

## Shareholders circular Amana Cooperative Insurance Company (Amana)

Reducing the capital of company from (24,000,000) Ordinary share With a value of (240,000,000) SAR to (13,000,000) Ordinary share With a value of (130,000,000) SAR by canceling (11,000,000) share with value of (110.000.000) SAR.

**Extraordinary General Assembly Meeting**  
**11/10/1442 H Corresponding to 23/05/2021**

Financial Advisor

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## Company informations



### Company informations

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## Definitions and expressions

Expressions	Meaning
CMA	Capital market authority in the kingdom of Saudi Arabia
Tadaawl	Saudi Stock Exchange
Edaa	Securities Depository Center Company
Company	Amana Cooperative Insurance Company
Circular	Shareholders circular submitted to the extraordinary assembly Generale in relation to the capital reduction
Net claims incurred	Claims that are paid during the period after the settlement of outstanding claims, whether or not they are reported.
Written premiums	They are the premiums related to insurance policies issued by the company during a financial period, regardless of the duration of these policies.
Net written premiums	The total premiums of insurance contracts written with the company after subtracting its reinsurance premiums
Net insurance premiums earned	The premiums that are carried over to income over the periods of the related insurance policies on a proportional basis represent the insurance premiums for the accounting period covered by the financial statements of the documents in effect after making the adjustments for the unearned premiums
Technical provisions (reserves)	The amounts that the company must deduct and allocate to cover its financial obligations.
Solvency margin	The extent to which the company's assets convertible into cash exceed its liabilities.

## Background about the company



Amana Cooperative Insurance Company (hereinafter referred to as the company or Amana) is a Saudi general shareholding company established by the Council of Ministers Decision No. 188 dated 8/6/1430H corresponding to 01/06/2009 and Royal Order No. M/35 issued on 10/06/1430H corresponding to 03/06/2009, which stipulates approval for the establishment of the company in accordance with the regulations issued by Royal Decree No. 6 and date 22/03/1385H and The monitoring of the cooperative insurance companies issued by Royal Decree No. 32 of 02/06/1424H and its implementing regulation issued by Ministerial Decision No. 1/596 of 1/3/1425H. The payable capital amounted to Three hundred twenty million (320,000,000) Saudi riyals divided among Thirty-two million (32,000,000) ordinary shares. A total of 40% of the company's capital was left for public subscription on 22/03/2010. The following table shows the most important events that the company went through from its founding to the date of issuance of this circular:

Event	Date
Amana is a Saudi general shareholding company established by the Council of Ministers Decision No. 188 dated 08/06/1430 H (corresponding 01/06/2009) and Royal Order No. 35 issued on 10/06/1430 H (Corresponding to 03/06/2009 M)	08/06/1430H (Corresponding to 01/06/2009)
Twelve million and eight hundred thousand (12, 800,000) ordinary shares, representing 40% of the company's capital, was offered to public subscription.	06/04/1431H (Corresponding to 22/03/2010)
Advertisement about the establishment of the company according to the decision of the Minister of Commerce No. 180	03/06/1431H (Corresponding to 17/05/2010)
Amana Cooperative Insurance Company obtained a permit to engage in general insurance and health insurance activity from the Central Bank of Saudi Arabia No. T.M. N 30/7 2010	24/07/1431H (Corresponding to 06/07/2010)
The Board of Directors recommended that the company's capital be reduced from Three hundred and twenty million (320,000,000) Saudi riyals to One hundred forty million (140,000,000) Saudi riyals as a result of a decrease in the amount of 56.25% of the capital, by cancellation Eighteen million (18,000,000) ordinary shares in order to reduce the accumulated losses of Two hundred twelve million and twenty-two thousand (212,022,000) to thirty-two million and twenty-two thousand (32,022,000) Saudi riyals. This was announced on Tadaawl website, which circulated on 07/12/1437H (corresponding to 07/09/2016)	06/12/1437H (Corresponding 06/09/2016)

## Background about the company

Event	Date
The Board of Directors recommended an increase in the company's capital from one hundred forty million (140,000,000) Saudi riyals to Two hundred forty million (240,000,000) Saudi riyals, an increase in the capital of 71.43%, by issuing Right Issues in the amount of Ten Million (10,000,000) ordinary shares for a nominal value of one hundred million (100,000,000) Saudi riyals. This was announced at the website of Tadawul on 07/12/1437H (Corresponding to 07/09/2016).	06/12/1437H (Corresponding to 06/09/2016)
The company obtained approval from the Central Bank of Saudi Arabia to reduce the company's capital from Three hundred twenty million (320,000,000) Saudi riyals to one hundred forty million (140,000,000) Saudi riyals, according to the letter of the Central Bank of Saudi Arabia No. (381000010857) giving that the company should meet the requirements of other official authorities and ensure that the capital reduction does not violate the relevant laws and regulations.	26/01/1438H (Corresponding to 27/10/2016)
The company has received the Capital Market Authority's (CMA) approval to reduce the company's capital, which was announced on CMA's website and Tadawul's website.	26/03/1438H (Corresponding to 25/12/2016)
The extraordinary general assembly agreed to reduce the company's capital from Three hundred twenty million (320,000,000) Saudi riyals to One hundred forty million (140,000,000) Saudi riyals, by cancelling eighteen million ordinary shares with a nominal value of one hundred eighty million (180,000,000) Saudi riyals.	22/05/1438H (Corresponding to 19/02/2017)

## Background about the company

Event	Date
The company obtained approval from the Central Bank of Saudi Arabia to increase the capital of the company from One hundred forty million (140,000,000) Saudi riyals to Two hundred forty million (240,000,000) Saudi riyals, in accordance with letter of the Central Bank of Saudi Arabia No. 391000031610.	27/11/1439 H (corresponding 09/08/2018 M)
The company has received CMA approval to reduce the company's capital, which was announced on CMA's website and Tadawul's website	28/02/1440 H (corresponding 06/11/2018 M)
The extraordinary general assembly agreed to increase the company's capital from One hundred forty million (140,000,000) to Two hundred forty million (240,000,000) Saudi riyals, by issuing Right Issues in the amount of Ten million (10,000,000) ordinary shares for a nominal value of One hundred million (100,000,000) SR.	22/05/ 1440 H (corresponding 28/01/2019 M)
Amana announced that it signed a non-binding memorandum of understanding with Saudi Enaya Cooperative Insurance Company to assess the feasibility of a merger between the two companies.	29/03/1442 H (corresponding 15/11/2020 M)
The Board of Directors recommended a decrease in the company's capital from to Two hundred forty million (240,000,000) Saudi riyals to One hundred thirty million (130,000,000) Saudi riyals, a decrease in the capital of 45.83%, by cancelling Eleven million (11,000,000) ordinary shares for a nominal value of one hundred ten million (110,000,000) Saudi riyals. This was announced on Tadaawl website on 23/04/1442 H (Corresponding 08/12/2020). The company stated that the capital reduction was subject to approval by the official public authorities and the extraordinary General Assembly of the company.	22/04/1442 H (corresponding 07/12/2020 M)



## Background about the company



### Shareholders and their ownership percentages in the company:

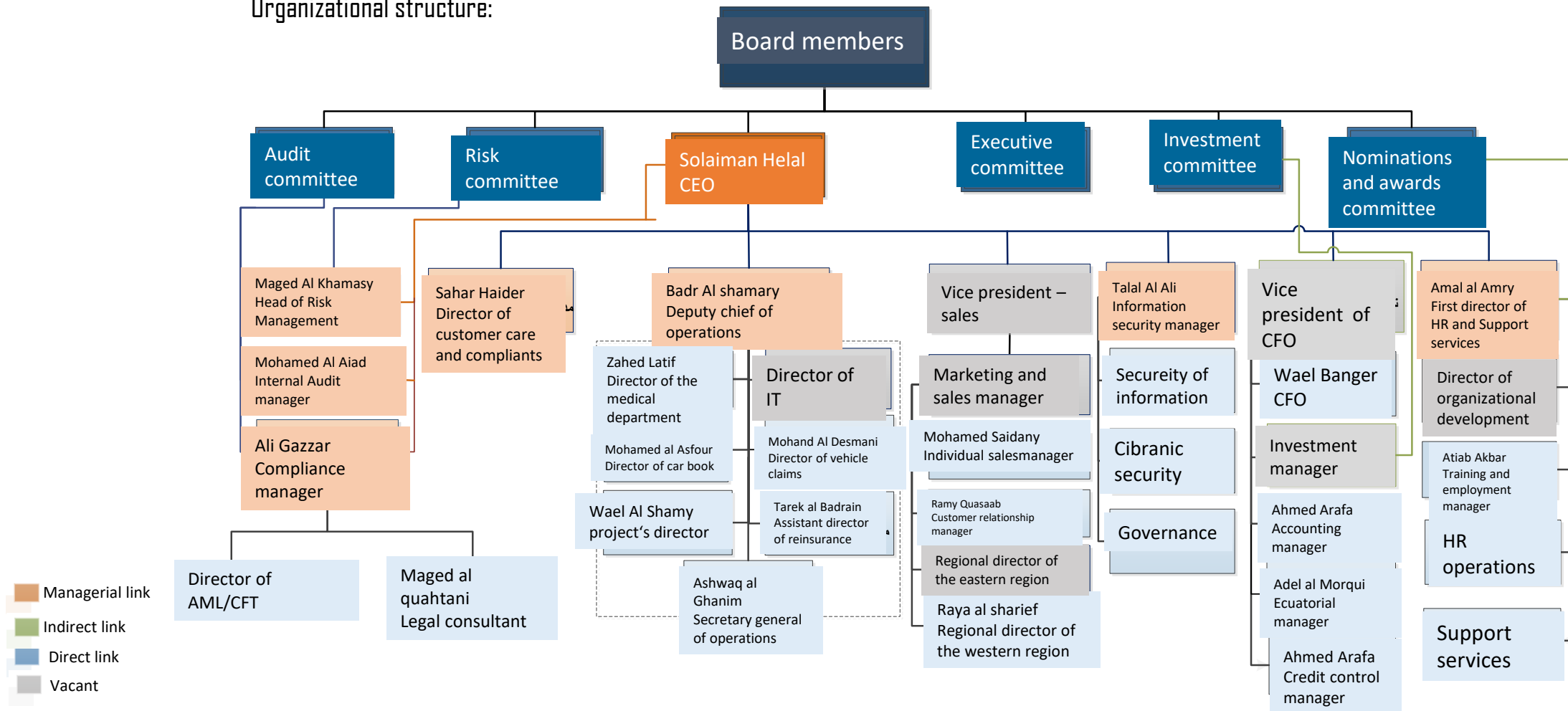
Name	Before Capital Decrease			After Capital Decreasing		
	Percentage of ownership	Nominal value SAR	Number of shares	Percentage of ownership	Nominal value SAR	Number of shares
Gulf Amana company for insurances	18.37%	44,088,000	4,408,800	18.37%	23,881,000	2,388,100
Members of board	1.26%	3,033,940	303,394	1.26%	1,643,384	164,338
The public	80.37%	192,878,060	19,287,806	80.37%	104,475,616	10,447,562
Total	100%	240,000,000	24,000,000	100%	130,000,000	13,000,000

Source: Tadauwl As of 18/03/2021

Neither Gulf Amana company for insurance nor the board of directors have indirect ownership of the company as on the date of this circular

# Background about the company

## Organizational structure:



# Background about the company



The board of directors:

Equity Before Sale							
Name	Position	Membership status	Nationality	Age	Number	Percentage of ownership as of 18/03/2021	Date of membership
Mahmoud Mohamed Al Toghy	Chairman	Independent	Saudi	55	300,000	%1.2500000	16/05/2019
Abdullah Mohamed Al Mosa	Vice president	Independent	Saudi	60	749	%0.0031208	16/05/2019
Abdel Rahman Abdulah al sakran	Member	Non executive	Saudi	55	2,625	%0.0109375	16/05/2019
Haitham Tawfiq al Fareig	Member	Independent	Kuwaiti	46	-	-	16/05/2019
Naif Faisal	Member	Non executive	Saudi	44	-	-	16/05/2019
Badr Ibrahim al Suailam	Member	Independent	Saudi	55	20	%0.0000833	16/05/2019
Peper Michal Farahon	Member	Non executive	Lebanese	32	-	-	16/05/2019

Source: the Company and TADAWL

Note: A recommendation made by the members of the board of directors of the company, which their names are mentioned above on the date 22/04/1442 (corresponding to 07/12/2020), to reduce the company's capital from 240 million to 130 million Saudi Riyals, as a result of a decrease of 45.83%, thus reducing the number of shares in the company from 24 million shares to 13 million shares by cancelling 11 million shares of the company's issued shares.

The board members have no indirect ownership in company as at the date of this circular

## Background about the company

### Top executive management:

Name	Position	Nationality	Age	Date of appointment
Sulaiman Mahmoud Helal	CEO	Saudi	50	21/05/2017
Badr Hamdan Al Shamary	Deputy chief of operations	Saudi	52	02/12/2020
Aml Auad Al Enzy	First director of Human Resources and support services	Saudi	47	16/11/2020
Ali Mostafa Gazzar	Compliance manager	Saudi	42	12/07/2020
Majed Manahy Al Khamisy	Risk manager	Saudi	42	06/09/2020
Mohamed Al Abad	Internal Audit manager	Saudi	38	20/07/2020
Sahar Mohamed Habtar	Customer care and complaints manager	Saudi	36	22/11/2020
Wael Mohamed Banger	Financial Director	Saudi	37	20/10/2020
Talal Sami Al Ali	Information security manager	Saudi	37	01/09/2020

## Company business sectors:

The main activity of the company, according to its commercial registry and the articles of association, is to provide various services and products in types of insurance. The company obtained a license from the Central Bank of Saudi Arabia No. MN / 30/20107 to practice insurance activity in the Kingdom of Saudi Arabia in the two branches of general insurance and health insurance. The insurance products offered by the company are as follows:

- Insurance policy against "all risks" (business breakdown / consequential loss), (Text of the Association of British Insurance Companies ABI).
- Insurance against lost profits due to fire.
- Civil Liability Insurance.
- All-Risks Insurance (Accidental Damage) Text of the Association of British Insurance Companies (ABI).
- Custody of funds.
- Collective personal accident insurance.
- Property insurance against fire.
- Securing electronic devices.
- Stock progressive damage insurance policy in cold storage places.
- Securing all installation work risks.
- A comprehensive insurance policy (commercial vehicles).
- A comprehensive insurance policy (private vehicles).
- Third-party insurance policy (private vehicles).
- Third-party insurance policy (commercial vehicles).
- health insurance.
- Contractor's equipment and machinery insurance.
- Worker injuries insurance.
- Marine guarantee document.
- Fixed glass insurance.
- Machinery breakdown insurance.
- Boiler and pressure vessel blast insurance policy.
- Business Breakdown / Consequential Loss (London Market Text) "LM7".
- Product Liability Insurance.
- Maritime Insurance - Single shipment.
- Travel insurance.
- Insurance for lost profits as a result of boilers and boilers exploding.
- Profit loss insurance due to machinery failure.
- Contractors' all risks insurance.
- Personal accident insurance.
- Theft risk insurance.
- All-risk property insurance (London Market Text 7) "LM7".
- Fidelity Guarantee Insurance.

## The development of the company's accumulated losses and their causes

The reason for the increase / decrease of the accumulated losses	accumulated losses to capital %	Accumulated losses (SR 000')	Annual losses (profits) / losses (profits) for the period (SR 000')	Year
The reason for the loss is due to the complete amortization of pre-operating expenses in addition to the company's incurring of administrative and general expenses during the period from the date of the announcement of the establishment of the company on 05/17/2010 AD until 12/31/2011 AD.	20,45%	65,430	65,430	2011
The accumulated losses continued to rise despite the decrease in losses during the current period compared to the period from 17/05/2010 (date of incorporation) to 31/12/2011, due to the decrease in insurance policy acquisition costs as a result of the decrease in Gross Written Premiums (GWP) and also For the increase in the company's market share from the unearned premiums provision, as well as for the inclusion of pre-incorporation expenses for the previous period. As for losses in 2012, this is due to the increase in total costs and expenses compared to total income.	34,45%	110,241	44,811	2012
The accumulated losses continued to rise despite the decrease in the loss during the current period compared to the same period of the previous year due to the decrease in the costs of underwriting insurance policies and the decrease in administrative expenses in addition to the sale of some investment assets and the realization of its profits. Because of the volume of claims incurred during the year, the company achieved a loss of (8,231) thousand Saudi Riyals despite the increase in the total written premiums, the decrease in the net costs of underwriting insurance policies, as well as the decrease in general and administrative expenses.	37,02%	118,472	8,231	2013

Source: The Company

## The development of the company's accumulated losses and their causes

The reason for the increase / decrease of the accumulated losses	accumulated losses to capital %	Accumulated losses (SR 000')	Annual losses (profits) / losses (profits) for the period (SR 000')	Year
The reason for the increase in the accumulated losses is due to the increase in the volume of claims incurred (reaching 213 million Saudi riyals, which represented 73.35% of the total costs and expenses) as a result of the increase in the total written premiums in addition to the increase in the net costs of underwriting insurance policies and the increase in administrative expenses (2013: 35 million Saudi riyals / 2014: 43 million Saudi riyals, an increase of 23%). Technical reserves (technical reserves: 1- unearned insurance premiums / 2- unearned reinsurance commissions / 3- unrecovered claims), according to the actuary's report, had the greatest impact on increasing the company's share of incurred claims (2013: 31 million Saudi riyals / 2014: 213 million Saudi riyals, an increase of 587%) on the one hand. The net share of the company from the change in the net earned premiums (2013: 43 million Saudi riyals / 2014: 191 million Saudi riyals, an increase of 344%) on the other hand.	%60.78	19,4490	76,018	2014
The accumulated losses continued to increase despite the decrease in the annual losses by 82.7% due to the apparent increase in the net share of the company from the earned premiums and reinsurance commissions despite the increase in the net share of the company from the claims incurred (2014: 213 million Saudi riyals / 2015: 228 million riyals) Saudi Arabia, with an increase of 7%), in addition to the increase in the costs of underwriting insurance policies against the slight decrease in the item of administrative expenses.	%65.49	209,578	15,088	2015
The reason for the decrease in the accumulated losses is the decrease in the net share of the company from the compensation incurred by 32%, as well as the decrease in the item of insurance policy underwriting costs by 16.9% due to the significant decrease in the volume of written premiums resulting from the Council of Cooperative Health Insurance (CCHI) stopping the company from issuing health insurance policies due to Violations which have been repeated and no real reforms have been made by the company, despite the increase in the administrative expenses item by 22 million riyals, i.e. 51.5% (the rate of increase compared to the previous year 2015), which includes the value of the violation that was imposed on the company by CCHI to consider violations of the provisions of the health cooperative insurance system on 2/22/2017, with an amount of 12.4 million riyals (due to repeated violations and lack of real reforms, the company was suspended and then the fine was imposed by CCHI) and the decrease in reinsurance commissions by 7.5 million riyals, by 29%, and the company's market share of the earned premiums was decreased by the amount of 23.9 million riyals represent a 8.7% decrease.	%62.59	200,289	(9,289)	2016

## The development of the company's accumulated losses and their causes

The reason for the increase / decrease of the accumulated losses	accumulated losses to capital %	Accumulated losses (SR 000')	Annual losses (profits) / losses (profits) for the period (SR 000')	Year
The reason for the decrease in the accumulated losses is mainly due to the amortization of part of the accumulated losses through the process of reducing the company's capital from three hundred twenty million (320,000,000) Saudi riyals to one hundred forty million (140,000,000) Saudi riyals (the decision to enforce the reduction for the shareholders registered in the company's records at the Securities Depository Center Company) (Depository Center) at the end of the trading day of the Extraordinary General Assembly 19/02/2017) despite achieving a net profit for the year in the amount of 753 thousand riyals due to the significant decrease in the company's market share from the earned premiums by 81% as well as the decrease in the commissions item reinsurance of assigned premiums by 43% despite the decrease in the company's net share of claims incurred by 81%, as well as the decrease in the item of administrative expenses by 46% and other underwriting expenses by 85%.	%16.26	22,768	2,479	2017
The increase in the accumulated losses is due to the increase in the insurance premium deficit reserve by 1,566%, the increase in other underwriting expenses by 239%, and the decrease in the earned reinsurance commission by 72%.	%31.84	44,572	21,804	2018
Although the company increased the capital from (140) million to (240) million Saudi riyals, the accumulated losses increased due to the increase in claims incurred, technical reserves, the increase in other underwriting expenses, the increase in claims incurred by 428%, the increase in technical reserves and the increase in other reserve by 3,615% (other technical reserves represent unearned insurance premiums, unearned reinsurance commissions, insurance premium deficit reserve and other reserves), as well as the increase in other underwriting expenses by 227%.	%35.69	85,666	41,094	* 2019
The reason for the increase in the accumulated losses is due to the increase in the surplus loss expenses by 597% (30/9/2019: 6 million Saudi riyals - 30/9/2020: 27 million Saudi riyals) as well as the increase in the net incurred claims by 41.9% (the reason for the increase is due to To lift the lockdown previously imposed by the government in response to the outbreak of the Corona-Covid-19 pandemic on 06/21/2020 AD, which led to an increase in reported medical claims, mainly claims for elective and non-chronic treatment)	%45.97	110,318	24,652	2020-9-30

\* On 05/22/1440 AH (corresponding to 01/28/2019), the extraordinary general assembly approved the recommendation of the Board of Directors to increase the company's capital from one hundred forty million (140,000,000) Saudi riyals to two hundred forty million (240,000,000) Saudi riyals. A way to issue rights issues of ten million (10,000,000) ordinary shares with a nominal value of ten (10) Saudi riyals per share. The total proceeds from the rights issue was used in the company's projects mentioned in the rights issue prospectus, and all changes in the uses of the offering proceeds were disclosed through the company's announcements on the website of the Saudi Stock Exchange (Tadawul).



## Company plan and remedial steps to stop losses.

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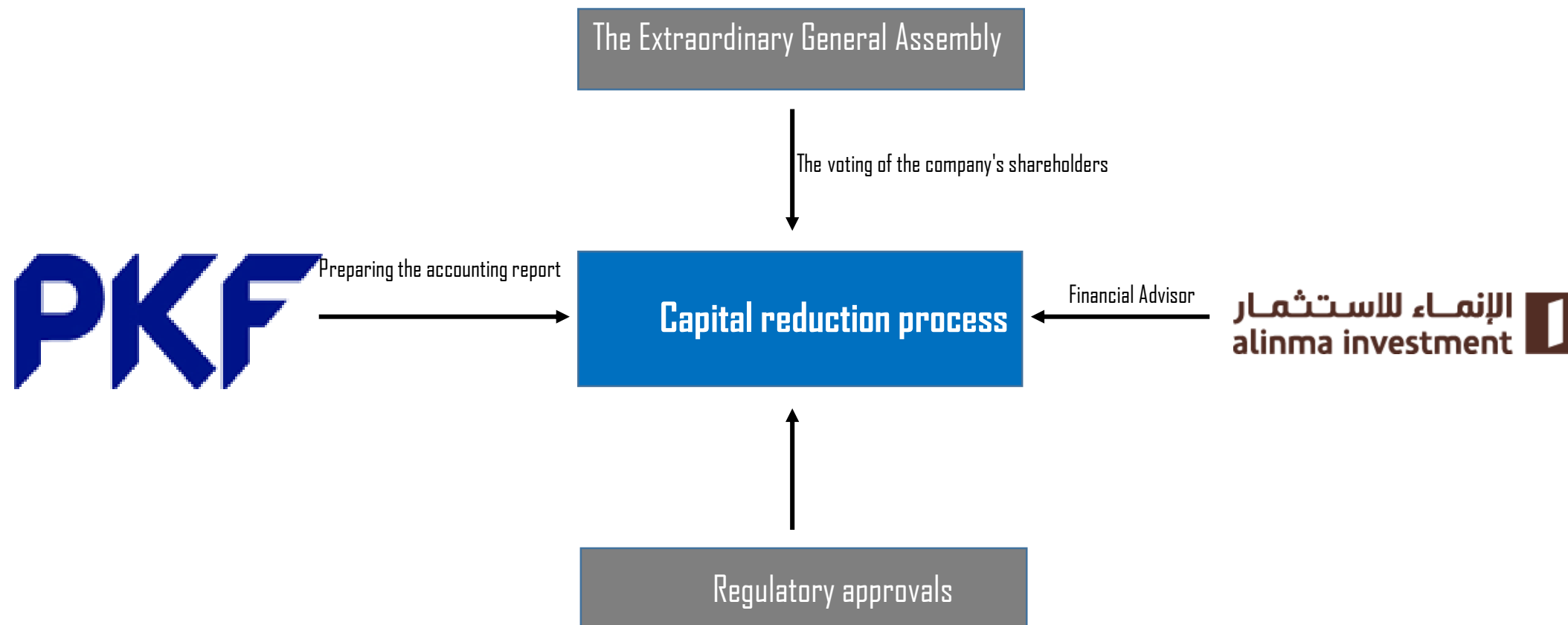
- **The company intends to take the following remedial steps to stop losses:**
  - ✓ Expanding the company's customer base by introducing new products that cover the market needs and improving the profit margin of the company (for example, but not limited to: visitor visa insurance, malpractice insurance, hidden defects insurance and travel insurance).
  - ✓ Improving the retention ratios and raising the profit margin in the company's various insurance products by diversifying the insurance portfolio with various products, especially by focusing on products such as engineering insurance, property and motor insurance.
  - ✓ Work to reduce operational and administrative costs.
  - ✓ Increase the percentage of sales through electronic channels to reduce sales costs.
- On 03/29/1442 H (corresponding to 15/11/2020), the company announced that it had signed a non-binding memorandum of understanding with Saudi Enaya Cooperative Insurance Company to assess the feasibility of the merger between the two companies. The company has set the main objectives for the merger, which include enhancing the solvency margin and supporting the expansion of the company's activity. The merger final approval will be after obtaining the necessary regulatory approvals, which include the approval of the Central Bank of Saudi Arabia, the Capital Market Authority, the General Authority for Competition, the Saudi Stock Exchange (Tadawul) and the approval of the extraordinary general assembly of the two companies.

## The general structure of the proposed capital reduction.

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- The current capital of the company is two hundred and forty million (240,000,000) Saudi riyals, divided into twenty-four million (24,000,000) ordinary shares with a nominal value of ten (10) Saudi riyals per share paid in full, and the company's capital will be reduced to one hundred thirty million (130,000,000) Saudi riyals, divided into thirteen million (13,000,000) ordinary shares with a par value of ten (10) Saudi riyals for each share.
- The capital reduction rate is 45.83%, and the reduction process will be done by canceling eleven million (11,000,000) shares of the issued shares of the company, at a rate of canceling 1 share for every 2.1818 shares of the company's shares, to extinguish 99.71% of the total accumulated losses (as of September 30 2020).
- The company will collect any fractional shares that will result from the process of the capital reduction (if any) in one portfolio and then sell them in the market at the prevailing price at the time, and then the proceeds of sale will be distributed to the shareholders of the company according to their ownership within (30) thirty days from the date of the extraordinary general assembly approval to reduce the company's capital.
- The financial statements from which the values were taken to determine the amount of the capital reduction was the interim (unaudited) financial statements for the period ending on September 30, 2020.

Structure of the parties involved in the capital reduction process:



## Capital Reduction

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### **Reasons for capital reduction and management discussion and analysis in this regard:**

- The decision of the company's board of directors to reduce the capital aims to restructure the company's capital by amortizing one hundred and ten million (110,000,000) Saudi riyals, representing (99.71%) of the total accumulated losses, based on the initial unaudited financial statements of the company for the period ending on September 30<sup>th</sup> 2020.
- As part of its discussion and analysis of the company's current situation, the company's management worked on developing a strategy to support the future growth and financial performance of the company, and reached a decision to restructure the company's capital by starting the process of reducing the capital to extinguish the accumulated losses and then discussing the feasibility of merging with the Saudi Enaya Cooperative Insurance Company. A non-binding memorandum of understanding was signed on 03/29/1442 H (corresponding to 11/15/2020). The main objectives of the company from the merger are to enhance the solvency margin and support the expansion of the company's activity.

### **Statement of the Board of Directors of the Company:**

- The company's board of directors believes that the process of reducing the capital is in the interest of the company and the shareholders and will not affect the company's liability, as the company's capital will be restructured to offset the accumulated losses.



## Capital Reduction

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- The company announced on Tadawul's website on 23/04/1442 H (corresponding to 08/12/2020) that its board of directors had recommended reducing the company's capital from two hundred forty million (240,000,000) Saudi riyals to one hundred and thirty million (130,000,000) Saudi riyal, with a decrease of 45.83%, thus reducing the number of the company's shares from twenty-four million (24,000,000) shares to thirteen million (13,000,000) shares by canceling eleven million (11,000,000) shares of the company's issued shares. The reduction will be at the rate of canceling 1 share For every 2.1818 shares of the company's shares.
- The company obtained the approval of the Saudi Central Bank, (according to the letter No. 42039348 dated 12/06/1442 H (corresponding to 25/01/2021), to reduce its capital from two hundred forty million (240,000,000) Saudi riyals to one hundred and thirty million (130,000,000) Saudi riyals, a decrease of 45.83%.
- The company obtained the approval of the Capital Market Authority on the request to reduce its capital on 08/05/1442 H (corresponding to 18/03/2021), and this approval was announced on the Capital Market Authority website and Tadawul on 05/08/1442 H (corresponding to 18/03/2021).
- The company called for this extraordinary general assembly meeting and announced it on Tadawul website on [■] e (corresponding to [■] m), and a copy of this circular also included in the announcement.

## The impact of capital reduction on the company's liabilities

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- The company has appointed Ibrahim Ahmed Al-Bassam and its partners chartered accountants (Al-Bassam and his partners) as a chartered accountant to prepare the accounting report on the capital reduction process, through which the reduction mechanism and its expected impact on the company's current business and obligations were clarified.
- There will be no any effects of the capital reduction on the company's cash accounts. In addition, this reduction will not have an impact on the shareholders' equity and company's liabilities because the capital reduction is just an accounting treatment in the books of the company to write off most of the accumulated losses by transferring the amount of (110,000,000) Saudi riyals from the capital account to the accumulated losses account as stated in the attached auditor report.

## The impact of capital reduction on shareholders' equity of the Company

- The accumulated losses of the company amounted to one hundred ten million three hundred and eighteen thousand (110,318,000) Saudi riyals represents 45.97% of its capital as of September 30, 2020. Reducing the capital by one hundred ten million (110,000,000) Saudi riyals will lead to the amortization of 99.71 % of the total accumulated losses, so that the total accumulated losses after the capital reduction will became three hundred and eighteen thousand (318,000) Saudi riyals.
- The impact on shareholders' equity based on the financial statements for the period ending on September 30, 2020 will be as follows:

Shareholders Equity (Thousand Saudi Riyals)	Before reducing the capital	After reducing the capital	the influence
The capital	240,000	130,000	-110,000
Accumulated losses *	-110,318	-318	110,000
Actuarial losses for end of service benefits	-539	-539	-
Fair value reserve for available-for-sale investments	4,511	4,511	-
<b>Total equity</b>	<b>133,654</b>	<b>133,654</b>	<b>-</b>

Source: The attached chartered accountant's report, and the financial statements as of September 30, 2020.

\* The accumulated losses of the company as of the financial statements for the period ending on September 30, 2020 amounted to one hundred ten million three hundred and eighteen thousand (110,318,000) Saudi riyals, and after the reduction of the company's capital, the accumulated losses will be reduced to three hundred and eighteen thousand (318,000) Saudi riyals, i.e. Its percentage is approximately (0.24%) of the company's capital after the reduction.

## The impact of capital reduction on shareholders' equity of the Company

- The company intends to reduce its capital from two hundred forty million (240,000,000) Saudi riyals to one hundred and thirty million (130,000,000) Saudi riyals, a decrease of 45.83%, thus reducing the number of the company's shares from twenty-four million (24,000,000) shares to thirteen million (13,000,000) shares. By canceling eleven million (11,000,000) shares of the issued shares of the company, at a rate of canceling 1 share for every 2.1818 shares of the company's shares.
- The company will collect any fractional shares (if any) in one portfolio that will result from the process of reducing the capital and then sell them in the market at the prevailing price at the time, and then the proceeds of their sale will be distributed to the shareholders of the company both according to its ownership within (30) thirty days from the date of approval. Shareholders in the extraordinary general assembly to reduce the company's capital.
- The reduction of the company's capital will not affect the market value of the company's shareholder portfolios, as shown in the example below for a shareholder who owns in his portfolio one thousand (1000) shares of the company's shares before the reduction:

	clause	Equity / value
<b>Before the reduction</b>	Shares owned prior to the reduction	1,000 shares
	Share price before the downgrade (Close 18/03/2021)*	39.40 SAR
	The market value of the shares before the reduction	39,400.00 SAR
<b>discount percentage</b>		<b>45.83%</b>
<b>The number of shares canceled from the shareholder's portfolio</b>		<b>459 shares</b>
<b>After reduction</b>	Shares owned after the reduction **	541 shares
	Share price after the downgrade (Estimated)**	72.74 SAR
	The market value of shares after the reduction (Estimated)	39,352.34 SAR
	Fractional Equity Compensation (Estimated)	47.66 SAR

\* The circular will be updated to the shareholders by adding the closing price of the share on the day of the Extraordinary General Assembly.

\*\* The expected share price was rounded after reducing the capital from 72.7385 to 72.74 Saudi riyals.



## The impact of capital reduction on shareholders' equity of the Company

- It should be noted that a shareholder who owns one share of the company's shares in his portfolio will be canceled and compensated for this share. The table below shows that the shareholder who owns one, two, three, four or five shares will be affected as follows:

clause	the value				
Shares owned prior to the reduction	1 share	2 shares	3 shares	4 shares	5 shares
Share price before the downgrade (Close 18/03/2021) *	39.40	39.40	39.40	39.40	39.40
Canceled shares	1	1	2	2	3
Shares owned after the reduction	0	1	1	2	2
Share price after the downgrade (Estimated) **	72.74	72.74	72.74	72.74	72.74
The market value of shares before the reduction (Close 18/03/2021) *	39.40	78.80	118.20	157.60	197.00
The market value of shares after the reduction (Estimated)	0.00	72.74	72.74	145.48	145.48
Fractional Equity Compensation (Estimated)	39.40	6.06	45.46	12.12	51.52

\* The circular will be updated to the shareholders by adding the closing price of the share on the day of the Extraordinary General Assembly.

\*\* The expected share price was rounded after reducing the capital from 72.7385 to 72.74 Saudi riyals.



## The impact of capital reduction on shareholders' equity of the Company

- Assume that the closing price of the company's share on the date of [•] e (corresponding to [•] m) (the day of the extraordinary general assembly) is (39.40) \* Saudi riyals; It is expected that the adjusted share price if the extraordinary general assembly approved the capital reduction transaction, will reach (72.74) Saudi riyals at the market opening on [•] on [•] e (corresponding to [•] m), and this change represents an increase by (84.62%) for the closing price of the company's share on the day of the extraordinary general assembly.
- The following table shows the effect of adjusting the share price after capital reduction:**

clause	the value
Share closing price today 05/08/1442 H (corresponding to 03/18/2021) - (the day of the Extraordinary General Assembly) *	39.40 SAR
The number of shares outstanding and issued before the capital reduction	24,000,000 shares
Market value of shares before capital reduction (Close 18/03/2021) *	945,600,000 SAR
The value of capital reduction	110,000,000 SAR
The number of canceled shares	11,000,000 shares
The number of shares outstanding and issued after the capital reduction	13,000,000 shares
The company's share price after the capital reduction (Estimated) **	72.74 SAR
Market value of shares after capital reduction (Estimated) **	945,600,000 SAR

\* The circular will be updated to shareholders by adding the date of the extraordinary general assembly meeting and the closing price of the share on that date.

\*\* The expected share price was rounded after reducing the capital from 72.7385 to 72.74 Saudi riyals.

## The method of calculating the share price after reducing the capital

- The following table shows how the share price is adjusted after reducing the capital:

clause	the value
(A) The share price before the capital reduction [•] e (corresponding to [•] m) - (the day of the extraordinary general assembly) *	39.40 SAR
(B) The number of shares before the reduction	24,000,000 shares
(C) The market value of the company's shares before the capital reduction = (a) x (b) (closing [•] m) *	945,600,000 SAR
(D) The number of shares after the reduction	13,000,000 shares
Share price after capital reduction = (C) ÷ (D) **	72.74 SAR

\* The circular will be updated to the shareholders by adding the closing price of the share on the day of the Extraordinary General Assembly.

\*\* The expected share price was rounded after reducing the capital from 72.7385 to 72.74 Saudi riyals.

## Potential risks as a result of the capital reduction

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- The management of the company believes that the decision to reduce the losses of the company is one of the most important decisions in light of the circumstances the company is going through as a result of its accumulated losses, which amounted to approximately 45.97% of the company's capital with a value of one hundred ten million three hundred and eighteen thousand (110,318,000) Saudi riyals as in 30 September 2020. The company aims to reduce the capital to extinguish the accumulated losses, which will lead to strengthening the financial position of the company and maintain its continuity, as the company will work to correct its positions to stop losses and achieve profits, which will benefit the shareholders of the company. Note that the process of reducing the capital has been studied from the financial aspects, and it has been confirmed by the chartered accountant that there are no risks that could affect the company as a result of the capital reduction.
- After reducing the company's capital, the balance of the accumulated losses account will become three hundred and eighteen thousand (318,000) Saudi riyals, which will represent approximately (0.24%) of the company's capital after the reduction, and there are no guarantees that the company will not record additional losses. If the accumulated losses of the company rises to (20%) or more of the company's capital, the company will be subject to CMA's regulation regarding "Procedures and Instructions related To Listed Companies with accumulated losses reaching 20% or more of their Share Capital."
- In the event that the percentage of accumulated losses reaches (50%) or more, the company will be subject to a number of more stringent requirements, in particular Article (150) of the Companies Law, which binds any official in the company or the auditor as soon as he becomes aware that the accumulated losses of the company have reached 50% or more from its capital to inform the chairman of the board of directors, and the chairman of the board of directors must inform the members of the board immediately of that, and the board of directors must within (60) days of his knowledge of this call the extraordinary general assembly to a meeting within (180) days from the date of the board's knowledge of the losses, to decide whether to increase the company's capital or reducing it to the extent that the percentage of losses decreases to less than half of the paid-up capital of the company or it will be deemed dissolved by the force of law before the term specified in its articles of association.

## Potential risks as a result of the capital reduction

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- On 04/17/1442 H, the Ministry of Commerce announced the issuance of the royal decree to amend and suspend the validity of some provisions of the Companies Law issued by Decree No. (M/3) on 01/28/1437 H, for a period of two years, starting from 01/08/1441 H, including:
- Amending the period during which the board of directors must invite the extraordinary general assembly during which it becomes aware of the losses of the joint stock company reaching half of the paid share capital from (15) days to (60) days from the date the board was aware of the losses.
- Amending the period during which the extraordinary general assembly meeting must be held from (45) days to (180) days from the date the board of directors became aware of the losses.
- Paragraph (2) of Article (150) of the Companies Law is suspended. Unlisted joint stock companies, upon reaching their losses to the amount specified in Paragraph (1) of Article (150) of the Companies Law, must ongoing disclose the developments of their losses in accordance with the following controls:
  1. The Chairman of the Company's Board of Directors, upon knowing that the losses of the company have reached half of the capital, should submit a request to the Ministry to publish an announcement about that on the Ministry's website, including the amount of losses, their percentage of the capital, and the main reasons that led to such losses.
  2. The Chairman of the Company's Board of Directors shall submit to the Ministry, on a quarterly basis, a report on the developments of the Company's losses within (fifteen) days from the end of each quarter and a request to publish an announcement on the Ministry's website.
  3. The chairman of the company's board of directors, upon knowing that the company's losses have decreased to less than half of the capital, must submit a request to the Ministry to publish an announcement about that on the Ministry's website, including the measures taken by the company to amend its situations.

## Potential risks as a result of the capital reduction

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- According to Articles (66) and (68) of the Implementing Regulations of the Cooperative Insurance Companies Control Law, the company must maintain certain margin of financial solvency for various types of businesses. The company has faced difficulties in the solvency since the third quarter of 2020, as the company's solvency margin fell below the minimum, reaching 95.67% \*; This means that the company does not adhere to the minimum required solvency margin, which is 100%.
- The Central Bank of Saudi Arabia imposes on insurance companies that are not committed to adequate levels of solvency margin, a series of measures to correct their conditions, including: increasing the company's capital, adjusting prices, reducing costs, stopping accepting any new premiums, liquidating some assets, or any other procedure it deems necessary and the company believes it is appropriate and approved by the Central Bank of Saudi Arabia.
- In the event that the company is unable to fulfill the customers' requirements for a period to be determined by the Central Bank of Saudi Arabia and after taking the above measures, the Saudi Central Bank may appoint a consultant to provide advice to the company (as needed) or withdraw its license. This is in accordance with the provisions of Paragraph (D) of Clause (2) of Article (68) of the Implementing Regulations for the Cooperative Insurance Companies Control Law.
- It should be noted that the company has not received any letter from the Saudi Central Bank that includes a decision preventing the company from issuing any document.

\* Source: The Company

## Required regulatory approvals

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- The company obtained the approval of the Saudi Central Bank to reduce its capital from two hundred forty million (240,000,000) Saudi riyals to one hundred and thirty million (130,000,000) Saudi riyals, with a decrease of 45.83%, according to the letter No. 42039348 dated 06/12/1442 H (corresponding to 25/01/2021 M).
- The company obtained the approval of the CMA on 08/08/1442 H (corresponding to 18/03/2021), for its application to reduce the company's capital from two hundred forty million (240,000,000) Saudi riyals to one hundred thirty million (130,000,000) Saudi riyals, with a decrease of 45.83%, thus reducing the number of the company's shares from twenty-four million (24,000,000) shares to thirteen million (13,000,000) shares by canceling eleven million (11,000,000) shares of the company's issued shares, and this approval was announced on the CMA website and Tadawul on 08/05/1442 H (corresponding to 18/03/2021).
- The process of reducing the capital depends on the approval of the extraordinary general assembly, and the shareholders should know that if the approval of the extraordinary general assembly is not obtained for the capital reduction, the process of reducing the capital will stop completely.
- In the event that the approval of the extraordinary general assembly is obtained on capital reduction, the company will address the Ministry of Commerce to obtain its approval to amend the commercial registration and the articles of association of the company.
- Other than what was mentioned above, there are no other regulatory approvals that the company is required to obtain to complete the process of capital reduction.

## Relevant Laws and regulations

- The Companies Law issued by Royal Decree No. (M/3) on 28/01/1437 H (corresponding to 10/11/2015) and the amendments thereto.
- The Capital Market Law issued by Royal Decree No. (M/30) dated 02/06/1424 H (corresponding to 31/07/2003) and the amendments thereto.
- Rules on the Offer of Securities and Continuing Obligations issued by the Board of the CMA pursuant to Resolution No. 3-123-2017 and dated 09/04 /1439 H (corresponding to 27/12/2017), as amended by Resolution of the CMA Board No. 1-104-2019 dated 01/ 02/1441 H (corresponding to 01/01/2021).
- Listing rules approved by CMA Board Resolution No. 123-2017 dated 09/04/1439 H (corresponding to 27/12/2017), and amended by CMA Board Decision No. 22-2021 1 dated 12/07/1442 H (Corresponding to 24/02/2021).
- The Cooperative Insurance Companies Control Law issued by Royal Decree No. (M / 32) dated 02/06/1424 H (corresponding to 31/07/2003) and its implementing regulations, and the amendments thereto.
- Procedures and Instructions related To Listed Companies with accumulated losses reaching 20% or more of their Share Capital issued by the Board of the CMA under Resolution No. 4-48-2013 dated 01/01/1435 H (corresponding to 18/11 / 2013) based on The Capital Market Law and its amendments issued by Royal Decree No. M/30 dated 02/06/1424 H, as amended by Resolution of the CMA Board No. 7-7-2018 and dated 05/11/1439 H (corresponding to 18/07/2018).
- The by-laws and the articles of Association of the company.



- The company appointed Ibrahim Ahmed Al Bassam and his partners as legal accountants (Al Bassam and his Partners) to prepare a limited inspection report on the capital reduction and its impact on the company's liabilities and its shareholders equity, in order to obtain the approval of the Central Bank of Saudi Arabia and then the approval of the Capital Market Authority on its application for the capital reduction.
- A copy of the chartered accountant's report was included in the announcement of the invitation to the extraordinary General Assembly on Tadawul website on the date of [•] e (corresponding to [•]).
- The report of the chartered accountant will be read out, on the basis of article 44 of the Companies Law issued by Royal Decree No. (M/3) on 28/01/1437 H (corresponding to 10/11/2015) and the amendments thereto, providing that the reduction decision shall be issued only after reading out the Accountant Report by the auditor on the reasons for the report, the obligations of the company and the effect of the reduction on these obligations.

## Schedule of the capital reduction process

Event	Date
The company's board of directors' recommendation to reduce the capital from (240,000,000) Saudi riyals to (130,000,000) Saudi riyals.	07/12/2020
Announcement of the appointment of the financial advisor for the capital reduction transaction.	08/12/2020
The approval of the Saudi Central Bank to reduce the company's capital.	25/01/ 2021
Submit a request to reduce the company's capital to the Capital Market Authority.	28/01/2021
The approval of the Capital Market Authority on the capital reduction application. This approval was announced on CMA website and Tadawul website.	18/03/2021
Calling for extraordinary general assembly and announcing it on Tadawul website, and a copy of this Shareholder circular was included in the announcement.	[■] M
Announcing the start of the electronic voting on the agenda of the extraordinary general assembly meeting that include the capital reduction (the first meeting).	[■] M
Holding the extraordinary general assembly that includes the capital reduction (the first meeting), and in the event that the quorum to hold the first meeting is not complete, the second meeting will be held one hour after the end of the period specified for the first meeting. In the event that the quorum required to hold the second meeting is not complete, the third meeting will be held within (30) days from the end of the period specified for the second meeting.	[■] M
Announcing the results of the extraordinary general assembly meeting.	[■] M
Announcing that the proceeds from the sale of fractions of shares resulting from the reduction of the capital reduction shall be deposited into the accounts of the eligible shareholders within (30) days from the date of approval of the shareholders in the extraordinary general assembly to reduce the company's capital.	[■] M

## Important information

- With reference to the procedures and instructions for companies whose shares are listed in the main market and whose accumulated losses amounted to 20% or more of their capital, issued by the Board of the CMA under Resolution No. 4-48-2013 and dated 01/01/1435 H (corresponding to 18/11/2013) Based on the Capital Market Law issued by Royal Decree No. M/30 dated 02/06/1424 H, as amended by Resolution of the CMA Board No. 1-77-2018 and dated 05/11/1439 H (corresponding to 18/07/2018). The company must do the following:
  - To disclose to the public immediately and without any delay through an independent announcement when its accumulated losses reach 20% or more and less than 35% of its capital, provided that the announcement includes the amount of the accumulated losses and their percentage of the capital and the main reasons that led to these losses, with an indication in the announcement that these procedures and instructions will be applied to them, and in the event that the required disclosure in accordance with this paragraph coincides with the announcement of the initial or annual financial results, the company shall be exempted from disclosing a separate announcement if it includes it in the announcement of the initial or annual financial results.
  - To disclose to the public immediately and without any delay through an independent announcement when its accumulated losses reach 35% or more and less than 50% of its capital, provided that the announcement includes the amount of the accumulated losses and their percentage of the capital and the main reasons that led to these losses, with an indication in the announcement that these procedures and instructions will be applied to them, and in the event that the required disclosure in accordance with this paragraph coincides with the announcement of the interim or annual financial results, the company shall be exempted from disclosing a separate announcement if it includes it in the announcement of the interim or annual financial results.
  - To disclose to the public immediately and without any delay through an independent announcement when its accumulated losses reach 50% or more of its capital, provided that the announcement includes the amount of the accumulated losses and their percentage of the capital and the main reasons that led to these losses with an indication in the announcement that these procedures and instructions will be applied to them. And in the event the disclosure required in accordance with this paragraph coincides with the announcement of the initial or annual financial results, the company shall be exempted from disclosing a separate declaration if it is included in the announcement of the interim or annual financial results.

- According to Article (94) of the Companies Law, the extraordinary general assembly meeting is not valid unless attended by shareholders representing at least half of the company's capital. If this quorum is not present at the first meeting, the invitation to a second meeting is called, and the second meeting is valid if it is attended by a number of shareholders representing at least one-fourth of the capital, and if the necessary quorum is not met in the second meeting, an invitation to a third meeting will be distributed, and the third meeting will be valid regardless of the number of shares represented in it.
- According to Article (94) of the Companies Law, the decisions of the Extraordinary General Assembly shall be issued by a two-thirds majority of the shares represented at the meeting unless this decision is related to an increase or decrease of the capital or extending the term of the company or the liquidation of the company before the expiry of the period specified in its By-laws or its merger with another company or another institution, the decision is not valid unless it is issued by a majority of three quarters of the shares represented at the meeting.
- In the event that the shareholders of the company agree to reduce the capital, the reduction decision will be enforceable on all the shareholders of the company who own the shares at the end of the trading day of the extraordinary general assembly and who are registered in the company's shareholders 'register at Edaa at the end of the second trading day following the extraordinary general meeting held for the capital reduction, including shareholders who did not attend the extraordinary general assembly meeting, as well as the shareholders who attended the meeting and did not vote or vote against the decision to reduce the capital.

## Documents available for inspection

- The company will make the following documents available to the shareholders of the company for their inspection at the company's headquarters located in Riyadh, Al-Zahraa neighborhood, Salah Al-Din Al-Ayoubi Road, from the date of the approval of CMA on 08/05/1442 H (corresponding to 18/03/2021) until the date of the extraordinary general assembly in [■] H (corresponding to [■] AD) during the official working hours from 8 am to 4 pm:
  - ✓ A copy of the recommendation of the company's board of directors to reduce the company's capital.
  - ✓ A copy of the Saudi Central Bank approval letter to reduce the company's capital.
  - ✓ A printed copy of the CMA announcement approving the application to reduce the company's capital, which is published on the CMA website and Tadawul website.
  - ✓ A copy of the accounting limited review report for the company's capital reduction process.
  - ✓ A copy of the letter of appointment of the financial advisor regarding the reduction of the company's capital.
  - ✓ A copy of the shareholders' circular (the circular submitted to the company's shareholders at the Extraordinary General Assembly meeting).
- The company will publish the shareholders' circular and make it available to the public before (14) days prior to the date of the extraordinary general assembly.

## Attachments

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- A copy of the chartered accountant's report
- Power of Attorney form to attend the Extraordinary General Assembly meeting

Attachment I: A copy of the chartered accountant's report

Attachment 2: Power of Attorney Form to attend the Extraordinary General Assembly meeting