WATANIYA INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2022

KPMG Professional Services
Zahran Business Center
Prince Sultan Street
P.O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
Commercial Registration No 4030290792

Headquarters in Riyadh

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P.O. Box 16415,
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Kingdom of Saudi Arabia
License No. 25

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WATANIYA INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

Opinion

We have audited the financial statements of Wataniya Insurance Company – a Saudi Joint Stock Company (the "Company"), which comprise the statement of financial position as at December 31, 2022, statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") 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") (referred to as "IFRS as endorsed in the Kingdom of Saudi Arabia").

Basis for Opinion

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

Key Audit Matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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. For each matter below, a description of how our audit addressed the matter is provided in that context:

Key Audit Matter (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of ultimate claim liabilities arising from insurance contracts As at December 31, 2022, insurance contract liabilities comprising of gross outstanding claims and reserves including claims incurred but not reported (IBNR) and premium deficiency reserve (PDR) as stated in note 8, amounted to SAR 519.68 million (2021: SAR 460.44 million). The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the best-estimate of the ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling costs. Further, individual outstanding claims are estimated by internal or external loss adjusters when a claim has been initiated. These estimates are reassessed during the various stages of the claim processing cycle and are revised based on changes in specific circumstances pertaining to each claim. The Company principally uses an external actuary ("management's expert") to provide them with the estimate of such claim liabilities. A range of methods were used to determine these claim liabilities which were based on a number of explicit or implicit assumptions relating to the expected settlement amounts and settlement patterns of claims. Due to the estimation uncertainty and subjectivity involved in the assessment of valuation of ultimate claim liabilities arising from insurance contracts, we have considered this as a key audit matter. Refer notes 3.3(c) to the financial statements for the accounting policy adopted by the Company and note 2e(i) for the significant accounting judgements, estimates and assumptions involved in the initial recognition and subsequent measurement of insurance contract liabilities. Also, refer note 8 for movement in outstanding claims, IBNR and PDR.	We performed the following procedures: • Understood, evaluated and tested key controls around the claims handling and provision setting processes; • Performed substantive tests on the amounts recorded for a sample of claims notified and paid; including comparing the gross outstanding claims amount to appropriate source documentation to evaluate the valuation of gross outstanding claims; • Evaluated the competence, capabilities and objectivity of the management's actuarial expert based on their professional qualifications and experience and assessed their independence; • Checked the completeness and accuracy of the underlying data used by the management in estimating the IBNR and PDR; • Our actuarial experts performed independent evaluation of the Company's actuarial practices and related provisions, including calculation methods and approach, and gained comfort over the actuarial report issued by the management's expert. We assessed whether Company's actuarial methodologies were consistent with the generally accepted actuarial practices and with prior years. We also evaluated the key actuarial assumptions used by the management; and • Assessed the adequacy and appropriateness of the related disclosures in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WATANIYA INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY) (CONTINUED)

Other matter

The financial statements of the Company for the year ended December 31, 2021 were audited jointly by Ernst & Young & Co. Public Accountants and PricewaterhouseCoopers Public Accountants who had expressed an unqualified opinion thereon vide their report dated March 20, 2022 (corresponding to Shaban 17, 1443H).

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WATANIYA INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY) (CONTINUED)

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

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

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

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

- Conclude on the appropriateness of the management's 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.

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

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

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

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

for KPMG Professional Services

Ebrahim Oboud Baeshen
License Number 382

for PricewaterhouseCoopers (Certified Public Accountants)

Mufaddal Ali
License Number 447

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KPMG Professional Services

March 20, 2023 G
Corresponding to Sha'ban 28, 1444 H
Jeddah, Kingdom of Saudi Arabia

برايس وترهاوس كوبرز
محاسبون قانونيون
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
Lic No. 323/11/25/1
C.R. 4030289002

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of financial position
As at December 31, 2022
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2022	2021
ASSETS			
Cash and cash equivalents	4	**70,856**	42,130
Term deposits	5	**346,934**	191,369
Premiums receivable – net	6	**375,284**	249,526
Due from reinsurers – net	7	**89,320**	39,155
Reinsurers' share of unearned premiums	8	**257,680**	173,197
Reinsurers' share of outstanding claims	8	**352,931**	280,924
Reinsurers' share of claims incurred but not reported	8	**28,861**	30,637
Deferred policy acquisition costs	8	**52,684**	38,790
Investments	9	**218,425**	179,882
Prepaid expenses and other assets	10	**23,432**	38,493
Property and equipment	11	**17,318**	17,403
Intangible assets	12	**40,095**	44,139
Statutory deposit	13	**40,000**	20,000
Accrued income on statutory deposit	13	**2,320**	1,592
TOTAL ASSETS		**1,916,140**	1,347,237
LIABILITIES AND EQUITY			
LIABILITIES			
Policyholders payable	14	**101,229**	29,961
Accrued expenses and other liabilities	15	**71,584**	72,158
Due to reinsurers, agents, brokers and third-party administrator	16	**224,591**	139,654
Unearned premiums	8	**575,557**	392,680
Unearned reinsurance commission	8	**24,946**	29,200
Outstanding claims	8	**459,115**	373,698
Claims incurred but not reported	8	**58,556**	76,046
Premium deficiency reserve	8	**2,011**	10,696
Additional unexpired risk reserve	8	**4,502**	1,621
Unallocated loss adjustment expenses	8	**4,553**	4,863
Zakat and income tax payable	23	**6,717**	3,873
Accrued income on statutory deposit	13	**2,320**	1,592
TOTAL LIABILITIES		**1,535,681**	1,136,042
EQUITY			
Share capital	24	**400,000**	200,000
Statutory reserve	25	**15,354**	15,354
Accumulated losses		**(34,895)**	(4,159)
TOTAL EQUITY		**380,459**	211,195
TOTAL LIABILITIES AND EQUITY		**1,916,140**	1,347,237
COMMITMENTS AND CONTINGENCIES	32		

S. F Abbas

The accompanying notes 1 to 34 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of income
For the year ended December 31, 2022
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2022	2021
REVENUES			
Gross premiums written	8,19	1,042,418	902,100
Reinsurance premiums ceded	26	(427,244)	(357,493)
Excess of loss expenses		(11,272)	(21,837)
Net premiums written		603,902	522,770
Changes in unearned premiums		(182,877)	(63,048)
Changes in reinsurers' share of unearned premiums		84,483	43,826
Net premiums earned		505,508	503,548
Reinsurance commission	8.4	50,842	49,187
Other underwriting income		1,422	432
TOTAL REVENUES		557,772	553,167
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid and loss adjustment expenses, net of recoveries	8.1	470,429	784,831
Reinsurers' share of claims paid	8.1	(120,809)	(406,215)
Net claims paid		349,620	378,616
Changes in outstanding claims		85,417	(268,250)
Changes in reinsurers' share of outstanding claims		(72,007)	278,913
Changes in claims incurred but not reported		(17,490)	(25,445)
Changes in reinsurers' share of claims incurred but not reported		1,776	22,226
Net claims incurred		347,316	386,060
Changes in premium deficiency reserve		(8,685)	(2,270)
Changes in additional unexpired risk reserve		2,881	1,418
Changes in unallocated loss adjustment expenses		(310)	209
Policy acquisition costs	8.3	74,014	66,977
Other underwriting expenses	20	24,866	27,574
TOTAL UNDERWRITING COSTS AND EXPENSES		440,082	479,968
NET UNDERWRITING INCOME		117,690	73,199
OTHER OPERATING (EXPENSES) / INCOME			
Reversal / (allowance) for impairment of doubtful premium, reinsurers and other receivables	6,7,10	763	(4,996)
General and administration expenses	28	(143,555)	(124,933)
Commission income on term deposits		7,584	1,514
Unrealized (loss) / gain on investments	9.1	(4,314)	3,930
Realised gain on investments	9.1	4,857	-
Commission income on investments		411	195
Dividend income		16	8
Other income, net	29	4,695	609
TOTAL OTHER OPERATING EXPENSES, NET		(129,543)	(123,673)
Net loss for the year attributable to the shareholders before zakat and income tax		(11,853)	(50,474)
Zakat	23.2	(6,297)	(3,986)
Income tax	23.2	(194)	(16)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		(18,344)	(54,476)
Loss per share (basic and diluted) - restated (expressed in SAR per share)	24	(0.49)	(1.80)

S. F Abbas

The accompanying notes 1 to 34 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of comprehensive income
For the year ended December 31, 2022
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2022	2021
NET LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		(18,344)	(54,476)
Other comprehensive loss			
Items that will not be reclassified to statement of income in subsequent years			
Actuarial losses on defined benefit obligations	15.1	(440)	(161)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		(18,784)	(54,637)

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The accompanying notes 1 to 34 form an integral part of these financial statements.

(All amounts in Saudi Riyals thousands unless otherwise stated)

For the year ended December 31, 2022

	Note	Share capital	Statutory reserve	Accumulated losses	Total
Balance at beginning of the year		200,000	15,354	(4,159)	211,195
Total comprehensive loss for the year attributable to the shareholders					
Net loss for the year attributable to the shareholders		-	-	(18,344)	(18,344)
Other comprehensive loss for the year – Actuarial losses on defined benefit obligations		-	-	(440)	(440)
Total comprehensive loss for the year attributable to the shareholders		-	-	(18,784)	(18,784)
Transaction with owners of the Company:					
Increase in share capital	24	200,000	-	-	200,000
Income tax adjustment		-	-	(358)	(358)
Other transactions:					
Transaction costs	24	-	-	(11,594)	(11,594)
Balance at end of the year		400,000	15,354	(34,895)	380,459

For the year ended December 31, 2021

	Share capital	Statutory reserve	Retained earnings / (accumulated losses)	Total
Balance at beginning of the year	200,000	15,354	50,478	265,832
Total comprehensive loss for the year attributable to the shareholders				
Net loss for the year attributable to the shareholders	-	-	(54,476)	(54,476)
Other comprehensive loss for the year – Actuarial losses on defined benefit obligations	-	-	(161)	(161)
Total comprehensive loss for the year attributable to the shareholders	-	-	(54,637)	(54,637)
Balance at end of the year	200,000	15,354	(4,159)	211,195

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WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of cash flows
For the year ended December 31, 2022
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES			
Net loss for the year attributable to the shareholders before zakat and income tax		(11,853)	(50,474)
Adjustments for non-cash items:			
Depreciation of property and equipment and amortisation of intangible assets	11,12	8,336	7,058
(Reversal) / allowance for impairment of doubtful premium, reinsurers and other receivables	6,7,10	(763)	4,996
Unrealized loss / (gain) on investments	9.1	4,314	(3,930)
Commission income on investments		(411)	(195)
Dividend income		(16)	(8)
Provision for employee benefits obligation	15.1	3,277	3,136
Commission income on term deposits		(7,584)	(1,514)
Capital work in progress written off	11	3,706	-
		(994)	(40,931)
Changes in operating assets and liabilities:			
Premiums receivable		(122,949)	(58,947)
Reinsurers' share of unearned premiums		(84,483)	(43,826)
Reinsurers' share of outstanding claims		(72,007)	278,913
Reinsurers' share of claims Incurred but not reported		1,776	22,226
Deferred policy acquisition costs		(13,894)	(6,491)
Due from reinsurers		(50,235)	3,847
Prepaid expenses and other assets		16,258	(18,499)
Policyholders payable		71,268	7,280
Accrued expenses and other liabilities		(2,152)	4,455
Due to reinsurers, agents, brokers and third party administrator		84,937	33,959
Unearned premiums		182,877	63,048
Unearned reinsurance commission		(4,254)	(1,186)
Outstanding claims		85,417	(268,250)
Claims incurred but not reported		(17,490)	(25,445)
Premium deficiency reserve		(8,685)	(2,270)
Additional unexpired risk reserve		2,881	1,418
Unallocated loss adjustment expenses		(310)	209
		67,961	(50,490)
Surplus paid to policyholders		-	(2,468)
Zakat and income tax paid	23.2	(3,647)	(6,733)
Payment of employee benefits obligation	15.1	(2,139)	(4,293)
Net cash generated from / (used in) operating activities		62,175	(63,984)

S. F Abbas

The accompanying notes 1 to 34 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of cash flows (continued)
For the year ended December 31, 2022
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2022	2021
CASH FLOW FROM INVESTING ACTIVITIES			
Additions to property and equipment	11	(7,913)	(8,725)
Additions to intangible assets	12	-	(9,391)
Additions to FVSI investments	9.1	(100,000)	(9,000)
Realised gain reinvested during the year	9.1	(4,857)	-
Proceeds from disposal of FVSI investments	9.1	62,000	-
Placements in term deposits		(346,934)	(191,369)
Proceeds from term deposits matured		191,369	242,250
Increase in statutory deposit		(20,000)	-
Commission income on investments		411	195
Dividend income		16	8
Income received from term deposits		4,053	1,413
Net cash (used in) / generated from investing activities		(221,855)	25,381
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of right shares	24	200,000	-
Transaction costs on the issue of right shares	24	(11,594)	-
Net cash generated from financing activities		188,406	-
Net increase / (decrease) in cash and cash equivalents		28,726	(38,603)
Cash and cash equivalents at beginning of the year	4	42,130	80,733
Cash and cash equivalents at end of the year	4	70,856	42,130
SUPPLEMENTAL SCHEDULE OF NON-CASH INFORMATION			
Transfer from capital work in progress	11	8,578	-
Income tax receivable from foreign shareholders adjusted against prepaid expenses and other assets		-	358
Remeasurement loss on employee benefits obligation adjusted against accrued expenses and other liabilities	15.1	440	161

S. F Abbas

1 General

Wataniya Insurance Company (the "Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia under Commercial Registration No. 4030200981 dated 1 Jumada II 1431H (corresponding to May 15, 2010) and Ministry of Commerce Resolution number 158/K dated Jumad-ul-Awal 12, 1431H (corresponding to April 26, 2010). The registered office address of the Company is Juffali Building, Madina Road, Jeddah, Saudi Arabia.

The Company is licensed to conduct insurance business in Saudi Arabia under Cooperative insurance principles in accordance with Royal Decree No M/53 dated 21 Shawwal 1430H (corresponding to October 10, 2009) pursuant to Council of Ministers' Resolution No. 330 dated Shawwal 16,1430H (corresponding to October 5, 2009). The Company has obtained Saudi Central Bank ("SAMA") license number TMN/29/20106 valid up to Rajab 2,1446H (corresponding to January 2, 2025). The Company was listed on the Saudi stock exchange (Tadawul) on June 6, 2010.

The objectives of the Company are to provide general insurance and related services in accordance with its by-laws and applicable regulations in the Kingdom of Saudi Arabia.

During July 2022, there was a transfer of shareholding whereby SNIC Insurance Company sold 1 million shares to E.A. Juffali and Brothers. Accordingly, SNIC Insurance Company's shareholding diluted from 27.5% to 25% and E.A. Juffali and Brothers' shareholding increased from 8.63% to 11.13%. All the legal formalities were completed as at December 31, 2022. Subsequent to the year-end, E.A. Juffali and Brothers' shareholding further increased to 29.875% as a result of the acquisition of 2 million shares from New Reinsurance Company Ltd and 5.5 million shares from SNIC Insurance Company. All the legal formalities were completed subsequent to the year-end. SNIC Insurance Company's shareholding diluted from 25% to 11.25%. New Reinsurance Company Ltd is no longer a shareholder in the Company.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of presentation and measurement

The financial statements have been prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of investment held as fair value through statement of income (FVSI) and available-for-sale investments (except where fair value cannot be measured reliably) and measurement of employees defined benefit obligations at present value using projected credit unit method. The Company's statement of financial position is presented in order of liquidity. Except for property and equipment, intangible assets, held-to-maturity and available for sale investments, statutory deposit, end-of-service benefits, warranty and engineering related to unearned premiums, unearned reinsurance commission and deferred policy acquisition cost, outstanding claims, claims incurred but not reported and technical reserves, all other assets and liabilities are of short-term nature, unless, stated otherwise.

As required by the Saudi Arabian Insurance Regulations "SAMA Implementation Regulations", the Company maintains separate books of accounts for "Insurance Operations" and "Shareholders' Operations". SAMA Implementation Regulations require a clear segregation of assets, liabilities, income and expenses of the insurance and shareholders operations. Accordingly, assets, liabilities, revenues and expenses attributable to either operation are recorded in the respective accounts. 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 30 have been provided as supplementary information to comply with requirements of the SAMA Implementing Regulations and is not required by International Financial Reporting Standards (IFRS).

In preparing the Company's financial statements in compliance with IFRS as endorsed in KSA, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Inter-operation balances, transactions and unrealized gains and losses, if any, are eliminated in full during amalgamation. The accounting policies adopted for the insurance operations and shareholders' operations are uniform for like transactions and events in similar circumstances.

(c) Functional and presentation currency

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

2 Basis of preparation (continued)

(d) Fiscal year

The Company follows a fiscal year ending December 31.

(e) Critical accounting judgments, estimates and assumptions

The preparation of these 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 continuously being 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:

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

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

The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. The Company has appointed a qualified actuary who supports in reviewing and providing recommendation with regards to the expected ultimate claims and the associated claims reserves. The Company booked reserves following the recommendation of the appointed actuary who is currently external and independent from the Company. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Refer note 31.1 for a sensitivity analysis in relation to significant assumptions.

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

ii) Impairment of available-for-sale financial assets

The Company determines that available-for-sale 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.

iii) 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.

iv) Fair value of financial instruments

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

2 Basis of preparation (continued)

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

v) Going concern

The Management has performed a detailed assessment and based on the business plan and cash flow projections, management believes that the Company will be able to continue business and meet its obligation as they fall due over the next twelve months. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, these financial statements continue to be prepared on the going concern basis.

(f) Seasonality of operations

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

3 Significant accounting policies

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

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

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

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

3.2 Standards issued but not yet effective

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

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

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

3 Significant accounting policies (continued)

3.2 Standards issued but not yet effective (continued)

The Company will apply IFRS 17 and IFRS 9 for the first time on 1 January 2023. These standards will bring significant changes to the operational accounting for insurance and reinsurance contracts and financial instruments and presentation of financial statement and are expected to have a material impact on the Company's financial statements in the period of initial application.

A. IFRS 17 Insurance Contracts

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

I. Structure and status of the Implementation project

IFRS 17 implementation project has been significantly completed under the governance of steering committee. To ensure that insurance companies implement IFRS 17 to a high standard, SAMA issued circular 172, dated December 20, 2018 directing all insurance companies to execute a four phased approach, comprising gap assessment, financial impact assessment, implementation plan and multiple dry runs. The Company has submitted the required documents to SAMA.

II. Significant judgements and accounting policy choices

The Company is expected to apply the following significant accounting policies in the preparation of financial statements on the effective date of IFRS 17 i.e. January 01, 2023:

a) Contracts within / outside the scope of IFRS 17

- IFRS 17 identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder if a specified uncertain future event (the insured event), adversely affects the policyholder.

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

b) Combination / unbundling of contracts

The Company does not underwrite any insurance contracts that contain embedded derivatives or distinct investment components. Currently, the Company's insurance portfolios do not contain any non-insurance components that will need to be unbundled from insurance contracts.

3 Significant accounting policies (continued)

3.2 Standards issued but not yet effective (continued)

A. IFRS 17 Insurance Contracts (continued)

II. Significant judgements and accounting policy choices (continued)

c) Level of aggregation

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

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

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Company aggregates reinsurance contracts held concluded into groups of:

- contracts for which there is a net gain at initial recognition, if any; and
- contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and
- remaining contracts in the portfolio, if any.

d) Measurement – Overview

IFRS 17 provides the following different measurement models:

1. The General Measurement Model (GMM): The general measurement model (GMM), also known as the building block approach, consists of the fulfillment cash flows and the contractual service margin. There is no group of contracts that are expected to be measured under the general measurement model.

2. The Variable Fee Approach (VFA): 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. The VFA model is not applicable in the case of the Company as it does not have any contracts with direct participation features.

3. Premium Allocation Approach (PAA):

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.

The Company may simplify the measurement of a group of insurance contracts using the premium allocation approach if, and only if, at the inception of the group:

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

3 Significant accounting policies (continued)

3.2 Standards issued but not yet effective (continued)

A. IFRS 17 Insurance contracts (continued)

II. Significant judgements and accounting policy choices (continued)

d) Measurement – Overview (continued)

3. Premium Allocation Approach (PAA) (continued):

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

- **Insurance contracts:**
  The coverage period of motor, marine, property and term life contracts in the group of contracts is one year or less. PAA eligibility test has been performed for the engineering, general accident and liability and extended warranty group of contracts. The Company reasonably expects that the resulting measurement would not differ materially from the result of applying the accounting policies for general measurement model.
- **Reinsurance contracts:**
  The Company reasonably expects that the resulting measurement under the PAA measurement model would not differ materially from the result of applying the general measurement model.

Measurement:
On initial recognition of each group of contracts, the carrying amount of the liability for remaining coverage is measured at the premiums received on initial recognition less insurance acquisition cash flows paid.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any premiums received and decreased by the amount recognised as insurance revenue for coverage provided. On initial recognition of each group of contracts, the Company expects that the time between providing each part of the coverage and the related premium due date is no more than a year. Accordingly, the Company has chosen not to adjust the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

The Company recognises the liability for incurred claims of a group of insurance contracts at the amount of the fulfilment cash flows relating to incurred claims and risk adjustment for non-financial risk. It includes gross estimated cost of claims incurred but not settled and claims incurred but not reported at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. The fulfilment cash flows are discounted (at current rates) unless the cash flows are expected to be paid in one year or less from the date the claims are incurred.

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

3 Significant accounting policies (continued)

3.2 Standards issued but not yet effective (continued)

A. IFRS 17 Insurance contracts (continued)

II. Significant judgements and accounting policy choices (continued)

e) Significant judgements and estimates

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

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

ii. Risk adjustments for non-financial risks:
The Company shall adjust the estimate of the present value of the future cashflows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cashflows that arises from non-financial risk. So, the purpose of the risk adjustment for non-financial risk is to measure the effect of uncertainty in the cashflows that arise from insurance contracts, other than uncertainty arising from financial risk. The risks covered by the risk adjustment for non-financial risk are insurance risk and other non-financial risks such as lapse risk and expense risk.

The Company does not consider the effect of reinsurance in the risk adjustment for non-financial risk of the underlying insurance contracts. The Company adopted the PAA simplification for the calculation of liability for remaining coverage. Therefore, risk adjustment for liability for remaining coverage will only be estimated in case a group of contracts is recognized as onerous.

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

Applying a cost of capital technique, the Company estimates the probability distribution of the present value of future cash flows from insurance contracts at each reporting date and calculates the economic capital that it would require to meet its contractual obligations to pay claims arising over the duration of the contracts. The cost-of-capital rate, which represents the additional reward that investors would require for exposure to the non-financial risk, is then applied to the amount of economic capital required for each period, and the result is discounted using risk-free rates adjusted for illiquidity to determine the risk adjustment for non-financial risk for each group of insurance contracts.

iii. Onerosity determination:
Under the PAA, the Company shall assume no contracts in the portfolio are onerous at initial recognition unless “facts and circumstances” indicate otherwise. The Company performs the assessment of onerous contracts on an annual and underwriting year basis, in conjunction with updated information on product profitability. Furthermore, the assessment shall be repeated if “facts and circumstances” indicate that there are significant changes in product pricing, product design, plans and forecasts.

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

3 Significant accounting policies (continued)

3.2 Standards issued but not yet effective (continued)

A. IFRS 17 Insurance contracts (continued)

II. Significant judgements and accounting policy choices (continued)

f) Accounting policy choices

i Length of cohorts:
Under the guidance of the IFRS 17 entities shall not include contracts issued more than one year apart in the same group in reference to grouping annual/semi-annual/quarterly/monthly cohorts of new business. The Company has decided the length of cohort to be on an annual basis.

ii Use of Other Comprehensive Income (OCI) for insurance finance income or expense:
In reference to the presentation in statement of income – Insurance finance income or expense, the Company has decided that the entire insurance finance income or expense for the period will be presented in the statement of income.

iii Unwinding of discount on risk adjustment:
In reference to the presentation in statement of income – in respect of disaggregation of risk adjustment, the Company has decided that the entire risk adjustment will be presented in the insurance service results.

iv Expense attribution:
The Company performs regular expense studies to determine the extent to which fixed and variable overheads are directly attributable to fulfilling insurance contracts.

v Deferral of acquisition costs:
In reference to the recognition of acquisition costs, the Company has decided to amortize the acquisition cost over the contract period instead of immediately recognizing it as an expense.

vi Policyholder surplus accounting:
The Company does not make any allowance for surplus distribution when determining onerosity. As the surplus distribution is not part of main product features rather regulatory driven, the Company treats the surplus distribution outside of the fulfilment cash flows without any allowance in the CSM under the GMM method, if applicable. Currently, the amount is determined on a retrospective basis only, allocated to group of contracts based on the Company's defined allocation policy and presented as part of LIC. There will be no impact on the transition date as the Company has no surplus due to accumulated losses.

3 Significant accounting policies (continued)

3.2 Standards issued but not yet effective (continued)

A. IFRS 17 Insurance contracts (continued)

II. Significant judgements and accounting policy choices (continued)

g) Presentation and Disclosure

Presentation:

The Company's policy guidelines, related to financial statements and disclosures preparation process are as follows:

- Statement of income:

The Company is required to disaggregate the amounts recognized in the statement of income into insurance revenue, insurance service expenses and insurance finance income or expense. A mandatory subtotal called insurance service result includes insurance revenue and insurance service expenses to also include results from reinsurance contracts for which there is an option in the standard to present reinsurance cessions and recoveries separately or present them net as a single line item. Based on the Company' assessment, the Company has opted to present it separately. Furthermore, the insurance finance income and expenses relate to insurance contracts issued and reinsurance contracts held shall also be presented separately.

- Insurance Revenue

For PAA, the insurance revenue for the period is the amount of expected premium receipts allocated to the period, excluding any investment component. The allocation of insurance revenue for the period under PAA will be performed based on the passage of time.

- Insurance Service Expenses

The Company's insurance service expenses comprise of the following items:

(a) Incurred claims and other incurred insurance service expenses;
(b) Amortization of insurance acquisition cash flows;
(c) Changes that relate to past service i.e. changes in fulfilment cash flows relating to the LIC; and
(d) Changes that relate to future service i.e. losses on onerous groups of contracts and reversals of such losses.

Changes that relate to past service refers to changes in fulfilment cash flows relating to the LIC. Any development to the incurred claims, including changes in expected cash flows as well as risk adjustment, will be reported in the insurance service expenses.

- Insurance Finance Income and Expenses (IFIE)

For the presentation purposes, the Company has opted to include all insurance finance income of expenses for the period in the profit or loss. Furthermore, the Company is required to present the IFIE related to insurance contracts issued and reinsurance contracts held on the face of statement of income.

3 Significant accounting policies (continued)

3.2 Standards issued but not yet effective (continued)

A. IFRS 17 Insurance contracts (continued)

II. Significant judgements and accounting policy choices (continued)

g) Presentation and Disclosure (continued)

- Statement of financial position:

The Company will present the following line items separately in the statement of financial position as required by IFRS 17:

- Insurance contracts that are assets;
- Insurance contracts that are liabilities;
- Reinsurance contracts held that are assets; and
- Reinsurance contracts held that are liabilities.

- Disclosures

IFRS 17 requires extensive new disclosures about amounts recognized in the financial statements, including detailed reconciliations of contracts, effects of newly recognized contracts and information on the expected CSM emergence pattern, as well as disclosures about significant judgements made when applying IFRS 17. There will also be expanded disclosures about the nature and extent of risk from insurance contract, reinsurance contracts and investment contracts with DPF, disclosures will generally be made at a more granular level than under IFRS 4, providing more transparent information for assessing the effects of contracts on the financial statements. As all of the Company's products are eligible under PAA, most of the disclosures are not applicable. Below are the key disclosures:

1. Reconciliation for changes in LRC, LIC, risk adjustment and loss component;
2. Risk framework;
3. Sensitivity analysis.

h) Transition

On the date of initial application, 01 January 2023, IFRS 17 should be applied retrospectively. Where the full retrospective approach is impracticable, IFRS 17 allows for alternative transition methods.

The Company has determined that reasonable and supportable information is available for all contracts in force at the transition date. In addition, as the contracts are eligible for the PAA, the Company has concluded that only current and prospective information was required to reflect circumstances at the transition date, which made the full retrospective application practicable and, hence, the only available option for insurance contracts issued by the Company.

(All amounts in Saudi Riyals thousands unless otherwise stated)

3 Significant accounting policies (continued)

3.2 Standards issued but not yet effective (continued)

A. IFRS 17 Insurance contracts (continued)

III. Transition impact

The Company estimates that on adoption of IFRS 17 the impact (before zakat and income tax) is a reduction in the Company's total equity by SAR 8.73 million as at January 1, 2022. The impact on total equity as at January 1, 2023 is currently being estimated and shall be disclosed in the condensed interim financial statements for the period ending March 31, 2023.

	January 1, 2022
Estimated (reduction) / increase in the Company's total equity	
Change in measurement of insurance contract liabilities	(18,298)
Change in measurement of reinsurance contract assets	9,566
Estimated impact of adoption of IFRS 17 before zakat and income tax	**(8,732)**

	January 1, 2022
Estimated increase / (reduction) in the Company's total assets	
Risk adjustment	15,740
Discounting	(2,311)
Unearned reinsurance commission	(3,863)
Estimated impact of adoption of IFRS 17 on total assets	**9,566**

	January 1, 2022
Estimated (increase) / reduction in the Company's total liabilities	
Risk adjustment	(21,060)
Impairment of premiums receivable	(5,853)
Discounting	4,686
Deferred policy acquisition costs	4,291
Loss component	(530)
Others	168
Estimated impact of adoption of IFRS 17 on total liabilities	**(18,298)**

3 Significant accounting policies (continued)

3.2 Standards issued but not yet effective (continued)

B. IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after January 01, 2018. However, the Company has met the relevant criteria and has applied the temporary exemption from IFRS 9 for annual periods before January 01, 2023. Consequently, the Company will apply IFRS 9 for the first time on January 01, 2023.

1. Financial assets – Classification

The Company conducted a preliminary IFRS 9 Classification and Measurement assessment ("C&M") for the financial assets held as at December 31, 2021. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through statement of income ("FVSI"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. Except for financial assets that are designated at initial recognition as at FVSI, and for investment in equity instruments, a financial asset is classified on the basis of both:

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

The classification and measurement review exercise in the Company consists of two parts:

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

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

Classification of financial assets under IFRS 9 had no impact on the Company's total equity as of January 1, 2022. The impact on total equity as at January 1, 2023 is currently being estimated and shall be disclosed in the condensed interim financial statements for the period ending March 31, 2023.

2. Financial assets – Impairment

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

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

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

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

3 Significant accounting policies (continued)

3.2 Standards issued but not yet effective (continued)

B. IFRS 9 Financial Instruments (continued)

2. Financial assets – Impairment (continued)

Exposure at Default ('EAD'): The exposure at default is an estimate of the exposure at a future default date.

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

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

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

3. Financial liabilities

IFRS 9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated as at FVSI are recognised in the statement of income, whereas under IFRS 9 these fair value changes will generally be presented as follows:
- The amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in Other Comprehensive Income (OCI);
- The remaining amount of the change in the fair value is presented in the statement of income.

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

4. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
i. The determination of the business model within which a financial asset is held.
ii. The designation and revocation of previous designated financial assets and liabilities as measured at FVSI. This category includes financial assets that were previously designated as held for trading or those that were classified as available for sale.
iii. The designation of certain investments in equity instruments not held for trading as FVOCI.

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

The Company estimates that on adoption of IFRS 9 the impact (before zakat and income tax) is a reduction in the Company's total equity by SAR 0.036 million as at January 1, 2022. The impact on total equity as at January 1, 2023 is currently being estimated and shall be disclosed in the condensed interim financial statements for the period ending March 31, 2023.

	January 1, 2022
Estimated reduction in the Company's total equity	
Classification of financial assets (including impact of fair valuation)	-
Impairment of financial assets	(36)
Fair valuation of Najm shares (see note below)	-
Estimated impact of adoption of IFRS 9 before zakat and income tax	**(36)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

3 Significant accounting policies (continued)

3.2 Standards issued but not yet effective (continued)

B. IFRS 9 Financial Instruments (continued)

4. Transition (continued)

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

C. Overall impact on total equity on transition to IFRS 17 and IFRS 9

The Company estimates that, on adoption of IFRS 17 and IFRS 9, the impact of these changes (before zakat and income tax) is a decrease in the Company's total equity by SAR 8.77 million as at January 1, 2022.

	January 1, 2022
Estimated reduction in the Company's total equity on transition to:	
IFRS 17 (see note A)	(8,732)
IFRS 9 (see note B)	(36)
Estimated impact of adoption of IFRS 17 and 9 before zakat and income tax	**(8,768)**

The actual impact of adopting IFRS 17 and IFRS 9 on January 1, 2022 may change because the above impact reflects management's best understanding at this current time of the requirements of IFRS 17 and IFRS 9 and may require adjustments before constituting the final balances and disclosures presented in the first complete set of statutory financial statements for the year ending 31 December 2023 prepared under IFRS 17 and IFRS 9.

3 Significant accounting policies (continued)

3.3 The significant accounting policies used in the preparation of these financial statements are set out below:

a) Insurance contracts

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

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

Property insurance contracts mainly compensate the Company’s customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover). For property insurance contracts, the main risks are fire, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. In Saudi Arabia, it is compulsory for all vehicles to have minimum third party cover. The Company also issues comprehensive motor policies. Such motor policies cover damages to vehicles due to storm, tempest, flood, fire, theft and personal accident.

Accident insurance includes money insurance, fidelity guarantee insurance, business all risk insurance, business travel insurance and exhibition insurance. Liability insurance includes general third-party liability, product liability, workmen’s compensation/employer’s liability and professional indemnity cover protecting the insured’s legal liability arising out of acts of negligence during their business operations.

Engineering insurance covers two principal types (a) “Contractors all risk” insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, roads, bridges, sewage works and reservoirs. (b) “Erection all risk” insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

Extended Warranty insurance commences when the manufacturer warranty expires and covers all electrical and mechanical damages occurring to the vehicles, as covered in the original manufacturer warranty.

Term Life insurance is a policy that pays a pre-determined amount of money called "sum insured" at the time of the insured's death. It covers the insured for a period of time. At the expiration of the policy term no refunds or returns are allowed.

Claim and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions.

3 Significant accounting policies (continued)

3.3 The significant accounting policies used in the preparation of these financial statements are set out below (continued):

b) Revenue recognition

Recognition of premium and commission revenue

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

- Last three months premium at a reporting date is considered as unearned in respect of marine cargo; and

- 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.

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured.

Commission income

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

c) Claims

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

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

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

3 Significant accounting policies (continued)

3.3 The significant accounting policies used in the preparation of these financial statements are set out below (continued):

d) Salvage and subrogation reimbursement

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

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

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

e) Reinsurance contracts held

Reinsurance is distributed between treaty, facultative 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(a) are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. An asset or liability is recorded in the statement of financial position representing payments due from reinsurers, the share of losses recoverable from reinsurers and premiums due to reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income as incurred. For details please refer 3.3(m).

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

f) Deferred policy acquisition costs

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. All other acquisition costs are recognized as an expense when incurred. Amortization is recorded in the “Policy acquisition costs” in the statement of income.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated, and this may also require additional impairment write-offs in the statement of income. Deferred policy acquisition costs are also considered in the liability adequacy test at each reporting date.

3 Significant accounting policies (continued)

3.3 The significant accounting policies used in the preparation of these financial statements are set out below (continued):

g) Liability adequacy test

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

h) Receivables

Premium receivables are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded as “Allowance for impairment of doubtful debts” in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 6 and 7 fall under the scope of IFRS 4 “Insurance contracts”.

i) Investments

Available-for-sale investments

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 fair value including transaction costs directly attributable to the acquisition of the investment and subsequently measured at fair value unless fair value cannot be measured reliably. 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 related statements of income under “Realized gain / (loss) on investments available-for-sale investments.”

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

Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the related statement of 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.

3 Significant accounting policies (continued)

3.3 The significant accounting policies used in the preparation of these financial statements are set out below (continued):

i) Investments (continued)

Reclassification:

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 amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the Effective Interest Rate (EIR) method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income.

Held as FVSI

Investments in this category are classified if they are held for trading or designated by management as FVSI on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term and are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 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. FVSI also includes investments managed by Fund manager under the discretionary portfolio of investments where all such investments are carried at fair value.

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

Reclassification:

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 in 'rare circumstances.

3 Significant accounting policies (continued)

3.3 The significant accounting policies used in the preparation of these financial statements are set out below (continued):

i) Investments (continued)

Held-to-maturity investments

Investments having fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity are classified under this category. These investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in value. 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 recognised in the statement of income when the investment is derecognised or impaired.

j) De-recognition of financial instruments

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

k) Offsetting

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

l) Trade date accounting

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

m) Impairment of financial assets

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

Evidence of impairment may include:

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

3 Significant accounting policies (continued)

3.3 The significant accounting policies used in the preparation of these financial statements are set out below (continued):

m) Impairment of financial assets (continued)

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

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

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

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

The determination of what is ‘significant’ or ‘prolonged’ requires judgement. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. 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 amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income and statement of comprehensive income.

n) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses, if any. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred. 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:

	Years
Furniture and fixtures	5 - 10
Office equipment	3 - 10
Motor vehicles	4
Computer hardware	2 - 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 income, net” in the statement of income.

3 Significant accounting policies (continued)

3.3 The significant accounting policies used in the preparation of these financial statements are set out below (continued):

o) Intangible assets

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

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category that is consistent with the function of the intangible assets. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized. Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit (“CGU”) level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

The estimated useful lives for the current year are as follows:

	Years
Software	10 - 15

The amortization method, useful life and residual value are reviewed at each reporting date and the changes are adjusted, if appropriate.

p) Leases

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

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

q) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, land – 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 Significant accounting policies (continued)

3.3 The significant accounting policies used in the preparation of these financial statements are set out below (continued):

r) Defined benefit obligations

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

s) Provisions, accrued expenses and other liabilities

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

t) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, bank balances and term deposits that have original maturity periods not exceeding three months from the date of acquisition. Term deposits having maturities more than three months from the date of acquisition and managed directly by the Company are classified separately as term deposits.

u) Cash flow statement

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

3 Significant accounting policies (continued)

3.3 The significant accounting policies used in the preparation of these financial statements are set out below (continued):

v) Operating segments

A segment is a distinguishable component of the Company that is engaged in providing products or services (an operating 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 major reportable segments:

- Marine provides coverage against losses and liability related to marine vessels and marine cargo.
- Property provides coverage against fire insurance, and any other insurance included under this class of insurance.
- Motor provides coverage against losses and liability related to motor vehicles.
- Engineering provides coverage for builder's risks, construction, mechanical, electrical, electronic, and machinery breakdown, and any other insurance included under this class of insurance.
- Accident provides coverage against money insurance, fidelity guarantee insurance, business all risk insurance, business travel insurance and exhibition insurance. Liability provide general third-party liability, product liability, workmen's compensation/employer's liability and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.
- Extended warranty provides coverage against damages to motor vehicles after the manufacturer warranty expires.
- Term life provides coverage against the insured's death.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

No inter-segment transactions occurred during the period. If any transaction were to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expense and results will then include those transfers between business segments which will then be eliminated at the level of the financial statements of the Company.

w) Statutory reserve

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

x) Fair values

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

4 Cash and cash equivalents

	2022	2021
Cash in hand	**20**	20
Bank balances	**70,836**	34,110
Deposits with original maturity of less than 3 months	**-**	8,000
	70,856	42,130

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

5 Term deposits

Term deposits with original maturity exceeding 3 months are placed with commercial banks registered in Saudi Arabia and yield income at rates of 3.1% to 6.0% per annum (2021: 0.75% to 0.96% per annum).

6 Premiums receivable – net

	2022	2021
Receivable from policyholders	**407,638**	284,689
Impairment allowance for doubtful receivables	**(32,354)**	(35,163)
Premiums receivable – net	**375,284**	249,526

Movement in impairment allowance for doubtful receivables during the year is as follows:

	2022	2021
January 1	**35,163**	40,775
(Reversal) / charge for the year	**(2,809)**	3,959
Write-offs	**-**	(9,571)
December 31	**32,354**	35,163

At December 31, the ageing analysis of premiums receivable is as follows:

			Past due but not impaired			**Past due and impaired**		
	Total	**Neither past due nor impaired**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**181 to 360 days**	**More than 360 days**
December 31, 2022	407,638	178,346	33,824	63,358	22,475	48,737	41,260	19,638
December 31, 2021	284,689	86,177	47,402	29,422	25,644	33,672	33,333	29,039

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

Five largest customers account for 37% (2021: Five accounted for 28%) of outstanding premiums receivable as at December 31, 2022.

Management considers its external customers to be individual policyholders. One customer of the Company accounts for 13% of the gross premiums written for the year ended December 31, 2022 (2021: 15%). The total premiums attributable to the said customer was SAR 131 million for the year (2021: Saudi Riyals 136 million), included mainly in the motor segment. It is not the practice of the Company to obtain collateral over these balances, which are therefore, unsecured.

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 Due from reinsurers – net

These represent net claims due from reinsurers under facultative deals and treaty arrangements. These reinsurers are based inside and outside the Kingdom of Saudi Arabia and one reinsurance broker represents 26% (2021: One represents 13%) of the total amount due from reinsurers as at December 31, 2022.

	2022	2021
Reinsurers	**90,526**	40,291
Impairment allowance for doubtful reinsurers receivables	**(1,206)**	(1,136)
	89,320	39,155

Movement in impairment allowance for doubtful reinsurers receivables is as follows:

	2022	2021
January 1	**1,136**	1,000
Charge for the year	**70**	1,037
Write-offs	**-**	(901)
December 31	**1,206**	1,136

As at December 31, the ageing analysis of reinsurers receivable is as follows:

			Past due but not impaired			**Past due and impaired**		
	Total	**Neither past due nor impaired**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**181 to 360 days**	**More than 360 days**
December 31, 2022	**90,526**	**5,302**	**48,318**	**899**	**1,934**	**10,315**	**13,108**	**10,650**
December 31, 2021	40,291	5,898	1,663	2,551	479	16,485	10,146	3,069

The past due and impaired balances are covered by the payable to the same reinsurers (see note 16).

8 Technical reserves

8.1 Outstanding claims and reserves

Movement in outstanding claims and reserves comprise of the following:

	2022			2021		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
January 1	**449,744**	**311,561**	**138,183**	743,439	612,700	130,739
Claims paid	**(470,429)**	**(120,809)**	**(349,620)**	(784,831)	(406,215)	(378,616)
Claims incurred	**538,356**	**191,040**	**347,316**	491,136	105,076	386,060
December 31	**517,671**	**381,792**	**135,879**	449,744	311,561	138,183
Outstanding claims	**459,115**	**(352,931)**	**106,184**	373,698	(280,924)	92,774
Claims incurred but not reported	**58,556**	**(28,861)**	**29,695**	76,046	(30,637)	45,409
	517,671	**(381,792)**	**135,879**	449,744	(311,561)	138,183
Premium deficiency reserve	**2,011**	**-**	**2,011**	10,696	-	10,696
Additional unexpired risk reserve	**4,502**	**-**	**4,502**	1,621	-	1,621
Unallocated loss adjustment expenses	**4,553**	**-**	**4,553**	4,863	-	4,863
	528,737	**(381,792)**	**146,945**	466,924	(311,561)	155,363

(All amounts in Saudi Riyals thousands unless otherwise stated)

8 Technical reserves (continued)

8.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	For the year ended December 31, 2022		
	Gross	**Reinsurance**	**Net**
Balance at beginning of the year	**392,680**	**(173,197)**	**219,483**
Premium written during the year	**1,042,418**	**(438,516)**	**603,902**
Premium earned during the year	**(859,541)**	**354,033**	**(505,508)**
Balance at end of the year	**575,557**	**(257,680)**	**317,877**

	For year ended December 31, 2021		
	Gross	Reinsurance	Net
Balance at beginning of the year	329,632	(129,371)	200,261
Premium written during the year	902,100	(379,330)	522,770
Premium earned during the year	(839,052)	335,504	(503,548)
Balance at end of the year	392,680	(173,197)	219,483

8.3 Movement in deferred policy acquisition costs

Movement in deferred policy acquisition costs comprise of the following:

	2022	2021
Balance at beginning of the year	**38,790**	32,299
Costs accrued	**87,908**	73,468
Costs charged	**(74,014)**	(66,977)
Balance at end of the year	**52,684**	38,790

8.4 Movement in unearned reinsurance commission

Movement in unearned reinsurance commission comprise of the following:

	2022	2021
Balance at beginning of the year	**29,200**	30,386
Commission accrued	**46,588**	48,001
Commission earned	**(50,842)**	(49,187)
Balance at end of the year	**24,946**	29,200

9 Investments

	Note	**2022**	2021
Fair value through statement of income investments (FVSI)	9.1	**204,502**	165,959
Held-to-maturity investment	9.2	**12,000**	12,000
Available-for-sale investment	9.3	**1,923**	1,923
		218,425	179,882

(All amounts in Saudi Riyals thousands unless otherwise stated)

9 Investments (continued)

9.1 Fair value through statement of income investments (FVSI)

Movement in FVSI is as follows:

	2022	2021
Balance at beginning of the year	**165,959**	162,029
Additions during the year	**100,000**	-
Realised gain reinvested during the year	**4,857**	-
Withdrawal during the year	**(62,000)**	-
Changes in fair value of investments	**(4,314)**	3,930
Balance at end of the year	**204,502**	165,959

FVSI comprises of investments managed by three Fund managers under the discretionary portfolio of investments where all such investments are carried at fair value as provided by the Fund managers. The analysis of the composition of FVSI investments is as follows:

	2022	2021
Equity	**12,815**	13,064
Murabaha placements	**56,233**	78,270
Mutual funds	**54,242**	45,444
Sukuks	**81,212**	29,181
Total	**204,502**	165,959

9.2 Held to maturity investment

	Note	**2022**	2021
Saudi Fransi Bank Sukuks	a	**3,000**	3,000
Saudi Real Estate Refinance Company Sukuks	b	**9,000**	9,000
		12,000	12,000

a) These represent 3 Sukuks at a face value of SAR 1 million per Sukuk with a coupon rate of 4.50% per annum. These Sukuks have a maturity duration of 5 years commencing from November 3, 2020. The Company has earned commission income of SAR 0.16 million during the year (2021: 0.12 million).

b) These represent 5 Sukuks at a face value of SAR 1 million per Sukuk with a coupon rate of 2.11% per annum and 4 Sukuks at a face value of SAR 1 million per Sukuk with a coupon rate of 3.04% per annum. These Sukuks have a maturity duration of 7 years and 10 years commencing from March 03, 2021 and December 09, 2021, respectively. The Company has earned commission income of SAR 0.25 million during the year (2021: 0.05 million).

9.3 Available-for-sale investment

This represents the Company's 3.85% (2021: 3.85%) holding in Najm for Insurance Services Company, a Saudi Closed Joint Stock Company. These shares are un-quoted and are carried at cost. In the absence of reliable financial information, management believes that the fair value cannot be ascertained reliably.

9.4 All investments are from the shareholders' operations and are placed inside the Kingdom of Saudi Arabia.

10 Prepaid expenses and other assets

	Note	**2022**	2021
VAT receivable	32.3	**-**	17,999
Deferred revenue expenditure	10.1	**7,219**	4,441
Staff receivables	22	**4,240**	3,224
Accrued commission income		**3,771**	240
Margin deposits		**2,953**	2,453
Right issue expenses	10.2	**-**	1,874
Prepayments		**3,564**	1,241
Salvage and subrogation recoveries	10.3	**698**	407
Others	10.4	**987**	6,614
		23,432	38,493

(All amounts in Saudi Riyals thousands unless otherwise stated)

10 Prepaid expenses and other assets (continued)

10.1 This represents Minimum Deposit Premium relating to the Company's excess of loss treaties.

10.2 This represents the expenditures incurred related to the right issue of shares which was completed during the year (see note 24).

10.3 These represent receivables from salvage and subrogation recoveries from third parties:

	2022	2021
Salvage and subrogation recoveries	**698**	659
Less: impairment allowance for salvage and subrogation recoveries	**-**	(252)
	698	407

10.4 Other receivable are stated net of provision of SAR 1.976 million (2021: Nil).

11 Property and equipment

	Furniture and fixtures	**Office equipment**	**Motor vehicles**	**Computer hardware**	**Capital work in progress**	**Total**
2022						
Cost:						
January 1	10,547	1,584	599	7,938	5,565	**26,233**
Additions	-	275	-	3	7,635	**7,913**
Transfers	-	-	-	8,578	(8,578)	**-**
Amounts written off	-	-	-	-	(3,706)	**(3,706)**
December 31	10,547	1,859	599	16,519	916	**30,440**
Accumulated depreciation:						
January 1	3,181	504	599	4,546	-	**8,830**
Charge for the year	1,183	382	-	2,727	-	**4,292**
December 31	4,364	886	599	7,273	-	**13,122**
					-	
Net book value December 31, 2022	**6,183**	**973**	**-**	**9,246**	**916**	**17,318**

	Furniture and fixtures	Office equipment	Motor vehicles	Computer hardware	Capital work in progress	Total
2021						
Cost:						
January 1	13,648	2,082	599	13,995	-	30,324
Additions	-	516	-	2,644	5,565	8,725
Disposals	(3,101)	(1,014)	-	(8,701)	-	(12,816)
December 31	10,547	1,584	599	7,938	5,565	26,233
Accumulated depreciation:						
January 1	5,029	1,172	563	11,189	-	17,953
Charge for the year	1,253	346	36	2,058	-	3,693
Relating to disposals	(3,101)	(1,014)	-	(8,701)	-	(12,816)
December 31	3,181	504	599	4,546	-	8,830
Net book value December 31, 2021	7,366	1,080	-	3,392	5,565	17,403

Capital work in progress includes ongoing development projects which are expected to be completed within next year. The management does not expect significant cash outflows to complete these projects.

(All amounts in Saudi Riyals thousands unless otherwise stated)

12 Intangible assets

These comprise software license fees and other related development costs.

	Total Software
2022	
Cost:	
Balance at beginning and end of the year	**51,234**
Accumulated amortization:	
January 1	**7,095**
Charge for the year	**4,044**
December 31	**11,139**
Net book value	
December 31, 2022	**40,095**

	Software	Capital work in progress	Total
2021			
Cost:			
January 1	40,984	859	41,843
Additions	6,446	2,945	9,391
Transfers	3,804	(3,804)	-
December 31	51,234	-	51,234
Accumulated amortization:			
January 1	3,730	-	3,730
Charge for the year	3,365	-	3,365
December 31	7,095	-	7,095
Net book value			
December 31, 2021	44,139	-	44,139

13 Statutory deposit

In compliance with Article 58 of the Implementing Regulations of SAMA, the Company has deposited 10% of its share capital amounting to SAR 40 million as at December 31, 2022 (2021: SAR 20 million) in a bank designated by SAMA. As a result of an increase in the Company's share capital due to the rights share issue completed during 2022 (see note 24), the Company deposited a further amount of SAR 20 million during the year ended December 31, 2022. The Company cannot withdraw this deposit without SAMA's approval. Commission accruing on this deposit is payable to SAMA.

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

14 Policyholders payable

Policyholders payable represent claims and surplus due to certain policyholders. One policyholder's balance comprises 39% (2021: 20%) of the outstanding balance as at December 31, 2022.

15 Accrued expenses and other liabilities

	Note	**2022**	2021
Accrued expenses		**26,460**	27,122
Employee benefits obligations	15.1	**14,441**	12,863
VAT payable		**10,776**	11,254
Payable for reinsurance's withholding tax		**4,261**	6,847
Payable to garages and workshops		**5,027**	4,391
SAMA supervision fee		**1,304**	1,005
Commission payable		**5,943**	3,452
Other liabilities		**3,372**	5,224
		71,584	72,158

(All amounts in Saudi Riyals thousands unless otherwise stated)

15 Accrued expenses and other liabilities (continued)

15.1 Employee benefits obligations

The Company operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Defined benefit obligation's plans are unfunded plans and the benefit payment obligation are met when they fall due upon termination of employment.

15.1.1 Movement of defined benefit obligations

	2022	2021
Opening balance	**12,863**	13,859
Charge to statement of income	**3,277**	3,136
Charge to other comprehensive income	**440**	161
Payment of benefits during the year	**(2,139)**	(4,293)
Closing balance	**14,441**	12,863

15.1.2 Reconciliation of present value of defined benefit obligations

	2022	2021
Opening balance	**12,863**	13,859
Current service costs	**2,886**	2,856
Financial costs	**391**	280
Actuarial loss from experience adjustments	**440**	161
Payment of benefits during the year	**(2,139)**	(4,293)
Closing balance	**14,441**	12,863

15.1.3 Principal actuarial assumptions

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

	2022	2021
Discount rate	**4.61%**	3.31%
Expected rate of increase in salary level across different age bands	**4.61%**	2.31%

15.1.4 Sensitivity analysis

	Impact on defined benefit obligations	
	2022	2021
Discount rate		
- Increase by 0.5%	**(623)**	(567)
- Decrease by 0.5%	**680**	798
Expected rate of increase in salary level across different age bands		
- Increase by 0.5%	**677**	615
- Decrease by 0.5%	**(626)**	(569)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method (present value of defined benefit obligations calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee benefit obligations.

The average remaining duration of the defined benefit plan obligation at the end of the reporting period is 11.23 years (2021: 10.07 years).

(All amounts in Saudi Riyals thousands unless otherwise stated)

15 Accrued expenses and other liabilities (continued)

15.1 Employee benefits obligations (continued)

15.1.5 Maturity analysis (Undiscounted)

	Less than a year	Between 1 - 2 years	Between 2 - 5 years	Over 5 years	Total
December 31, 2022	**2,819**	**873**	**3,522**	**16,684**	**23,898**
December 31, 2021	2,238	762	3,161	12,094	18,255

16 Due to reinsurers, agents, brokers and third-party administrator

	2022	2021
Reinsurers	**192,738**	110,787
Agents and brokers	**31,203**	28,114
Third-party administrator	**650**	753
	224,591	139,654

17 Claims development table

The following reflects the cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each statement of 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. The IBNR estimate pertains to claims liability for the years beginning from year 2016 onwards whose claim experience has not been fully developed.

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

Claims development table gross of reinsurance:

Accident year – 2022	2016	2017	2018	2019	2020	2021	2022	Total
At the end of accident year	179,177	188,065	217,764	431,872	242,845	364,068	579,165	
One year later	255,094	249,690	312,449	522,064	331,950	539,028		
Two years later	263,488	259,329	319,855	853,722	394,763			
Three years later	264,405	260,556	321,767	920,482				
Four years later	265,259	261,723	323,797					
Five years later	265,833	363,599						
Six years later	265,849							
Ultimate paid claims (estimated)	265,849	363,599	323,797	920,482	394,763	539,028	579,165	3,386,683
Cumulative paid claims	(265,849)	(261,967)	(322,451)	(855,704)	(387,769)	(469,945)	(305,845)	(2,869,530)
	-	101,632	1,346	64,778	6,994	69,083	273,320	517,153
Liability in respect of years prior to 2016								518
Gross outstanding claims including IBNR 2022								517,671
Gross outstanding claims including IBNR 2021								449,744

(All amounts in Saudi Riyals thousands unless otherwise stated)

17 Claims development table (continued)

Claims development table gross of reinsurance (continued):

Accident year - 2021	2015	2016	2017	2018	2019	2020	2021	Total
At the end of accident year	144,547	179,177	188,065	217,764	431,872	242,845	575,610	
One year later	210,024	255,094	249,690	312,449	522,064	396,865		
Two years later	216,220	263,488	359,329	319,855	922,055			
Three years later	220,230	264,405	260,556	324,055				
Four years later	221,480	265,259	363,882					
Five years later	221,841	266,123						
Six years later	222,322							
Ultimate paid claims (estimated)	222,322	266,123	363,882	324,055	922,055	396,865	575,610	3,070,912
Cumulative paid claims	(222,139)	(265,833)	(261,723)	(321,767)	(853,722)	(331,950)	(364,068)	(2,621,202)
	183	290	102,159	2,288	68,333	64,915	211,542	449,710
Liability in respect of years prior to 2015								34
Gross outstanding claims including IBNR 2021								449,744
Gross outstanding claims including IBNR 2020								743,439

Claims development table net of reinsurance:

Accident year – 2022	2016	2017	2018	2019	2020	2021	2022	Total
At the end of accident year	111,259	141,517	172,503	282,691	193,698	312,614	381,610	
One year later	141,534	174,312	237,408	341,342	251,928	404,215		
Two years later	145,005	178,048	239,792	351,110	261,588			
Three years later	145,806	179,112	240,960	355,725				
Four years later	145,963	180,164	242,276					
Five years later	146,004	180,514						
Six years later	146,020							
Ultimate paid claims (estimated)	146,020	180,514	242,276	355,725	261,588	404,215	381,610	1,971,948
Cumulative paid claims	(146,020)	(180,359)	(241,593)	(352,921)	(257,561)	(384,801)	(273,164)	(1,836,419)
	-	155	683	2,804	4,027	19,414	108,446	135,529
Liability in respect of years prior to 2016								350
Net outstanding claims including IBNR 2022								135,879
Net outstanding claims including IBNR 2021								138,183

(All amounts in Saudi Riyals thousands unless otherwise stated)

17 Claims development table (continued)

Claims development table net of reinsurance (continued):

Accident year - 2021	2015	2016	2017	2018	2019	2020	2021	Total
At the end of accident year	106,102	111,227	141,517	172,481	282,691	193,708	428,869	
One year later	139,455	141,501	174,313	237,387	341,355	265,973		
Two years later	142,382	144,972	178,048	239,771	356,673			
Three years later	145,811	145,773	179,113	242,473				
Four years later	146,841	145,931	180,675					
Five years later	147,020	146,218						
Six years later	147,304							
Ultimate paid claims (estimated)	147,304	146,218	180,675	242,473	356,673	265,973	428,869	1,768,185
Cumulative paid claims	(147,266)	(145,971)	(180,164)	(240,939)	(351,123)	(251,937)	(312,614)	(1,630,014)
	38	247	511	1,534	5,550	14,036	116,255	138,171
Liability in respect of years prior to 2015								12
Net outstanding claims including IBNR 2021								138,183
Net outstanding claims including IBNR 2020								130,739

18 Fair values of financial instruments

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

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

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in these financial statements.

Determination of fair value and fair value hierarchy

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

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

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data. The Company ascertains the Level 3 fair values based on a valuation technique which is primarily derived by net assets value of the respective investee at the year end.

(All amounts in Saudi Riyals thousands unless otherwise stated)

18 Fair values of financial instruments (continued)

The following table shows the fair value of financial assets measured at fair value at December 31, 2022 and 2021:

December 31, 2022	**Fair value through FVSI**	**Fair value**		
		Level 1	**Level 2**	**Level 3**
Financial assets measured at fair value				
Equity	**12,815**	**12,815**	**-**	**-**
Mutual funds	**54,242**	**13,408**	**40,834**	**-**
Sukuks	**81,212**	**-**	**81,212**	**-**
Murabaha placements	**56,233**	**-**	**-**	**56,233**
	204,502	**26,223**	**122,046**	**56,233**

December 31, 2021	Fair value through FVSI	Fair value		
		Level 1	Level 2	Level 3
Financial assets measured at fair value				
Equity	13,064	13,064	-	-
Mutual funds	45,444	37,934	7,510	-
Sukuks	29,181	-	29,181	-
Murabaha placements	78,270	-	-	78,270
	165,959	50,998	36,691	78,270

Significant unobservable inputs used in the valuation of level 3 investments include the Fund managers' report based on interest rates for Murabaha placements as confirmed by the Fund managers and the impact of the sensitivity is not material. The movement between level 3 fair values mainly represents purchases and maturities of Murabaha placements being managed by the Fund managers. The fair value of investments in mutual funds and sukuks at level 2 is based on the net asset values and value of similar quoted sukuks communicated by the fund manager. The fair value of investments in equity securities and mutual funds at level 1 is based on quoted prices available in the market. There were no transfers between levels of the fair value hierarchy during the years ended December 31, 2022 and 2021. Additionally, there were no changes in the valuation techniques.

Held-to-maturity investments include corporate sukuks which are carried at amortised cost. Available-for-sale investment comprises of an amount of SAR 1.9 million (2021: SAR 1.9 million) which is carried at cost as its fair value cannot be measured reliably, accordingly SAR 1.9 million has not been considered either in Level 1, Level 2 or Level 3.

19 Gross premiums written

Year ended December 31, 2022:

	Corporate					
Classes	***Very small***	***Small***	***Medium***	***Large***	***Individual***	***Total***
Property & accident	**9,529**	**106,715**	**120,195**	**251,731**	**4,769**	**492,939**
Motor	**19,380**	**53,887**	**76,816**	**300,221**	**52,093**	**502,397**
Protection & savings (Term life)	**304**	**3,137**	**9,524**	**34,117**	**-**	**47,082**
Total	**29,213**	**163,739**	**206,535**	**586,069**	**56,862**	**1,042,418**

(All amounts in Saudi Riyals thousands unless otherwise stated)

19 Gross premiums written (continued)

Year ended December 31, 2021:

	Corporate					
Classes	*Very small*	*Small*	*Medium*	*Large*	*Individual*	*Total*
Property & accident	8,976	39,143	114,303	238,508	4,095	405,025
Motor	12,288	44,527	75,136	252,285	66,881	451,117
Protection & savings (Term life)	184	2,061	10,692	33,021	-	45,958
Total	21,448	85,731	200,131	523,814	70,976	902,100

20 Other underwriting expenses

This includes value added tax on reinsurance commission income of SAR 7.62 million (2021: SAR 7.06 million) and Najm fee for motor insurance services of SAR 17.25 million (2021: SAR 20.51 million).

21 Operating segments

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Chief Operating Decision Maker (CODM) 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 CODM is measured in a manner consistent with that in the statement of income. Segment assets and liabilities comprise operating assets and liabilities.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2021.

Segment assets do not include cash and cash equivalents, term deposits, premiums receivable, due from reinsurers, investments, prepaid expenses and other assets, property and equipment, intangible assets, statutory deposit and accrued income on statutory deposit. Accordingly, these are included in unallocated assets. Segment liabilities do not include policyholders payable, accrued expenses and other liabilities, due to reinsurers, agents, brokers and third-party administrator, zakat and income tax payable, and accrued income on statutory deposit. Accordingly, these are included in unallocated liabilities.

These unallocated assets and liabilities are not reported to CODM under related segments and are monitored on a centralized basis. For management reporting purposes, the Company is organised into business units on the basis of products and services offered by the Company.

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

21 Operating segments (continued)

	Marine	Property	Motor	Engineering	Accident & liability	Extended warranty	Term life	Total
For the year ended December 31, 2022								
Revenues								
Gross premiums written	60,033	157,634	502,397	166,041	83,750	25,481	47,082	**1,042,418**
Reinsurance premiums ceded	(44,363)	(128,043)	28	(144,163)	(67,397)	(15,335)	(27,971)	**(427,244)**
Excess of loss expenses	(1,207)	(4,701)	(2,884)	(2,184)	(296)	-	-	**(11,272)**
Net premiums written	**14,463**	**24,890**	**499,541**	**19,694**	**16,057**	**10,146**	**19,111**	**603,902**
Changes in unearned premiums	(3,066)	(2,608)	(75,881)	(79,425)	(9,191)	(7,979)	(4,727)	**(182,877)**
Changes in reinsurers' share of unearned premiums	3,125	2,258	4	69,484	5,834	648	3,130	**84,483**
Net premiums earned	**14,522**	**24,540**	**423,664**	**9,753**	**12,700**	**2,815**	**17,514**	**505,508**
Reinsurance commission	8,333	21,296	(12)	10,613	6,995	3,617	-	**50,842**
Other underwriting income	69	24	1,261	16	40	-	12	**1,422**
Total revenues	**22,924**	**45,860**	**424,913**	**20,382**	**19,735**	**6,432**	**17,526**	**557,772**
Underwriting costs and expenses								
Gross claims paid and loss adjustment expenses, net of recoveries	11,923	71,638	337,960	14,821	5,920	5,376	22,791	**470,429**
Reinsurers' share of claims paid	(9,637)	(63,968)	(3,799)	(14,451)	(5,090)	(5,374)	(18,490)	**(120,809)**
Net claims paid	**2,286**	**7,670**	**334,161**	**370**	**830**	**2**	**4,301**	**349,620**
Changes in outstanding claims	6,966	64,271	3,656	10,829	5,238	(6)	(5,537)	**85,417**
Changes in reinsurers' share of outstanding claims	(4,498)	(58,667)	24	(8,307)	(5,361)	6	4,796	**(72,007)**
Changes in claims incurred but not reported	691	7,012	(15,967)	(1,223)	(5,501)	-	(2,502)	**(17,490)**
Changes in reinsurers' share of claims incurred but not reported	(666)	(6,597)	490	1,488	5,060	-	2,001	**1,776**
Net claims incurred	**4,779**	**13,689**	**322,364**	**3,157**	**266**	**2**	**3059**	**347,316**
Changes in premium deficiency reserve	-	-	(8,685)	-	-	-	-	**(8,685)**
Changes in additional unexpired risk reserve	-	-	-	1,248	-	1,633	-	**2,881**
Changes in unallocated loss adjustment expenses	21	(42)	(424)	456	(234)	-	(87)	**(310)**
Policy acquisition costs	5,369	13,106	30,401	8,699	6,869	4,394	5,176	**74,014**
Other underwriting expenses	1,250	3,194	17,249	1,592	1,038	543	-	**24,866**
Total underwriting costs and expenses	**11,419**	**29,947**	**360,905**	**15,152**	**7,939**	**6,572**	**8,148**	**440,082**
Net underwriting income	**11,505**	**15,913**	**64,008**	**5,230**	**11,796**	**(140)**	**9,378**	**117,690**
Other operating (expenses) / income								
Reversal for impairment of doubtful premium, reinsurers and other receivables								**763**
General and administration expenses								**(143,555)**
Commission income on term deposits								**7,584**
Unrealized loss on investments								**(4,314)**
Realised gain on investments								**4,857**
Commission income on investments								**411**
Dividend income								**16**
Other income, net								**4,695**
Total other operating expenses, net								**(129,543)**
Net loss for the year attributable to the shareholders, before zakat and income tax								**(11,853)**
Zakat								**(6,297)**
Income tax								**(194)**
Net loss for the year attributable to the shareholders								**(18,344)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

21 Operating segments (continued)

	Marine	Property	Motor	Engineer-ing	Accident & liability	Extended warranty	Term life	Total
For the year ended December 31, 2021								
Revenues								
Gross premiums written	47,400	167,861	451,117	96,687	69,304	23,773	45,958	902,100
Reinsurance premiums ceded	(32,376)	(138,962)	68	(84,863)	(58,933)	(15,926)	(26,501)	(357,493)
Excess of loss expenses	(3,552)	(7,104)	(8,498)	(2,683)	-	-	-	(21,837)
Net premiums written	11,472	21,795	442,687	9,141	10,371	7,847	19,457	522,770
Changes in unearned premiums	(2,840)	(7,268)	(706)	(31,865)	(9,705)	(10,583)	(81)	(63,048)
Changes in reinsurers' share of unearned premiums	1,033	2,674	(1,287)	29,673	7,731	3,948	54	43,826
Net premiums earned	9,665	17,201	440,694	6,949	8,397	1,212	19,430	503,548
Reinsurance commission	7,166	22,743	194	8,519	6,868	3,597	100	49,187
Other underwriting income	83	22	258	12	44	-	13	432
Total revenues	16,914	39,966	441,146	15,480	15,309	4,809	19,543	553,167
Underwriting costs and expenses								
Gross claims paid and loss adjustment expenses, net of recoveries	6,942	36,162	362,648	335,034	1,419	6,350	36,276	784,831
Reinsurers' share of claims paid	(5,649)	(29,786)	(2,549)	(331,970)	(932)	(6,350)	(28,979)	(406,215)
Net claims paid	1,293	6,376	360,099	3,064	487	-	7,297	378,616
Changes in outstanding claims	9,191	28,833	6,858	(322,024)	7,646	(32)	1,278	(268,250)
Changes in reinsurers' share of outstanding claims	(7,749)	(26,700)	2,160	319,767	(7,293)	32	(1,304)	278,913
Changes in claims incurred but not reported	(2,149)	2,617	(3,166)	(19,221)	2,772	-	(6,298)	(25,445)
Changes in reinsurers' share of claims incurred but not reported	1,957	(2,058)	1,573	18,751	(3,035)	-	5,038	22,226
Net claims incurred	2,543	9,068	367,524	337	577	-	6,011	386,060
Changes in premium deficiency reserve	-	-	(2,270)	-	-	-	-	(2,270)
Changes in additional unexpired risk reserve	-	-	-	639	-	779	-	1,418
Changes in unallocated loss adjustment expenses	(1)	186	8	(290)	437	-	(131)	209
Policy acquisition costs	4,328	12,693	29,177	6,846	5,224	3,366	5,343	66,977
Other underwriting expenses	1,119	2,890	20,537	1,613	997	403	15	27,574
Total underwriting costs and expenses	7,989	24,837	414,976	9,145	7,235	4,548	11,238	479,968
Net underwriting income	8,925	15,129	26,170	6,335	8,074	261	8,305	73,199
Other operating (expenses) / income								
Allowance for impairment of doubtful premium, reinsurers and other receivables								(4,996)
General and administration expenses								(124,933)
Commission income on term deposits								1,514
Unrealized gain on investments								3,930
Realised gain on investments								-
Commission income on investments								195
Dividend income								8
Other income, net								609
Total other operating expenses, Net								(123,673)
Net loss for the year attributable to the shareholders, before zakat and income tax								(50,474)
Zakat								(3,986)
Income tax								(16)
Net loss for the year attributable to the shareholders								(54,476)

(All amounts in Saudi Riyals thousands unless otherwise stated)

21 Operating segments (continued)

	Marine	**Property**	**Motor**	**Engineer-ing**	**Accident & liability**	**Extended warranty**	**Term life**	**Total**
As at December 31, 2022								
Assets								
Reinsurers' share of unearned premiums	12,888	38,805	4	120,326	33,683	43,106	8,868	**257,680**
Reinsurers' share of outstanding claims	17,666	143,836	110	71,659	116,976	3	2,681	**352,931**
Reinsurers' share of claims incurred but not reported	1,157	17,245	125	2,455	6,169	-	1,710	**28,861**
Deferred policy acquisition costs	1,770	4,865	17,998	9,224	3,396	13,975	1,456	**52,684**
Unallocated assets								**1,223,984**
Total assets								**1,916,140**
Liabilities								
Unearned premiums	17,189	46,956	264,296	134,497	41,149	57,072	14,398	**575,557**
Unearned reinsurance commission	2,527	6,990	-	5,096	2,868	7,465	-	**24,946**
Outstanding claims	23,651	156,928	80,538	75,872	118,813	3	3,310	**459,115**
Claims incurred but not reported	1,318	18,483	26,353	2,849	7,416	-	2,137	**58,556**
Premium deficiency reserve	-	-	2,011	-	-	-	-	**2,011**
Additional unexpired risk reserve	-	-	-	2,090	-	2,412	-	**4,502**
Unallocated loss adjustment expenses	338	701	1,999	698	741	-	76	**4,553**
Unallocated liabilities								**406,441**
Total liabilities								**1,535,681**

	Marine	Property	Motor	Engineer-ing	Accident & liability	Extended warranty	Term life	Total
As at December 31, 2021								
Assets								
Reinsurers' share of unearned premiums	9,763	36,547	-	50,842	27,849	42,458	5,738	173,197
Reinsurers' share of outstanding claims	13,168	85,169	134	63,352	111,615	9	7,477	280,924
Reinsurers' share of claims incurred but not reported	491	10,648	615	3,943	11,229	-	3,711	30,637
Deferred policy acquisition costs	1,504	4,460	10,599	6,051	2,573	12,473	1,130	38,790
Unallocated assets								823,689
Total assets								1,347,237
Liabilities								
Unearned premiums	14,123	44,348	188,415	55,072	31,958	49,093	9,671	392,680
Unearned reinsurance commission	2,003	5,063	-	8,310	2,743	11,081	-	29,200
Outstanding claims	16,685	92,657	76,882	65,043	113,575	9	8,847	373,698
Claims incurred but not reported	627	11,471	42,320	4,072	12,917	-	4,639	76,046
Premium deficiency reserve	-	-	10,696	-	-	-	-	10,696
Additional unexpired risk reserve	-	-	-	842	-	779	-	1,621
Unallocated loss adjustment expenses	317	743	2,423	242	975	-	163	4,863
Unallocated liabilities								247,238
Total liabilities								1,136,042

(All amounts in Saudi Riyals thousands unless otherwise stated)

22 Related party transactions and balances

22.1 Related party transactions

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

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

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

Related party	Nature of transactions	**For the year ended December 31, 2022**	For the year ended December 31, 2021
Board members	- Fees and related expenses	**2,244**	1,712
Key management personnel	- Remuneration and related expenses	**10,087**	10,487
	- Long term employee benefits accrued	**463**	530
	- Loans and advances	**679**	-
	- End of service benefits paid	**-**	932
Major shareholders	- Gross premiums written	**1,328**	3,705
	- Claims paid	**214**	1,180
	- Facultative premiums ceded	**1,439**	1,519
	- Facultative claims recovered	**1,320**	273
	- Facultative commission received	**17**	37
	- Expenses incurred	**5,006**	5,395
	- Commission income on term deposits	**-**	925
Entities controlled, jointly controlled or significantly influenced by major shareholders	- Gross premiums written	**50,661**	46,853
	- Claims paid	**12,866**	11,401
	- Expenses incurred	**1,715**	1,906
	- Capital expenditure incurred	**-**	1,785

22.2 Related party balances

	2022	2021
Major shareholders		
Premiums receivable	**-**	32
Claims payable	**1**	12
Amounts due from / (to) facultative transactions	**1,029**	(523)
Entities controlled, jointly controlled, or significantly influenced by major shareholders		
Premiums receivable	**7,911**	7,957
Claims payable	**2,939**	1,652
Amounts due for expenses	**-**	2
Others (key management personnel)		
Employee benefits payable to key management personnel	**2,832**	2,890
Advances due from key management personnel	**852**	284

(All amounts in Saudi Riyals thousands unless otherwise stated)

23 Zakat and income tax

23.1 Components of zakat base

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

	2022	2021
Equity, at beginning of year	**186,105**	202,669
Provisions, at beginning of year	**47,960**	45,665
Adjusted net income / (loss) for the year	**7,226**	(39,103)
Statutory deposit	**(17,624)**	(15,248)
Property and equipment and intangible assets, as adjusted	**(50,592)**	(46,919)
Increase in share capital	**176,240**	-
Statutory deposit relating to capital increase	**17,624**	-
Capital issuance cost	**(10,216)**	-
Others	**(13,064)**	2,902
Approximate zakat base	**343,659**	149,966

Additional share capital was received on May 31, 2022 as such the zakat liability for the additional share capital is calculated for 214 days only.

23.2 Provision for zakat and income tax

	Zakat	**Income tax**	**Total**
January 1, 2022	**3,873**	**-**	**3,873**
Provision for the current year	**6,297**	**194**	**6,491**
Payments during the year	**(3,647)**	**-**	**(3,647)**
December 31, 2022	**6,523**	**194**	**6,717**

	Zakat	**Income tax**	**Total**
January 1, 2021	5,113	1,491	6,604
Provision for the current year	3,873	-	3,873
Adjustment for prior years	113	16	129
Payments during the year	(5,016)	(1,054)	(6,070)
Payments for prior year	(210)	(453)	(663)
December 31, 2021	3,873	-	3,873

Zakat is payable at 2.58% of approximate zakat base (excluding adjusted net income for the year) and at 2.5% of the adjusted net income for the year attributable to Saudi shareholders.

Provision for income tax is payable at 20% of the adjusted net income attributable to the foreign shareholders of the Company, less allowances for foreign shareholders' share in the losses carry forwarded from previous year calculated in accordance with the guidelines provided in the income tax regulations (2021: Nil).

Up to May 31, 2022, the zakat share in capital and profit was 82.44% and the income tax share in capital and profit was 17.56%.

(All amounts in Saudi Riyals thousands unless otherwise stated)

23 Zakat and income tax (continued)

23.2 Provision for zakat and income tax (continued)

The shareholding percentage subject to zakat and income tax is as follows:

	2022 **%**	2021 %
Zakat share in capital and profit	**88.12**	76.24
Income tax share in capital and profit	**11.88**	23.76

No deferred tax has been recognized on the accumulated losses as it is not certain that the taxable income would be available in near future to utilize the deferred taxes.

23.3 Status of assessments

Year ended December 31, 2011 and 2012

The Tax and zakat position were finalized as the Higher Appeal Committee (HAC) ruled in favor of the Company.

Year ended December 31, 2013

The Tax and zakat position may be considered finalized under the Statute of Limitation.

Year ended December 31, 2014 to 2018

The ZATCA had issued assessments claiming additional taxes and Zakat amounting to SAR 0.82 million and SAR 0.29 million, respectively, which was duly accepted and settled by the Company.

During 2019, the Company had received an assessment for the 2018 withholding tax liability in which the ZATCA had imposed additional taxes, including penalties of SAR 11.37 million. Management believes that the assessment raised is without merit and has appealed against this assessment. The Company's initial appeal was rejected by the ZATCA and was escalated to the General Secretariat of Tax Committee ("GSTC") online portal in order to assign the hearing session by the Committee for Resolution of Tax Violations and Disputes ("CRTVD"). On August 05, 2021 the CRTVD issued its summary decision in which CRTVD agreed with the ZATCA's revised assessments. On September 21, 2021, the Company received the decision from CRTVD where the revised withholding tax liability was assessed to SAR 9.75 million in addition to its penalties. The Company appealed against the CRTVD decision and escalated its objection to the Advanced Committee for Tax Violations and Dispute Resolution ("ACTVDR") and the Company is waiting to receive the ACTVDR decision.

Subsequent to the year end, the Company has received the final decision of the ACTVDR Committee which accepted the Company's arguments and waived the total amounts assessed by ZATCA.

Year ended December 31, 2019 and 2020

The ZATCA had issued assessment for the year ended December 31, 2019 and 2020 claiming additional tax amounting to SAR 0.45 million and additional zakat amounting to SAR 0.21 million, which was duly accepted and settled by the Company. Accordingly, the tax and zakat assessments for 2019 and 2020 have been finalized.

Year ended December 31, 2021

The Company has filed its tax return of December 31, 2021 with the ZATCA and has a certificate valid till April 30, 2023.

24 Share capital and basic and diluted loss per share

During the year ended December 31, 2022, the Company completed its right issue of SAR 200 million consisting of 20 million new shares of SAR 10 each. Accordingly, the authorized, issued and paid-up capital of the Company at December 31, 2022 is SAR 400 million divided into 40 million shares of SAR 10 each (2021: SAR 200 million divided into 20 million shares of SAR 10 each).

The Company incurred transaction costs of SAR 11.59 million on the right issue of shares which has been accounted for as a deduction from equity in accordance with the requirements of International Financial Reporting Standard (IFRS) as endorsed by SOCPA.

(All amounts in Saudi Riyals thousands unless otherwise stated)

24 Share capital and earnings per share (continued)

Loss per share:
Loss per share for the year ended December 31, 2022 and 2021 has been calculated by dividing the net loss for the respective years attributable to the shareholders by the weighted average number of ordinary shares at the reporting date. Diluted loss per share is not applicable to the Company.

The weighted average number of shares has been retrospectively adjusted for the prior year to reflect the element of the right issue as required by IAS 33, "Earnings per share" as follows:

	2022	2021
Issued ordinary shares as at 1 January	**20,000**	20,000
Adjusted right issue	**17,235**	-
Effect of rights issue of shares	**-**	10,200
Weighted average number of ordinary shares	**37,235**	30,200

The weighted average number of ordinary shares for prior year is computed using an adjustment factor of 1.51 which is a ratio of the theoretical ex-rights of SAR 20.48 and closing price per share of SAR 30.95 on April 13, 2022, the last day on which the shares were traded before the rights issue.

The basic and diluted loss per share is calculated as follows:

	2022	2021
Net loss for the year attributable to the shareholders	**(18,344)**	(54,476)
Weighted average number of ordinary shares	**37,235**	30,200
Basic and diluted loss per share	**(0.49)**	(1.80)

25 Statutory reserves

As required by the Implementing Regulations issued by SAMA, 20% of the net income for the year after adjusting accumulated losses, has to be set aside from net income for the year as a statutory reserve until this amounts to 100% of the paid-up share capital. During the year, as the Company has incurred losses, no transfers have been made to the statutory reserve (2021: Nil). This reserve is not available for distribution to the shareholders until the liquidation of the Company.

26 Reinsurance premiums ceded

	2022	2021
Local companies	**20,515**	26,735
Local brokers	**355,386**	271,036
International	**51,343**	59,722
	427,244	357,493

27 Capital management

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

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares.

(All amounts in Saudi Riyals thousands unless otherwise stated)

27 Capital management (continued)

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

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

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

The Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at December 31, 2022 consists of paid-up share capital of SAR 400 million, statutory reserve of SAR 15.35 million and accumulated losses of SAR 34.895 million (2021: paid-up share capital of SAR 200 million, statutory reserve of SAR 15.35 million and accumulated losses of SAR 4.159 million), in the statement of financial position.

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

In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements as at December 31, 2022.

28 General and administration expenses

	Note	2022	2021
Salaries and benefits		**73,172**	75,500
Information technology		**16,224**	14,674
Legal and professional fees		**9,160**	6,349
Depreciation and amortization	11, 12	**8,336**	7,058
Office expenses		**5,167**	5,585
Regulatory fees		**5,502**	2,539
Value added tax paid		**1,000**	2,343
Accruals for tax contingencies		**12,470**	1,000
Directors' expenses	22	**2,244**	1,712
Others		**10,280**	8,173
		143,555	124,933

29 Other income, net

	Note	2022	2021
Share of surplus from Al Manafeth	29.1	**157**	424
Share of surplus from Umrah & Hajj scheme	29.2	**4,612**	185
Share of deficit from Inherent defects insurance	29.3	**(74)**	-
		4,695	609

29.1 This represents the Company's share in the surplus arising from the Al Manafeth Third Party Liability Insurance Fund (the Fund). The Company with twenty-four other insurance companies operating in the Kingdom of Saudi Arabia, entered into an agreement with 'The Company for Cooperative Insurance' ("CCI") effective from January 1, 2015, initially for three years, for participating in the insurance of foreign vehicles entering Saudi Arabia through all its borders except from the Kingdom of Bahrain. As per the agreement, CCI will receive 4.25 percent of Fund's gross written premiums to cover the related indirect expense along with 15 percent management fee of the net results of the Fund's portfolio. The remaining results after the aforesaid distribution is due to be shared equally by the CCI and above mentioned twenty five insurance companies including the Company. The agreement is renewed for the years 2019 and 2020. There is no renewal to the agreement in 2021 as the aforementioned arrangement has been discontinued.

29 Other income, net (continued)

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

29.3 This represents the Company's share of loss (4.94%) in the Inherent Defects Insurance ("IDI") product. On June 25, 2020, a co-insurance agreement was signed among thirteen insurance companies ("Participating Companies") operating in Kingdom of Saudi Arabia for IDI product, based on the Saudi Central Bank ('SAMA') approval authorizing Malath Cooperative Insurance Company as the leading company ("Operator"), to manage the IDI program on behalf of the participating insurance companies, selling the product and providing its insurance coverage by creating joint insurance portfolios. Malath Cooperative Insurance Company will exclusively manage the portfolio during the period of validity of the IDI agreement of five years from issue date.

IDI is a mandatory insurance policy for contractors to insure against inherent defects that may appear in buildings and constructions after their occupation in non-governmental sector projects, according to Saudi Council of Ministers Decree No. 509 of 21/09/1439 AH (corresponding to 05/06/2018) and in accordance with the decision 441/187of the Governor of Saudi Central Bank ("SAMA") dated 05/08/1441 AH (corresponding to 29/03/2020).

(All amounts in Saudi Riyals thousands unless otherwise stated)

30 Supplementary information

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

a) Statement of financial position

	December 31, 2022			December 31, 2021		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
ASSETS						
Cash and cash equivalents	**64,494**	**6,362**	**70,856**	33,864	8,266	42,130
Term deposits	**276,934**	**70,000**	**346,934**	191,369	-	191,369
Premiums receivable – net	**375,284**	**-**	**375,284**	249,526	-	249,526
Due from reinsurers – net	**89,320**	**-**	**89,320**	39,155	-	39,155
Reinsurers' share of unearned premiums	**257,680**	**-**	**257,680**	173,197	-	173,197
Reinsurers' share of outstanding claims	**352,931**	**-**	**352,931**	280,924	-	280,924
Reinsurers' share of claims incurred but not reported	**28,861**	**-**	**28,861**	30,637	-	30,637
Deferred policy acquisition costs	**52,684**	**-**	**52,684**	38,790	-	38,790
Investments	**-**	**218,425**	**218,425**	-	179,882	179,882
Prepaid expenses and other assets	**22,170**	**1,262**	**23,432**	36,180	2,313	38,493
Due from shareholders' / insurance operations	**5,905**	**-**	**5,905**	56,427	-	56,427
Property and equipment	**-**	**17,318**	**17,318**	-	17,403	17,403
Intangible assets	**-**	**40,095**	**40,095**	-	44,139	44,139
Statutory deposit	**-**	**40,000**	**40,000**	-	20,000	20,000
Accrued income on statutory deposit	**-**	**2,320**	**2,320**	-	1,592	1,592
TOTAL OPERATIONS' ASSETS	**1,526,263**	**395,782**	**1,922,045**	1,130,069	273,595	1,403,664
Less: Inter-operations eliminations	**(5,905)**	**-**	**(5,905)**	(56,427)	-	(56,427)
TOTAL ASSETS AS PER STATEMENT OF FINANCIAL POSITION	**1,520,358**	**395,782**	**1,916,140**	1,073,642	273,595	1,347,237

(All amounts in Saudi Riyals thousands unless otherwise stated)

30 Supplementary information (continued)

a) Statement of financial position (continued)

	December 31, 2022			December 31, 2021		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
LIABILITIES AND EQUITY						
LIABILITIES						
Policyholders payable	**101,229**	**-**	**101,229**	29,961	-	29,961
Accrued expenses and other liabilities	**71,203**	**381**	**71,584**	71,650	508	72,158
Due to shareholders' / insurance operations	**-**	**5,905**	**5,905**	-	56,427	56,427
Due to reinsurers, agents, brokers and third-party administrator	**224,591**	**-**	**224,591**	139,654	-	139,654
Unearned premiums	**575,557**	**-**	**575,557**	392,680	-	392,680
Unearned reinsurance commission	**24,946**	**-**	**24,946**	29,200	-	29,200
Outstanding claims	**459,115**	**-**	**459,115**	373,698	-	373,698
Claims incurred but not reported	**58,556**	**-**	**58,556**	76,046	-	76,046
Premium deficiency reserve	**2,011**	**-**	**2,011**	10,696	-	10,696
Additional unexpired risk reserve	**4,502**	**-**	**4,502**	1,621	-	1,621
Unallocated loss adjustment expenses	**4,553**	**-**	**4,553**	4,863	-	4,863
Zakat and income tax payable	**-**	**6,717**	**6,717**	-	3,873	3,873
Accrued income on statutory deposit	**-**	**2,320**	**2,320**	-	1,592	1,592
TOTAL OPERATIONS' LIABILITIES	**1,526,263**	**15,323**	**1,541,586**	1,130,069	62,400	1,192,469
Less: Inter-operations eliminations	**-**	**(5,905)**	**(5,905)**	-	(56,427)	(56,427)
TOTAL LIABILITIES AS PER STATEMENT OF FINANCIAL POSITION	**1,526,263**	**9,418**	**1,535,681**	1,130,069	5,973	1,136,042
EQUITY						
Share capital	**-**	**400,000**	**400,000**	-	200,000	200,000
Statutory reserve	**-**	**15,354**	**15,354**	-	15,354	15,354
Accumulated losses	**-**	**(34,895)**	**(34,895)**	-	(4,159)	(4,159)
TOTAL EQUITY	**-**	**380,459**	**380,459**	-	211,195	211,195
TOTAL LIABILITIES AND EQUITY	**1,526,263**	**389,877**	**1,916,140**	1,130,069	217,168	1,347,237

(All amounts in Saudi Riyals thousands unless otherwise stated)

30 Supplementary information (continued)

b) Statement of income

	For the year ended December 31, 2022			For the year ended December 31, 2021		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
REVENUES						
Gross premiums written	**1,042,418**	**-**	**1,042,418**	902,100	-	902,100
Reinsurance premiums ceded	**(427,244)**	**-**	**(427,244)**	(357,493)	-	(357,493)
Excess of loss expenses	**(11,272)**	**-**	**(11,272)**	(21,837)	-	(21,837)
Net premiums written	**603,902**	**-**	**603,902**	522,770	-	522,770
Changes in unearned premiums	**(182,877)**	**-**	**(182,877)**	(63,048)	-	(63,048)
Changes in reinsurers' share of unearned premiums	**84,483**	**-**	**84,483**	43,826	-	43,826
Net premiums earned	**505,508**	**-**	**505,508**	503,548	-	503,548
Reinsurance commission	**50,842**	**-**	**50,842**	49,187	-	49,187
Other underwriting income	**1,422**	**-**	**1,422**	432	-	432
TOTAL REVENUES	**557,772**	**-**	**557,772**	553,167	-	553,167
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid and loss adjustment expenses, net of recoveries	**470,429**	**-**	**470,429**	784,831	-	784,831
Reinsurers' share of claims paid	**(120,809)**	**-**	**(120,809)**	(406,215)	-	(406,215)
Net claims paid	**349,620**	**-**	**349,620**	378,616	-	378,616
Changes in outstanding claims	**85,417**	**-**	**85,417**	(268,250)	-	(268,250)
Changes in reinsurers' share of outstanding claims	**(72,007)**	**-**	**(72,007)**	278,913	-	278,913
Changes in claims incurred but not reported	**(17,490)**	**-**	**(17,490)**	(25,445)	-	(25,445)
Changes in reinsurers' share of claims incurred but not reported	**1,776**	**-**	**1,776**	22,226	-	22,226
Net claims incurred	**347,316**	**-**	**347,316**	386,060	-	386,060
Changes in premium deficiency reserve	**(8,685)**	**-**	**(8,685)**	(2,270)	-	(2,270)
Changes in additional unexpired risk reserve	**2,881**	**-**	**2,881**	1,418	-	1,418
Changes in unallocated loss adjustment expenses	**(310)**	**-**	**(310)**	209	-	209
Policy acquisition costs	**74,014**	**-**	**74,014**	66,977	-	66,977
Other underwriting expenses	**24,866**	**-**	**24,866**	27,574	-	27,574
TOTAL UNDERWRITING COSTS AND EXPENSES	**440,082**	**-**	**440,082**	479,968	-	479,968
NET UNDERWRITING INCOME	**117,690**	**-**	**117,690**	73,199	-	73,199

(All amounts in Saudi Riyals thousands unless otherwise stated)

30 Supplementary information (continued)

b) Statement of income (continued)

	For the year ended December 31, 2022			For the year ended December 31, 2021		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
OTHER OPERATING (EXPENSES) / INCOME						
Reversal / (Allowance) for impairment of doubtful premiums, reinsurers and other receivables	**763**	**-**	**763**	(4,996)	-	(4,996)
General and administrative expenses	**(131,108)**	**(12,447)**	**(143,555)**	(115,239)	(9,694)	(124,933)
Commission income on term deposits	**6,110**	**1,474**	**7,584**	1,457	57	1,514
Unrealized (loss) / gain on investments	**-**	**(4,314)**	**(4,314)**	-	3,930	3,930
Realised gain on investments	**-**	**4,857**	**4,857**	-	-	-
Commission income on investments	**-**	**411**	**411**	-	195	195
Dividend income	**-**	**16**	**16**	-	8	8
Other income, net	**4,695**	**-**	**4,695**	609	-	609
TOTAL OTHER OPERATING EXPENSES, NET	**(119,540)**	**(10,003)**	**(129,543)**	(118,169)	(5,504)	(123,673)
NET DEFICIT FROM INSURANCE OPERATIONS	**(1,850)**	**(10,003)**	**(11,853)**	(44,970)	(5,504)	(50,474)
Deficit to shareholders' operations (note e)	**1,850**	**(1,850)**	**-**	44,970	(44,970)	-
Net loss for the year attributable to the shareholders before zakat and income tax	**-**	(11,853)	(11,853)	-	(50,474)	(50,474)
Zakat	**-**	(6,297)	(6,297)	-	(3,986)	(3,986)
Income tax	**-**	(194)	(194)	-	(16)	(16)
Net loss for the year attributable to the shareholders	**-**	(18,344)	(18,344)	-	(54,476)	(54,476)
Loss per share (basic and diluted) - restated (expressed in SAR per share)	**-**	(0.49)	**-**	-	(1.80)	-

c) Statement of comprehensive income

	For the year ended December 31, 2022			For the year ended December 31, 2021		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
Net loss for the year attributable to the shareholders	**-**	**(18,344)**	**(18,344)**	-	(54,476)	(54,476)
Other comprehensive loss						
Items that will not be reclassified to statement of income in subsequent years						
Actuarial losses on defined benefit obligations	**-**	**(440)**	**(440)**	-	(161)	(161)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS	**-**	**(18,784)**	**(18,784)**	-	(54,637)	(54,637)

(All amounts in Saudi Riyals thousands unless otherwise stated)

30 Supplementary information (continued)

d) Statement of cash flows

	For the year ended December 31, 2022			For the year ended December 31, 2021		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
CASH FLOW FROM OPERATING ACTIVITIES						
Net loss for the year attributable to the shareholders before zakat and income tax	**-**	**(11,853)**	**(11,853)**	-	(50,474)	(50,474)
Adjustments for non-cash items:						
Depreciation of property and equipment and amortisation of intangible assets	**-**	**8,336**	**8,336**	-	7,058	7,058
Shareholders' share of (deficit) / surplus from insurance operations	**(1,850)**	**1,850**	**-**	(44,970)	44,970	-
(Reversal) / Allowance for impairment of doubtful premium, reinsurers and other receivables	**(763)**	**-**	**(763)**	4,996	-	4,996
Unrealized loss / (gain) on investments	**-**	**4,314**	**4,314**	-	(3,930)	(3,930)
Commission income on investments	**-**	**(411)**	**(411)**	-	(195)	(195)
Dividend income	**-**	**(16)**	**(16)**	-	(8)	(8)
Provision for employee benefits obligation	**3,277**	**-**	**3,277**	3,136	-	3,136
Commission income on term deposits	**(6,110)**	**(1,474)**	**(7,584)**	(1,457)	(57)	(1,514)
Capital work in progress written off	**-**	**3,706**	**3,706**	-	-	-
	(5,446)	**4,452**	**(994)**	(38,295)	(2,636)	(40,931)
Changes in operating assets and liabilities:						
Premiums receivable	**(122,949)**	**-**	**(122,949)**	(58,947)	-	(58,947)
Reinsurers' share of unearned premiums	**(84,483)**	**-**	**(84,483)**	(43,826)	-	(43,826)
Reinsurers' share of outstanding claims	**(72,007)**	**-**	**(72,007)**	278,913	-	278,913
Reinsurers' share of claims incurred but not reported	**1,776**	**-**	**1,776**	22,226	-	22,226
Deferred policy acquisition costs	**(13,894)**	**-**	**(13,894)**	(6,491)	-	(6,491)
Due from reinsurers	**(50,235)**	**-**	**(50,235)**	3,847	-	3,847
Prepaid expenses and other assets	**14,761**	**1,497**	**16,258**	(16,557)	(1,942)	(18,499)
Policyholders payable	**71,268**	**-**	**71,268**	7,280	-	7,280
Accrued expenses and other liabilities	**(2,025)**	**(127)**	**(2,152)**	4,884	(429)	4,455
Due to reinsurers, agents, brokers and third party administrator	**84,937**	**-**	**84,937**	33,959	-	33,959
Unearned premiums	**182,877**	**-**	**182,877**	63,048	-	63,048
Unearned reinsurance commission	**(4,254)**	**-**	**(4,254)**	(1,186)	-	(1,186)
Outstanding claims	**85,417**	**-**	**85,417**	(268,250)	-	(268,250)
Claims incurred but not reported	**(17,490)**	**-**	**(17,490)**	(25,445)	-	(25,445)
Premium deficiency reserve	**(8,685)**	**-**	**(8,685)**	(2,270)	-	(2,270)
Additional unexpired risk reserve	**2,881**	**-**	**2,881**	1,418	-	1,418
Due to shareholders' operations	**52,812**	**(52,812)**	**-**	(33,059)	33,059	-
Unallocated loss adjustment expenses	**(310)**	**-**	**(310)**	209	-	209
	114,951	**(46,990)**	**67,961**	(78,542)	28,052	(50,490)
Surplus paid to policyholders	**-**	**-**	**-**	(2,468)	-	(2,468)
Zakat and income tax paid	**-**	**(3,647)**	**(3,647)**	-	(6,733)	(6,733)
Payment of employee benefits obligation	**(2,139)**	**-**	**(2,139)**	(4,293)	-	(4,293)
Net cash generated from / (used in) operating activities	**112,812**	**(50,637)**	**62,175**	(85,303)	21,319	(63,984)

(All amounts in Saudi Riyals thousands unless otherwise stated)

30 Supplementary information (continued)

d) Statement of cash flows (continued)

	For the year ended December 31, 2022			For the year ended December 31, 2021		
	Insurance operations	**Share holders' operations**	**Total**	Insurance operations	Share holders' operations	Total
CASH FLOW FROM INVESTING ACTIVITIES						
Additions to property and equipment	**-**	**(7,913)**	**(7,913)**	-	(8,725)	(8,725)
Additions to intangible assets	**-**	**-**	**-**	-	(9,391)	(9,391)
Additions to FVSI investments	**-**	**(100,000)**	**(100,000)**	-	(9,000)	(9,000)
Realised gain reinvested during the year	**-**	**(4,857)**	**(4,857)**	-	-	-
Proceeds from disposal of FVSI investments	**-**	**62,000**	**62,000**	-	-	-
Placements in term deposits	**(276,934)**	**(70,000)**	**(346,934)**	(191,369)	-	(191,369)
Proceeds from term deposits matured	**191,369**	**-**	**191,369**	242,250	-	242,250
Increase in statutory deposit	**-**	**(20,000)**	**(20,000)**	-	-	-
Commission income on investments	**-**	**411**	**411**	-	195	195
Dividend income	**-**	**16**	**16**	-	8	8
Income received from term deposits	**3,383**	**670**	**4,053**	1,356	57	1,413
Net cash (used in) / generated from investing activities	**(82,182)**	**(139,673)**	**(221,855)**	52,237	(26,856)	25,381
CASH FLOW FROM FINANCING ACTIVITIES						
Issue of right shares	**-**	**200,000**	**200,000**	-	-	-
Transaction costs on the issue of right shares	**-**	**(11,594)**	**(11,594)**	-	-	-
Net cash generated from financing activities	**-**	**188,406**	**188,406**	-	-	-
Net increase / (decrease) in cash and cash equivalents	**30,630**	**(1,904)**	**28,726**	(33,066)	(5,537)	(38,603)
Cash and cash equivalents at the beginning of the year	**33,864**	**8,266**	**42,130**	66,930	13,803	80,733
Cash and cash equivalents at the end of the year	**64,494**	**6,362**	**70,856**	33,864	8,266	42,130
SUPPLEMENTAL SCHEDULE OF NON-CASH INFORMATION						
Transfer from capital work in progress	**-**	**8,578**	**8,578**	-	-	-
Income tax receivable from foreign shareholders adjusted against prepaid expenses and other assets	**-**	**-**	**-**	-	358	358
Remeasurement loss on employee benefits obligation adjusted against accrued expenses and other liabilities	**440**	**-**	**440**	161	-	161

e) As required by the Implementing Regulations and the by-laws of the Company, surplus arising from the Insurance Operations is distributed as follows:

Transfer to Shareholders' operations	90%
Transfer to Policyholders payable	10%
	100%

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

31 Risk management

Risk governance

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

Risk management structure:
A cohesive organizational structure is established within the Company in order to identify, assess, monitor, and control risks.

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

Audit committee and internal audit department:
The internal audit department performs risk assessments with senior management annually. The internal audit department examines both adequacy of procedures and the Company's compliance with the procedures through regular audits. Audit findings and recommendations are reported directly to the Audit Committee.

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

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

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

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

31.1 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 above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, structured claims management, quarterly review of reserves as well as the use of reinsurance arrangements.

The Company purchases reinsurance as part of its risk's mitigation programme. Reinsurance ceded is placed on both a proportional and non–proportional basis. The majority of proportional reinsurance is quota–share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non–proportional reinsurance is primarily 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

31 Risk management (continued)

31.1 Insurance risk (continued)

(a) 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 risks 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 10% of equity on a gross basis and 2% on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 5% of equity. The Board of Directors may decide to increase or decrease the maximum tolerances based on market conditions and other factors. The table below sets out the concentration of the outstanding claims and unearned premiums (in percentage terms) by class of business at the statement of financial position date:

2022	**Gross unearned premiums**	**Net unearned premiums**	**Gross outstanding claims**	**Net outstanding claims**
Marine	3%	1%	5%	6%
Property	8%	3%	34%	12%
Motor	46%	83%	18%	75%
Engineering	23%	4%	16%	4%
Accident and liability	7%	2%	26%	2%
Extended warranty	10%	4%	0%	-
Term life	3%	3%	1%	1%
Total	100%	100%	100%	100%

2021	Gross unearned premiums	Net unearned premiums	Gross outstanding claims	Net outstanding claims
Marine	4%	2%	5%	4%
Property	11%	3%	25%	8%
Motor	48%	86%	21%	83%
Engineering	14%	2%	17%	2%
Accident and liability	8%	2%	30%	2%
Extended warranty	13%	3%	-	-
Term Life	2%	2%	2%	1%
Total	100%	100%	100%	100%

(b) Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in the 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 neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

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

31 Risk management (continued)

31.1 Insurance risk (continued)

(c) 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.

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

(d) Process used to decide on assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral reasonable estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from 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 2(e)(i).

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

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed 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, 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, additional unexpired risk reserves, 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.

31 Risk management (continued)

31.1 Insurance risk (continued)

(d) Process used to decide on assumptions (continued)

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.

(e) Reinsurance risk

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

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

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

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

Furthermore, the financial strength and managerial and technical expertise as well as historical performance of the reinsurers, wherever applicable, are thoroughly reviewed by the Company and agreed to pre-set requirements of the Company's Board of Directors and Reinsurance Committee before approving them for exchange of reinsurance business. As at December 31, 2022 and 2021, there is no significant concentration of reinsurance balances.

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

31.2 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 market risk 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 that assets are held to deliver income and gains for policyholders which are in line with their expectations.
- The Company stipulates diversification benchmarks by type of instrument and geographical area.
- There is strict control over hedging activities (e.g., equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

31 Risk management (continued)

31.2 Market risk (continued)

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

(a) Currency risk

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

(b) Commission rate risk

Commission rate risk is the risk that the value of future cash flows of a financial instrument will change because of change in market commission rates.

The Company invests in securities and has deposits that are subject to commission rate risk. 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.

The commission and non-commission bearing investments of the Company and their maturities as at December 31, 2022 and 2021 are as follows:

	Less than 1 year	More than 1 year	Non-commission bearing	Total
2022	**439,549**	**93,212**	**72,598**	**605,359**
2021	276,869	40,938	115,574	433,381

An increase or decrease of 100 basis points in interest yields would result in an increase / (decrease) in the profit or loss for the year of SAR 5.3 million (2021: SAR 3.2 million).

(c) 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 148 million (2021: SAR 87.7 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 and 10% decrease in the market prices of investments on Company's profit would be as follows:

	Fair value change	Effect on Company's loss
December 31, 2022	**+ / - 10%**	**+ / - 14,827**
December 31, 2021	+ / - 10%	+ / - 8,769

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

31 Risk management (continued)

31.3 Credit risk

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

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

	2022	2021
Financial assets		
Cash and cash equivalents	**70,856**	42,130
Term deposits	**346,934**	191,369
Premiums receivable, net	**375,284**	249,526
Due from reinsurers, net	**89,320**	39,155
Reinsurers' share of outstanding claims	**352,931**	280,924
Investments, net of equity investments and mutual funds	**149,445**	119,451
Statutory deposit	**40,000**	20,000
Accrued income on statutory deposit	**2,320**	1,592
Staff and other receivables	**9,155**	10,485
	1,436,245	954,632

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.

		Non-investment grade			
2022	***Investment grade***	***Satisfactory***	***Past due but not impaired***	***Past due and impaired***	***Total***
Cash and cash equivalents	**70,856**	**-**	**-**	**-**	**70,856**
Term deposits	**346,934**	**-**	**-**	**-**	**346,934**
Premiums receivable, net	**-**	**178,346**	**119,657**	**77,281**	**375,284**
Due from reinsurers, net	**-**	**5,302**	**51,151**	**32,867**	**89,320**
Reinsurers' share of outstanding claims	**-**	**352,931**	**-**	**-**	**352,931**
Investments, net of equity and mutual funds	**149,445**	**-**	**-**	**-**	**149,445**
Statutory deposit	**40,000**	**-**	**-**	**-**	**40,000**
Accrued income on statutory deposit	**2,320**	**-**	**-**	**-**	**2,320**
Staff and other receivables	**-**	**9,155**	**-**	**-**	**9,155**
December 31, 2022	**609,555**	**545,734**	**170,808**	**110,148**	**1,436,245**

(All amounts in Saudi Riyals thousands unless otherwise stated)

31 Risk management (continued)

31.3 Credit risk (continued)

2021	Investment grade	Non-investment grade Satisfactory	Non-investment grade Past due but not impaired	Non-investment grade Past due and impaired	Total
Cash and cash equivalents	42,130	-	-	-	42,130
Term deposits	191,369	-	-	-	191,369
Premium's receivable	-	86,177	102,468	60,881	249,526
Due from reinsurers	-	5,898	4,693	28,564	39,155
Reinsurers' share of outstanding claims	-	280,924	-	-	280,924
Investments, net of equity and mutual funds	115,001	4,450	-	-	119,451
Statutory deposit	20,000	-	-	-	20,000
Accrued income on statutory deposit	1,592	-	-	-	1,592
Staff and other receivables	-	10,485	-	-	10,485
December 31, 2021	370,092	387,934	107,161	89,445	954,632

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. All of the Company's underwriting activities are carried out in Saudi Arabia. The Company's portfolio of financial instruments is broadly diversified, and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk. Also see note 6.

31.4 Liquidity risk

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

- The Company's liquidity risk policy which sets out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.
- Contingency funding plans are in place, which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

(All amounts in Saudi Riyals thousands unless otherwise stated)

31 Risk management (continued)

31.4 Liquidity risk (continued)

The Company's catastrophe excess–of–loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

The table below summarizes the maturities of the Company's undiscounted contractual obligations relating to financial liabilities as of December 31:

Financial liabilities	**Less than 12 months**	**More than 12 months**	**Total**
Outstanding claims	**459,115**	**-**	**459,115**
Due to reinsurers, agents, brokers and third-party administrator	**224,591**	**-**	**224,591**
Policyholders payable	**101,229**	**-**	**101,229**
Accrued expenses and other liabilities	**57,143**	**14,441**	**71,584**
Accrued income on statutory deposit	**-**	**2,320**	**2,320**
December 31, 2022	**842,078**	**16,761**	**858,839**

Financial liabilities	Less than 12 months	More than 12 months	Total
Outstanding claims	317,698	56,000	373,698
Due to reinsurers, agents, brokers and third-party administrator	139,654	-	139,654
Policyholders payable	29,961	-	29,961
Accrued expenses and other liabilities	59,295	12,863	72,158
Accrued income on statutory deposit	-	1,592	1,592
December 31, 2021	546,608	70,455	617,063

Insurance contract liabilities amounting to Saudi Riyals 69.62 million (2021: 93.22 million) which include Claims incurred but not reported, Premium deficiency reserve, Additional unexpired risk reserve and Unallocated loss adjustment expenses have a maturity of less than 12 months.

To manage the liquidity risk arising from financial liabilities mentioned above, the Company holds liquid assets comprising cash and cash equivalents and investment securities. These assets can be readily sold to meet liquidity requirements.

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

- Fair value through income statement investments includes investments in mutual funds and Murabaha deposits and are held for cash management purposes and expected to be matured/ settled within 12 months from the balance sheet date.
- Murabaha deposits classified as 'cash and cash equivalents' are deposits placed with high credit rating financial institutions with maturity of less than three months from the date of placement.
- Cash and bank balances are available on demand.
- Reinsurers share of outstanding claims mainly pertain to property and casualty segment and are generally realized within 6 to 9 months based on settlement of claims.

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

- Reinsurers' balances payable are settled on a periodic basis as per terms of reinsurance agreements.
- Majority of gross outstanding claims are expected to be settled within 12 months in accordance with statutory timelines for payment. Property and casualty 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 a year of 12 months from the year end date except for end of services benefits.
- Surplus distribution payable is to be settled within 6 months of annual general meeting in which financial statements are approved.

31 Risk management (continued)

31.5 Operational risk

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

The operations of the Company are subject to regulatory requirements in the Kingdom of Saudi Arabia. Such regulations only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to maintain the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In management view, the Company has substantially complied with such regulatory requirements.

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 yearly 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.

32 Commitments and contingencies

32.1 The Company's banks have issued payment guarantees of SAR 2.90 million (2021: SAR 2.41 million) to its suppliers on behalf of the Company.

32.2 The Company is a defendant in a case that was filed by a client amounting to SAR 19 million (2021: SAR 19 million). The preliminary decision of the Primary Committee for Resolution of Insurance Disputes and Violations ruled in favour of the Company and dismissed the case brought by the claimant. The Appeal Committee for Settlement of Insurance Disputes and Violations has issued a verdict which cancels the preliminary decision and decided to return the case to the Primary Committee for Resolution of Insurance Disputes and Violations for consideration and review. Management believes that the case is without merit and has therefore not taken any provisions there against.

32.3 During 2021, ZATCA issued various VAT assessments to the Company for approximately SAR 18 million which included VAT liabilities and penalties amounting to SAR 7.9 million and 10.1 million, respectively in respect of VAT Returns filed in 2018, 2019 and 2020. The assessments were issued primarily in connection with compensatory recovery amounts received by the Company relating to motor insurance claims from third parties.

ZATCA has asserted that these recoveries were related to supplies made by the Company and therefore subject to VAT at the prevailing rate. The Company has treated these recoveries as out of scope for VAT purposes. Management believes the ZATCA assessments are without merit and has filed objections against these assessment with ZATCA on December 23, 2021.

The 14 objections filed by Wataniya on the assessments issued by ZATCA in 2021 for SAR 18 million (VAT liabilities of approximately SAR 7.9 million and penalties of approximately SAR 10.1 million) were partially accepted by ZATCA for approximately SAR 1.5 million in VAT liabilities with the corresponding reduction in penalties, but ZATCA has yet to provide this information. There were deductions of approximately SAR 9.2 million made by ZATCA on Wataniya's VAT Return Filing.

Management decided to appeal the rejected amount and had filed 14 appeals and settlement applications respectively to the General Secretariat of the Tax Committee (GSTC) and the Internal Settlement Committee (ISC) on April 21, 2022. The appeal to the ISC and GSTC had unfortunately failed, and the Company is currently waiting for the written decision of the GSTC for rejecting its appeal before deciding on the next course of action. The Company has on the basis of conservatism provided for the remaining balance uncollected as at December 31, 2022. Subsequent to the year end, the Company has received VAT invoices for SAR 8.7 million claiming VAT for the months of March 2022 and April 2022 with penalties. The management has requested details of these invoices and are confident that the invoices would be reversed by ZATCA in due course.

32 Commitments and contingencies (continued)

32.4 See note 23.3 for zakat and tax related contingencies.

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

33 Subsequent events

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to June 30, 2022) (hereinafter referred as "the Law") came into force on 26/6/1444 H (corresponding to January 19, 2023). For certain provisions of the Law, full compliance is expected not later than two years from 26/6/1444H (corresponding to January 19, 2023). The Company is in the process of assessing the impact of the new Companies Law and will amend its Articles of Association/By-Laws for any changes to align the Articles to the provisions of the Law. However, the Company is awaiting guidance from the Saudi Central Bank (SAMA) before proceeding with any implementation.

Except for the above and as stated in note 1, note 23.3 and note 32.3, there have been no significant subsequent events since the year end, that would require disclosures or adjustments in these financial statements.

34 Approval of the financial statements

These financial statements have been approved by the Board of Directors on March 06, 2023 corresponding to 14 Sha'aban 1444H.