ALINMA TOKIO MARINE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

**ALINMA TOKIO MARINE COMPANY**
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

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**INDEPENDENT AUDITORS' REPORT ON AUDIT OF THE FINANCIAL STATMENTS
TO THE SHAREHOLDERS OF ALINMA TOKIO MARINE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

## Opinion

We have audited the financial statements of Alinma Tokio Marine Company (the "Company"), which comprise the statement of financial position as at 31 December 2021 and the related statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements from 1 to 32, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

**Independent Auditors' Report (Continued)**

**Key Audit Matters (Continued)**

| Valuation of insurance contract liabilities<br>Key audit matter | How the matter was addressed in our audit |
|---|---|
| As at 31 December 2021, outstanding claims and claims incurred but not reported (IBNR) amounted to SR 54.16 million (2020: SR 61.85 million) and SR 42.98 million (2020: SR 46.58 million), respectively, as reported in note 7.2 to the financial statements.<br><br>The estimation of insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claim handling costs.<br><br>The company principally uses an external actuary ("management actuary") to provide them with the estimate of such liabilities. A range of methods are used by the actuary to determine these provisions which were based on a number of explicit or implicit assumptions relating to the expected settlement amounts and settlement patterns of claims.<br><br>We considered this as a key audit matter as the valuation of insurance contract liability require the use of significant judgments and estimates.<br><br>*Refer to note 2.4.1 which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the ultimate liability arising from claims under insurance contracts and note 3 which discloses accounting policies for claims.* | We performed the following procedures:<br><br>- Understood, evaluated and tested key controls around the claims handling and provision setting processes.<br>- Evaluated the competence, capabilities and objectivity of the management's expert based on their professional qualifications and experience and assessed their independence.<br>- Performed substantive tests on the amounts recorded for sample of claims notified and paid: including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves.<br>- Obtained sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilized by the Company's actuary in estimating the IBNR by comparing it to accounting records.<br>- Challenged management's methodologies and assumptions, through assistance by an actuary engaged by us as auditor's expert to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the actuarial report issued by management's expert our actuary performed the following:<br><br>i. Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought explanation from management for any significant differences;<br><br>ii. Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We assessed these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge; and<br><br>iii. Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.<br><br>- Assessed the adequacy and appropriateness of the related disclosures in the financial statements. |

## Independent Auditors' Report (Continued)

### Other information

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

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

### Auditors' responsibilities for the audit of the financial statements

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

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

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

**Independent Auditors' Report (Continued)**

**Auditors' responsibilities for the audit of the financial statements (Continued)**

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;

- Conclude on the appropriateness of the managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern; and

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

**For Al-Bassam & Co.**
P.O. Box 69658
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Kingdom of Saudi Arabia

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Certified Public Accountant
Registration No. 337

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**Salman B. Al Sudairy**
Certified Public Accountant
Registration No. 283

March 23 , 2022
Sha'ban 20, 1443H

البسام وشركاؤه
محاسبون قانونيون
رقم الترخيص ٥٢٠/١١/٣٢٣
C.R 1010385804
License 520/11/323
Al-Bassam & Co.
Certified Public Accountants

العظم والسديري وآل الشيخ وشركاؤهم
محاسبون ومراجعون قانونيون
License No 323/11/148
ترخيص رقم ١٤٨/١١/٣٢٣
Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountant R

ALINMA TOKIO MARINE COMPANY
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF FINANCIAL POSITION**
**As at 31 December**

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | SAR' 000 | SAR' 000 |
| **ASSETS** | | | |
| Cash and cash equivalents | *4* | **248,314** | 235,480 |
| Investments | *5* | **42,814** | 49,456 |
| Premiums and reinsurance receivables, net | *6* | **72,977** | 70,633 |
| Reinsurers' share of unearned premiums | *7.1* | **103,695** | 96,511 |
| Reinsurers' share of outstanding claims | *7.2* | **23,047** | 36,486 |
| Reinsurers' share of incurred but not reported claims | *7.2* | **21,875** | 23,072 |
| Unit linked investments | *7.4* | **85,653** | 57,149 |
| Deferred policy acquisition costs | *8* | **9,708** | 7,638 |
| Prepayments and other assets | *9* | **11,399** | 18,963 |
| Statutory deposit | *10* | **45,000** | 45,000 |
| Property and equipment | *11* | **3,153** | 4,937 |
| Intangible assets | *12* | **5,384** | 6,200 |
| Due from a related party | *13* | **36** | - |
| Right of use assets | *28* | **3,821** | 4,472 |
| **TOTAL ASSETS** | | **676,876** | 655,997 |
| **LIABILITIES** | | | |
| Unearned premiums | *7.1* | **157,161** | 133,049 |
| Outstanding claims | *7.2* | **54,164** | 61,847 |
| Incurred but not reported claims | *7.2* | **42,981** | 46,576 |
| Other reserves | *7.2* | **3,321** | 2,840 |
| Premium deficiency reserves | *7.3* | **5,510** | 6,737 |
| Unit linked liabilities | *7.4* | **85,653** | 57,149 |
| Mathematical reserves | *7.5* | **1,604** | 458 |
| Reinsurance balances payable | | **66,593** | 67,858 |
| Unearned reinsurance commission | | **10,483** | 11,966 |
| Due to a related party | *13* | **-** | 66 |
| Accrued expenses and other liabilities | *14* | **45,891** | 48,470 |
| Zakat and income tax payable | *15* | **6,699** | 7,075 |
| Retirement benefit obligation | *16* | **6,018** | 5,601 |
| Lease liabilities | *28* | **3,889** | 4,542 |
| **TOTAL LIABILITIES** | | **489,967** | 454,234 |
| **EQUITY** | | | |
| Issued, authorized and paid up share capital | *17* | **300,000** | 300,000 |
| Accumulated losses | | **(112,830)** | (98,427) |
| Remeasurement of retirement benefit obligation | | **(261)** | 190 |
| **TOTAL EQUITY** | | **186,909** | 201,763 |
| **TOTAL LIABILITIES AND EQUITY** | | **676,876** | 655,997 |
| **CONTINGENCIES AND COMMITMENTS** | *23* | | |

The accompanying notes 1 to 32 form an integral part of these financial statements.

Director | Chief Financial Officer | Chief Executive Officer

ALINMA TOKIO MARINE COMPANY
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF INCOME**
For the year ended 31 December

| | Note | 2021<br>SAR' 000 | 2020<br>SAR' 000 |
|---|---|---|---|
| **REVENUES** | | | |
| Gross premiums written | *7.1* | **305,554** | 316,315 |
| Fee income from insurance contracts | *7.1* | **44** | 38 |
| Reinsurance premiums ceded | | | |
| Local | | **(5,307)** | (4,156) |
| Foreign | | **(133,446)** | (182,357) |
| Excess of loss expenses | | **(8,031)** | (5,387) |
| **Net premiums written** | | **158,814** | 124,453 |
| Changes in unearned premiums | *19* | **(24,112)** | (25,284) |
| Changes in reinsurers' share of unearned premiums | *19* | **7,184** | 37,667 |
| **Net premiums earned** | | **141,886** | 136,836 |
| Reinsurance commission earned | | **20,162** | 24,351 |
| Other underwriting income | | **7,352** | 6,623 |
| **Total revenues** | | **169,400** | 167,810 |
| **UNDERWRITING COSTS AND EXPENSES** | | | |
| Gross claims paid | | **(83,872)** | (160,147) |
| Surrenders | | **(13,652)** | (5,182) |
| Reinsurers' share of claims paid | | **27,903** | 99,538 |
| **Net claims and other benefits paid** | | **(69,621)** | (65,791) |
| Changes in outstanding claims | *7.2* | **7,683** | 110,920 |
| Changes in reinsurers' share of outstanding claims | *7.2* | **(13,439)** | (101,097) |
| Changes in incurred but not reported claims | *7.2* | **3,595** | (14,681) |
| Changes in reinsurers' share of incurred but not reported claims | *7.2* | **(1,197)** | 7,868 |
| Changes in other reserves | *7.2* | **(481)** | (1,002) |
| Changes in premium deficiency reserves | *7.3* | **1,227** | (2,250) |
| **Net claims and other benefits incurred** | | **(72,233)** | (66,033) |
| Changes in unit linked reserves | *7.4* | **(28,504)** | (21,208) |
| Changes in mathematical reserves | *7.5* | **(1,146)** | 231 |
| Policy acquisition costs | *8* | **(26,739)** | (25,588) |
| Other underwriting expenses | | **(1,502)** | (1,561) |
| **Total underwriting costs and expenses** | | **(130,124)** | (114,159) |
| **NET UNDERWRITING INCOME** | | **39,276** | 53,651 |
| **OTHER OPERATING INCOME / (EXPENSES)** | | | |
| General and administrative expenses | *20* | **(65,743)** | (61,304) |
| Provision for doubtful receivables | *6* | **(5,103)** | (3,613) |
| Unrealized gain on unit linked investments | *7.4* | **15,082** | 4,926 |
| Unrealized loss on investments | *21* | **(14)** | (269) |
| Realized gain on investments | *21* | **5,315** | 5,161 |
| **Total other operating expenses, net** | | **(50,463)** | (55,099) |
| **Loss for the year before zakat** | | **(11,187)** | (1,448) |
| **Zakat for the year** | *15* | **(3,216)** | (4,145) |
| **Tax for the year** | *15* | **-** | (230) |
| **Net loss for the year** | | **(14,403)** | (5,823) |
| **Loss per share (SAR)** | *22* | **(0.48)** | (0.19) |

The accompanying notes 1 to 32 form an integral part of these financial statements.

| Director | Chief Financial Officer | Chief Executive Officer |
|---|---|---|

ALINMA TOKIO MARINE COMPANY
(A SAUDI JOINT STOCK COMPANY)

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

| | Note | 2021<br>SAR' 000 | 2020<br>SAR' 000 |
|---|---|---|---|
| Net loss for the year | | **(14,403)** | (5,823) |
| **Other comprehensive income:** | | | |
| Items that will not be reclassified to statement of income in subsequent years | | | |
| - Actuarial (loss) / gain on remeasurement of retirement benefit obligations | *16* | **(451)** | 536 |
| **Total comprehensive loss for the year** | | **(14,854)** | (5,287) |
| **Total comprehensive (loss) / income for the year attributed to insurance operations** | | **(451)** | 536 |
| **Total comprehensive loss for the year attributed to shareholders** | | **(14,403)** | (5,823) |

The accompanying notes 1 to 32 form an integral part of these financial statements.

**Director** **Chief Financial Officer** **Chief Executive Officer**

**ALINMA TOKIO MARINE COMPANY**
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF CHANGES IN EQUITY**
For the year ended 31 December

| | Note | Share capital | Accumulated losses | Remeasurement of retirement benefit obligation | Total |
|---|---|---|---|---|---|
| | | **SAR'000** | **SAR'000** | **SAR'000** | **SAR'000** |
| **2021** | | | | | |
| Balance as at 31 December 2020 | *17* | **300,000** | **(98,427)** | **190** | **201,763** |
| Total comprehensive loss for the year | | **-** | **(14,403)** | **-** | **(14,403)** |
| Actuarial loss on remeasurement of retirement benefit obligations | *16* | **-** | **-** | **(451)** | **(451)** |
| **Balance as at 31 December 2021** | | **300,000** | **(112,830)** | **(261)** | **186,909** |
| 2020 | | | | | |
| Balance as at 31 December 2019 | *17* | 300,000 | (92,604) | (346) | 207,050 |
| Total comprehensive loss for the year | | - | (5,823) | - | (5,823) |
| Actuarial gain on remeasurement of retirement benefit obligations | *16* | - | - | 536 | 536 |
| Balance as at 31 December 2020 | | 300,000 | (98,427) | 190 | 201,763 |

The accompanying notes 1 to 32 form an integral part of these financial statements.

**Director** **Chief Financial Officer** **Chief Executive Officer**

ALINMA TOKIO MARINE COMPANY
(A SAUDI JOINT STOCK COMPANY)

## STATEMENT OF CASH FLOWS
For the year ended 31 December

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | SAR' 000 | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net loss for the year | | (14,403) | (5,823) |
| Adjustments for non cash items: | | | |
| Depreciation and amortization | 11, 12 | 3,847 | 4,283 |
| Depreciation of right to use assets | 28 | 1,257 | 1,250 |
| Financing cost on lease liabilities | | 177 | 201 |
| Provision for doubtful receivables | 6 | 5,103 | 3,613 |
| Realized gain on investments held at FVSI | 21 | (2,402) | (375) |
| Unrealized loss on investment held at FVSI | 21 | 96 | 741 |
| Provision for retirement benefit obligations | 16 | 1,367 | 1,698 |
| Provision for zakat | 15 | 3,216 | 4,375 |
| | | (1,742) | 9,963 |
| Changes in operating assets and liabilities: | | | |
| Premiums and reinsurance receivables | | (7,447) | (1,135) |
| Reinsurers' share of unearned premiums | | (7,184) | (37,667) |
| Reinsurers' share of outstanding claims | | 13,439 | 101,097 |
| Reinsurers' share of incurred but not reported claims | | 1,197 | (7,868) |
| Deferred policy acquisition costs | | (2,070) | 533 |
| Prepayments and other assets | | 7,564 | (5,383) |
| Due from related parties | | (36) | 206 |
| Unit linked investments | | (28,504) | (21,208) |
| Outstanding claims | | (7,683) | (110,920) |
| Incurred but not reported claims | | (3,595) | 14,681 |
| Other reserves | | 481 | 1,002 |
| Premium deficiency reserves | | (1,227) | 2,250 |
| Mathematical reserves | | 1,146 | (230) |
| Unearned premiums | | 24,112 | 25,284 |
| Reinsurance balances payable | | (1,265) | 31,299 |
| Unearned reinsurance commission | | (1,483) | 4,088 |
| Accrued expenses and other liabilities | | (2,579) | (89,508) |
| Lease liabilities | | 346 | 321 |
| Due to a related party | | (66) | - |
| Unit linked liabilities | | 28,504 | 21,208 |
| Cash (used in) / generated from operations | | 11,908 | (61,987) |
| Retirement benefit obligations paid | 16 | (1,401) | (1,259) |
| Zakat and income tax paid | 15 | (3,592) | (3,279) |
| **Net cash generated / (used in) from operating activities** | | 6,915 | (66,525) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from maturity of Murabaha deposits | | - | 96,728 |
| Purchase of investments | 5.2 | (141,000) | (100,000) |
| Proceeds from disposal of investments | 5.2 | 144,948 | 100,000 |
| Redemption / subscription of sukuk | 5.3 | 5,000 | (10,000) |
| Purchase of property and equipment | 11 | (135) | (200) |
| Purchase of intangible assets | 12 | (1,112) | (2,705) |
| Right of use assets | 28 | (606) | 418 |
| Proceeds from disposal of property and equipment | | - | 1 |
| **Net cash generated from investing activities** | | 7,095 | 84,242 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Lease payments during the year | | (1,176) | (1,419) |
| **Net cash generated from all activities** | | 12,834 | 16,298 |
| Cash and cash equivalents at the beginning of the year | | 235,480 | 219,182 |
| **Cash and cash equivalents at the end of the year** | 4 | 248,314 | 235,480 |
| <u>**Non cash transactions**</u> | | | |
| Actuarial loss / (gain) on retirement benefit obligations | 16 | 451 | (536) |

The accompanying notes 1 to 32 form an integral part of these financial statements.

| | | |
|---|---|---|
| **Director** | **Chief Financial Officer** | **Chief Executive Officer** |

## 1 GENERAL

Alinma Tokio Marine Company ("the Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per Ministry of Commerce and Industry's Resolution number 309/Q dated 19 Rajab 1433H (corresponding to 9 June 2012). The Commercial Registration number of the Company is 7001727200, dated 28 Rajab 1433H (corresponding to 18 June 2012). The Company is listed on the Saudi Arabian Stock Exchange ("Tadawul") since 24 June 2012. The Registered address of the Company's head office is as follows:

King Fahad Road
P.O. Box 643
Riyadh 11421
Kingdom of Saudi Arabia.

The Company is licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree No. 25/M, dated 3 Jumada-Al Thani 1430H (corresponding to 27 June 2009), pursuant to the Council of Ministers' Resolution No. 140 dated 2 Jumada-Al Thani 1430H (corresponding to 26 June 2009).

The purpose of the Company is to transact in cooperative insurance operations and all related activities in accordance with its By Laws and applicable regulations in the Kingdom of Saudi Arabia.

## 2 BASIS OF PREPARATION

### 2.1 Basis of presentation and measurement

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed in Kingdom of Saudi Arabia (KSA) by Saudi Organization for Chartered and Professional Accountants (SOCPA), other standards and pronouncements issued by SOCPA, regulations for Companies and Company's by-Laws.

In accordance with Article 70 of the SAMA Implementing Regulations, as per the Articles of Association of the Company, the Company maintains separate accounts for both insurance operations and shareholders' operations. It distributes the net annual insurance surplus as set forth in the Company's Articles of Association and the insurance policy in terms of cooperative insurance. The customer (insurance policy) is valid and paid to date at the time of payment of the cooperative distribution amount.

The financial statement is prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of investment held as FVSI. The Company's statement of financial position is not presented using a current/non-current classification. However, the following balances would generally be classified as non-current: Property and Equipment, Intangible Assets, Right to use assets, Unit linked Investments, Statutory Deposit, Murabaha Deposits maturing over one year, Available for sale investments, Held to maturity investments and Retirement benefit obligations. All other financial statement line items would generally be classified as current.

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and present same supplementary information in the financial statements (note 29). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations which are presented in Note 29 of the financial statements have been provided as supplementary financial information to comply with the requirements of the guidelines issued by SAMA implementing regulations and is not required under IFRSs. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company-level financial statements in compliance with IFRS, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Inter-operation balances and transactions, 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 Company has accumulated losses as at 31 December 2021 which are 37.61% (31 December 2020: 32.81%) of the share capital. The reason for these losses is high expense ratio and deterioration in loss ratio. The Board of Directors has approved a business plan on 15 December 2021. The plan is based on improving the net premium written and control over expenses and loss ratios. The plan demonstrates that the Company will be able to continue as a going concern for foreseeable future.

### 2.2 Functional and presentation currency

The financial statements have been prepared in Saudi Arabian Riyals (SAR), which is also the functional currency of the Company. All financial information presented in SAR has been rounded off to the nearest thousand, unless otherwise stated.

## 2 BASIS OF PREPARATION (CONTINUED)

### 2.3 Fiscal year

The Company follows a fiscal year ending December 31.

### 2.4 Critical accounting judgement, estimates and assumptions

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

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

#### 2.4.1 The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimates are made at the end of the reporting period both for the expected ultimate cost of claim reported and for the expected ultimate costs of incurred but not reported claims ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

The provision for incurred but not reported claims (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. Actuary also used a segmentation approach including analyzing cost per member per year for medical line of business. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.

#### 2.4.2 Impairment of financial assets

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

#### 2.4.3 Impairment of receivables

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

#### 2.4.4 Fair value of financial instruments

Fair values of available-for-sale investments are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions.

#### 2.4.5 Useful lives of property and equipment

The Company's management determines the estimated useful lives for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual values, useful lives and depreciation method annually. Future depreciation charge, if any shall be adjusted where the management believes the useful lives, residual values and depreciation method differ from previous estimates.

### 2.5 Provision for zakat

Zakat provision is made and recorded at the end of each fiscal year in accordance with Zakat, Tax and Customs Authoriy (ZATCA) regulations applicable in the Kingdom of Saudi Arabia. Differences in zakat assessments are recorded in the income statement when final zakat assessments are obtained.

### 2.6 Retirement benefit obligations

The retirement benefit obligation is determined using projected unit credit method which requires estimates to be made of the various inputs. The key estimates are the discount rate, rate of salary, mortality rate and employee turnover rate.

**2 BASIS OF PREPARATION (CONTINUED)**

**2.7 Deferred Tax**

Deferred tax asset is recognized only to the extent that it is probable that the future taxable profits will be available and credits can be utilized. Deferred tax asset has not been provided in these financial statements for the year ended 31 December 2021 since the Company does not anticipate availability of future taxable profit to utilize any tax credits. The amount of deferred tax asset as at 31 December 2021 is estimated to be SAR 2.5 Million (31 December 2020: SAR 2.6 Million).

**2.8 Contingencies**

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgements and estimates of the outcome of future events.

**2.9 Premium deficiency reserves**

Estimation of premium deficiency is largely dependent on the assumptions of expected loss ratio and the expected expense ratio of the unexpired portion of the risks for the written policies. The expected loss ratio is derived from the actual incurred loss ratio for each of the accident quarters. Suitable adjustment is made by the Appointed Actuary to reflect any prospective deviation in the unexpired portion of risk as compared to the actual loss ratio. The expense ratio is derived with reference to the maintenance expense of the company on the earned business allocated to each line of business on the basis of detailed expense allocation methodology. This is then used as a basis of assumption for the expected expense ratio to be used in Premium Deficiency Reserve calculation.

The adjustment of Deferred Acquisition Cost and Unearned Reinsurance Commission income is taken at actual using the reserves as aside at the valuation date.

**2.10 Other reserves**

Other reserves represent unallocated loss adjustment expense reserve and are based on estimates of future payments and derived from the claim department expenses, including payroll and allocation of other expenses.

Other reserves represent unallocated loss adjustment expense reserve. The related expense is charged to statement of income as incurred. The reserves are set aside with reference to the unit handling and settlement expense per unit of net claims. The claims handling and settlement expenses is derived from the claim department expenses, including payroll and allocation of other expenses. This factor is then applied to net Outstanding and IBNR claims as at the reserving date, which represents the future claim payments. Suitable adjustment is made to reflect the fact that the expected workload of the claims department will be more for the IBNR claims compared to Outstanding Claims. The Company does not discount other reserves.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these Financial Statements are summarized below. These policies have been consistently applied to each of the financial years presented except for the adoption of the following new standards and other amendments to existing standards mentioned below which have had no significant financial impact on the financial statements of the Company on the current year or prior year and is expected to have no significant effect in future years:

**3.1 STANDARDS, INTERPRETATIONS, AND AMENDMENTS TO EXISTING STANDARDS**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective

**(i) New standards, interpretations and amendments not yet effective**

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early. The most significant of these are as follows:

| IFRS | Summary | Effective date |
|---|---|---|
| Annual Improvements to IFRS: 2018-2020 Cycle | In May 2020, the IASB issued minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases | **01 January, 2022** |
| Reference to the ConceptualFramework Amendments to IFRS 3 | In May 2020, the IASB issued amendments to IFRS 3.11, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments introduce an exception to the general recognition requirement for liabilities and contingent liabilities acquired in a business combination that is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRIC 12 Service Concession arrangements. | **01 January, 2022** |
| Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) | In May 2020, the IASB issued amendments to IAS 16, which prohibit a company from deducting amounts received from selling items produced while the company is preparing the asset for its intended use from the cost of property, plant and equipment. Instead, a company will recognise such sales proceeds and any related costs in profit or loss. | **01 January, 2022** |

**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.1 STANDARDS, INTERPRETATIONS, AND AMENDMENTS TO EXISTING STANDARDS (CONTINUED)**

| | | |
|---|---|---|
| Onerous Contracts— Cost of Fulfilling a Contract Amendments to IAS 37 | In May 2020, the IASB issued amendments to IAS 37.68A, which specify the costs a company includes when assessing whether a contract will be loss-making and is therefore recognised as an onerous contract. These amendments are expected to result in more contracts being accounted for as onerous contracts because they increase the scope of costs that are included in the onerous contract assessment. | **01 January, 2022** |
| IFRS 4 | Insurance Contracts-Amendments regarding the expiry date of the deferral approach | **01 January, 2022** |
| IFRS 9 | Financial Instruments | **See note below** |
| IFRS 17 | Insurance contracts | **See note below** |
| Classification of Liabilities as Current or Non-current (Amendment to IAS 1) | The IASB, in its meetings held in June-July 2021, tentatively decided to amend IAS 1 with respect to classification of liabilities subject to conditions as disclosure of information about such conditions and to defer the effective date of the 2020 amendment by at least one year to 1 January 2024.<br><br>The amendments require to defer settlement of the liability for at least twelve months after the reporting period to exist at the end of the reporting period and / or that right to defer settlement for at least twelve months after the reporting period is also subject to entity's compliance with specified conditions. The Amendment has provided clarification on the meaning of 'settlement' for the purpose of classification of a liability. | **01 January, 2022** |

**(ii) New standards, interpretations and amendments effective in the current year**

| **IFRS** | **Summary** | **Effective date** |
|---|---|---|
| Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9 and IAS 39 | The major amendments provide relief from relief from specific hedge accounting requirements. Additionally, the standards were amended to require change from IBOR to alternative benchmark rate that is accounted for by updating the effective interest rate | **01 January, 2021** |
| Covid-19-Related Rent Concessions beyond 30 June 2021 | In March 2021, IASB issued an amendment to IFRS 16 which extended the COVID-19 related rent concessions beyond 30 June 2021. This amendment is applicable from annual reporting period beginning on or after 1 April 2021. Earlier application permitted, including in financial statements not authorized for issue at 31 March 2021. | **01 April , 2021** |

**IFRS 17 Insurance Contracts**

**Overview**

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

The new standard applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features provided the entity also issues insurance contracts. It requires to separate the following components from insurance contracts:
• embedded derivatives, if they meet certain specified criteria;
• distinct investment components; and
• any promise to transfer distinct goods or non-insurance services.

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

**Measurement**

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

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

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

i. probability-weighted estimates of future cash flows,

ii. an adjustment to reflect the time value of money (i.e. discounting) and the financial risks associated with those future cash flows,

iii. and a risk adjustment for non-financial risk;

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

i. the liability for remaining coverage, which comprises the FCF related to future services and the CSM of the group at that date;

ii. and the liability for incurred claims, which is measured as the FCF related to past services allocated to the group at that date.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 STANDARDS, INTERPRETATIONS, AND AMENDMENTS TO EXISTING STANDARDS (CONTINUED)**

**IFRS 17 Insurance Contracts (continued)**

The CSM is adjusted subsequently for changes in cash flows related to future services but the CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss. Interest is also accreted on the CSM at rates locked in at initial recognition of a contract (i.e. discount rate used at inception to determine the present value of the estimated cash flows). Moreover, the CSM will be released into profit or loss based on coverage units, reflecting the quantity of the benefits provided and the expected coverage duration of the remaining contracts in the group.

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

i. changes in the entity's share of the fair value of underlying items,

ii. changes in the effect of the time value of money and financial risks not relating to the underlying items.

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

**Effective date**

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

**Transition**

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

**Presentation and Disclosures**

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

**Impact**

The Company is currently assessing the impact of the application and implementation of IFRS 17. As of the date of the publication of these financial statements, the financial impact of adopting the standard has yet to be fully assessed by the Company. The Company expects a material impact on measurement and disclosure of insurance and cession that will affect both the statement of income and the statement of financial position. The Company has decided not to early adopt this new standard.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 STANDARDS, INTERPRETATIONS, AND AMENDMENTS TO EXISTING STANDARDS (CONTINUED)**

**IFRS 17 Insurance Contracts (continued)**

| Impact area | Summary of Impact |
|---|---|
| Financial impact | The Company has ascertained the financial impact on reported balances of year 2018. As the Company's most of insurance contracts are short-termed and short tailed entitling for premium allocation approach (PAA) which is largely similar to current account practice, no significant impact is expected. The Company has also successfully finalized the reassessment of 2020 results as part of the 1st Dry-Run orchestrated by the regulator and submitted on 30 November 2021 to SAMA.<br>Based on the conducted simulation, the financial impact of applying IFRS 17 compared to IFRS 4 was also not significant. The Company will solidify its view on the financial impact while completing the 2nd and 3rd dry-runs, planned before the end of 2022. |
| Data impact | IFRS 17 has additional data requirements (e.g. premium due date for initial recognition, premium receipt data for the LFRC, RI contracts held breakdown in to risk attaching or loss incurring for assessing contract boundaries, lower granularity to meet level of aggregation requirements and data for additional disclosures as per IFRS 17). Further extensive exercise has carried out to ensure the required data is available. No major data deficiencies or shortfalls were reported during the completion of the 1st –dry-run simulation. |
| IT systems impact | Detailed assessment has been carried out of existing systems capabilities for IFRS 17 calculations, storage and reporting and whether new systems / calculation engines should be implemented.The tool has been implemented successfully and used for processing and extracting the simulated results for the 1st dry-run. In coordination with the Company's appointed advisor and appointed actuary, the Steering Committee is actively working to close any identified gaps before the due date of the 2nd dry-run simulation. |
| Process impact | The Company has carried out an operational impact assessment exercise to assess the operational impact of implementing IFRS 17. Since, majority of the company's contracts would be measured under the premium allocation approach, the process impact is expected to be moderate.<br>No major process impact was reported during the completion of the 1st dry-run simulation. |
| Impact on Reinsurance arrangements | Further assessment has carried out to confirm measurement approach for reinsurance arrangements where RI gross premium ceded does not automatically qualify for PAA |
| Impact on policies and control frameworks | The Company's policies and procedures needs updation to accommodate the changes in the Company's processes and systems related to IFRS 17 implementation. Detailed exercise for the purpose has been carried out after ascertaining financial and operational gaps assessment. |

The Company is currently in design phase of IFRS 17 implementation which requires developing and designing new processes and procedures for the business including any system developments required under IFRS 17 and detailed assessment of business requirements. Following are the main areas under design phase and status of the progress is as follows:

| Major areas of design phase | Summary of progress |
|---|---|
| Governance and control framework | The Company has put in place a comprehensive IFRS 17 governance program which includes establishing oversight steering committee for monitoring the progress of implementation and assigning roles and responsibilities to various stakeholders. |
| Operational area | The Company is in progress of designing operational aspects of the design phase which includes establishing comprehensive data policy and data dictionary. Also the Company is finalizing architectural designs for various sub-systems. The Company has progressed through assessment of business requirements and currently working on vendor selection while finalizing various process needed for transition and assessment of new resources needed. |
| Technical and financial area | The Company has completed various policy papers encompassing various technical and financial matters after concluding on policy decisions required under the IFRS 17 standard. The policy decisions are taken after due deliberations among various stakeholders. Currently majority of policy papers have been approved by the Company's IFRS 17 project steering committee. |
| Assurance plan | The Company is working along with other stakeholders to finalize the assurance plan for transitional and post-implementation periods. |

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 STANDARDS, INTERPRETATIONS, AND AMENDMENTS TO EXISTING STANDARDS (CONTINUED)**

**IFRS 9 – Financial Instruments**

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

**Classification and measurement**

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

i. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and

ii. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

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

i. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and for sale and

ii. the contractual terms of cash flows are SPPI,

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

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

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

**Impairment**

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

**Hedge accounting**

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

**Effective date**

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

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

i. the effective date of a new insurance contract standard; or

ii. annual reporting periods beginning on or after January 1, 2021. The IASB is proposing to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 to January 1, 2022. Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominately connected with insurance and have not applied IFRS 9 previously; or

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 STANDARDS, INTERPRETATIONS, AND AMENDMENTS TO EXISTING STANDARDS (CONTINUED)**

**IFRS 9 – Financial Instruments (continued)**

The Company has performed a detailed assessment beginning Jan 01, 2017: (1) The carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and (2) the total carrying amount of the company's liabilities connected with insurance were compared to the total carrying amount of all its liabilities. Based on these assessments the Company determined that it is eligible for the temporary exemption. Consequently, the Company has decided to defer the implementation of IFRS 9 until the effective date of the new insurance contracts standard. Disclosures related to financial assets required during the deferral period are included in the Company's financial statements.

As at December 31, 2021, the Company has total financial assets and insurance related assets amounting to SAR 506 million and SAR 244 million, respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SAR 248 million (2020: SAR 245 million). Fair value of unit linked investments held at fair value through statement of income as at December 31, 2021 is SAR 86 million (2020: SAR 57 million). Other financial assets consist of available for sale investments amounting to SAR 2 million (2020: SAR 2 million). The Company expect to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Investment in funds classified under available for sale investments will be at FVSI under IFRS 9. As at December 31, 2021 these debt securities are measured at fair value of SAR 31 million with changes in fair value during the year of SAR 2.3 million. Other financial assets have a fair value of SAR 2 million as at December 31, 2021 with a fair value change during the year of SAR Nil. Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned in note 25. The Company financial assets have low credit risk as at December 31, 2021 and 2020. The above is based on high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9: However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

**3.2 Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at cost. This comprises of cash in hand, bank balances and Murabaha deposits with an original maturity of three months or less.

**3.3 Cash flow statement**

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

**3.4 Impairment of financial assets**

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

Evidence of impairment may include:

a) significant financial difficulty of the issuer or debtor;

b) a breach of contract, such as a default or delinquency in payments;

c) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;

d) the disappearance of an active market for that financial asset because of financial difficulties; or

e) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:

- adverse changes in the payment status of issuers or debtors in the Company; or
- national or local economic conditions at the country of the issuers that correlate with defaults on the assets.

If there is objective evidence that an impairment loss on a financial asset exists, the impairment is determined as follows:
- For assets carried at fair value, impairment is the significant or prolong decline in the fair value of the financial asset.
- For assets carried at amortized cost, impairment is based on estimated future cash flows that are discounted at the original effective commission rate.

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**IFRS 9 – Financial Instruments (continued)**

**3.4 Impairment of financial assets (continued)**

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

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through statement of income as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in other comprehensive income. On derecognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the statement of income under "Realized gain / (loss) on investments.

The determination of what is 'significant' or 'prolonged' requires judgement. A period of 12 months or longer is considered to be prolonged and a decline of 30% or more from original cost is considered significant as per the Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In making an assessment of whether an investment in debt instrument is impaired, the Company considers the factors such as market's assessment of creditworthiness as reflected in the bond yields, rating agencies' assessment of creditworthiness, country's ability to access the capital markets for new debt issuance and probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness. The amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income and statement of comprehensive income.

**3.5 Premiums receivable**

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in "Other expenses / income - net" in the statement of income. Receivable balances are derecognized when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 6 fall under the scope of IFRS 4 "Insurance contracts". Receivables are also analyzed as per the ageing and accordingly provision is maintained on a systematic basis.

**3.6 Foreign currencies**

Transactions denominated in foreign currencies are recorded in Saudi Riyals (SAR) at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to SAR at the rate of exchange prevailing at the date of statement of financial position. Exchange differences are taken to the statements of insurance operations or statement of shareholders' operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rate at the date of initial transaction and are not subsequently restated. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

**3.7 Reinsurance**

Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contracts. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 3.15 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. An asset or liability is recorded in the statement of financial position - insurance operations' representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.8 Provisions, accrued expenses and other liabilities**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**3.9 Investments**

**3.9.1 Available-for-sale investments (AFS)**

Available-for-sale financial assets are those non-derivative financial assets that are neither classified as held for trading or held to maturity or loans and receivables, nor are designated at fair value through profit or loss. Such investments are initially recorded at cost, being the fair value of the consideration given including transaction costs directly attributable to the acquisition of the investment and subsequently measured at fair value. Cumulative changes in fair value of such investments are recognized in other comprehensive income in the statement of comprehensive income under "Net change in fair value – Available for sale investments". Realized gains or losses on sale of these investments are reported in the statement of income under "Realized gain / (loss) on investments."

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

Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the statement of comprehensive income, as impairment charges.

Fair values of available for sale investments are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to HTM is permitted only when the entity has the ability and intention to hold the financial asset until maturity. For a financial asset reclassified out of the available-for-sale category, the fair value at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the Effective Interest Rate (EIR). Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income.

**3.9.2 Fair Value through Statement of Income**

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

An investment may be designated at FVSI by the management, at initial recognition, if it satisfies the criteria laid down by IAS 39 except for the equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVSI are recorded in the statement of financial position at fair value. Changes in the fair value are recognized in the statement of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVSI investments. Special commission income and dividend income on financial assets held as FVSI are reflected as income from FVSI financial instruments in the statement of income.

Investments at FVSI are not reclassified subsequent to their initial recognition, except that non-derivative FVSI instrument, other than those designated as FVSI upon initial recognition, may be reclassified out of the FVSI fair value through the statement of income (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables, if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

- If the financial asset would not have met the definition of loans and receivables, and then it may be reclassified out of the trading category only ir 'rare circumstances'.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.9 Investments (Continued)**

**3.9.3 Held to maturity**

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

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

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

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

**3.10 Property and Equipment**

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

| | |
|---|---|
| Leasehold improvements | 5 |
| Furniture and office equipment | 5 |
| Computer equipment | 3-5 |

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in "other (expenses) / income - net" in the statement of income.

**3.11 Intangible assets**

Intangible assets are shown at historical cost less accumulated amortization. They have a finite useful life and are subsequently carried at cost less accumulated amortization and impairment losses. The Company amortizes intangible assets with a limited useful life using straight-line method over three to five years.

**3.11.1 Capital work-in-progress**

Capital work-in-progress, if any, includes software that is being developed for future use. When commissioned, capital work-in-progress will be transferred to the respective category i.e. intangible assets, and amortized in accordance with the Company's policy.

**3.12 Impairment of non-financial assets**

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

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

**3.13 Retirement benefit obligation**

The Company operates an end of service benefit plan for its employee based on the prevailing Saudi Labour Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method, while the benefits payments obligation is discharged as and when it falls due.

Remeasurements for actuarial gains and losses are recognized immediately in the statement of financial position with a corresponding credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to statement of income in subsequent periods.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.13 Retirement benefit obligation (Continued)**

Past service cost are recognized in statement of income on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognizes related restructuring costs

Net special commission income is calculated by applying the discount rate to the net defined benefit liability. The Company recognizes the following changes in the net defined benefit obligation in the statement of income under general and administrative expenses:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non routine settlements
- Net special commission expense or income

**3.14 Insurance contracts**

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholder) at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk depends upon the probability of occurrence of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk is significantly reduced subsequently unless all rights and liabilities are extinguished or expired.

**3.15 Liability adequacy test**

At each statement of financial position date, the Company assesses whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If such an assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognized in the statement of income and an unexpired risk provision is made.

**3.16 Zakat and income tax**

The Company is subject to zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of net adjusted income for the year. Zakat and income tax is accrued on a quarterly basis.

**Zakat**

The Company is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

**Deferred tax**

Deferred tax is calculated by using the statement of financial position liability method, providing the temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted at the statement of financial position date. Deferred tax asset is recognized only to the extent that it is probable that the future taxable profits will be available and credits can be utilized.

Deferred tax is charged or credited in the statement of income, except in the case of items credited or charged to other comprehensive income/equity in which case it is included in other comprehensive income/equity.

Deferred tax asset has not been provided in these financial statements for the year ended 31 December 2021 since the Company does not anticipate availability of future taxable profit to utilize any tax credits. The deferred tax liability has not been recorded since there are no temporary taxable differences.

**3.17 Revenue recognition**

**Recognition of premium and commission revenue**

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

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.17 Revenue recognition (continued)**

**Recognition of premium and commission revenue (continued)**

Insurance policyholders are charged for policy administration services, surrenders and policy fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over future periods.

**3.18 Claims**

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date.

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

**3.19 Salvage and subrogation reimbursement**

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

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

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

**3.2 Deferred policy acquisition costs**

Commission paid to internal sales staff and incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are deferred and shown as an asset in statement of financial position. The deferred policy acquisition costs are subsequently amortized over the terms of the insurance contracts to which they relate as premiums are earned and charged to statement of income.

**3.21 Offsetting**

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

**3.22 Trade date accounting**

All routine purchases and sales of financial assets are initially recognized / derecognized on the trade date (i.e. the date on which the Company becomes a party to the contractual provisions of the instrument). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

**3.23 De-recognition of financial instruments**

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

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.24 Operating segments

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

1) Fire and property

2) Marine

3) General Accident

4) Engineering

5) Motor insurance.

6) Protection and Savings

7) Medical - coverage for health insurance.

8) Shareholders' segment - reporting shareholder operations of the Company. Income earned from investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The surplus or loss from the insurance operations is allocated to this segment on an appropriate basis.

Operating segments have been approved by management in respect of the Company's activities, assets and liabilities and is based on current reporting to the Chief Executive Officer.

### 3.25 Fair values

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

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

### 3.26 Surrenders and maturities

Surrenders refer to the partial or full termination of the individual life insurance contract. Surrenders are accounted for on the basis of notifications received and are charged to statement of income in the period in which they are notified. Maturities refers to the amount given to the insured towards the end of the maturity period of the individual life contract.

Surrenders and maturities are calculated based on the terms and conditions of the respective life insurance contract.

## 4 CASH AND CASH EQUIVALENTS

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | | **SAR'000** | | | SAR'000 | |
| Cash in hand | **45** | **-** | **45** | 45 | - | 45 |
| Cash at banks – current accounts | **133,169** | **115,100** | **248,269** | 111,858 | 32,173 | 144,031 |
| Short term Murabaha deposits | **-** | **-** | **-** | - | 91,404 | 91,404 |
| **Total** | **133,214** | **115,100** | **248,314** | 111,903 | 123,577 | 235,480 |

Cash at bank includes an amount of SAR 230.88 million (2020: SAR 137.05 million) held with Alinma Bank, a related party (note 13). Short term Murabaha deposits are placed with local banks that have investment grade rating and have an original maturity of not more than three months from the date of acquisition.

## 5 INVESTMENTS

This represents investment in Najm for Insurance Services Company (classified as available for sale), equity shares, Shari'ah compliant mutual funds, discretionary portfolios and real estate fund (classified as investment at fair value through income statement "FVSI") and sukuks (classified as held to maturity investments).

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | | **SAR'000** | | | SAR'000 | |
| Available for sale investments | **-** | **1,923** | **1,923** | - | 1,923 | 1,923 |
| Investments at fair value through statement of income (FVSI) | **131** | **30,760** | **30,891** | 727 | 31,806 | 32,533 |
| Investments at held to maturity | **-** | **10,000** | **10,000** | - | 15,000 | 15,000 |
| **Total** | **131** | **42,683** | **42,814** | 727 | 48,729 | 49,456 |

The movement during the year is as follows:

### 5.1 Available for sale investments

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | | **SAR'000** | | | SAR'000 | |
| Balance at the beginning and end | **-** | **1,923** | **1,923** | - | 1,923 | 1,923 |

The investment is carried at cost. Management considers that carrying amount is a reasonable approximation of fair value.

**5 INVESTMENTS (continued)**

**5.2 Investments at fair value through statement of income (FVSI)**

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Balance at the beginning | **727** | **31,806** | **32,533** | 240 | 32,660 | 32,900 |
| Purchases | **141,000** | **-** | **141,000** | 100,000 | - | 100,000 |
| Disposals | **(142,500)** | **(2,448)** | **(144,948)** | (100,000) | - | (100,000) |
| Realized gain | **904** | **1,498** | **2,402** | 374 | - | 374 |
| Unrealized gain | **-** | **(96)** | **(96)** | 113 | (854) | (741) |
| Balance at the end | **131** | **30,760** | **30,891** | 727 | 31,806 | 32,533 |

**5.3 Investments at held to maturity**

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Balance at the beginning | **-** | **15,000** | **15,000** | - | 5,000 | 5,000 |
| Subscriptions / redemptions | **-** | **(5,000)** | **(5,000)** | - | 10,000 | 10,000 |
| Balance at the end | **-** | **10,000** | **10,000** | - | 15,000 | 15,000 |

Investments held to maturity have a tenure of ten years with quarterly profit distribution, yielding an average profit rate of 5.10% per annum (2020: SIBOR(3M) + 2.06% per annum).

Management considers that carrying amount is a reasonable approximation of fair value.

## 6 PREMIUMS AND REINSURANCE RECEIVABLES - NET

| *Insurance Operations* | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Policyholders | **76,644** | 71,749 |
| Related party (note 13) | **3,507** | 1,557 |
| Reinsurance receivables | **31,898** | 31,296 |
| | **112,049** | 104,602 |
| Provision for doubtful receivables | **(39,072)** | (33,969) |
| | **72,977** | 70,633 |

These balances comprise amounts receivable from a number of corporate customers as well as insurance and reinsurance companies. Arrangements with reinsurers normally require settlement within a mutually agreed period.

The Company only enters into insurance and reinsurance contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.

The five largest customers accounts for 23% (December 31, 2020: 18%) of the premiums receivable as at December 31, 2021.

The Company classifies balances as 'past due and impaired' on a case-to-case basis. An impairment adjustment is recorded in the statement of income. It is not the practice of the Company to obtain collateral over receivables.

Movement in the provision for doubtful receivables is as follows:

| | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Balance at the beginning | **33,969** | 30,356 |
| Provided during the year | **5,103** | 3,613 |
| Balance at the end | **39,072** | 33,969 |

The age analysis of net premiums and reinsurance receivables arising from insurance contracts is as follows:

**- Policyholders' and Reinsurers**

| | **Neither past due nor impaired** | **Past due but not impaired** | | | | **Past due and impaired** | **Total** |
|---|---|---|---|---|---|---|---|
| | | **Up to 3 months** | **3 to 6 months** | **6 to 12 months** | **Above 12 months** | | |
| | **SAR '000** | **SAR '000** | **SAR '000** | **SAR '000** | **SAR '000** | **SAR '000** | **SAR '000** |
| **2021** | **16,687** | **28,682** | **10,272** | **8,813** | **44,088** | **(39,072)** | **69,470** |
| 2020 | 11,260 | 27,553 | 9,817 | 20,657 | 33,758 | (33,969) | 69,076 |

**- Related party**

| | **Neither past due nor impaired** | **Past due but not impaired** | | | | **Past due and impaired** | **Total** |
|---|---|---|---|---|---|---|---|
| | | **Up to 3 months** | **3 to 6 months** | **6 to 12 months** | **Above 12 months** | | |
| | **SAR '000** | **SAR '000** | **SAR '000** | **SAR '000** | **SAR '000** | **SAR '000** | **SAR '000** |
| **2021** | **3,507** | **-** | **-** | **-** | **-** | **-** | **3,507** |
| 2020 | 1,557 | - | - | - | - | - | 1,557 |

## 7 TECHNICAL RESERVES

### 7.1 MOVEMENT IN UNEARNED PREMIUMS

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurers' share** | **Net** | Gross | Reinsurers' share | Net |
| | | **SAR'000** | | | SAR'000 | |
| Balance at the beginning | **133,049** | **(96,511)** | **36,538** | 107,765 | (58,844) | 48,921 |
| Premium written | **305,554** | **(146,784)** | **158,770** | 316,315 | (191,900) | 124,415 |
| Policy fee | **44** | **-** | **44** | 38 | - | 38 |
| Premium earned | **(281,486)** | **139,600** | **(141,886)** | (291,069) | 154,233 | (136,836) |
| Balance at the end | **157,161** | **(103,695)** | **53,466** | 133,049 | (96,511) | 36,538 |

### 7.2 NET OUTSTANDING CLAIMS AND RESERVES

| | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| | **SAR'000** | **SAR'000** |
| Outstanding claims | **57,521** | 66,837 |
| Less: Realizable value of salvage and subrogation | **(3,357)** | (4,990) |
| | **54,164** | 61,847 |
| Incurred but not reported claims | **42,981** | 46,576 |
| Other reserves | **3,321** | 2,840 |
| Premium deficiency reserves (note 7.3) | **5,510** | 6,737 |
| | **105,976** | 118,000 |
| Less: Reinsurers' share of outstanding claims | **(23,047)** | (36,486) |
| Less: Reinsurers' share of Incurred but not reported claims | **(21,875)** | (23,072) |
| | **(44,922)** | (59,558) |
| **Net outstanding claims and reserves** | **61,054** | 58,442 |

### 7.3 PREMIUM DEFICIENCY RESERVE

The Company has created a provision in respect of premium deficiency reserves ('PDR') for its motor line of business amounting to SAR 5.5 million (31 December 2020: motor SAR 6.7 million). The PDR has been created with respect to additional reserve required to cover expected claims not initially built in the premium. The Company expected this provision based on the assumption that the unearned premiums will not be sufficient to provide for the expected claims and other attributable expenses related to the unexpired periods of policies in force at the date of statement of financial position.

## 7 TECHNICAL RESERVES (Continued)

### 7.4 UNIT LINKED INVESTMENTS AND LIABILITIES

**Unit Linked Assets Movement**

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Balance at the beginning | **57,149** | - | **57,149** | 35,941 | - | 35,941 |
| Purchased during the year | **27,738** | - | **27,738** | 21,412 | - | 21,412 |
| Sold during the year | **(14,316)** | - | **(14,316)** | (5,130) | - | (5,130) |
| | **70,571** | - | **70,571** | 52,223 | - | 52,223 |
| Net changes in fair values of investments | **15,082** | | **15,082** | 4,926 | - | 4,926 |
| Balance at the end | **85,653** | - | **85,653** | 57,149 | - | 57,149 |

**Unit Linked Liabilities Movement**

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Balance at the beginning | **57,149** | - | **57,149** | 35,941 | - | 35,941 |
| Additions during the year | **13,422** | - | **13,422** | 16,282 | - | 16,282 |
| | **70,571** | - | **70,571** | 52,223 | - | 52,223 |
| Net changes in fair values of investments | **15,082** | - | **15,082** | 4,926 | - | 4,926 |
| Balance at the end | **85,653** | - | **85,653** | 57,149 | - | 57,149 |

### 7.5 MATHEMATICAL RESERVE

During the year ended 31 December 2021 the Company has recorded a non-unit reserve of SAR 1.6 million (2020: SAR 0.46 million), pertaining to individual life. The reserve is calculated based on the present value of future assumed expenses less the present value of future income arising from charges on all individual life policies.

## 8 MOVEMENT IN DEFERRED POLICY ACQUISITION COSTS

| *Insurance Operations* | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Balance at the beginning | **7,638** | 8,171 |
| Incurred during the year | **28,809** | 25,055 |
| Amortized during the year | **(26,739)** | (25,588) |
| Balance at the end | **9,708** | 7,638 |

## 9 PREPAYMENTS AND OTHER ASSETS

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Prepayments | **1,729** | **97** | **1,826** | 5,644 | 44 | 5,688 |
| Bank guarantees | **1,884** | **-** | **1,884** | 2,984 | - | 2,984 |
| Other receivables | **5,159** | **2,448** | **7,607** | 9,569 | - | 9,569 |
| Accrued income | **-** | **82** | **82** | - | 722 | 722 |
| | **8,772** | **2,627** | **11,399** | 18,197 | 766 | 18,963 |

## 10 STATUTORY DEPOSIT

| | **As at 31 December 2020** | As at 31 December 2020 |
|---|---|---|
| | **SAR' 000** | SAR' 000 |
| Statutory deposit | **45,000** | 45,000 |

In accordance with the Saudi Arabian Implementing Regulations issued by SAMA, the Company has deposited an amount equivalent to 15% (2020: 15%) of its paid up share capital in a bank account designated by SAMA. This is a restricted deposit and cannot be utilized in the operations of the Company.

## 11 PROPERTY AND EQUIPMENT

| | **Leasehold improvements** | **Computer Equipments** | **Furniture, fittings and office equipments** | **Total 2021** | Total 2020 |
|---|---|---|---|---|---|
| | | | **SAR'000** | | |
| **Cost:** | | | | | |
| Balance at the beginning | 6,678 | 6,908 | 2,984 | 16,570 | 16,375 |
| Additions | - | 98 | 37 | 135 | 200 |
| Disposals | - | - | - | - | (5) |
| **Balance at the end** | 6,678 | 7,006 | 3,021 | 16,705 | 16,570 |
| **Accumulated depreciation:** | | | | | |
| Balance at the beginning | 4,314 | 5,022 | 2,297 | 11,633 | 9,299 |
| Charge for the year | 827 | 796 | 296 | 1,919 | 2,339 |
| Depreciation on disposal | - | - | - | - | (5) |
| **Balance at the end** | 5,141 | 5,818 | 2,593 | 13,552 | 11,633 |
| **Net book value** | | | | | |
| **31 December 2021** | **1,537** | **1,188** | **428** | **3,153** | |
| 31 December 2020 | 2,364 | 1,886 | 687 | | 4,937 |

## 12 INTANGIBLE ASSETS

| | **Intangible assets** | **Capital work in progress** | **Total 2021** | Total 2020 |
|---|---|---|---|---|
| | | **SAR'000** | | |
| **Cost:** | | | | |
| Balance at the beginning | 14,783 | 2,995 | 17,778 | 15,073 |
| Additions | 303 | 809 | 1,112 | 2,705 |
| **Balance at the end** | 15,086 | 3,804 | 18,890 | 17,778 |
| **Accumulated amortization:** | | | | |
| Balance at the beginning | 11,578 | - | 11,578 | 9,634 |
| Charge for the year | 1,928 | - | 1,928 | 1,944 |
| **Balance at the end** | 13,506 | - | 13,506 | 11,578 |
| **Net book value** | | | | |
| **31 December 2021** | **1,580** | **3,804** | **5,384** | |
| 31 December 2020 | 3,205 | 2,995 | | 6,200 |

## 13 TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of business, the Company transacts with related parties. Transactions with related parties are carried out on an arm's length basis.

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management and Board of Directors. In addition to the notes 4 and 6, following are the details of major related party transactions during and the related balances at the end of the year:

| **Nature of transactions** | **For the year ended 31 December 2021** | | | For the year ended 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Shareholders: | | | | | | |
| Gross written premiums | **42,966** | **-** | **42,966** | 38,416 | - | 38,416 |
| Reinsurance premiums ceded | **9,707** | **-** | **9,707** | 10,390 | - | 10,390 |
| Claims paid - net of recoveries | **21,764** | **-** | **21,764** | 12,674 | - | 12,674 |
| Reinsurance commission | **2,621** | **-** | **2,621** | 2,884 | - | 2,884 |
| Reinsurance share of claims | **713** | **-** | **713** | 5,962 | - | 5,962 |
| General and administrative expenses | **897** | **75** | **972** | 831 | 75 | 906 |
| Other Related parties: | | | | | | |
| Investments | **42,872** | **-** | **42,872** | 26,217 | - | 26,217 |
| Commission | **3,723** | **-** | **3,723** | 3,994 | - | 3,994 |
| General and administrative expenses | **42** | **-** | **42** | 8 | - | 8 |

**Closing Balances**

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Shareholders: | | | | | | |
| Premiums Receivable | **3,507** | **-** | **3,507** | 1,557 | - | 1,557 |
| Reinsurance premiums payable | **12,838** | **-** | **12,838** | 12,798 | - | 12,798 |
| Claims payable | **917** | **-** | **917** | 242 | - | 242 |
| Bank Balance | **115,784** | **115,099** | **230,883** | 104,872 | 32,173 | 137,045 |
| General and administrative expenses | **-** | **-** | **-** | 66 | - | 66 |
| Other related parties | | | | | | |
| Investments | **85,653** | **30,758** | **116,411** | 57,149 | 29,389 | 86,538 |
| Other receivable | **-** | **36** | **36** | - | - | - |
| Commission on Unit-Linked policies | **625** | **-** | **625** | 910 | - | 910 |
| General and administrative expenses | **-** | **-** | **-** | - | - | - |

## 13 TRANSACTIONS WITH RELATED PARTIES (Continued)

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.

**Information relating to key management personnel:**

| | **For the year ended 31 December 2021** | | | For the year ended 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Short term benefits | **3,443** | **-** | **3,443** | 4,046 | - | 4,046 |
| Long term benefits | **761** | **-** | **761** | 303 | - | 303 |

Short term benefits include salaries and allowances whilst long term benefits include employees' retirement benefit obligation.

**Board and sub committees related**

| | **For the year ended 31 December 2021** | | | For the year ended 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Directors' remuneration | **-** | **1,622** | **1,622** | - | 1,532 | 1,532 |
| Attendance fees | **-** | **218** | **218** | - | 232 | 232 |

Board and sub-committees attendance fees represent allowance for attending board and sub-committee meetings.

## 14 ACCRUED EXPENSES AND OTHER LIABILITIES

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Accrued expenses | **10,543** | **3,106** | **13,649** | 10,759 | 2,994 | 13,753 |
| Brokers commission | **13,671** | **-** | **13,671** | 12,708 | - | 12,708 |
| Payable to policyholders | **3,137** | **-** | **3,137** | 3,618 | - | 3,618 |
| Payable to local and regulatory authorities | **7,354** | **-** | **7,354** | 7,247 | - | 7,247 |
| Other payables | **6,687** | **1,393** | **8,080** | 9,751 | 1,393 | 11,144 |
| | **41,392** | **4,499** | **45,891** | 44,083 | 4,387 | 48,470 |

## 15 ZAKAT AND INCOME TAX PAYABLE

### Zakat

Zakat provision is based on the following:

| | For the year ended 31 December 2021 SAR'000 | For the year ended 31 December 2020 SAR'000 |
|---|---|---|
| Share capital | **300,000** | 300,000 |
| Reserves, opening provisions and other adjustments | **45,742** | 42,067 |
| Brought forward losses | **(98,427)** | (92,604) |
| Book value of long term assets | **(68,989)** | (66,044) |
| Zakat base before adjusted loss | **178,326** | 183,419 |
| Saudi Shareholder's share of Zakat base @71.25% | | |
| Zakat on Zakat base prior to net adjusted loss @ 2.5777% | **3,275** | 3,369 |
| Net Adjusted loss for the year | **(3,533)** | 5,341 |
| Zakat on Net adjusted loss for the year @ 2.5% | (63) | 95 |
| Zakat due at 2.5% | **3,212** | 3,464 |

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Zakat payable | - | **6,699** | **6,699** | - | 6,879 | 6,879 |
| Income tax payable | - | - | - | - | 196 | 196 |
| Zakat and Income tax payable | - | **6,699** | **6,699** | - | 7,075 | 7,075 |

The difference between the accounting income and the adjusted net loss is mainly due to provisions which are not allowed in the calculation of adjustable net income. Local shareholding used for the Zakat calculation is 71.25%.
The movement in Zakat provision is as follows:

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Balance at the beginning | - | **6,879** | **6,879** | - | 6,013 | 6,013 |
| Zakat charge | - | **3,212** | **3,212** | - | 3,464 | 3,464 |
| Additional charge for prior years | - | **4** | **4** | - | 681 | 681 |
| Zakat payment made | - | **(3,396)** | **(3,396)** | - | (3,279) | (3,279) |
| Advance zakat paid | - | - | - | - | - | - |
| **Balance at the end** | - | **6,699** | **6,699** | - | 6,879 | 6,879 |

### Income tax:

Provision for income tax has been made at 20% of the adjusted net income attributable to the foreign shareholder of the Company. Foreign shareholder subject to income tax is 28.75%.
The movement in income tax provision is as follows:

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | **SAR'000** | | | SAR'000 | | |
| Balance at the beginning | - | **196** | **196** | - | (34) | (34) |
| Reversal of prior year charge | - | - | - | - | 230 | 230 |
| Advance Income tax paid | - | **(196)** | **(196)** | - | - | - |
| Balance at the end | - | - | - | - | 196 | 196 |

## 15 ZAKAT AND INCOME TAX PAYABLE (Continued)

**Status of Assessments**

**Zakat and Withholding tax**

During 2017, the Zakat, Tax and Customs Authority (ZATCA) has issued assessments for the years from 2012 to 2015, requiring an additional zakat and Withholding Tax liability amounting to SAR 5.5 million and SAR 2.9 million respectively. The Company filed an appeal against the assessment of ZATCA for the additional liability arising out of various disallowances for years from 2012 to 2015 within the statutory deadlines. Subsequently, the ZATCA issued their response on the above appeal whereby they requested the Company to forward their appeal at the General Secretariat of Tax Committee (GSTC). Subsequent to the GSTC hearings conducted, the Tax Violations and Dispute Resolution Committee (TVDRC) has issued their ruling no. 315-2020-IFR dated 08/05/1442H on the appeals filed for 2012 to 2015. In Jan 2021, the Company has filed an appeal to the Appellate Committee (2nd level) against the unfavorable ruling of the TVDRC on the imposition of Zakat on capital for 2012. Further, the Company has booked an additional zakat liability of SAR 3.3 million against the above disallowance. The Company has obtained limited certificates for the year from 2012 to 2020.

**Value added tax (VAT)**

The Company was assessed by the ZATCA and received their final assessment notice on 10 September 2020. The total assessment was SAR 10.2M which was made up of SAR 4.4 million of VAT due to the ZATCA and SAR 5.8 million of penalties. On the basis that Company paid the VAT amount, SAR 5.8 million of penalties was waived by ZATCA under the 2020 Amnesty Scheme.

## 16 RETIREMENT BENEFIT OBLIGATION

The Company operates an end of service benefit plan for its employee based on the prevailing Saudi Labour Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method, while the benefits payments obligation is discharged as and when it falls due.

The following tables summarize the components of retirement benefit obligation recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

| **Principal actuarial assumption at:** | **31 December 2021** | 31 December 2020 |
|---|---|---|
| Discount rate | **2.30%** | 1.90% |
| Expected rate of salary increase | **2.00%** | 1.90% |

### 16.1 Amount recognized in the statement of financial position

| ***Insurance Operations*** | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Present value of retirement benefits obligation | **6,018** | 5,601 |
| Fair value of retirement benefit obligation | **6,018** | 5,601 |
| Net liability at the end | **6,018** | 5,601 |

### 16.2 Amount recognized in the statement of income

| ***Insurance Operations*** | **For the year ended 31 December 2021** | For the year ended 31 December 2020 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Current service cost | 1,263 | 1,470 |
| Commission rate cost | 104 | 228 |
| Benefit expense | 1,401 | 1,259 |

## 16 RETIREMENT BENEFIT OBLIGATION (Continued)

### 16.3 Reconciliation of present value of defined benefit obligation

| *Insurance Operations* | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Present value of retirement benefit obligation at the beginning | **5,601** | 5,698 |
| Current service cost | **1,263** | 1,470 |
| Commission rate cost | **104** | 228 |
| Actuarial gain on retirement benefit obligation | **451** | (536) |
| Benefits paid | **(1,401)** | (1,259) |
| Present value of retirement benefit obligation at the end | **6,018** | 5,601 |

### 16.4 Movement in net liability recognized in statement of financial position:

| *Insurance Operations* | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Net liability at the beginning | **5,601** | 5,698 |
| Charge recognized in statement of income | **1,367** | 1,698 |
| Actuarial loss recognized in other comprehensive income | **451** | (536) |
| Retirement benefit obligation paid | **(1,401)** | (1,259) |
| Net liability at the end | **6,018** | 5,601 |

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

| | **31 December 2021** | 31 December 2020 |
|---|---|---|
| Valuation discount rate | | |
| - Increase by 1% | **-8.73%** | -8.80% |
| - Decrease by 1% | **10.13%** | 10.26% |
| Expected rate of increase in salary level across different age bands | | |
| - Increase by 1% | **10.32%** | 10.41% |
| - Decrease by 1% | **-9.05%** | -9.09% |
| Mortality rate | | |
| - Increase by 10% | **-0.02%** | -0.02% |
| - Decrease by 10% | **0.02%** | 0.02% |
| Employee turnover | | |
| - Increase by 10% | **-0.99%** | -1.23% |
| - Decrease by 10% | **1.06%** | 1.33% |

## 17 ISSUED, AUTHORISED AND PAID UP SHARE CAPITAL

The issued, authorized and paid up share capital of the Company was SAR 300 million as at 31 December 2021 (31 December 2020: SAR 300 million) consisting of 30 million shares (31 December 2020: 30 million) of SAR 10 each.

Shareholding structure of the Company is as below. The shareholders of the Company are subject to zakat and income tax.

| | **No. of shares** | **Value per share** | **Share Capital SAR** | No. of shares | Value per share | Share Capital SAR |
|---|---|---|---|---|---|---|
| Alinma Bank | **8,625,000** | **10** | **86,250,000** | 8,625,000 | 10 | 86,250,000 |
| Tokio Marine & Nichido Fire Insurance | **8,625,000** | **10** | **86,250,000** | 8,625,000 | 10 | 86,250,000 |
| Others | **12,750,000** | **10** | **127,500,000** | 12,750,000 | 10 | 127,500,000 |
| | **30,000,000** | **10** | **300,000,000** | 30,000,000 | 10 | 300,000,000 |

## 18 CAPITAL MANAGEMENT

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize Shareholder's value.

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

The Company maintains its capital as per guidelines laid out by Saudi Central Bank (SAMA) in Article 66 table 3 and 4 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 of SAR 100 million
- Premium Solvency Margin
- Claims Solvency Margin

The Company is in compliance with all the externally imposed Capital requirements with sound solvency margin. The Capital structure of the Company as at 31 December 2021 consists of paid up share Capital of SAR 300 million (31 December 2020: SAR 300 million) and accumulated losses of SAR 112.8 million (31 December 2020: SAR 98.4 million) in the statement of financial position.

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

## 19 NET EARNED PREMIUMS

| ***Insurance Operations*** | **For the year ended 31 December 2021 SAR'000** | For the year ended 31 December 2020 SAR'000 |
|---|---|---|
| Gross written premiums | **305,554** | 316,315 |
| Gross unearned premiums at the beginning | **133,049** | 107,765 |
| Gross unearned premiums at the end | **(157,161)** | (133,049) |
| Gross earned premiums | **281,442** | 291,031 |
| Fee income from insurance contracts | **44** | 38 |
| Reinsurance premiums ceded | **(138,753)** | (186,513) |
| Excess of loss expenses | **(8,031)** | (5,387) |
| | **(146,784)** | (191,900) |
| Reinsurers' share of unearned premiums at the beginning | **(96,511)** | (58,844) |
| Reinsurers' share of unearned premiums at the end | **103,695** | 96,511 |
| Reinsurance Premiums earned | **(139,600)** | (154,233) |
| Net earned premiums | **141,886** | 136,836 |

## 20 GENERAL AND ADMINISTRATIVE EXPENSES

| | **For the year ended 31 December 2021** | | | For the year ended 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | | **SAR'000** | | | SAR'000 | |
| Employees cost | **34,630** | - | **34,630** | 31,725 | - | 31,725 |
| Maintenance | **5,667** | - | **5,667** | 4,919 | - | 4,919 |
| Depreciation and amortization | **3,847** | - | **3,847** | 4,283 | - | 4,283 |
| Depreciation on right to use assets | **1,257** | - | **1,257** | 1,250 | - | 1,250 |
| Bad debts written off | - | - | - | 3,724 | - | 3,724 |
| Legal and professional fees | **2,870** | **1,806** | **4,676** | 3,414 | 1,583 | 4,997 |
| Najm Expense | **1,050** | - | **1,050** | - | - | - |
| Value added tax expense | **3,734** | - | **3,734** | 2,055 | - | 2,055 |
| Others | **8,343** | **699** | **9,042** | 5,647 | 940 | 6,587 |
| Directors' remuneration (note 13) | - | **1,622** | **1,622** | - | 1,532 | 1,532 |
| Board and sub-committee attendance fee (note 13) | - | **218** | **218** | - | 232 | 232 |
| | **61,398** | **4,345** | **65,743** | 57,017 | 4,287 | 61,304 |

## 21 INVESTMENTS AND OTHER INCOME

| | **For the year ended 31 December 2021** | | | For the year ended 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | | **SAR'000** | | | SAR'000 | |
| **Investments at fair value through statement of income (FVSI)** | | | | | | |
| - Realized gain during the year | **904** | **1,498** | **2,402** | 375 | - | 375 |
| - Unrealized gain during the year | - | **(96)** | **(96)** | 113 | (854) | (741) |
| - Dividend during the year | | **174** | **174** | - | - | - |
| | **904** | **1,576** | **2,480** | 488 | (854) | (366) |
| **Investments held to maturity** | | | | | | |
| - Income on redemption of Sukuk | - | **559** | **559** | - | - | - |
| - Accrued income on Sukuk | - | **82** | **82** | - | 371 | 371 |
| | - | **641** | **641** | - | 371 | 371 |
| **Income from Murabaha deposits** | | | | | | |
| - Income on Murabaha Deposit maturity | **672** | **1,508** | **2,180** | 1,095 | 3,485 | 4,580 |
| - Accrued income on Murabaha Deposit | - | - | - | - | 101 | 101 |
| | **672** | **1,508** | **2,180** | 1,095 | 3,586 | 4,681 |
| - Dividend income from real estate fund | - | - | - | - | 206 | 206 |

## 22 BASIC AND DILUTED LOSS PER SHARE

Loss per share has been calculated by dividing the net loss by the weighted average number of outstanding shares.

| | **For the year ended 31 December 2021** | For the year ended 31 December 2020 |
|---|---|---|
| Net loss (SAR "000") | **(14,403)** | (5,823) |
| Weighted average number of ordinary shares ("000") | **30,000** | 30,000 |
| Loss per share SAR | **(0.48)** | (0.19) |

## 23 CONTINGENCIES AND COMMITMENT

As at 31 December 2021, the Company's banker has issued letters of guarantee of SAR 1.88 million (2020: SAR2.98 million) to various customers, motor agencies, workshops and health service providers as per the terms of their respective agreements which have been classified under prepayments and other assets in the statement of financial position. The Company has no capital commitments as at 31 December 2021 and 31 December 2020.

Following table lists the legal proceedings in the ordinary course of business that the Company is subject to.

| | **2021** | 2020 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Motor claims related compensation | **842** | 113 |

## 24 SEGMENT REPORTING

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 is measured in a manner consistent with that in the statement of income. Segment assets and liabilities comprise operating assets and liabilities.

Segment information is presented in respect of the Company's business segments which are property & casualty, motor, protection & savings and medical based on the Company's management and internal reporting structure. The property and casualty segment comprises of fire & property, marine, accident & liability and engineering segments.

Operating segments do not include shareholders' operations of the Company.

Segment assets do not include cash and bank balances, investments, premiums and reinsurance receivables, due from shareholders' operations, prepayments and other assets and fixed assets.

Segment liabilities do not include reinsurance balance payable, accrued expenses and other liabilities and retirement benefit obligation.

Segment results do not include general and administrative expenses.

The unallocated assets and liabilities are reported to the Chief Executive Officer on a cumulative basis and not reported under the related segment.

Consistent with the Company's internal reporting process, operating segments have been approved by management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the Chief Executive Officer.

## 24 SEGMENT REPORTING (Continued)

| | For the year ended 31 December 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Property and Casualty | Motor | Protection and savings | Medical | Total Insurance Operations | Shareholders' operations | Total |
| | SAR'000 | | | | | | |
| **REVENUES** | | | | | | | |
| Gross premiums written | 151,850 | 84,172 | 69,415 | 117 | 305,554 | - | 305,554 |
| - Corporate | 84,574 | 18,607 | 34,867 | | 138,048 | - | 138,048 |
| - Medium business | 50,733 | 21,074 | 970 | 31 | 72,808 | - | 72,808 |
| - Small business | 15,026 | 13,314 | - | 86 | 28,426 | - | 28,426 |
| - Very small business | 1,502 | 1,565 | - | | 3,067 | - | 3,067 |
| - Retail | 15 | 29,612 | 33,578 | | 63,205 | - | 63,205 |
| Fee income from Insurance contracts | 40 | 4 | - | - | 44 | - | 44 |
| Reinsurance premiums ceded | | | | | | | |
| - Local | (5,307) | - | - | - | (5,307) | - | (5,307) |
| - Foreign | (117,868) | - | (15,578) | - | (133,446) | - | (133,446) |
| Excess of loss expenses | (6,590) | (1,441) | - | - | (8,031) | - | (8,031) |
| **Net premiums written** | 22,125 | 82,735 | 53,837 | 117 | 158,814 | - | 158,814 |
| Net change in unearned premiums | (6,224) | (10,464) | (198) | (42) | (16,928) | - | (16,928) |
| **Net premiums earned** | 15,901 | 72,271 | 53,639 | 75 | 141,886 | - | 141,886 |
| Reinsurance commission earned | 20,162 | - | - | - | 20,162 | - | 20,162 |
| Other underwriting income | 7,202 | 99 | - | 51 | 7,352 | - | 7,352 |
| **Total insurance revenues** | 43,265 | 72,370 | 53,639 | 126 | 169,400 | - | 169,400 |
| **UNDERWRITING COSTS AND EXPENSES** | | | | | | | |
| Net claims incurred | (3,782) | (41,938) | (26,359) | (154) | (72,233) | - | (72,233) |
| Changes in mathematical reserves | - | - | (1,146) | - | (1,146) | - | (1,146) |
| Changes in unit linked reserves | - | - | (28,504) | - | (28,504) | - | (28,504) |
| Policy acquisition costs | (12,306) | (9,295) | (5,138) | - | (26,739) | - | (26,739) |
| Other underwriting expenses | (733) | (421) | (347) | (1) | (1,502) | - | (1,502) |
| **Total underwriting costs and expenses** | (16,821) | (51,654) | (61,494) | (155) | (130,124) | - | (130,124) |
| **NET UNDERWRITING INCOME / (LOSS)** | 26,444 | 20,716 | (7,855) | (29) | 39,276 | - | 39,276 |
| **OTHER OPERATING INCOME / (EXPENSES)** | | | | | | | |
| General and administrative expenses | | | | | (61,398) | (4,345) | (65,743) |
| Provision for doubtful receivables | | | | | (5,103) | - | (5,103) |
| Unrealized gain on unit linked investments | | | | | 15,082 | - | 15,082 |
| Unrealized loss on investments | | | | | - | (14) | (14) |
| Realized gain on investments | | | | | 1,576 | 3,739 | 5,315 |
| **Total operating and other expenses** | | | | | (49,843) | (620) | (50,463) |
| **Loss for the year before zakat and tax** | | | | | (10,567) | (620) | (11,187) |
| Zakat for the year | | | | | - | (3,216) | (3,216) |
| **Net loss for the year** | | | | | | | (14,403) |

## 24 SEGMENT REPORTING (Continued)

| | For the year ended 31 December 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Property and Casualty | Motor | Protection and savings | Medical | Total Insurance Operations | Shareholders' operations | Total |
| | SAR'000 | | | | | | |
| REVENUES | | | | | | | |
| Gross premiums written | 192,138 | 67,124 | 57,004 | 49 | 316,315 | - | 316,315 |
| - Corporate | 155,896 | 19,023 | 29,561 | - | 204,480 | - | 204,480 |
| - Medium business | 25,173 | 21,866 | 712 | - | 47,751 | - | 47,751 |
| - Small business | 10,503 | 6,006 | - | 49 | 16,558 | - | 16,558 |
| - Very small business | 566 | 2,657 | - | - | 3,223 | - | 3,223 |
| - Retail | - | 17,572 | 26,731 | - | 44,303 | - | 44,303 |
| Fee income from Insurance contracts | 38 | - | - | - | 38 | - | 38 |
| Reinsurance premiums ceded | | | | | | | |
| - Local | (4,156) | - | - | - | (4,156) | - | (4,156) |
| - Foreign | (169,015) | - | (13,342) | - | (182,357) | - | (182,357) |
| Excess of loss expenses | (4,111) | (1,276) | - | - | (5,387) | - | (5,387) |
| Net premiums written | 14,894 | 65,848 | 43,662 | 49 | 124,453 | - | 124,453 |
| Net change in unearned premiums | (2,261) | 14,210 | (53) | 487 | 12,383 | - | 12,383 |
| Net premiums earned | 12,633 | 80,058 | 43,609 | 536 | 136,836 | - | 136,836 |
| Reinsurance commission earned | 24,351 | - | - | - | 24,351 | - | 24,351 |
| Other underwriting income | 3,149 | 1,221 | - | 2,253 | 6,623 | - | 6,623 |
| Total insurance revenues | 40,133 | 81,279 | 43,609 | 2,789 | 167,810 | - | 167,810 |
| UNDERWRITING COSTS AND EXPENSES | | | | | | | |
| Net claims incurred | (4,649) | (49,620) | (12,384) | 620 | (66,033) | - | (66,033) |
| Changes in mathematical reserves | - | - | 231 | - | 231 | - | 231 |
| Changes in unit linked reserves | - | - | (21,208) | - | (21,208) | - | (21,208) |
| Policy acquisition costs | (13,929) | (8,111) | (3,514) | (34) | (25,588) | - | (25,588) |
| Other underwriting expenses | (940) | (335) | (285) | (1) | (1,561) | - | (1,561) |
| Total underwriting costs and expenses | (19,518) | (58,066) | (37,160) | 585 | (114,159) | - | (114,159) |
| NET UNDERWRITING INCOME | 20,615 | 23,213 | 6,449 | 3,374 | 53,651 | - | 53,651 |
| OTHER OPERATING INCOME / (EXPENSES) | | | | | | | |
| General and administrative expenses | | | | | (57,017) | (4,287) | (61,304) |
| Provision for doubtful receivables | | | | | (3,613) | - | (3,613) |
| Unrealized gain on unit linked investments | | | | | 4,926 | - | 4,926 |
| Unrealized gain / (loss) on investments | | | | | 113 | (382) | (269) |
| Realized gain on investments | | | | | 1,470 | 3,691 | 5,161 |
| Total operating and other expenses | | | | | (54,121) | (978) | (55,099) |
| Loss for the year before zakat | | | | | (470) | (978) | (1,448) |
| Zakat for the year | | | | | - | (4,145) | (4,145) |
| Tax for the year | | | | | - | (230) | (230) |
| Net loss for the year | | | | | | | (5,823) |

## 24 SEGMENT REPORTING (Continued)

| | As at 31 December 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Property and Casualty | Motor | Protection and savings | Medical | Total Insurance Operations | Shareholders' operations | Total |
| | SAR'000 | | | | | | |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | - | - | - | - | 133,214 | 115,100 | 248,314 |
| Investments | - | - | - | - | 131 | 42,683 | 42,814 |
| Reinsurers' share of outstanding claims | 11,178 | - | 11,869 | - | 23,047 | - | 23,047 |
| Reinsurers' share of incurred but not reported claims | 15,064 | - | 6,811 | - | 21,875 | - | 21,875 |
| Reinsurers' share of unearned premiums | 103,512 | - | 183 | - | 103,695 | - | 103,695 |
| Deferred policy acquisition costs | 5,819 | 3,819 | 70 | - | 9,708 | - | 9,708 |
| Unit linked investments | - | - | 85,653 | - | 85,653 | - | 85,653 |
| Unallocated assets | - | - | - | - | 101,185 | 47,663 | 148,848 |
| **Total assets** | | | | | 478,508 | 205,446 | 683,954 |

| | As at 31 December 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Property and Casualty | Motor | Protection and savings | Medical | Total Insurance Operations | Shareholders' operations | Total |
| | SAR'000 | | | | | | |
| **LIABILITIES** | | | | | | | |
| Outstanding claims | 15,775 | 18,615 | 19,741 | 33 | 54,164 | - | 54,164 |
| Incurred but not reported claims | 19,549 | 12,044 | 11,352 | 36 | 42,981 | - | 42,981 |
| Other reserves | 549 | 1,921 | 849 | 2 | 3,321 | - | 3,321 |
| Premium deficiency reserves | - | 5,510 | - | - | 5,510 | - | 5,510 |
| Mathematical reserve | - | - | 1,604 | - | 1,604 | - | 1,604 |
| Unearned premiums | 119,340 | 37,297 | 481 | 43 | 157,161 | - | 157,161 |
| Unearned reinsurance commission | 10,483 | - | - | - | 10,483 | - | 10,483 |
| Unit linked liabilities | - | - | 85,653 | - | 85,653 | - | 85,653 |
| Unallocated liabilities and equity | - | - | - | - | 117,631 | 205,446 | 323,077 |
| **Total liabilities and equity** | | | | | 478,508 | 205,446 | 683,954 |

## 24 SEGMENT REPORTING (Continued)

| | As at 31 December 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Property and Casualty | Motor | Protection and savings | Medical | Total Insurance Operations | Shareholders' operations | Total |
| | SAR'000 | | | | | | |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | - | - | - | - | 111,903 | 123,577 | 235,480 |
| Investments | - | - | | - | 727 | 48,729 | 49,456 |
| Reinsurers' share of outstanding claims | 28,499 | - | 7,987 | - | 36,486 | - | 36,486 |
| Reinsurers' share of incurred but not reported claims | 18,488 | - | 4,584 | - | 23,072 | - | 23,072 |
| Reinsurers' share of unearned premiums | 96,434 | - | 77 | - | 96,511 | - | 96,511 |
| Deferred policy acquisition costs | 5,328 | 2,285 | 25 | - | 7,638 | - | 7,638 |
| Unit linked investments | - | - | 57,149 | - | 57,149 | - | 57,149 |
| Unallocated assets | | | | | 109,476 | 45,766 | 155,242 |
| Total assets | | | | | 442,962 | 218,072 | 661,034 |

| | As at 31 December 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Property and Casualty | Motor | Protection and savings | Medical | Total Insurance Operations | Shareholders' operations | Total |
| | SAR'000 | | | | | | |
| **LIABILITIES** | | | | | | | |
| Outstanding claims | 31,839 | 17,190 | 12,818 | - | 61,847 | - | 61,847 |
| Incurred but not reported claims | 22,230 | 16,560 | 7,786 | - | 46,576 | - | 46,576 |
| Other reserves | 763 | 1,509 | 568 | - | 2,840 | - | 2,840 |
| Premium deficiency reserves | - | 6,737 | - | - | 6,737 | | 6,737 |
| Mathematical reserve | - | - | 458 | - | 458 | | 458 |
| Unearned premiums | 106,040 | 26,832 | 177 | - | 133,049 | - | 133,049 |
| Unearned reinsurance commission | 11,966 | - | - | - | 11,966 | - | 11,966 |
| Unit linked liabilities | - | - | 57,149 | - | 57,149 | - | 57,149 |
| Unallocated liabilities and equity | | | | | 122,340 | 218,072 | 340,412 |
| Total liabilities and equity | | | | | 442,962 | 218,072 | 661,034 |

## 25 RISK MANAGEMENT

### Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non proportional basis. The majority of proportional reinsurance is quota share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non proportional reinsurance is primarily facultative and excess of loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess of loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 28% of total reinsurance assets at the reporting date.

### Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its risk by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 51.29% of equity on a gross basis and 2.14% on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 20.52% of shareholders' equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

| 2021 | Gross unearned premiums | Net unearned premiums | Gross outstanding claims | Net outstanding claims |
|---|---|---|---|---|
| Property and Casualty | 75.93% | 29.60% | 29.12% | 14.77% |
| Motor | 23.73% | 69.76% | 34.37% | 59.82% |
| Protection and savings | 0.31% | 0.56% | 36.45% | 25.30% |
| Medical | 0.03% | 0.08% | 0.06% | 0.11% |
| **Total** | **100%** | **100%** | **100%** | **100%** |

| 2020 | Gross unearned premiums | Net unearned premiums | Gross outstanding claims | Net outstanding claims |
|---|---|---|---|---|
| Property and Casualty | 79.70% | 26.29% | 51.48% | 13.17% |
| Motor | 20.17% | 73.44% | 27.79% | 67.78% |
| Protection and savings | 0.13% | 0.27% | 20.73% | 19.05% |
| Medical | 0.00% | 0.00% | 0.00% | 0.00% |
| Total | 100% | 100% | 100% | 100% |

### Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in motor segment.

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

**25 RISK MANAGEMENT (Continued)**

**Concentration of insurance risk (continued)**

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

Sources of uncertainty in estimation of future claim payments:

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the statement of financial position date.

**Process used to decide on assumptions**

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

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

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

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve in result of liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as at the statement of financial position date. The expected future liability is determined using estimates and assumptions based on the experience during the expired year of the contracts and expectations of future events that are believed to be reasonable.

**Sensitivity analysis**

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

**25 RISK MANAGEMENT (Continued)**

**Sensitivity analysis (continued)**

A hypothetical 10% change in the claim ratio and average claim cost, net of reinsurance, would impact net underwriting income as follows:

**Impact of change in claim ratio by + / - 10%**

| | **2021** | 2020 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Motor | **7,227** | 8,006 |
| Medical | **8** | 54 |
| Protection and savings | **5,364** | 4,361 |
| Property and Casualty | **1,590** | 1,263 |

**Impact on average claim cost + / - 10%**

| | **2021** | 2020 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Motor | **4,585** | 5,214 |
| Medical | **8** | 85 |
| Protection and savings | **805** | 511 |
| Property and Casualty | **199** | 250 |

**Reinsurance risk**

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

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

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

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

Furthermore, the financial strength and managerial and technical expertise as well as historical performance of the reinsurers, wherever applicable, are thoroughly reviewed by the Company and agreed to preset requirements of the Company's Board of Directors and Technical Committee before approving them for exchange of reinsurance business. As at December 31, 2021 and 2020, there is no significant concentration of reinsurance balances.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

**Market Risk**

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

- The Company's risk management policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

- Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and tha assets are held to deliver income and gains for policyholders which are in line with their expectations.

## 25 RISK MANAGEMENT (Continued)

**Market Risk (continued)**

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

Market risk comprises of three types of risk: currency risk, commission rate risk and other price risk.

**Currency Risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Arabian Riyals and the foreign currency risk is not significant.

**Commission Rate Risk**

The Company places deposits that are subject to commission rate risk, with the exception of restricted deposits which are required to be maintained in accordance with SAMA regulations on which the Company does not earn any commission. Commission rate risk to the Company is the risk of changes in commission rates reducing the overall return on its fixed commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates and by investing in floating rate instruments.

An increase or decrease of 100 basis points in interest yields would result in a change in the loss or gain for the year by SAR 0.10 million (2020: SAR 1.10 million).

The commission and non-commission bearing investments of the Company and their maturities as at December 31, 2021 and 2020 are as follows:

| | Commission bearing | | | Non-commission bearing | Total |
|---|---|---|---|---|---|
| | Less than 1 year | 1 to 5 years | Over 5 years | | |
| **Insurance operations** | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| **2021** | - | - | - | 85,784 | 85,784 |
| 2020 | - | - | - | 57,876 | 57,876 |

| | Commission bearing | | | Non-commission bearing | Total |
|---|---|---|---|---|---|
| | Less than 1 year | 1 to 5 years | Over 5 years | | |
| **Shareholders' operations** | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| **2021** | 10,000 | - | - | 32,683 | 42,683 |
| 2020 | 106,404 | - | - | 33,729 | 140,133 |

**Other Price Risk**

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from commission rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's investments amounting to SAR 118.5 million (2020: SAR 91.6 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

The impact of hypothetical change of a 10% increase / decrease in the market prices of investments on Company's profit would be as follows:

| | Fair value change | Effect on Company's profit |
|---|---|---|
| | | SAR'000 |
| **2021** | + / - 10 % | +/- 11,847 |
| **2020** | + / - 10 % | +/- 9,161 |

The sensitivity analysis presented is based upon the portfolio position as at December 31, 2021 and 2020. Accordingly, the sensitivity analysis prepared in not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

**25 RISK MANAGEMENT (Continued)**
**Credit risk**

Credit risk is the risk that arises with a possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the statement of financial position. The Company's credit risk exposure relating to customers and deposits is mainly concentrated in Saudi Arabia.

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

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Insurance operations** | **Shareholders' operations** | **Total** | Insurance operations | Shareholders' operations | Total |
| | | **SAR'000** | | | SAR'000 | |
| Cash and cash equivalents | **133,214** | **115,100** | **248,314** | 111,903 | 123,577 | 235,480 |
| Premiums and reinsurance receivables, net | **72,977** | **-** | **72,977** | 70,633 | - | 70,633 |
| Reinsurers' share of outstanding claims | **23,047** | **-** | **23,047** | 36,486 | - | 36,486 |
| Investments net of equity investments | **131** | **40,760** | **40,891** | 727 | 46,295 | 47,022 |
| Due from related parties | **-** | **36** | **36** | - | - | - |
| Murabaha Deposits | **-** | **-** | **-** | - | - | - |
| Statutory deposit | **-** | **45,000** | **45,000** | - | 45,000 | 45,000 |
| | **229,369** | **200,896** | **430,265** | 219,749 | 214,872 | 434,621 |

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the management's best estimate. Investment grade is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non-investment grade satisfactory or past due but not impaired.

| **Insurance operations' financial assets** | | **Non investment grade 2021** | | |
|---|---|---|---|---|
| | **Investment grade** | **Satisfactory** | **Past due but not impaired** | **Total** |
| | **SAR'000** | **SAR'000** | **SAR'000** | **SAR'000** |
| Cash and cash equivalents | **133,214** | **-** | **-** | **133,214** |
| Investments | **-** | **131** | **-** | **131** |
| Premiums and reinsurance receivable, net | **-** | **20,194** | **52,783** | **72,977** |
| Reinsurers' share of outstanding claims | **-** | **23,047** | **-** | **23,047** |
| **31 December 2021** | **133,214** | **43,372** | **52,783** | **229,369** |

| | | Non investment grade 2020 | | |
|---|---|---|---|---|
| | Investment grade | Satisfactory | Past due but not impaired | Total |
| | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| Cash and cash equivalents | 111,903 | - | - | 111,903 |
| Investments | - | 727 | - | 727 |
| Premiums and reinsurance receivable, net | - | 12,817 | 57,816 | 70,633 |
| Reinsurers' share of outstanding claims | - | 36,486 | - | 36,486 |
| 31 December 2020 | 111,903 | 50,030 | 57,816 | 219,749 |

| **Shareholders' operations' financial assets** | | **Non investment grade 2021** | | |
|---|---|---|---|---|
| | **Investment grade** | **Satisfactory** | **Past due but not impaired** | **Total** |
| | **SAR'000** | **SAR'000** | **SAR'000** | **SAR'000** |
| Cash and cash equivalents | **115,100** | **-** | **-** | **115,100** |
| Investments | **-** | **42,683** | **-** | **42,683** |
| Due from related parties | **-** | **36** | **-** | **36** |
| Statutory deposit | **-** | **45,000** | **-** | **45,000** |
| **31 December 2021** | **115,100** | **87,719** | **-** | **202,819** |

**25 RISK MANAGEMENT (Continued)**
**Credit risk (continued)**

| | Non investment grade 2020 | | | |
|---|---|---|---|---|
| | Investment grade | Satisfactory | Past due but not impaired | Total |
| | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| Cash and cash equivalents | 123,577 | - | - | 123,577 |
| Investments | - | 48,729 | - | 48,729 |
| Statutory deposit | - | 45,000 | - | 45,000 |
| 31 December 2020 | 123,577 | 93,729 | - | 217,306 |

**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. The Company's portfolio of financial instruments is not broadly diversified however, transactions are entered into with credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

**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. Liquidity requirements are monitored on a timely basis and manages liquidity risk by maintaining maturities of financial assets and financial liabilities and investing in liquid financial assets.

The table below summarizes the maturities of the Company's undiscounted contractual obligations relating to financial assets and financial liabilities:

| | **As at 31 December 2021** | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Less than one year** | **More than one year** | **Total** | Less than one year | More than one year | Total |
| **Insurance operations' assets** | | **SAR'000** | | | SAR'000 | |
| Cash and cash equivalents | **133,214** | - | **133,214** | 111,903 | - | 111,903 |
| Investments | **131** | - | **131** | 727 | - | 727 |
| Premiums and reinsurance receivables, net | **72,977** | - | **72,977** | 70,633 | - | 70,633 |
| Reinsurers' share of unearned premiums | **103,695** | - | **103,695** | 96,511 | - | 96,511 |
| Reinsurers' share of outstanding claims | **23,047** | - | **23,047** | 36,486 | - | 36,486 |
| Reinsurers' share of incurred but not reported claims | **21,875** | - | **21,875** | 23,072 | - | 23,072 |
| Deferred policy acquisition costs | **9,708** | - | **9,708** | 7,638 | - | 7,638 |
| Prepayments and other assets | **8,772** | - | **8,772** | 18,197 | - | 18,197 |
| Due from shareholders' operations | **7,078** | - | **7,078** | 5,037 | - | 5,037 |
| Property and equipment | - | **3,153** | **3,153** | - | 4,937 | 4,937 |
| Intangible assets | - | **5,384** | **5,384** | - | 6,200 | 6,200 |
| Right to use assets | - | **3,821** | **3,821** | - | 4,472 | 4,472 |
| Unit linked investments | - | **85,653** | **85,653** | - | 57,149 | 57,149 |
| | **380,497** | **98,011** | **478,508** | 370,204 | 72,758 | 442,962 |

**25 RISK MANAGEMENT (Continued)**
**Liquidity risk (continued)**

| Shareholders' assets | As at 31 December 2021 | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | Less than one year | More than one year | Total | Less than one year | More than one year | Total |
| | SAR'000 | | | SAR'000 | | |
| Cash and cash equivalents | 115,100 | - | 115,100 | 123,577 | - | 123,577 |
| Investments | 42,683 | - | 42,683 | 48,729 | - | 48,729 |
| Prepayments and other assets | 2,627 | - | 2,627 | 766 | - | 766 |
| Due from a related party | 36 | - | 36 | - | - | - |
| Statutory Deposit | - | 45,000 | 45,000 | - | 45,000 | 45,000 |
| | 160,446 | 45,000 | 205,446 | 173,072 | 45,000 | 218,072 |

| Insurance operations' liabilities | As at 31 December 2021 | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | Less than one year | More than one year | Total | Less than one year | More than one year | Total |
| | SAR'000 | | | SAR'000 | | |
| Outstanding claims | 54,164 | - | 54,164 | 61,847 | - | 61,847 |
| Incurred but not reported claims | 42,981 | - | 42,981 | 46,576 | - | 46,576 |
| Other reserves | 3,321 | - | 3,321 | 2,840 | - | 2,840 |
| Premium deficiency reserves | 5,510 | - | 5,510 | 6,737 | - | 6,737 |
| Unearned reinsurance commission | 10,483 | - | 10,483 | 11,966 | - | 11,966 |
| Unearned premiums | 157,161 | - | 157,161 | 133,049 | - | 133,049 |
| Reinsurance balances payable | 66,593 | - | 66,593 | 67,858 | - | 67,858 |
| Accrued expenses and other liabilities | 41,392 | - | 41,392 | 44,083 | - | 44,083 |
| Lease liabilities | 1,309 | 2,580 | 3,889 | 962 | 3,580 | 4,542 |
| Due to related party | - | - | - | 66 | - | 66 |
| Retirement benefit obligation | 6,018 | - | 6,018 | 5,601 | - | 5,601 |
| Unit linked liabilities | - | 85,653 | 85,653 | - | 57,149 | 57,149 |
| Mathematical reserves | 1,604 | - | 1,604 | 458 | - | 458 |
| | 390,536 | 88,233 | 478,769 | 382,043 | 60,729 | 442,772 |

| Shareholders' liabilities | As at 31 December 2021 | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | Less than one year | More than one year | Total | Less than one year | More than one year | Total |
| | SAR'000 | | | SAR'000 | | |
| Accrued expenses and other liabilities | 4,499 | - | 4,499 | 4,387 | - | 4,387 |
| Zakat and income tax payable | 6,699 | - | 6,699 | 7,075 | - | 7,075 |
| Due to insurance operations | 7,078 | - | 7,078 | 5,037 | - | 5,037 |
| | 18,276 | - | 18,276 | 16,499 | - | 16,499 |
| **Total Liquidity Gap** | 132,131 | 54,778 | 186,909 | 144,734 | 57,029 | 201,763 |

To manage the liquidity risk arising from above financial liabilities, the Company holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active market except for unquoted equity instruments. These assets can be readily sold to provide additional liquidity when needed.

**25 RISK MANAGEMENT (Continued)**

**Liquidity risk (continued)**

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

- Accrued investment income classified under prepayments and other asset is expected to be realized within 2 to 11 months from statement of financial position's date.

- Cash and bank balances are available on demand.

- Reinsurers share of outstanding claims majorly pertain to fire and property, marine, general accident, engineering, and protection and savings businesses and are generally realized within 3 to 6 months based on settlement of balances with reinsurers.

The liabilities with maturity less than one year are expected to settle as follows:
- Reinsurers' balances payable are settled on a net basis as per terms of reinsurance agreements.
- Majority of gross outstanding claims are expected to settle within 3 months in accordance with statutory timelines for payment. All other policies due to the inherent nature are generally settled within 12 months from the date of receipt of loss adjustor report.

The claims payable, accrued expenses and other liabilities are expected to settle within 12 months from the year end date.

**Operational Risk**

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

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

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

**Regulatory framework risk**

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

**26 DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY**

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. Underlying the definition of fair value there is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of operations or undertake a transaction on adverse terms. The Company's financial assets consist of cash and cash equivalents, premiums and reinsurance receivables, Murabaha deposits, reinsurance share of unearned premium, deferred policy acquisition cost, reinsurance share of outstanding claims, reinsurance share of incurred but not reported claims, reinsurance share of other reserves, investments and its financial liabilities consist of reinsurance balance payables, unearned premium, unearned commission income, outstanding claims, incurred but not reported claims, other reserves, premium deficiency reserve. The fair values of financial assets and liabilities are not materially different from their carrying values at the statement of financial position date.

## 26 DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

| **Shareholders' operations** | **As at 31 December 2021** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | | **SAR'000** | | |
| **Available for sale investments** | | | | |
| - Investments in unquoted equity | - | - | **1,923** | **1,923** |
| **Investments at fair value through statement of income** | | | | |
| - Investments in discretionary portfolios | **19,259** | - | - | **19,259** |
| - Investments in real estate fund | - | **6,264** | **5,237** | **11,501** |
| - Investments in quoted equity | - | - | - | - |
| **Investments at held to maturity** | | | | |
| - Sukuks | - | **10,000** | - | **10,000** |
| **Total** | **19,259** | **16,264** | **7,160** | **42,683** |

| | As at 31 December 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | | SAR'000 | | |
| Available for sale investments | | | | |
| - Investments in unquoted equity | - | - | 1,923 | 1,923 |
| Investments at fair value through statement of income | | | | |
| - Investments in equity shares | 2,418 | - | - | 2,418 |
| - Investments in discretionary portfolios | 16,442 | - | - | 16,442 |
| - Investments in real estate funds | | 7,789 | 5,157 | 12,946 |
| Investments at held to maturity | - | | - | |
| - Sukuks | - | 15,000 | - | 15,000 |
| Total | 18,860 | 22,789 | 7,080 | 48,729 |

## 27 CLAIMS DEVELOPMENT TABLE

The following table reflects the net incurred claims including both the net claims notified and incurred but not reported claims for each accident year at each financial position date together with the cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims. The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company will transfer much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

**27 CLAIMS DEVELOPMENT TABLE (continued)**

Claims triangulation analysis by accident years for the last five years on gross outstanding and incurred but not reported claims basis is set out below:

| **2021**<br>**Accident year** | **2017**<br>**SAR'000** | **2018**<br>**SAR'000** | **2019**<br>**SAR'000** | **2020**<br>**SAR'000** | **2021**<br>**SAR'000** | **Total**<br>**SAR'000** |
|---|---|---|---|---|---|---|
| Estimate of ultimate claims cost | | | | | | |
| At the end of accident year | - | - | - | - | 127,350 | 127,350 |
| One year later | - | - | - | 79,328 | - | 79,328 |
| Two years later | - | - | 298,296 | - | - | 298,296 |
| Three years later | - | 174,669 | - | - | - | 174,669 |
| Four years later | 663,735 | - | - | - | - | 663,735 |
| Current estimate of cumulative net claims | 663,735 | 174,669 | 298,296 | 79,328 | 127,350 | 1,343,378 |
| Cumulative payments to date | (658,816) | (166,701) | (294,572) | (69,706) | (53,117) | (1,242,912) |
| Gross liability recognized in the statement of financial position | 4,919 | 7,968 | 3,724 | 9,622 | 74,233 | 100,466 |

| 2020<br>Accident year | 2016<br>SAR'000 | 2017<br>SAR'000 | 2018<br>SAR'000 | 2019<br>SAR'000 | 2020<br>SAR'000 | Total<br>SAR'000 |
|---|---|---|---|---|---|---|
| Estimate of ultimate claims cost | | | | | | |
| At the end of accident year | - | - | - | - | 126,371 | 126,371 |
| One year later | - | - | - | 302,150 | - | 302,150 |
| Two years later | - | - | 179,505 | - | - | 179,505 |
| Three years later | - | 171,514 | - | - | - | 171,514 |
| Four years later | 493,202 | - | - | - | - | 493,202 |
| Current estimate of cumulative net claims | 493,202 | 171,514 | 179,505 | 302,150 | 126,371 | 1,272,742 |
| Cumulative payments to date | (489,604) | (167,583) | (165,393) | (289,434) | (49,464) | (1,161,478) |
| Gross liability recognized in the statement of financial position | 3,598 | 3,931 | 14,112 | 12,716 | 76,907 | 111,264 |

## 27 CLAIMS DEVELOPMENT TABLE (Continued)

Claims triangulation analysis by accident years for the last five years on net outstanding and incurred but not reported claims basis is set out below:

| **2021**<br>**Accident year** | **2017**<br>**SAR'000** | **2018**<br>**SAR'000** | **2019**<br>**SAR'000** | **2020**<br>**SAR'000** | **2021**<br>**SAR'000** | **Total**<br>**SAR'000** |
|---|---|---|---|---|---|---|
| Estimate of ultimate claims cost | | | | | | |
| At the end of accident year | - | - | - | - | 79,772 | 79,772 |
| One year later | - | - | - | 53,234 | - | 53,234 |
| Two years later | - | - | 92,425 | - | - | 92,425 |
| Three years later | - | 136,998 | - | - | - | 136,998 |
| Four years later | 242,099 | - | - | - | - | 242,099 |
| Current estimate of cumulative net claims | 242,099 | 136,998 | 92,425 | 53,234 | 79,772 | 604,528 |
| Cumulative payments to date | (238,929) | (131,077) | (89,765) | (47,838) | (41,375) | (548,984) |
| Net liability recognized in the statement of financial position | 3,170 | 5,921 | 2,660 | 5,396 | 38,397 | 55,544 |

| 2020<br>Accident year | 2016<br>SAR'000 | 2017<br>SAR'000 | 2018<br>SAR'000 | 2019<br>SAR'000 | 2020<br>SAR'000 | Total<br>SAR'000 |
|---|---|---|---|---|---|---|
| Estimate of ultimate claims cost | | | | | | |
| At the end of accident year | - | - | - | - | 74,543 | 74,543 |
| One year later | - | - | - | 93,999 | - | 93,999 |
| Two years later | - | - | 136,498 | - | - | 136,498 |
| Three years later | - | 90,985 | - | - | - | 90,985 |
| Four years later | 151,132 | - | - | - | - | 151,132 |
| Current estimate of cumulative net claims | 151,132 | 90,985 | 136,498 | 93,999 | 74,543 | 547,157 |
| Cumulative payments to date | (148,954) | (89,562) | (130,269) | (88,334) | (38,333) | (495,452) |
| Net liability recognized in the statement of financial position | 2,178 | 1,423 | 6,229 | 5,665 | 36,210 | 51,705 |

## 28 LEASES

### As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted with certain remeasurements of lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using 1 year SIBOR plus Risk Adjustment rate.

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

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate as at 1 January 2021. The Company's incremental borrowing rate applied is 4%.

### Transition

Previously, the Company classified certain leases as operating leases under IAS 17. These include the Company's head office and branches. Some leases include an option to renew the lease for an extended period that is to be mutually agreed between the parties. Further, some leases provide for additional rent payments that are based on annual increments. At transition, leases which were classified under IAS 17 as operating leases were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2020. Right-of-use assets are measured at the value of the lease liabilities in accordance with practical expedients available for initial application of IFRS 16. Therefore, there is no impact on retained earnings as at 1 January 2020. Further, the Company used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

## 28 LEASES (Continued)

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognised on Statement of financial position:

| **Right-of use assets** | |
|---|---|
| No of right-of use assets leased | **4** |
| Range of remaining term | **1 to 9 Years** |
| Average remaining lease term | **7** |
| No of leases with extension options | **4** |
| No of leases with options to purchase | **Nil** |
| No of leases with variable payments linked to an index | **Nil** |
| No of leases with termination options | **4** |

**Amounts recognized in the statement of Financial Position**

| | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| **Right-of-use assets- Rental property** | **SAR "000"** | SAR "000" |
| Opening balance | **4,472** | 6,140 |
| Reversal of lease assets during the year | **606** | (418) |
| Depreciation charge for the period | **(1,257)** | (1,250) |
| **Closing Net Book Value** | **3,821** | 4,472 |

| | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| **Lease Liabilities** | **SAR '000** | SAR '000 |
| Opening balance | **4,542** | 5,439 |
| Increase in lease liabilities | **346** | 723 |
| Financing cost (non-cash) | **177** | (201) |
| Lease payments (cash outflows) | **(1,176)** | (1,419) |
| **Closing balance** | **3,889** | 4,542 |

**28 LEASES (Continued)**

**Maturity profile of lease liabilities:**

| | As at 31 December 2021 | | |
|---|---|---|---|
| | SAR '000 | | |
| | Lease Payments | Finance charges | Net present values |
| Year 1 | **1,436** | **127** | **1,309** |
| Year 2 | **1,126** | **84** | **1,042** |
| Year 3 | **420** | **58** | **362** |
| Year 4 | **420** | **44** | **376** |
| Year 5 onwards | **840** | **40** | **800** |
| Total undiscounted lease liabilities | **4,242** | **353** | **3,889** |

Maturity profile of lease liabilities:

| | As at 31 December 2020 | | |
|---|---|---|---|
| | SAR '000 | | |
| | Lease Payments | Finance charges | Net present values |
| Year 1 | 1,126 | 164 | 962 |
| Year 2 | 1,126 | 164 | 962 |
| Year 3 | 1,126 | 164 | 962 |
| Year 4 | 1,126 | 164 | 962 |
| Year 5 onwards | 985 | 291 | 694 |
| Total undiscounted lease liabilities | 5,489 | 947 | 4,542 |

**Lease payments not recognised as a liability**

The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less). Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liability is as follows:

| | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| | **SAR '000** | SAR '000 |
| Leases of low value assets | **66** | 66 |

Total cash outflow for leases for the year ended 31 December 2021 was SAR 1,176 (2020: SAR 1,419).

| | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| | **SAR '000** | SAR '000 |
| **Current portion** | | |
| Lease liabilities | **1,309** | 962 |
| **Non-current portion** | | |
| Lease liabilities | **2,580** | 3,580 |

**Amounts recognized in the statement of Comprehensive Income**

| | **As at 31 December 2021** | As at 31 December 2020 |
|---|---|---|
| | **SAR '000** | SAR '000 |
| Lease financial cost (included in finance cost) | **127** | 164 |

## 29 SUPPLEMENTARY INFORMATION

### 29.1 Statement of financial position

| | Note | As at 31 December 2021 | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|
| | | Insurance operations | Shareholders' operations | Total | Insurance operations | Shareholders' operations | Total |
| | | SAR'000 | | | SAR'000 | | |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | 4 | 133,214 | 115,100 | 248,314 | 111,903 | 123,577 | 235,480 |
| Investments | 5 | 131 | 42,683 | 42,814 | 727 | 48,729 | 49,456 |
| Premiums and reinsurance receivables, net | 6 | 72,977 | - | 72,977 | 70,633 | - | 70,633 |
| Reinsurers' share of unearned premiums | 7.2 | 103,695 | - | 103,695 | 96,511 | - | 96,511 |
| Reinsurers' share of outstanding claims | 7.1 | 23,047 | - | 23,047 | 36,486 | - | 36,486 |
| Reinsurers' share of claims incurred but not reported | 7.1 | 21,875 | - | 21,875 | 23,072 | - | 23,072 |
| Deferred policy acquisition costs | | 9,708 | - | 9,708 | 7,638 | - | 7,638 |
| Prepayments and other assets | | 8,772 | 2,627 | 11,399 | 18,197 | 766 | 18,963 |
| Due from shareholders' operations | | 7,078 | - | 7,078 | 5,037 | - | 5,037 |
| Due from related parties | 13 | - | 36 | 36 | - | - | - |
| Statutory deposit | 10 | - | 45,000 | 45,000 | - | 45,000 | 45,000 |
| Property and equipment | | 3,153 | - | 3,153 | 4,937 | - | 4,937 |
| Right to use assets | | 3,821 | - | 3,821 | 4,472 | - | 4,472 |
| Intangible assets | | 5,384 | - | 5,384 | 6,200 | - | 6,200 |
| Unit linked investments | 7.4 | 85,653 | - | 85,653 | 57,149 | - | 57,149 |
| **TOTAL ASSETS** | | 478,508 | 205,446 | 683,954 | 442,962 | 218,072 | 661,034 |
| **LIABILITIES** | | | | | | | |
| Outstanding claims | 7.2 | 54,164 | - | 54,164 | 61,847 | - | 61,847 |
| Claims incurred but not reported | 7.2 | 42,981 | - | 42,981 | 46,576 | - | 46,576 |
| Other reserves | 7.2 | 3,321 | - | 3,321 | 2,840 | - | 2,840 |
| Premium deficiency reserves | 7.3 | 5,510 | - | 5,510 | 6,737 | - | 6,737 |
| Unearned premiums | 7.1 | 157,161 | - | 157,161 | 133,049 | - | 133,049 |
| Reinsurance balances payable | | 66,593 | - | 66,593 | 67,858 | - | 67,858 |
| Unearned reinsurance commission | | 10,483 | - | 10,483 | 11,966 | - | 11,966 |
| Accrued expenses and other liabilities | | 41,392 | 4,499 | 45,891 | 44,083 | 4,387 | 48,470 |
| Lease liabilities | 28 | 3,889 | - | 3,889 | 4,542 | - | 4,542 |
| Due to related party | 13 | - | - | - | 66 | - | 66 |
| Zakat and income tax payable | 15 | - | 6,699 | 6,699 | - | 7,075 | 7,075 |
| Unit linked liabilities | 7.4 | 85,653 | - | 85,653 | 57,149 | - | 57,149 |
| Mathematical reserve | 7.5 | 1,604 | | 1,604 | 458 | | 458 |
| Retirement benefit obligation | 16 | 6,018 | - | 6,018 | 5,601 | - | 5,601 |
| Due to insurance operations | | - | 7,078 | 7,078 | - | 5,037 | 5,037 |
| **TOTAL LIABILITIES** | | 478,769 | 18,276 | 497,045 | 442,772 | 16,499 | 459,271 |
| **EQUITY** | | | | | | | |
| Share capital | 17 | - | 300,000 | 300,000 | - | 300,000 | 300,000 |
| Accumulated losses | | - | (112,830) | (112,830) | - | (98,427) | (98,427) |
| Remeasurement of retirement benefit obligation | 16 | (261) | - | (261) | 190 | - | 190 |
| **TOTAL SHAREHOLDERS' EQUITY** | | (261) | 187,170 | 186,909 | 190 | 201,573 | 201,763 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 478,508 | 205,446 | 683,954 | 442,962 | 218,072 | 661,034 |

## 29 SUPPLEMENTARY INFORMATION (continued)

### 29.2 Statement of income

| | Note | 2021 Insurance operations | 2021 Shareholders' operations | 2021 Total | 2020 Insurance operations | 2020 Shareholders' operations | 2020 Total |
|---|---|---|---|---|---|---|---|
| | | SAR'000 | | | SAR'000 | | |
| **REVENUES** | | | | | | | |
| Gross premiums written | 7.1 | 305,554 | - | 305,554 | 316,315 | - | 316,315 |
| Fee income from insurance contracts | 7.1 | 44 | - | 44 | 38 | - | 38 |
| Reinsurance premiums ceded | | | | | | | |
| - Local | | (5,307) | - | (5,307) | (4,156) | - | (4,156) |
| - Foreign | | (133,446) | - | (133,446) | (182,357) | - | (182,357) |
| Excess of loss expenses | | (8,031) | - | (8,031) | (5,387) | - | (5,387) |
| **Net premiums written** | | 158,814 | - | 158,814 | 124,453 | - | 124,453 |
| Changes in unearned premiums | 19 | (24,112) | | (24,112) | (25,284) | | (25,284) |
| Changes in reinsurers' share of unearned premiums | 19 | 7,184 | - | 7,184 | 37,667 | - | 37,667 |
| **Net premiums earned** | | 141,886 | - | 141,886 | 136,836 | - | 136,836 |
| Reinsurance commission earned | | 20,162 | - | 20,162 | 24,351 | - | 24,351 |
| Other underwriting income | | 7,352 | - | 7,352 | 6,623 | - | 6,623 |
| **Total Revenues** | | 169,400 | - | 169,400 | 167,810 | - | 167,810 |
| **UNDERWRITING COSTS AND EXPENSES** | | | | | | | |
| Gross claims paid | | (83,872) | - | (83,872) | (160,147) | - | (160,147) |
| Surrenders | | (13,652) | - | (13,652) | (5,182) | - | (5,182) |
| Reinsurers' share of claims paid | | 27,903 | - | 27,903 | 99,538 | - | 99,538 |
| **Net claims paid** | | (69,621) | - | (69,621) | (65,791) | - | (65,791) |
| Changes in outstanding claims | 7.2 | 7,683 | - | 7,683 | 110,920 | - | 110,920 |
| Changes in reinsurers' share of outstanding claims | 7.2 | (13,439) | - | (13,439) | (101,097) | - | (101,097) |
| Changes in incurred but not reported claims | 7.2 | 3,595 | - | 3,595 | (14,681) | - | (14,681) |
| Changes in reinsurers' share of incurred but not reported claim | 7.2 | (1,197) | - | (1,197) | 7,868 | - | 7,868 |
| Changes in other reserves | 7.2 | (481) | - | (481) | (1,002) | - | (1,002) |
| Changes in premium deficiency reserves | 7.3 | 1,227 | - | 1,227 | (2,250) | - | (2,250) |
| **Net claims incurred** | | (72,233) | - | (72,233) | (66,033) | - | (66,033) |
| Changes in unit linked reserves | | (28,504) | - | (28,504) | (21,208) | - | (21,208) |
| Changes in mathematical reserves | | (1,146) | - | (1,146) | 231 | - | 231 |
| Policy acquisition costs | | (26,739) | - | (26,739) | (25,588) | - | (25,588) |
| Other underwriting expenses | | (1,502) | - | (1,502) | (1,561) | - | (1,561) |
| **Total underwriting costs and expenses** | | (130,124) | - | (130,124) | (114,159) | - | (114,159) |
| **NET UNDERWRITING INCOME** | | 39,276 | - | 39,276 | 53,651 | - | 53,651 |
| **OTHER OPERATING INCOME / (EXPENSES)** | | | | | | | |
| General and administrative expenses | 20 | (61,398) | (4,345) | (65,743) | (57,017) | (4,287) | (61,304) |
| Provision for doubtful receivables | 20 | (5,103) | - | (5,103) | (3,613) | - | (3,613) |
| Loss on disposal of property and equipment | | - | - | - | - | - | - |
| Unrealized gain on unit linked investments | | 15,082 | - | 15,082 | 4,926 | - | 4,926 |
| Unrealized gain on investments | 21 | - | (14) | (14) | 113 | (382) | (269) |
| Realized gain on investments | 21 | 1,576 | 3,739 | 5,315 | 1,470 | 3,691 | 5,161 |
| **Total operating and other (expenses) / income, net** | | (49,843) | (620) | (50,463) | (54,121) | (978) | (55,099) |
| **Total loss for the year before zakat** | | (10,567) | (620) | (11,187) | (470) | (978) | (1,448) |
| **Zakat for the year** | | - | (3,216) | (3,216) | - | (4,145) | (4,145) |
| **Tax for the year** | | | - | - | | (230) | (230) |
| **Net loss for the year** | | (10,567) | (3,836) | (14,403) | (470) | (5,353) | (5,823) |
| **Loss per share (SAR)** | | | | (0.48) | | | (0.19) |

## 29 SUPPLEMENTARY INFORMATION (continued)

### 29.3 Statement of comprehensive income

| | | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|---|
| | Note | Insurance operations | Shareholders' operations | Total | Insurance operations | Shareholders' operations | Total |
| | | SAR'000 | | | SAR'000 | | |
| Net loss for the year | | (10,567) | (3,836) | (14,403) | (470) | (5,353) | (5,823) |
| **Other comprehensive income:** | | | | | | | |
| Items that will not be reclassified to statement of income in subsequent periods: | | | | | | | |
| - Actuarial (loss) / gain on retirement benefit obligation | 16 | (451) | - | (451) | 536 | - | 536 |
| **Total comprehensive loss for the year** | | (11,018) | (3,836) | (14,854) | 66 | (5,353) | (5,287) |

**29 SUPPLEMENTARY INFORMATION (continued)**

**29.4 Statement of cash flows**

| | Note | 2021 Insurance operations | 2021 Shareholders' operations | 2021 Total | 2020 Insurance operations | 2020 Shareholders' operations | 2020 Total |
|---|---|---|---|---|---|---|---|
| | | SAR'000 | | | SAR'000 | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | | |
| Net loss for the year | | - | (14,403) | (14,403) | - | (5,823) | (5,823) |
| Adjustments for non cash items: | | | | | | | |
| Depreciation of property and equipment | 11, 12 | 3,847 | - | 3,847 | 4,283 | - | 4,283 |
| Depreciation of right to use assets | 28 | 1,257 | - | 1,257 | 1,250 | - | 1,250 |
| Financing cost on lease liabilities | | 177 | - | 177 | 201 | - | 201 |
| Provision for doubtful receivables | 6 | 5,103 | - | 5,103 | 3,613 | - | 3,613 |
| Realized gain on FVTIS | 21 | (904) | (1,498) | (2,402) | (375) | - | (375) |
| Unrealized (gain) / loss on FVTIS | 21 | - | 96 | 96 | (113) | 854 | 741 |
| Provision for retirement benefit obligation | 17 | 1,367 | - | 1,367 | 1,698 | - | 1,698 |
| Provision for zakat and tax | 16 | - | 3,216 | 3,216 | - | 4,375 | 4,375 |
| | | 10,847 | (12,589) | (1,742) | 10,557 | (594) | 9,963 |
| Changes in operating assets and liabilities: | | | | | | | |
| Premiums and reinsurance receivables | | (7,447) | - | (7,447) | (1,135) | - | (1,135) |
| Reinsurers' share of unearned premiums | | (7,184) | - | (7,184) | (37,667) | - | (37,667) |
| Reinsurers' share of outstanding claims | | 13,439 | - | 13,439 | 101,097 | - | 101,097 |
| Reinsurers' share of claims incurred but not reported | | 1,197 | - | 1,197 | (7,868) | - | (7,868) |
| Deferred policy acquisition costs | | (2,070) | - | (2,070) | 533 | - | 533 |
| Prepayments and other assets | | 9,425 | (1,861) | 7,564 | (7,606) | 2,223 | (5,383) |
| Due from related parties | | - | (36) | (36) | - | 206 | 206 |
| Due to insurance operations | | - | 2,041 | 2,041 | - | 2,298 | 2,298 |
| Unit linked investments | | (28,504) | - | (28,504) | (21,208) | - | (21,208) |
| Outstanding claims | | (7,683) | - | (7,683) | (110,920) | - | (110,920) |
| Claims incurred but not reported | | (3,595) | | (3,595) | 14,681 | | 14,681 |
| Other reserves | | 481 | - | 481 | 1,002 | - | 1,002 |
| Premium deficiency reserves | | (1,227) | - | (1,227) | 2,250 | - | 2,250 |
| Mathematical reserves | | 1,146 | - | 1,146 | (230) | - | (230) |
| Unearned premiums | | 24,112 | - | 24,112 | 25,284 | - | 25,284 |
| Reinsurance balances payable | | (1,265) | - | (1,265) | 31,299 | - | 31,299 |
| Unearned reinsurance commission | | (1,483) | - | (1,483) | 4,088 | - | 4,088 |
| Accrued expenses and other liabilities | | (2,691) | 112 | (2,579) | (90,102) | 594 | (89,508) |
| Lease liabilities | | 346 | - | 346 | 321 | - | 321 |
| Due to a related party | | (66) | - | (66) | - | - | - |
| Unit linked liabilities | | 28,504 | - | 28,504 | 21,208 | - | 21,208 |
| Due from shareholders' operations | | (2,041) | - | (2,041) | (2,298) | - | (2,298) |
| Cash (used in) / generated from operations | | 24,241 | (12,333) | 11,908 | (66,714) | 4,727 | (61,987) |
| Retirement benefit obligation paid | 16 | (1,401) | - | (1,401) | (1,259) | - | (1,259) |
| Zakat and income tax paid | 15 | - | (3,592) | (3,592) | - | (3,279) | (3,279) |
| **Net cash generated from / (used in) operating activities** | | 22,840 | (15,925) | 6,915 | (67,973) | 1,448 | (66,525) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | | |
| Proceeds from maturity of Murabaha deposits | | - | - | - | - | 96,728 | 96,728 |
| Purchase of investments | 5.2 | (141,000) | - | (141,000) | (100,000) | - | (100,000) |
| Proceeds from disposal of investments | 5.2 | 142,500 | 2,448 | 144,948 | 100,000 | - | 100,000 |
| Redemption / subscription of sukuk | 5.3 | - | 5,000 | 5,000 | - | (10,000) | (10,000) |
| Purchase of property and equipment | 11 | (135) | - | (135) | (200) | - | (200) |
| Right of use assets | 28 | (606) | - | (606) | 418 | - | 418 |
| Purchase of intangible assets | 12 | (1,112) | - | (1,112) | (2,705) | - | (2,705) |
| Proceeds from disposal of property and equipment | | - | - | - | 1 | - | 1 |
| **Net cash (used in) / generated from investing activities** | | (353) | 7,448 | 7,095 | (2,486) | 86,728 | 84,242 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | | | |
| Lease payments during the year | | (1,176) | - | (1,176) | (1,419) | - | (1,419) |
| **Net change in cash and cash equivalents** | | 21,311 | (8,477) | 12,834 | (71,878) | 88,176 | 16,298 |
| Cash and cash equivalents at the beginning of the year | | 111,903 | 123,577 | 235,480 | 183,781 | 35,401 | 219,182 |
| **Cash and cash equivalents at the end of the year** | 4 | 133,214 | 115,100 | 248,314 | 111,903 | 123,577 | 235,480 |

**30 COMPARATIVE FIGURES**

Certain prior year figures have been reclassified to conform to current year presentation.

**31 SUBSEQUENT EVENTS**

On February 02, 2022 (corresponding to Rajab 01, 1443) , Subsequent to the year end, one of the company's clients "Anjum Hotel" filed a claim against company asking for damages on account of impact of Covid-19 on its business. Since the case is currently subject to relevant legal proceedings, hence as at the date of audit report, no provision is expected to be recognized in these financial statements.

**32 APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements have been approved by the Board of Directors of the Company on Shaban 07, 1443H corresponding to 10th March 2022G.