net gains on investments measured at FVTPL		(1,995)	--
Finance cost of lease liability		53	51
Amortization of right of use		679	706
Provision for employee benefits obligation		338	--
Gain on disposal of property and equipment		--	22
		(9,693)	(17,728)
Changes in operating assets and liabilities:			
Prepaid expenses and other assets		(7,973)	(4,916)
Accrued expenses and other liabilities		544	18,578
Insurance contracts		6,460	13,354
Reinsurance contracts		2,123	(42,374)
		(8,539)	(33,086)
Payment of employee benefits obligation		--	(951)
Net cash generated from operating activities		(8,539)	(34,037)
CASH FLOW FROM INVESTING ACTIVITIES			
Additions to property and equipment		(3,045)	(1,446)
Addition to intangible assets		(1,524)	(1,680)
Proceed from disposal of property and equipment		--	22
Proceeds from disposal of FVTPL investments		23,647	--
Net cash generated from / (used in) investing activities		19,078	(3,104)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of lease liability		(1,041)	--
Net cash used in from investing activities		(1,041)	--
Net decrease in cash and cash equivalents		9,498	(37,141)
Cash and cash equivalents at the beginning of the period	4	83,964	87,769
Cash and cash equivalents at the end of the period	4	93,462	50,628


Senior Financial Controller


Deputy Chief Executive Officer


Director

The accompanying notes 1 to 21 form an integral part of these condensed interim financial statements.

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	<u>10%</u>
	<u>100%</u>

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. During the period ended March 31, 2023, there were no significant changes in products or services and their terms of the insurance contracts offered by the Company. Refer Note 3 for details regarding impact of adoption of IFRS 17 - Insurance Contracts ("IFRS 17") and IFRS 9 - Financial Instruments ("IFRS 9").

Subsequent to the period end 31 March 2023, the Company dated 12 June 2023 has announced on Tadawul signing of a binding merger agreement with Enaya on 31 May 2023 (the "Merger Agreement") reflecting the agreement of both companies to merge through a share swap transaction, whereby the Company shall issue 0.8373985652173910 ordinary shares in UCA against each issued share in Enaya ("Exchange Ratio"), to the benefit of the entitled shareholders in Enaya (i.e., shareholders owning the shares issued in Enaya on the effective date of the Merger Transaction) as consideration for the transfer of assets and liabilities of Enaya to United Cooperative Assurance Company and without any cash consideration being paid ("Merger Transaction" or "Transaction" or "Merger"), all in accordance with applicable laws, notably the Companies Law issued by the Ministry of Commerce, the regulations of the Capital Market Authority ("CMA"), including the Mergers and Acquisitions Regulations, the Rules on the Offer of Securities and Continuing Obligations, the Listing Rules, as well as the relevant regulations of the Saudi Central Bank.

2 Basis of preparation

(a) Statement of compliance

The condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA"). This is the first set of the Company's condensed interim financial statements in which IFRS 17 - Insurance Contracts ("IFRS 17") and IFRS 9 - Financial Instruments ("IFRS 9") as endorsed in Kingdom of Saudi Arabia have been applied and the resultant changes to the significant judgments, estimates and accounting policies are described in Note 3. Comparative information was restated due to the adoption of IFRS 17 and IFRS 9. As required by the Saudi Arabian Insurance Regulations (the Implementation Regulations), the Company maintains separate books of accounts for "Insurance Operations" and "Shareholders' Operations". Accordingly, assets, liabilities, revenues and expenses clearly attributable to either operation, are recorded in the respective accounts.

In preparing the Company's 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 and losses, if any, are eliminated in full during amalgamation. The accounting policies adopted for the insurance operations and shareholders' operations are uniform for like transactions and events in similar circumstances. The condensed interim financial statements may not be considered indicative of the expected results for the full year.

2 Basis of preparation (continued)

(b) Basis of measurement

The condensed interim financial statements are prepared under the going concern basis and the historical cost convention, except for the measurement of investments at their fair value and defined benefits obligations, which are recognised at the present value of future obligation using Projected Unit Credit Method. The Company's condensed statement of financial position is presented in order of liquidity. Except for property and equipment, intangible assets, investments, statutory deposit and warranty and engineering related insurance and reinsurance contracts, all other assets and liabilities are of short-term nature, unless, stated otherwise. Moreover, the insurance and reinsurance contracts are measured at the estimated fulfilment cash flows that are expected to arise as the Company fulfils its contractual obligations in accordance with IFRS 17 (refer note 3). The current and non-current classification of the assets and liabilities have not changed since the year ended December 31, 2022.

The condensed interim financial statements do not include all of the information required for complete set of annual financial statements and should be read in conjunction with the annual financial statements as of and for the year ended December 31, 2022. Comparative information was restated due to the adoption of IFRS 17 - Insurance Contracts ("IFRS 17") and IFRS 9 - Financial Instruments ("IFRS 9"). Therefore, comparative information was restated accordingly to maintain comparability. Refer to Note 3 for more details.

Going concern

The Company incurred a net loss of SR 9.9 million during the three-month period ended 31 March 2023 and, as of that date, the Company's accumulated losses amounted to SR 195.81 million (31 December 2022: SR 185.85 million) which represents 49% of the share capital. Since the accumulated losses of the Company amounted to 49% of the share capital, the requirements of Article 4, Part 2 of 'CMA's Procedures and Instructions Related to Listed Companies with Accumulated Losses Reaching 20% or More of Their Share Capital' were also triggered and have been complied. Moreover, the solvency margin of the Company is below the minimum solvency margin prescribed by Article 66 of the Implementing Regulations of the Cooperative Insurance Companies Control Law and the requirements of implementing the measures prescribed by Article 68(2) of the Implementing Regulations of the Cooperative Insurance Companies Control Law have also not been followed. These events and conditions, indicate that a material uncertainty exists that may cast a significant doubt on the Company's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The management of the Company has prepared a detailed business plan for future prospects of the Company which is approved by the Board of Directors and has undertaken strategic initiatives that ensure healthy market penetration and retention levels while remaining in compliance with applicable regulatory requirements. The measure includes business growth, better pricing strategies, altering of business mix and retention of profitmaking portfolio which has resulted in an increase in gross premium written during the three-month period ended 31 March 2023 due to new business underwritten in motor and medical segments.

Accordingly, the Company's management believes that the use of the going concern assumptions is still valid for the purposes of preparing the Company's condensed interim financial statements.

(c) Functional and presentation currency

The condensed interim financial statements are expressed in Saudi Arabian Riyals (SAR), which is also the functional currency of the Company. All financial information presented in SAR has been rounded to the nearest thousands, except where otherwise indicated.

(d) Seasonality of operations

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

3. Significant accounting policies

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

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

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

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

The new accounting policies and the impact of the adoption of these new standards are disclosed in Note 3.2.4.

A number of other amendments became applicable for the current reporting period i.e. for reporting periods beginning on or after January 01, 2023. The Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments which are described below:

<u>Interpretation</u>	<u>Description</u>
IAS 1	<i>Classification of Liabilities as Current or Non-current – Amendments to IAS 1</i>
IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
<i>Narrow scope amendments to IAS 1, IFRS Practice Statement 2 and IAS 8</i>	<i>The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.</i>

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

<u>Interpretation</u>	<u>Description</u>	<u>Effective from periods beginning on or after the following date</u>
IFRS 16	<i>Lease liability in a sale and leaseback – Amendments to IFRS 16</i>	January 01, 2024
IFRS 10 and IAS 28	<i>Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)</i>	Available for optional adoption / effective date deferred indefinitely

3.2 IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods on or after January 1, 2023. The Company has restated comparative information for 2022 applying the full retrospective transition approach prescribed in the standard. The nature of the changes in accounting policies can be summarised, as follows:

3.2.1 Changes in accounting policies:

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with direct participation features ("DPF").

i. Classification and summary of measurement models

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.

3. Significant accounting policies (continued)

3.2 IFRS 17 Insurance Contracts (continued)

3.2.1 Changes in accounting policies (continued):

i. Classification and summary of measurement models (continued)

The Company issues non-life insurance to individuals and businesses. Non-life insurance products offered include medical, energy, property, motor, engineering, group life and others. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of a policyholder's accident. The Company does not issue any contracts with direct participating features.

In the normal course of business, the Company uses reinsurance to mitigate its risk exposures. A reinsurance contract transfers significant risk if it transfers substantially all of the insurance risk resulting from the insured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

None of the insurance contracts issued by the Company contain embedded derivatives, investment components or any other goods and services.

ii. Level of aggregation

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

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

The portfolios are further divided by year of issue.

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Company aggregates reinsurance contracts held concluded within a calendar year (annual cohorts) into groups of: (i) contracts for which there is a net gain at initial recognition, if any; (ii) contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and (iii) remaining contracts in the portfolio, if any.

Reinsurance contracts held are assessed for aggregation requirements on an individual contract basis. The Company tracks internal management information reflecting historical experiences of such contracts' performance. This information is used for setting pricing of these contracts such that they result in reinsurance contracts held in a net cost position without a significant possibility of a net gain arising subsequently.

The Company assumes that no contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise. If facts and circumstances indicate that some contracts are onerous, an additional assessment is performed to distinguish onerous contracts from non-onerous ones. For non-onerous contracts, the Company assesses the likelihood of changes in the applicable facts and circumstances in the subsequent periods in determining whether contracts have a significant possibility of becoming onerous. This assessment is performed at a policyholder-pricing-groups level.

iii. Recognition

The Company recognises a group of insurance contracts issued from the earliest of the following:

- The beginning of the coverage period of the group of contracts.
- The date when the first payment from a policyholder in the group becomes due. If there is no contractual due date, then it is considered to be the date when the first payment is received from the policyholder.
- For a group of onerous contracts, the date when facts and circumstances indicate that the group to which an insurance contract will belong is onerous.

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

- For reinsurance contracts that provide proportionate coverage, at the later of:
 - (i) the beginning of the coverage period of the group of reinsurance contracts and
 - (ii) the initial recognition of any underlying contract.
- All other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the group of reinsurance contracts;

3. Significant accounting policies (continued)

3.2 IFRS 17 Insurance Contracts (continued)

3.2.1 Changes in accounting policies (continued):

iii. Recognition (continued)

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

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

iv. Contract boundaries

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period under which the Company can compel the policyholder to pay premiums or has a substantive obligation to provide services.

A substantive obligation to provide services ends when:

- i) The Company has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- ii) Both of the following criteria are satisfied:
 - The Company has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio; and
 - the pricing of the premiums for coverage up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

The contract boundary is reassessed at each reporting date and, therefore, may change over time.

v. Measurement

The general measurement model (GMM), also known as the building block approach, consists of the fulfilment cash flows and the contractual service margin. This is the default model under IFRS 17 to measure insurance contracts. However, the Premium Allocation Approach (PAA), which is a simplified measurement model, is permitted if, and only if, at the inception of the group:

- The entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the general measurement model requirements; or
- The coverage period of each contract in the group (including insurance contract services arising from all premiums within the contract boundary determined at that date) is one year or less.

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

- Insurance contracts:

The coverage period of Energy, Medical, Motor TPL, Motor Comprehensive, Engineering, term life and others contracts in the group of contracts is one year or less and are therefore eligible to be measured under the PAA.

3. Significant accounting policies (continued)

3.2 IFRS 17 Insurance Contracts (continued)

3.2.1 Changes in accounting policies (continued):

v. Measurement (continued)

PAA eligibility testing has been performed for the Engineering group of contracts since the coverage period is more than one year. The Company reasonably expects that the measurement of the liability for remaining coverage for the group containing those contracts under the PAA would not differ materially from the measurement that would be produced applying the general measurement model. In assessing materiality, the Company has also considered qualitative factors such as the nature of the risk and types of its lines of business.

Reinsurance contracts:

The Company reasonably expects that the resulting measurement under the PAA measurement model would not differ materially from the result of applying the general measurement model.

The Company does not apply the PAA if, at the inception of the group of contracts, it expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for the remaining coverage during the period before a claim is incurred.

Measurement on initial recognition under PAA:

On initial recognition of each group of insurance contracts that are not onerous, the carrying amount of the liability for remaining coverage ("LRC") is measured at the premiums received on initial recognition less any insurance acquisition cash flows paid.

For reinsurance contracts held, on initial recognition, the Company measures the remaining coverage at the amount of ceding premiums paid.

On initial recognition of each group of insurance contracts except for engineering and accident & liability groups, the Company expects that the time between providing each part of the coverage and the related premium due date is no more than a year.

For all group of contracts, there is no allowance for time value of money as the premiums are received within one year of the coverage period.

Subsequent measurement under PAA:

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

- a. the LRC; and
- b. the LIC, comprising the fulfilment cash flows ("FCF") related to past service allocated to the group at the reporting date.

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

- a. the remaining coverage; and
- b. the incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

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

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

3. Significant accounting policies (continued)

3.2 IFRS 17 Insurance Contracts (continued)

3.2.1 Changes in accounting policies (continued):

v. Measurement (continued)

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

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

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

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

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

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

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

Onerous contract assessment:

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

Where the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses. The Company calculates the loss-recovery component by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held. The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

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

3. Significant accounting policies (continued)

3.2 IFRS 17 Insurance Contracts (continued)

3.2.1 Changes in accounting policies (continued):

vi. De-recognition and contract modification

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

vii. Acquisition & Attributable Cost

Insurance acquisition cash flows are the costs that directly associated with selling and handling acquired businesses. The company considers underwriting, sales, and regulatory levies as acquisition costs. Acquisition costs are not expensed when incurred and are deferred over the life of the insurance contract. While attributable costs are the costs that can fully or partially attributed to the insurance operations. The company has in place allocation technique to allocate the costs based on direct to indirect costs ratio. Both acquisition and attributable costs fall under the insurance service expense while the non-attributable costs are reported under other operating expenses.

viii. Risk adjustment for non-financial risk

The Company has decided to adopt the Value at risk method on incurred claims for other lines of business in the estimation of risk adjustment. The Company has chosen a confidence level based on the 75th percentile of the distribution of the claim reserves, considering this level is adequate to cover sources of uncertainty about the amount and timing of the cash flows. While for premium risk, Solvency II approach is used to derive the risk with the same percentile as the claim reserves.

ix. Presentation

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

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

Insurance revenue:

The insurance revenue for each period is the amount of expected premium receipts for providing coverage in the period. The Company allocates the expected premium receipts to each period on the passage of time.

Insurance service expenses:

Insurance service expenses include the following:

- a. incurred claims for the period.
- b. other incurred directly attributable expenses.
- c. insurance acquisition cash flows amortization.
- d. changes that relate to past service – changes in the FCF relating to the LIC.
- e. changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses.

For contracts measured under the PAA, amortisation of insurance acquisition cash flows is based on the passage of time.

3. Significant accounting policies (continued)

3.2 IFRS 17 Insurance Contracts (continued)

3.2.1 Changes in accounting policies (continued):

Net expenses from reinsurance contracts:

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

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

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

Insurance finance income and expenses:

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

The Company includes all insurance finance income or expenses for the period in profit or loss.

3.2.2 Changes to classification, recognition and measurement

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

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

3. Significant accounting policies (continued)

3.2 IFRS 17 Insurance Contracts (continued)

3.2.3 Changes to presentation and disclosure

Statement of financial position

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

- Portfolios of insurance issued contract that are assets;
- Portfolios of insurance issued contract that are liabilities;
- Portfolios of reinsurance contracts held that are assets; and
- Portfolios of reinsurance contracts held that are liabilities.

Line items under IFRS 17	Line items under IFRS 4, now combined under one line item under IFRS 17
Insurance contract liabilities	<ul style="list-style-type: none"> - Premiums receivable - Surplus distribution - Deferred policy acquisition costs - Unearned premiums - Outstanding claims - Claims incurred but not reported - Premium deficiency reserve - Due to agents, brokers and third-party administrator - Policyholders payable - Salvage recoverable, within prepaid expenses and other assets - Surveyor fee, Hospital payable, garages payable, supervision and inspection fee payable and CCHI fee payable within accrued expenses and other liabilities - SAMA supervision fee and Najm fee with accrued expenses and other liabilities - Deferred TPA fee, Hajj and Umrah receivable and TPA fee from prepayment and other assets - Unallocated accrual expense from other technical reserve
Reinsurance contract assets	<ul style="list-style-type: none"> - Reinsurers' share of unearned premiums - Reinsurers' share of outstanding claims - Reinsurers' share of claims incurred but not reported - VAT on reinsurance commission - Payable to reinsurers, within due to reinsurers, agents, brokers and third-party administrator - Due from reinsurers - XOL claims recoverable, within Due from reinsurers - Unearned reinsurance commission - Reinsurance accrual reserve from other technical reserve

Statement of comprehensive income

The line-item descriptions in the statement of income have been changed significantly compared to presentation in the latest annual financial statements. Insurance revenue under IFRS 17 includes gross written premium, gross movement in unearned premiums and expected credit losses on receivables from policy holders. Insurance service expense under IFRS 17 includes gross claims paid, changes in outstanding claims, changes in incurred but not reported claims, changes in loss component, policy acquisition costs, attributable expenses and the impact of release in the risk adjustment. The changes in premium deficiency reserve is eliminated and instead changes in loss component is taken. Net income / (expenses) from reinsurance contracts held under IFRS 17 includes reinsurance premium ceded, changes in reinsurer's share of unearned premiums, reinsurance commission earned, reinsurance share of paid claims, reinsurance share of outstanding claims, reinsurance share of changes in claims incurred but not reported, change in reinsurance accrual reserve, expected credit losses on reinsurance receivables and the impact of loss adjustment the risk adjustment for non-financial risk. Insurance service results are presented without the impact of discount unwinding and changes in discount rates which are shown separately under net insurance financial result. IFRS 17 resulted in presentation changes to IFRS 4's underwriting expenses since expenses are classified either as insurance acquisition cash flows and fulfilment cash flows within insurance service expense or as other expenses when they are not directly attributable to insurance contracts. As a result, a portion of expenses classified as underwriting expenses under IFRS 4 are now presented as other expenses under IFRS 17 in the line other operating expenses. The following previously reported line items are no longer disclosed: direct premiums written, net earned premiums, net claims incurred, and underwriting expenses.

3. Significant accounting policies (continued)

3.2 IFRS 17 Insurance Contracts (continued)

3.2.4 Transition

On transition to IFRS 17, the Company has applied the full retrospective approach to all insurance contracts issued and reinsurance contracts held. Therefore, on transition date, January 1, 2022, the Company:

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

The impact of transition to IFRS 17 on retained earnings is, as follows:

	January 1, 2023 SR 000 (Unaudited)	January 1, 2022 SR 000 (Unaudited)
(Reduction) / increase in the Company's total equity		
Change in measurement of reinsurance contract assets	(7,597)	27,991
Change in measurement of insurance contract liabilities	(3,434)	(9,346)
Impact of adoption of IFRS 17 before zakat and income tax	(11,031)	18,645

	January 1, 2023 SR 000 (Unaudited)	January 1, 2022 SR 000 (Unaudited)
Increase / (reduction) in the Company's total assets		
Risk adjustment	(11,872)	21,715
Recovery component	5,306	7,166
Discounting	(1,031)	(890)
Impact of adoption of IFRS 17 on total assets	(7,597)	27,991

	January 1, 2023 SR 000 (Unaudited)	January 1, 2022 SR 000 (Unaudited)
(Increase) / reduction in the Company's total liabilities		
Risk adjustment	12,272	(31,216)
Impairment of premiums receivable	(8,356)	36,384
Discounting	5,135	1,268
Loss component	(12,485)	(15,782)
Impact of adoption of IFRS 17 on total liabilities	(3,434)	(9,346)

The impact on the net loss for the three-month period ended March 31, 2022 attributable to the shareholders, arising from actuarial risk adjustment, discounting, loss component adjustment and net impairment allowance recomputed for premiums receivable, reinsurers' receivable, reinsurers' share of outstanding claims and claims incurred but not reported, in line with the requirements of IFRS 17, is as follows:

	March 31, 2022 SR 000 (Unaudited)
Net loss after zakat and income tax as previously reported	(21,864)
Estimated (increase) / reduction in the Company's net loss	
Loss component	(1,250)
Risk adjustment, net	469
Discounting, net	1,059
Estimated impact of adoption of IFRS 17 on net loss	278
Adjusted loss after zakat and income tax - restated	(21,586)

3. Significant accounting policies (continued)

3.3 IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after January 1, 2018. However, the Company has met the relevant criteria and has applied the temporary exemption from IFRS 9 for annual periods before January 1, 2023. For transition to IFRS 9, the Company applied a retrospective approach to be in line with transition option adopted under IFRS 17. The nature of the changes in accounting policies can be summarised, as follows:

3.3.1 Changes in accounting policies:

3.3.1.1 Financial assets and liabilities

i. Initial recognition

At initial recognition, the Company measures financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of financial asset. Transaction cost of financial assets carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss ("ECL") allowance is recognised for financial assets measured at amortised cost and investments measured at FVOCI.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- a. When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (that is, a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- b. In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Amortised cost and effective interest rate

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective profit method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, contributions or discounts and fees and points paid or received that are integral to the effective profit rate, such as origination fees.

Interest income is recognised using the effective profit rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit impaired, profit income is recognised by applying the effective interest rate to the net carrying value of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

ii. Classification and subsequent measurement of financial assets

The Company classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through Other Comprehensive Income (FVOCI)
- Held at amortised cost.

The classification requirements for debt and equity instruments are described below:

3. Significant accounting policies (continued)

3.3 IFRS 9 Financial Instruments (continued)

3.3.1 Changes in accounting policies (continued):

3.3.1.1 Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial assets (continued)

Debt instruments

Classification and subsequent measurement of debt instruments depend on:

- (i) the Company's business model for managing the financial assets; and
- (ii) the contractual cash flow characteristics of the financial assets.

Business model:

The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL.

Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets, which is held by the Company as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVTPL.

Solely payments of principal and profit:

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and profit. In making this assessment, the Company considers whether the contractual cash flows are consistent with the financing agreement i.e. profit includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Company exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and profit income on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Company considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage. Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

Amortised cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised. Profit income from these financial assets is included in 'Interest income' using the effective profit method.

Fair value through other comprehensive income ("FVOCI"):

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and profit, and that are not designated at FVTPL, are designated as FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, special interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Profit income from these financial assets is included in 'Interest income' using the effective profit method. Currently no debt instrument is classified as FVOCI.

3. Significant accounting policies (continued)

3.3 IFRS 9 Financial Instruments (continued)

3.3.1 Changes in accounting policies (continued):

3.3.1.1 Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial assets (continued)

Fair value through profit or loss (FVTPL):

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL presented in profit or loss in the period in which it arises. Currently investment in mutual funds and Sukuk which failed SPPI assessment are classified as FVTPL.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are not expected to be frequent and no such instances have occurred during the three-month period ended March 31, 2023.

Equity instruments:

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

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

Dividends, when representing a return on such investments, continue to be recognized in the statement of income as 'Dividend income' when the Company's right to receive payments is established. Currently all equity securities are designated as FVPL and no investments are classified under FVOCI.

Any gain or loss on the disposal of equity classified as FVOCI will be non-recycling i.e. on disposal, fair value movement residing in OCI will be moved directly from OCI to retained earnings.

3.3.1.2 Impairment of financial assets

The Company assesses on a forward-looking basis the ECL associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Premiums receivable balances have been classified under insurance contract liabilities and the reinsurers' receivable balances and reinsurers' share of outstanding claims and claims incurred but not reported have been classified under reinsurance contract assets, as rights and obligations under insurance contracts are accounted for under IFRS 17 because the policyholder transfers significant insurance risk to the insurer rather than financial risk, which are in the scope of IFRS 17 for impairment.

Liability for remaining coverage (LFRC) adjustment:

LFRC adjustment represents impairment on insurance premium receivable balances. The Company has developed impairment calculations based on provision matrix approach. LFRC adjustment is recorded as an adjustment to LFRC with corresponding impact recorded in Insurance Revenue.

3. Significant accounting policies (continued)

3.3 IFRS 9 Financial Instruments (continued)

3.3.1 Changes in accounting policies (continued):

3.3.1.2 Impairment of financial assets (continued)

Non-performance risk (NPR) adjustment:

The Company measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in profit or loss.

The Company applies the three-stage model for impairment of financial assets measured at amortised cost and FVOCI, based on changes in credit quality since initial recognition.

Stage 1 ("Performing") includes financial assets that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these financial assets, 12-month expected credit losses ("ECL") are recognised and financial income is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). A 12-month ECL is the ECL that results from default events that are possible within 12-months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12-months.

Stage 2 ("Under-performing") includes financial assets that have had a significant increase in credit risk since initial recognition, but do not have objective evidence of impairment. A significant increase in credit risk is presumed if a receivable is more than 30 days past due. For these financial assets, lifetime ECL are recognised, but financial income is still calculated on the gross carrying amount of the asset. Lifetime ECL is the ECL that results from all possible default events over the maximum contractual period during which the Company is exposed to credit risk. ECL is the weighted average credit losses, with the respective risks of a default occurring as the weights.

Stage 3 ("Non-performing") includes financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due. For these financial assets, lifetime ECL are recognised and financial income is calculated on the net carrying amount (that is, net of credit allowance).

The Company, when determining whether the credit risk on a financial asset has increased significantly, considers reasonable and supportable information available (e.g. days past due, customer credit scoring etc.), in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial asset.

Financial assets are written-off only when there is no reasonable expectation of recovery.

Where financial assets are written-off, the Company continues to engage enforcement activities to attempt to recover the receivable due. Recoveries made, after write-off, are recognized in profit or loss.

3.3.1.3 Derecognition of financial assets

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

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

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

3. Significant accounting policies (continued)

3.3 IFRS 9 Financial Instruments (continued)

3.3.1 Changes in accounting policies (continued):

3.3.1.4 Classification and subsequent measurement of financial liabilities

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

3.3.1.5 Derecognition of financial liabilities

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

3.3.2 Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets to be assessed based on a combination of the Company's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories for financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity (HTM) and loans and receivables (L&R) at amortised cost) have been replaced by:

- Financial assets at fair value through profit or loss, including equity instruments and derivatives;
- Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition (not used by the Company); and
- Debt instruments at amortised cost.

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

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

The Company has applied IFRS 9 retrospectively and restated comparative information for 2022 for financial instruments in the scope of IFRS 9. Differences arising from the adoption of IFRS 9 were recognised in retained earnings as of January 1, 2022. There is no impact expected on financial liabilities as a result of transition to IFRS 9.

3.3.3 Changes to the impairment calculation

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

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

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

Probability of Default ('PD'): The probability of default is an estimate of the likelihood of default over a given time horizon. Loss Given Default ('LGD'): Loss given default inputs are determined by class of financial instrument based on historical experience of loss and recovery rates for similar financial instruments and other relevant industry data. Exposure at Default ('EAD'): The exposure at default is an estimate of the exposure at a future default date.

3. Significant accounting policies (continued)

3.3 IFRS 9 Financial Instruments (continued)

3.3.3 Changes to the impairment calculation (continued)

Forward looking estimate: While estimating the ECL, the Company will review macro-economic developments occurring in the economy and market it operates in. On a periodic basis, the Company will analyze the relationship between key economic trends with the estimate of PD.

IFRS 9 impairment applies to financial instruments that are not measured at Fair value through profit or loss (FVTPL). Equity instruments measured at FVOCI are also excluded from the purview of impairment.

Financial assets that are subject to impairment consist of investment portfolio (debt instruments) and cash and cash equivalents.

3.3.4 Transition disclosures

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

- the determination of the business model within which a financial asset is held;
- the designation and revocation of previous designated financial assets and liabilities as measured at FVTPL. This category includes financial assets that were previously designated as held for trading or those that were classified as available for sale; and
- the designation of certain investments in equity instruments not held for trading as FVOCI.

3. Significant accounting policies (continued)

3.3 IFRS 9 Financial Instruments (continued)

3.3.4 Transition disclosures (continued)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as of the date of transition i.e. January 1, 2022 is, as follows:

Financial assets (Unaudited)	December 31, 2021 IAS 39		Re- classification	Re-measurement		January 1, 2022 IFRS 9	
	Category	Amount		ECL	Others	Category	Amount
----- SR 000 -----							
Cash and cash equivalents	Loans & receivables	87,769	--	(16)	--	Held at amortised cost	87,753
KSA Sukuks	Available for sale (AFS)	123,390	6,048	--	(662)	Held at amortised cost	128,776
GACA Sukuks	Available for sale (AFS)	100,000	803	--	--	Held at amortised cost	100,803
Available-for-sale investment (Refer Note 5.3)	Available for sale (AFS)	230	--	--	18	FVTPL	230
Available-for-sale investment (Refer Note 5.3)	Available for sale (AFS)	20,220	--	--	902	FVTPL	20,220
Available-for-sale investment (Refer Note 5.3)	Available for sale (AFS)	4,763	--	--	505	FVTPL	4,763
Available-for-sale investment (Refer Note 5.3)	Available for sale (AFS)	1,923	--	--	35,109	FVOCI	37,032
Statutory deposit	Loans & receivables	60,000	--	(11)	--	Held at amortised cost	59,989
Accrued income on statutory deposit	Loans & receivables	5,396		(1)	--	Held at amortised cost	5,395
Other assets	Loans & receivables	60,335	(1,747)	--	--	Not applicable	58,588

Furthermore, the classification of financial liabilities has changed from 'Other financial liabilities at amortised cost' as per IAS 39 to 'amortised cost' as per IFRS 9, with no corresponding change in carrying value of such financial liabilities.

3. Significant accounting policies (continued)

3.3 IFRS 9 Financial Instruments (continued)

3.3.4 Transition disclosures (continued)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as of the date January 1, 2023 is, as follows:

The impact on the net loss and other comprehensive income for the three-month period ended March 31, 2022 upon adoption of IFRS 9, is not material.

Financial assets (Unaudited)	December 31, 2022 IAS 39		Re- classification	Re-measurement		January 1, 2023 IFRS 9	
	Category	Amount		ECL	Others	Category	Amount
----- SR 000 -----							
Cash and cash equivalents	Loans & receivables	83,980	--	(16)	--	Held at amortised cost	83,964
KSA Sukuks	Available for sale (AFS)	108,414	20,986	--	(987)	Held at amortised cost	128,413
GACA Sukuks	Available for sale (AFS)	100,000	803	--	--	Held at amortised cost	100,803
Available-for-sale investment (Refer Note 6.3)	Available for sale (AFS)	236	--	--	23	FVTPL	236
Available-for-sale investment (Refer Note 6.3)	Available for sale (AFS)	18,956	--	--	(362)	FVTPL	18,956
Available-for-sale investment (Refer Note 6.3)	Available for sale (AFS)	4,698	--	--	440	FVTPL	4,698
Available-for-sale investment (Refer Note 6.3)	Available for sale (AFS)	1,923	--	--	37,780	FVOCI	39,703
Statutory deposit	Loans & receivables	60,000	--	(11)	--	Held at amortised cost	59,989
Accrued income on statutory deposit	Loans & receivables	6,712	--	(1)	--	Held at amortised cost	6,711
Other assets	Loans & receivables	80,604	(1,710)	--	--	Not applicable	78,894

Furthermore, the classification of financial liabilities has changed from 'Other financial liabilities at amortised cost' as per IAS 39 to 'amortised cost' as per IFRS 9, with no corresponding change in carrying value of such financial liabilities.

The impact of transition to IFRS 9 on retained earnings is, as follows:

	January 1, 2023 SR 000 Unaudited	January 1, 2022 SR 000 Unaudited
Increase / (reduction) in the Company's total equity		
Classification of financial assets	(886)	763
Impairment of financial assets	(28)	(28)
Fair valuation of Najm shares (Refer Note 6.3)	37,780	35,242
Impact of adoption of IFRS 9 before zakat and income tax	36,866	35,977

3. Significant accounting policies (continued)

3.4 Critical accounting judgments, estimates and assumptions

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

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

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

i. Estimates of future cash flows to fulfil insurance contracts

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

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

When estimating future cash flows, the Company takes into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation is substantively enacted. The Company derives cost inflation assumptions from the difference between the yields on nominal and inflation-linked government bonds. Cash flows within the boundary of a contract relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

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

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

3. Significant accounting policies (continued)

3.4 Critical accounting judgments, estimates and assumptions (continued)

ii. Discounting methodology

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

The bottom-up approach was used to derive the discount rate. Under this approach, the USD based risk free discount rates by European Insurance and Occupational Pensions Authority (EIOPA) were used as a starting point for preparing the yield curve. The Company then further added a KSA country risk premium from the source to make the yield curve appropriate for application. The Company has used the USD volatility adjustment reported by EIOPA for Solvency II as a proxy for illiquidity premium. The Company is currently discounting liability for incurred claims for all groups of insurance contracts.

iii. Risk adjustment for non-financial risks

The Company shall adjust the estimate of the present value of the future cashflows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cashflows that arises from non-financial risk. So, the purpose of the risk adjustment for non-financial risk is to measure the effect of uncertainty in the cashflows that arise from insurance contracts, other than uncertainty arising from financial risk. The risks covered by the risk adjustment for non-financial risk are insurance risk and other non-financial risks such as lapse risk and expense risk. The Company does not consider the effect of reinsurance in the risk adjustment for non-financial risk of the underlying insurance contracts. The Company adopted the PAA simplification for the calculation of liability for remaining coverage. Therefore, risk adjustment for liability for remaining coverage will only be estimated in case a group of contracts is recognized as onerous.

Applying a confidence level technique, the Company estimates the probability distribution of the expected present value of the future cash flows from insurance contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the 75th percentile (the target confidence level) over the expected present value of the future cash flows.

iv. Onerosity determination

Under the PAA, the Company shall assume no contracts in the portfolio are onerous at initial recognition unless "facts and circumstances" indicate otherwise. The Company performs the assessment of onerous contracts on an annual and underwriting year basis, in conjunction with updated information on product profitability. Furthermore, the assessment shall be repeated if "facts and circumstances" indicate that there are significant changes in product pricing, product design, plans and forecasts. This level of granularity determines sets of contracts. The Company uses significant judgement to determine at what level of granularity the Company has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment.

The Company has established a process for the underwriting team to capture onerous, potentially onerous and profitable contracts by assessing the profitability of the different portfolios at the start of the underwriting year. The profitability of each portfolio shall be assessed separately. Refer Note 3.2.1 for further details in this regard.

v. Impairment of premiums receivable accounted for under IFRS 17

The Company has developed impairment methodology for premiums receivable balances based on provision matrix approach. The premiums receivable balances have been reclassified to insurance contract liabilities in line with the requirements of IFRS 17. To measure the impairment, premiums receivable have been grouped based on shared credit risk characteristics for respective policyholder base portfolio and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the Gross domestic product of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. Management considers trade receivables as being in default when they are past due for over 365 days and are accordingly completely provided for.

vi. Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and to make assumptions that are mainly based on market conditions existing at the end of each reporting period. Also see Note 14.

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4 Cash and cash equivalents

	March 31, 2023 SR 000 (Unaudited)	December 31, 2022 SR 000 (Unaudited)
Bank balances	93,478	83,980
Expected credit loss	(16)	(16)
	<u>93,462</u>	<u>83,964</u>

The bank balances and deposits are with banks, registered in Saudi Arabia and are denominated in Saudi Riyals, US Dollars and Euro.

The gross carrying amount of cash and cash equivalents represents the Company's maximum exposure to credit risk on these financial assets which are categorised under investment grade and Stage 1. Investment grade includes those financial assets having credit exposure equivalent to Standard and Poor's rating of AAA to BBB, whereas non-investment grade represents un-rated exposures. The Company's exposures to credit risk are not collateralized.

5 Investments

	March 31, 2023 SR 000 (Unaudited)	December 31, 2022 SR 000 (Unaudited)
	Note	
Measured at fair value through profit or loss	5.1	240
Measured at amortised cost	5.2	23,890
Measured at fair value through other comprehensive income	5.3	229,216
		39,703
		<u>271,157</u>
		<u>292,809</u>

5 Investments (continued)

5.1 Measured at fair value through profit or loss (FVTPL)

Movement in FVTPL is as follows:

	March 31, 2023 SR 000 (Unaudited)	December 31, 2022 SR 000 (Unaudited)
Balance at beginning of the period / year	23,890	25,125
Disposal during the period / year	(23,647)	--
Changes in fair value of investments	(3)	(1,235)
Balance at end of the period / year	240	23,890

5.2 Measured at amortised cost

		March 31, 2023 SR 000 (Unaudited)	December 31, 2022 SR 000 (unaudited)
	Note		
KSA Sukuks	a	231,214	229,216
Expected credit loss		--	--
Net amount – total		231,214	229,216

- a) This represents the Company's investment in Government backed Sukuks. These represent 3 Sukuks at a face value of SAR 211 million with a coupon rate ranging from of 3.21% and 4.64% per annum. These Sukuks have a maturity duration of 5 years commencing from November 3, 2020. The Company has earned commission income of SAR 2 million during the period (March 31, 2022: SAR 1.1 million).

The gross carrying amount of financial assets measured at amortised cost represents the Company's maximum exposure to credit risk on these financial assets which are categorised under investment grade and Stage 1. Investment grade includes those financial assets having credit exposure equivalent to Standard and Poor's rating of AAA to BBB, whereas non-investment grade represents un-rated exposures. The Company's exposures to credit risk are not collateralized. No ECL recorded as the management believe the impact on this investment is insignificant.

5.3 Measured at fair value through other comprehensive income

This represents the Company's 3.45% (December 31, 2022: 3.45%) holding in Najm for Insurance Services Company, a Saudi Closed Joint Stock Company. These shares are un-quoted and are carried at fair value. The Company has determined the fair value of its investment in Najm, which was previously carried at initial cost of Saudi Riyals 1.9 million until December 31, 2022, to be SAR 36.9 million at as December 31, 2021 and SAR 39.7 million as at December 31, 2022. Accordingly, the required adjustments to bring the carrying value of such investment to its fair value, in accordance with the requirements of IFRS 9, have been recorded in the opening equity as of January 1, 2022, December 31, 2022 and March 31, 2023. Also see Note 3.3.4.

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6 Insurance and reinsurance contracts

6.1 Composition of the statement of financial position

An analysis of the amounts presented on the statement of financial position for insurance contracts and reinsurance contracts has been included in the table below:

	Energy	Medical	Motor-TPL	Motor-Comp	Engineering	Group life	Others	Total
	----- SR 000 -----							
As at March 31, 2023 – (unaudited)								
Insurance Contracts								
Insurance contract liabilities	39,117	51,683	199,694	55,787	97,254	239	2,501	446,275
	39,117	51,683	199,694	55,787	97,254	239	2,501	446,275
Reinsurance contracts								
Reinsurance contract assets	32,032	7,079	30,218	15,633	55,212	(362)	5,451	145,263
	32,032	7,079	30,218	15,633	55,212	(362)	5,451	145,263
	Energy	Medical	Motor-TPL	Motor-Comp	Engineering	Group life	Others	Total
As at December 31, 2022 – (unaudited)								
Insurance Contracts								
Insurance contract liabilities	18,818	50,042	127,467	65,918	146,924	367	30,279	439,815
	18,818	50,042	127,467	65,918	146,924	367	30,279	439,815
Reinsurance contracts								
Reinsurance contract assets	19,599	14,571	12,094	37,856	60,220	(92)	3,138	147,386
	19,599	14,571	12,094	37,856	60,220	(92)	3,138	147,386

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6 Insurance and reinsurance contracts (continued)

6.2 Analysis by remaining coverage and incurred claims

6.2.1 Insurance contracts:

	As at March 31, 2023				
	Liability for remaining coverage		Liability for incurred claims		Total
	Excluding loss component	Loss component	Estimates of present value of FCF	Risk adjustment for non- financial risk	
	----- SR 000 -----				
Insurance contracts					
Insurance contract liabilities – opening	166,833	50,517	203,520	18,945	439,815
Insurance contract assets – opening	--	--	--	--	--
Opening balance – net (unaudited)	166,833	50,517	203,520	18,945	439,815
Insurance revenue	(196,651)	--	--	--	(196,651)
Insurance service expenses					
Incurred claims and other directly attributable expenses	--	--	125,846	--	125,846
Onerous contracts recognized	--	2,232	--	--	2,232
Changes that relate to past service - adjustments to the LIC	--	--	19,435	--	19,435
Reversal of losses on onerous contracts	--	--	--	(2,094)	(2,094)
Insurance acquisition cashflows amortisation	12,126	--	--	--	12,126
Insurance service expenses	12,126	2,232	145,281	(2,094)	157,545
Finance (income) / expense from insurance contracts	--	--	(795)	--	(795)
Total changes in the statement of income	(184,525)	2,232	144,486	(2,094)	(39,901)
Cashflows					
Premiums received	237,188	--	--	--	237,188
Claims and other directly attributable expenses paid	--	--	(138,969)	--	(138,969)
Insurance acquisition cashflows paid	(51,858)	--	--	--	(51,858)
Total cash inflows / (outflows)	185,330	--	(138,969)	--	46,361
Insurance contracts					
Insurance contract liabilities – closing	167,638	52,749	209,037	16,851	446,275
Insurance contract assets – closing	--	--	--	--	--
Closing balance – net (unaudited)	167,638	52,749	209,037	16,851	446,275

During the three-month period ended March 31, 2023, there was an increase in the past service cost relating to claims recorded in previous years, on account of change in estimation. Majority of this balance is reinsured.

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6 Insurance and reinsurance contracts (continued)

6.2 Analysis by remaining coverage and incurred claims (continued)

6.2.1 Insurance contracts (continued):

	As at December 31, 2022				
	Liability for remaining coverage		Liability for incurred claims		Total
	Excluding loss component	Loss component	Estimates of present value of FCF	Risk adjustment for non- financial risk	
	----- SR 000 -----				
Insurance contracts					
Insurance contract liabilities – opening	8,508	41,160	305,522	31,216	386,406
Insurance contract assets – opening	--	--	--	--	--
Opening balance – net (unaudited)	8,508	41,160	305,522	31,216	386,406
Insurance revenue	(634,870)	--	--	--	(634,870)
Insurance service expenses					
Incurred claims and other directly attributable expenses	--	--	361,507	(12,271)	349,236
Onerous contracts recognized	--	9,357	--	--	9,357
Changes that relate to past service - adjustments to the LIC	--	--	(85,891)	--	(85,891)
Reversal of losses on onerous contracts	--	--	--	--	--
Insurance acquisition cashflows amortisation	65,346	--	--	--	65,346
Insurance service expenses	65,346	9,357	275,616	(12,271)	338,048
Finance income from insurance contracts	--	--	(1,812)	--	(1,812)
Total changes in the statement of income	(569,524)	9,357	273,804	(12,271)	(298,634)
Cashflows					
Premiums received	799,616	--	--	--	799,616
Claims and other directly attributable expenses paid	--	--	(383,091)	--	(383,091)
Insurance acquisition cashflows paid	(71,767)	--	7,285	--	(64,482)
Total cash inflows / (outflows)	727,849	--	(375,806)		352,043
Insurance contracts					
Insurance contract liabilities – closing	166,833	50,517	203,520	18,945	439,815
Insurance contract assets – closing	--	--	--	--	--
Closing balance – net (unaudited)	166,833	50,517	203,520	18,945	439,815

During the year ended December 31, 2022, there was a decrease in the past service cost relating to claims recorded in the previous years, on account of actual payout being lower than estimates.

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6 Insurance and reinsurance contracts (continued)

6.2 Analysis by remaining coverage and incurred claims (continued)

6.2.2 Reinsurance contracts held:

	As at March 31, 2023				
	Asset for remaining coverage		Asset for incurred claims		Total
	Excluding loss- recovery component	Loss- recovery component	Estimates of present value of FCF	Risk adjustment for non- financial risk	
	SR 000				
Reinsurance contracts					
Reinsurance contract assets – opening	(76,119)	(12,472)	(48,952)	(9,843)	(147,386)
Reinsurance contract liabilities – opening	--	--	--	--	--
Opening balance – net (unaudited)	(76,119)	(12,472)	(48,952)	(9,843)	(147,386)
Allocation of reinsurance premium paid	70,708	--	--	--	70,708
Amounts recoverable from reinsurers					
Claims recovered and other directly attributable expenses	--	--	(24,096)	3,085	(21,011)
Recoveries and reversals of recoveries of losses on onerous underlying contracts to be included	--	7,363	--	--	7,363
Changes that relate to past service – adjustments to the AIC	--	--	(4,188)	--	(4,188)
Amounts recoverable from reinsurers – net	--	7,363	(28,284)	3,085	(17,836)
Finance expense from reinsurance contracts	--	--	(205)	--	(205)
Total changes in the statement of income	70,708	7,363	(28,489)	3,085	52,667
Cashflows					
Premiums ceded and acquisition cashflows paid	(82,976)	--	--	--	(82,976)
Recoveries from reinsurance	17,462	--	14,970	--	32,432
Total cash (outflows) / inflows	(65,514)	--	14,970	--	(50,544)
Reinsurance contracts					
Reinsurance contract assets – closing	(70,925)	(5,109)	(62,471)	(6,758)	(145,263)
Reinsurance contract liabilities – closing	--	--	--	--	--
Closing balance – net (unaudited)	(70,925)	(5,109)	(62,471)	(6,758)	(145,263)

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6 Insurance and reinsurance contracts (continued)

6.2 Analysis by remaining coverage and incurred claims (continued)

6.2.2 Reinsurance contracts held (continued):

	As at December 31, 2022				
	Asset for remaining coverage		Asset for incurred claims		Total
	Excluding loss-recovery component	Loss-recovery component	Estimates of present value of FCF	Risk adjustment for non-financial risk	
	----- SR 000 -----				
Reinsurance contracts					
Reinsurance contract assets – opening	--	(7,166)	(148,718)	(21,715)	(177,599)
Reinsurance contract liabilities – opening	18,772	--	--	--	18,772
Opening balance – net (unaudited)	18,772	(7,166)	(148,718)	(21,715)	(158,827)
Allocation of reinsurance premium paid	328,895	--	--	--	328,895
Amounts recoverable from reinsurers					
Claims recovered and other directly attributable expenses	--	(5,306)	(82,937)	11,872	(76,371)
Changes that relate to past service - adjustments to the AIC	--	--	82,762	--	82,762
Amounts recoverable from reinsurers – net	--	(5,306)	(175)	11,872	6,391
Finance expense from reinsurance contracts	--	--	212	--	212
Total changes in the statement of income	328,895	(5,306)	37	11,872	336,322
Cashflows					
Premiums ceded and acquisition cashflows paid	(504,828)	--	--	--	(504,828)
Recoveries from reinsurance	81,042	--	99,729	--	180,771
Total cash (outflows) / inflows	(423,786)	--	99,729	--	(324,057)
Reinsurance contracts					
Reinsurance contract assets – closing	(76,119)	(12,472)	(48,952)	(9,843)	(147,386)
Reinsurance contract liabilities – closing	--	--	--	--	--
Closing balance – net (unaudited)	(76,119)	(12,472)	(48,952)	(9,843)	(147,386)

7 Statutory deposit

		March 31, 2023	December 31, 2022
		SR 000	SR 000
	Note	(Unaudited)	(Unaudited)
Statutory deposit	7.1	60,000	60,000
Expected credit loss		(11)	(11)
		59,989	59,989

7.1 In compliance with Article 58 of the Implementing Regulations of SAMA, the Company has deposited 10% of its share capital amounting to SAR 60 million as at March 31, 2023 (December 31, 2022: SAR 60 million) in a bank designated by SAMA. The Company cannot withdraw this deposit without SAMA's approval. Commission accruing on this deposit is payable to SAMA.

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

8 Zakat and income tax

8.1 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 period, 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 Customs Authority ("ZATCA") could be different from the declaration filed by the Company.

8.2 Provision for zakat and income tax

	Zakat	Income tax	Total
January 1, 2023	11,508	1,300	12,808
Provision for the current year	81	--	81
March 31, 2023 - (unaudited)	11,589	1,300	12,889

	Zakat	Income tax	Total
January 1, 2022	13,546	1,300	14,846
Provision for the current year	3,000	--	3,000
Payments during the year	(5,038)	--	(5,038)
December 31, 2022 - (unaudited)	11,508	1,300	12,808

8.3 Status of assessments

The Company filed the Zakat return for the year 2021 and 2022 and obtained the necessary certificate.

Assessment years 2005, 2006, 2007 and 2008

During the year 2017, the Company received the zakat assessments for the years 2005 to 2008 from the ZATCA with regards to the insurance operations transferred from UCA Insurance Bahrain BSC claiming zakat liability amounting to SAR 6.01 million and withholding tax liability amounting to SAR 16.09 million. Management has filed an objection against the above assessments and is confident of receiving a favourable outcome. Further, the Company has issued a bank guarantee in favour of ZATCA amounting to SAR 22.09 million (2021: SAR 22.09 million) against such assessments. 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.

Year ended December 31, 2009 to 2011

The ZATCA issued the amended assessment based on the decision of the Preliminary Objection Committee and claimed additional Zakat and tax and withholding tax for a total of SR 27.96 million. The Company had finalized its Zakat, tax and withholding tax status for the said years.

Year ended December 31, 2012 and 2013

The Company has filed its Zakat/tax declarations for the years ended 31 December 2012 and 2013 and obtained the necessary Zakat/tax certificates.

ZATCA issued an assessment for the years 2012 and 2013 claiming additional Zakat Tax and withholding tax liability of SR 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 SR 7.05 million.

8 Zakat and income tax (continued)

8.3 Status of assessments (continued)

Years ended December, 31 2014 to 2018:

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

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

Years ended December, 31 2016 to 2017:

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

Years ended December, 31 2019 to 2020:

The Company filed the Zakat return for the years 2019 - 2020 and obtained the necessary certificate.

ZATCA issued a final assessment for the years 2019 and 2020, which resulted in additional Zakat liability for the year 2019 of SR 1.44 million and tax liability SR 22.51 million and credit balance for the year 2020 of SR 1.73 million due to the refund the Zakat on the Sukuk based on (MR 2218). The Company has filed an objection for the said years against the ZATCA's amendments. ZATCA rejected the Company's objection and accordingly the Company escalated the case to the Committee for Resolution of Tax Violations and Disputes ("CRTVD") through the General Secretariat of Tax Committee (GSTC) portal and hearing session has been assigned. The committee has issued its verdict in partially accepting the Company's objection and rejecting the remaining items which result in a total Zakat saving of SR 0.49 million due to the acceptance of the deferred policy acquisition cost. ZATCA filed an appeal against the CRTVD decision, the Company is waiting for the final decision to be issued.

9 Share capital and basic and diluted earnings / (loss) per share

The authorized, issued and paid-up capital of the Company at March 31, 2023 is SAR 400 million divided into 40 million shares of SAR 10 each (December 31, 2022: SAR 400 million divided into 40 million shares of SAR 10 each).

Loss per share:

Loss per share for the three-month period ended March 31, 2023 and 2022 has been calculated by dividing the net loss for the respective periods attributable to the shareholders by the weighted average number of ordinary shares at the reporting date. Diluted earnings/(loss) per share is not applicable to the Company.

The basic loss per share is calculated as follows:

	March 31, 2023 SR 000 (unaudited)	March 31, 2022 SR 000 (unaudited) <i>Restated</i>
Net loss for the period attributable to the shareholders	(9,960)	(21,586)
Weighted average number of ordinary shares	40,000	40,000
Basic loss per share	(0.25)	(0.54)

10 Statutory reserve

As required by the Implementing Regulations issued by SAMA, 20% of the net income for the year after adjusting accumulated losses, has to be set aside from net income for the year as a statutory reserve until this amounts to 100% of the paid-up share capital. The required amount, if any, would be transferred at the year end.

11 Commitments and contingencies

11.1

	31 March 2023 (Unaudited) SAR'000	31 December 2022 (Unaudited) SAR'000
Letters of guarantee issued in favour of ZATCA	22,096	22,096
Letters of guarantee issued in favour of non-government customers	300	300
	22,396	22,396

- a. The Company has capital commitments outstanding as at 31 December 2022 amounting to SAR 19.3 million (31 December 2022: SAR 16.65 million) in respect of software development project.
- b. As at 31 March 2023, the Company's bankers have given guarantees to non-government customers amounting to SAR 0.3 million (2022: SAR 0.3million) in respect of motor insurance and to ZATCA amounting to SAR 22.09 (2021: SAR 22.09 million) in respect of a disputed assessment order (also see note 8.3) which is deposited with a bank and is included in prepaid expenses and other assets.
- c. Refer note 8.3 for the status of zakat and tax assessments.

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12 Insurance revenue and expenses

An analysis of insurance revenue, insurance expenses and net expenses from reinsurance contracts held by product line for March 31, 2023 and March 31, 2022 is included in following tables. Additional information on amounts recognized in statement of income is included in the insurance contract balances reconciliation.

	Energy	Medical	Motor- TPL	Motor- Comp	Engineer- ing	Group life	Others	Total
	----- SR 000 -----							
March 31, 2023 – (unaudited)								
Insurance revenue from contracts measured under PAA	(1,304)	24,611	64,467	37,518	64,334	30	6,995	196,651
Insurance revenue – total	(1,304)	24,611	64,467	37,518	64,334	30	6,995	196,651
Incurred claims and other directly attributable expenses – net	(13)	(25,145)	(58,416)	(39,699)	(2,558)	--	2,079	(123,752)
Changes that relate to past service - adjustments to the LIC	384	(351)	(13,900)	(5,087)	(2,359)	(2)	1,880	(19,435)
(Losses) / reversal of losses on onerous contracts - net	13	(2,559)	6,730	(6,416)	--	--	--	(2,232)
Insurance acquisition cash flows amortisation	(288)	(2,898)	(2,842)	(1,946)	(3,724)	(2)	(426)	(12,126)
Insurance service expenses - total	96	(30,953)	(68,428)	(53,148)	(8,641)	(4)	3,533	(157,545)
Allocation of reinsurance premium paid - contracts measured under the PAA	1,738	(771)	(11,363)	(8,647)	(50,170)	(25)	(1,470)	(70,708)
Amounts recoverable from reinsurers								
Claims recovered and other directly attributable expenses	833	649	9,638	11,543	1,564	9	(3,225)	21,011
Changes that relate to past service - adjustments to the LIC	(405)	(89)	(2,849)	(875)	2,454	(262)	(1,149)	(3,175)
Amounts recoverable from reinsurers – net	428	560	6,789	10,668	4,018	(253)	(4,374)	17,836
Net (expenses) / income from reinsurance contracts - total	2,166	(211)	(4,574)	2,021	(46,152)	(278)	(5,844)	(52,872)
Insurance service result – total	958	(6,553)	(8,535)	(13,609)	9,541	(252)	4,684	(13,766)

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12 Insurance revenue and expenses (continued)

	Energy	Medical	Motor- TPL	Motor- Comp	Engineer- ing	Group life	Others	Total
	----- SR 000 -----							
March 31, 2022 – (unaudited)								
Insurance revenue from contracts measured under PAA	18,245	22,695	(32,617)	63,034	22,768	82	11,053	105,260
Insurance revenue – total	18,245	22,695	(32,617)	63,034	22,768	82	11,053	105,260
Incurring claims and other directly attributable expenses	(123)	(22,583)	(9,122)	(28,302)	1,945	(251)	(1,884)	(60,320)
Changes that relate to past service - adjustments to the LIC	(914)	(4,627)	8,072	(1,761)	(6,668)	(175)	831	(5,242)
(Losses) / reversal of losses on onerous contracts - net	--	--	(762)	(488)	--	--	--	(1,250)
Insurance acquisition cash flows amortisation	(1,148)	(2,702)	(1,040)	(4,739)	(4,676)	(11)	(803)	(15,119)
Insurance service expenses - total	(2,185)	(29,912)	(2,852)	(35,290)	(9,399)	(437)	(1,856)	(81,931)
Allocation of reinsurance premium paid - contracts measured under the PAA	(17,182)	(1,743)	(1,917)	(6,603)	(18,433)	(56)	(7,425)	(53,359)
Amounts recoverable from reinsurers								
Claims recovered and other directly attributable expenses	--	2,176	2,414	7,487	(2,229)	--	846	10,694
Changes that relate to past service - adjustments to incurred claims	613	(123)	(3,134)	(2,419)	6,452	(64)	1,515	2,840
Amounts recoverable from reinsurers – net	613	2,053	(720)	5,068	4,223	(64)	2,361	13,534
Net (expenses) / income from reinsurance contracts - total	(16,569)	310	(2,637)	(1,535)	(14,210)	(120)	(5,064)	(39,825)
Insurance service result – total	(509)	(6,907)	(38,106)	26,209	(841)	(475)	4,133	(16,496)

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13 Insurance finance (expense) / income – net

An analysis of the net insurance finance (expense) / income by product line is presented below:

	Energy	Medical	Motor- TPL	Motor- Comp	Engineer ing	Group life	Others	Total
	----- SR 000 -----							
March 31, 2023 –								
(unaudited)								
Finance (expense) /								
income from								
insurance								
contracts issued								
Interest accreted								
Effects of changes in								
interest rates and								
other financial								
assumptions	44	296	(103)	43	190	28	297	795
Net finance								
(expense) /								
income from								
insurance								
contracts	44	296	(103)	43	190	28	297	795
Finance (expense)								
/ income from								
reinsurance								
contracts held								
Interest accreted								
Effects of changes in								
interest rates and								
other financial								
assumptions	--	128	2	(46)	99	1	42	226
Net finance								
(expense) /								
income from								
reinsurance								
contracts	--	128	2	(46)	99	1	42	226
Finance (expense) /								
income - net	44	424	(101)	(3)	289	29	339	1,021

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13 Insurance finance expense – net (continued)

	Energy	Medical	Motor- TPL	Motor- Comp	Engineering	Group life	Others	Total
	----- SR 000 -----							
March 31, 2022 – (unaudited)								
Finance income from insurance contracts issued								
Interest accreted								
Effects of changes in interest rates and other financial assumptions	--	18	71	5	341	--	297	732
Net finance income from insurance contracts	--	18	71	5	341	--	297	732
Finance (expense) / income from reinsurance contracts held								
Interest accreted								
Effects of changes in interest rates and other financial assumptions	--	19	36	26	159	--	87	327
Net finance (expense) / income from reinsurance contracts	--	19	36	26	159	--	87	327
Finance income – net		37	107	31	500	--	384	1,059

14 Financial instruments – Fair values and risk management

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

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

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in these condensed interim 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 Company ascertains the Level 3 fair values based on a valuation technique which is primarily derived by net assets value of the respective investee at the period end.

14 Financial instruments – Fair values and risk management (continued)

Determination of fair value and fair value hierarchy (continued)

The following table shows the carrying amount and fair values of financial assets, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial asset and liabilities not measured at fair value if the carrying amount is a reasonable approximation to fair value, as these are either short-term in nature or carry interest rates which are based on prevalent market interest rates.

<u>March 31, 2023 – unaudited (SR 000)</u>	<u>Fair value through profit or loss (FVTPL)</u>	<u>Fair value through other comprehensive income (FVOCI)</u>	<u>Fair value</u>		
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets measured at fair value					
Equity	240	39,703	240	--	39,703
	240	39,703	240	--	39,703

<u>December 31, 2022 – unaudited (SR 000)</u>	<u>Fair value through profit or loss (FVTPL)</u>	<u>Fair value through other comprehensive income (FVOCI)</u>	<u>Fair value</u>		
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets measured at fair value					
Equity	239	39,703	239	--	39,703
Mutual funds	23,651	--	--	23,651	--
	23,890	39,703	239	23,651	39,703

Significant unobservable inputs used in the valuation of level 3 investments include the Fund administrator report fair value estimates from reputable third party valuer who use technique such as discounted cash flows and other sophisticated models. The fair value of investments in mutual funds at level 2 is based on the net asset values and value of similar quoted sukuks communicated by the fund manager. The fair value of investments in equity securities at level 1 is based on quoted prices available in the market. There were no transfers between levels of the fair value hierarchy during the period ended March 31, 2023 and the year ended December 31, 2022. Additionally, there were no changes in the valuation techniques. Investments measured at amortised cost include corporate sukuks.

The Company believes that the fair values of the Company's financial assets and liabilities that are not measured at fair value are not materially different from their carrying values.

14.1 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 instruments held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the condensed statement of financial position.

14.1.1 Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. All of the Company's underwriting activities are carried out in Saudi Arabia. The Company's portfolio of financial instruments is broadly diversified, and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

14.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligations and commitments associated with financial liabilities. The Company has a proper cash management system, where daily cash collections and payments are strictly monitored and reconciled on regular basis. The Company manages liquidity risk by maintaining maturities of financial assets and financial liabilities and investing in liquid financial assets.

14 Financial instruments – Fair values and risk management (continued)

14.2 Liquidity risk (continued)

The risks under insurance contracts and the risk management policies are consistent with those as disclosed in the annual financial statements for the year ended December 31, 2022.

15 Operating segments

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Company's 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 condensed 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 December 31, 2022.

Segment assets do not include cash and cash equivalents, term deposits, investments, prepaid expenses and other assets, property and equipment, intangible assets, statutory deposit and accrued income on statutory deposit. Accordingly, they are included in unallocated assets. Segment liabilities do not include accrued expenses and other liabilities, zakat and income tax payable, and accrued 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. The segment information provided to the Company's Board of Directors for the reportable segments for the Company's total assets and liabilities at March 31, 2023 and December 31, 2022, its total revenues, expenses, and net income for the three-month periods ended March 31, 2023 and March 31, 2022, are as follows:

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15 Operating segments (continued)

	Energy	Medical	Motor- TPL	Motor- Comp	Enginee ring	Group life	Others	Total
	SR 000							
Three-month period ended March 31, 2023 - (unaudited)								
Insurance revenue	(1,304)	24,611	64,467	37,518	64,334	30	6,995	196,651
Insurance service expenses	96	(30,953)	(68,428)	(53,148)	(8,641)	(4)	3,533	(157,545)
Net (expenses) / income from reinsurance contracts	2,166	(211)	(4,574)	2,021	(46,152)	(278)	(5,844)	(52,872)
Insurance service result	958	(6,553)	(8,535)	(13,609)	9,541	(252)	4,684	(13,766)
Commission income on deposits								729
Net gains on investments measured at FVTPL								2,000
Commission income on investments								
Dividend Income								--
Investment return								2,729
Net finance (expense) / income from insurance contracts								795
Net finance (expense) / income from reinsurance contracts								226
Net financial result								(10,016)
Other income								6,498
Other operating expenses								(6,361)
Net loss for the period attributable to the shareholders before zakat and income tax								(9,879)
Zakat								(81)
Income tax								--
Net profit for the period attributable to the shareholders								(9,960)

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15 Operating segments (continued)

	Energy	Medical	Motor- TPL	Motor- Comp	Engineering	Group life	Others	Total
	----- SR 000 -----							
Three-month period ended March 31, 2022 - (unaudited)								
Insurance revenue	18,245	22,695	(32,617)	63,034	22,768	82	11,053	105,260
Insurance service expenses	(2,185)	(29,912)	(2,852)	(35,290)	(9,399)	(437)	(1,856)	(81,931)
Net (expenses) / income from reinsurance contracts	(16,569)	310	(2,637)	(1,535)	(14,210)	(120)	(5,064)	(39,825)
Insurance service result	(509)	(6,907)	(38,106)	26,209	(841)	(475)	4,133	(16,496)
Commission income on deposits								1,191
Net gains on investments measured at FVTPL								900
Commission income on investments								47
Dividend Income								2,138
Investment return								
Net finance income from insurance contracts								732
Net finance (expense) / income from reinsurance contracts								327
Net financial result								(13,299)
Other income								341
Other operating expenses								(6,628)
Net loss for the period attributable to the shareholders before zakat and income tax								(19,586)
Zakat								(1,900)
Income tax								(100)
Net loss for the period attributable to the shareholders								(21,586)

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15 Operating segments (continued)

March 31, 2023 – (unaudited)	Marine	Property	Motor- Comp	Motor- TPL	Engineer- ing	Accident & liability	Term life	Total
	----- SR 000 -----							
Assets								
Reinsurance contract assets	32,032	7,079	30,218	15,633	55,212	(362)	5,451	145,263
Unallocated assets								599,250
Total assets								<u>744,513</u>
Liabilities								
Insurance contract liabilities	39,117	51,683	199,694	55,787	97,254	239	2,501	446,275
Unallocated liabilities								52,047
Total liabilities								<u>498,322</u>
December 31, 2022 – (unaudited)	Marine	Property	Motor- Comp	Motor- TPL	Engineer- ing	Accident & liability	Term life	Total
	----- SR 000 -----							
Assets								
Reinsurance contract assets	19,599	14,571	12,094	37,856	60,220	(92)	3,138	147,386
Unallocated assets								600,160
Total assets								<u>747,546</u>
Liabilities								
Insurance contract liabilities	18,818	50,042	127,467	65,918	146,924	367	30,279	439,815
Unallocated liabilities								51,580
Total liabilities								<u>491,395</u>

16 Related party balances and transactions

16.1 Related party transactions

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties.

The Company in the normal course of business carries out transactions with its related parties. The transactions are made on terms approved by the Board of Directors.

16 Related party balances and transactions (continued)

16.1 Related party transactions (continued)

The significant transactions with related parties and the related amounts are as follows:

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

	Nature of transactions	Amount of transactions for the three-months period ended	
		31 March 2023	31 March 2022
		(Unaudited)	(Unaudited)
		SAR'000	SAR'000
Major shareholders			
Haji Hussien Ali Reza	Premium written	3,930	3,187
	Payments received and claim paid	(101)	(1,063)
Saudi Bin Laden – Group	Premium written	56,167	131,178
	Payments received and claim paid	(42,085)	(10,979)
Construction Produce Company	Premium written	801	6,965
	Payments received and claim paid	(627)	(2,853)
Entities controlled, jointly controlled or significantly influenced by related parties			
United Commercial Agencies	Payment made on behalf of Company	--	--
	Payments received and claims paid	--	--
	Payments received and claims paid	--	--

16.2 RELATED PARTIES BALANCES

	Balance receivable / (payable) as at	
	31 March 2023	31 December 2022
	SAR'000	SAR'000
Premium receivable		
Haji Hussein Ali Reza	5,394	4,306
Saudi Bin Laden – Group	51,333	37,434
Construction Product Company	5,394	5,269
Law Office of Hassan Mahassni	55	55
	62,176	47,064
Other balances		
United Commercial Agencies	4	4
	4	4

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

The following table shows the annual salaries, remuneration and allowances of the key management personnel for the year ended 31 March 2023 and 31 March 2022:

	31 March 2023	31 March 2022
	(Unaudited)	(Unaudited)
	SAR'000	SAR'000
Salaries and other allowances	1,591	1,471
End of service benefits	100	84
	1,691	1,555
Remuneration to those charged with governance	653	501

17 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 amounts of dividends paid to shareholders or issue shares.

As per guidelines laid out by SAMA in Article 66 of the Implementing 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
- Premium Solvency Margin
- Claims Solvency Margin

The Company is not in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at March 31, 2023 consists of paid-up share capital of SAR 400 million and accumulated losses of SAR 195.8 million (December 31, 2022: paid-up share capital of SAR 400 million and accumulated losses of SAR 185.9 million), in the statement of financial position.

The amendment made to the Co-operative Insurance Companies Law in accordance with the Royal Decree (M/12) dated 23/1/1443H (corresponding to 01/09/2021) requires the minimum capital of insurance companies to be SAR 300 million by December 15, 2024.

In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements as at March 31, 2023.

18 Gross Written Premium

March 31, 2023 (Unaudited)						
Breakdown of GWP (SR 000)	Medical	Motor	Property & casualty	Protection & Savings		Total
				Individual	Group (Term life)	
Retail	15,423	127,158	31	--	--	142,612
Very Small	2,851	2,332	705	--	--	5,888
Small	12,615	4,187	4,865	--	--	21,667
Medium	11,867	523	1,046	--	--	13,436
Corporate	15,703	140,700	69,072	--	--	225,475
Total	58,459	274,900	75,719	--	--	409,078

United Cooperative Assurance Company
(A Saudi Joint Stock Company)
Notes to the condensed interim financial statements
March 31, 2023
(All amounts in Saudi Riyals thousands unless otherwise stated)

18 Gross Written Premium (continued)

Breakdown of GWP (SR 000)	March 31, 2022 (Unaudited)					
	Medical	Motor	Property & casualty	Protection & Savings		Total
				Individual	Group (Term life)	
Retail	46	27,616	57	--	--	27,719
Very small	6,600	7,053	396	--	--	14,049
Small	14,017	9,980	5,141	--	--	29,138
Medium	6,841	1,487	7,279	--	--	15,607
Corporate	3,886	60,885	157,188	--	--	221,959
Total	31,390	107,021	170,061	--	--	308,472

19 Net Written Premium

Item (SR 000)	March 31, 2023 (Unaudited)					
	Medical	Motor	Property & casualty	Protection & Savings		Total
				Individual	Group (Term life)	
Gross written premium	58,459	274,900	75,719	--	--	409,078
Reinsurance premium ceded – globally (including excess of loss)	(609)	(2,041)	(69,834)	--	--	(72,484)
Reinsurance premium ceded – locally (including excess of loss)	(107)	(101)	(5,263)	--	--	(5,471)
Net written premium - total	57,743	272,758	622	--	--	331,123

Item (SR 000)	March 31, 2022 (Unaudited)					
	Medical	Motor	Property & casualty	Protection & Savings		Total
				Individual	Group (Term life)	
Gross written premium	31,390	107,021	170,061	--	--	308,472
Reinsurance premium ceded – globally (including excess of loss)	(1,057)	(22,127)	(156,412)	--	--	(179,596)
Reinsurance premium ceded – locally (including excess of loss)	(256)	(10,855)	(10,944)	--	--	(22,055)
Net written premium - total	30,077	74,039	2,705	--	--	106,821

20 Subsequent events

On May 31, 2023 the Company has announced signing a binding merger agreement with Enaya (the "Merger Agreement") reflecting the agreement of both companies to merge through a share swap transaction, whereby United Cooperative Assurance Company shall issue 0.8373985652173910 ordinary shares in United Cooperative Assurance Company against each issued share in Enaya ("Exchange Ratio"), to the benefit of the entitled shareholders in Enaya (i.e., shareholders owning the shares issued in Enaya on the effective date of the Merger Transaction) as consideration for the transfer of assets and liabilities of Enaya to United Cooperative Assurance Company and without any cash consideration being paid ("Merger Transaction" or "Transaction" or "Merger"), all in accordance with applicable laws, notably the Companies Law issued by the Ministry of Commerce, the regulations of the Capital Market Authority ("CMA"), including the Mergers and Acquisitions Regulations, the Rules on the Offer of Securities and Continuing Obligations, the Listing Rules, as well as the relevant regulations of the Saudi Central Bank.

21 Approval of the condensed interim financial statements

These condensed interim financial statements have been approved by the Board of Directors on 22 June 2022 corresponding to 4 Dhul Hijjah 1444H