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**SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE**  
**"WAFI INSURANCE"**  
**(A SAUDI JOINT STOCK COMPANY)**

**AUDITED FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED 31 December 2019**

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**SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "Wafa Insurance"**  
**(A Saudi Joint Stock Company)**  
**FINANCIAL STATEMENTS AND AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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## INDEPENDENT AUDITOR'S REPORT

**TO: THE SHAREHOLDERS OF SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"  
(A SAUDI JOINT STOCK COMPANY)**

### Qualified Opinion

We have audited the financial statements of Saudi Indian Company for Cooperative Insurance "WAFA Insurance" (the 'Company'), which comprise the statement of financial position as at December 31, 2019, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

### Basis of Qualified Opinion

- We have not received details and underlying supports for 'Sundry creditors' amounting to SR 41.369 million included in 'Accrued Expenses and Other Liabilities' as disclosed in Note 16 to the financial statements.

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

### Emphasis of Matters

- Note 2.2 to the accompanying financial statements which describe reasons for the preparation of the financial statements of the Company on a non-going concern basis. Accordingly, these financial statements have been prepared on liquidation basis i.e. assets and liabilities has been stated on expected realisable and settlement values respectively except for property and equipment and intangibles whose carrying values have been considered by management as approximating their fair values.
- Note 32 to the accompanying financial statements, which describes that the Company has filed a case for recovery of SR 2.8 million with respect to the rent paid and expenditure incurred on renovation and improvement to a property. The amount is included in 'Prepayments and other assets'. The ultimate outcome of the case is pending on the final decision from the court and cannot be determined at this stage.
- Note 7 to the accompanying financial statements, which includes reinsurance receivables of SR 7.7 million for which the Company does not have underlying records. Management is currently investigating the balance and its recoverability. However, the Company has booked total amount of provision against the balance; and
- Note 8.1 to the accompanying financial information, which describes that the Company net-off the claim payables to policy holders against the respective balance of premium receivable, amounting SAR 23.9 million, during the year ended 31 December 2019. It is shown as claim paid in statements of income and comprehensive income.

**Other Information**

Other information consists of the information included in the Company's 2019 annual report, if any, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. Our opinion on the financial statements does not cover the other information and we do 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, if any, identified above 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, management has not provided us with the supports of SR 41.369 million included in 'Accrued Expenses and Other Liabilities' as disclosed in Note 16 to the financial statements, which also results in the other information being materially misstated with respect to this matter.



### Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 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. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2019, the gross outstanding claims including claims incurred but not reported (IBNR) and other technical reserves amounted to SR 99.666 million (2018: SR 156.337 million) as reported in Note 8 of the financial statements.</p> <p>The estimation of insurance contract liabilities involves a significant degree of judgment. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with the related claim handling costs.</p> <p>The company principally uses an external actuary ("management actuary") to provide them with the estimate of such liabilities. A range of methods are used by the actuary to determine these provisions which were based on a number of explicit or implicit assumptions relating to the expected settlement amounts and settlement patterns of claims.</p> <p>We considered this as a key audit matter as the valuation of insurance contract liability require the use of significant judgments and estimates.</p> <p><i>Refer to Note 4 to the financial statements which explain significant accounting policies, the valuation methodology used by the Company and critical judgments and estimates.</i></p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>- Understood, evaluated and tested key controls around the claims handling and provision setting processes.</li> <li>- Evaluated the competence, capabilities and objectivity of the management's expert based on their professional qualifications and experience and assessed their independence.</li> <li>- Performed substantive tests on the amounts recorded for sample of claims notified and paid: including comparing the outstanding claims amount to appropriate source documentation to evaluate the valuation of outstanding claim reserves.</li> <li>- Obtained sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilized by the Company's actuary in estimating the IBNR by comparing it to accounting records.</li> <li>- Challenged management's methodologies and assumptions, through assistance by an actuary engaged by us as auditor's expert to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the actuarial report issued by management's expert our actuary performed the following:                         <ol style="list-style-type: none"> <li>i. Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought explanation from management for any significant differences;</li> <li>ii. Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We assessed these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge; and</li> <li>iii. Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.</li> </ol> </li> </ul>



- Assessed the adequacy and appropriateness of the related disclosures in the financial statements.

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

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

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

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

**Auditor's 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 auditor's 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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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. Please refer 'Emphasis of Matter' paragraph related to financial statements being prepared on a non-going concern basis.
- 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.





**Ibrahim Ahmed Al-Bassam & Co**  
Certified Public Accountants - Al-Bassam & Co.  
(member firm of PKF International)



**AlKharashi & Co.**  
Certified Accountants And Auditors

#### Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

#### Report on Other Legal and Regulatory Requirements

Paragraph 135 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or Company's Bylaws. During the course of our current audit of the financial statements, we have noted following non-compliances of the Company Law, having no material impact on the financial statements:

- The Company violated Article 87 of the Law of the Companies whereby, the Company was unable to hold an Annual General Assembly Meeting of its shareholders within the six months following the end of the fiscal year. Consequently, the Company could not file a copy of the financial statements along with Board's report and auditor's report for the year ended 31 December 2018, with the Ministry of Commerce and the Capital Market Authority (CMA), as required under article 126 of the Laws of the Company.
- The Company missed the deadline for filing of financial statements for the year ended 31 December 2019 with Saudi Central Bank (SAMA) and CMA including publishing of results on Tadawul.
- The Company filed annual zakat and income tax return to General Authority of Zakat and Income Tax on 03 October 2019 for the year ended 31 December 2018. However, the zakat and tax liability as determined in the return have not been settled to date. Accordingly, outstanding zakat and income tax obligation of SR 2.105 million and SR 0.165 million respectively, along with applicable penalties for delay payment, has been recognised in the financial statements.

For Al-Bassam & Co.

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27 April 2021  
15 Ramadan 1442 H



**SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"**  
**(A Saudi Joint Stock Company)**  
**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2019**  
**Expressed in Saudi Arabian Riyals rounded to thousand**

	<i>Note</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>ASSETS</b>			
Cash and cash equivalents	6	10,250	2,979
Available for sale Investment	13	1,923	1,923
Premiums and reinsurance receivables, net	7	815	53,383
Reinsurance share of unearned premiums	9	-	8,310
Reinsurance share of outstanding claims	8	32,881	44,958
Reinsurance share of claims incurred but not reported	8	3,807	9,520
Deferred policy acquisition costs	10	-	1,874
Prepayments and other assets	12	11,665	15,243
Due from related parties	24	2,171	2,932
Statutory deposit	18	15,000	18,300
Accrued income on statutory deposit	18	2,023	2,023
Property and equipment	14	2,291	4,336
Intangible assets	14	944	1,968
<b>TOTAL ASSETS</b>		<b>83,770</b>	<b>167,749</b>

The accompanying notes 1 to 35 form part of these financial statements.



Chief Executive Officer



Chairman

Finance Manager



**SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"**  
**(A Saudi Joint Stock Company)**  
**STATEMENT OF FINANCIAL POSITION (continued)**  
**As at 31 December 2019**  
**Expressed in Saudi Arabian Riyals rounded to thousand**

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
<b>LIABILITIES</b>			
Outstanding claims	8	65,102	78,758
Claims incurred but not reported	8	26,444	49,277
Premium deficiency reserve	8	-	16,884
Mathematical reserve for life insurance operations	15	1,534	1,437
Other reserves	8	8,120	11,418
Unearned premiums	9	-	17,235
Reinsurance balances payable		14,696	16,173
Unearned reinsurance commission	11	-	1,598
Accrued expenses and other liabilities	16	62,053	36,278
Provision for zakat and income tax	19	4,164	2,270
Employees' end of service benefits	17	1,530	1,785
Accrued commission income payable to SAMA		2,023	2,023
Due to related parties	24	6,023	6,023
<b>TOTAL LIABILITIES</b>		<b>191,689</b>	<b>241,159</b>
<b>EQUITY</b>			
Share capital	20	100,000	100,000
Accumulated losses		(209,146)	(174,575)
Re-measurement of Employees' end of service benefits	17	1,227	1,165
<b>TOTAL EQUITY</b>		<b>(107,919)</b>	<b>(73,410)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>83,770</b>	<b>167,749</b>
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The accompanying notes 1 to 35 form part of these financial statements.



Chief Executive Officer



Chairman

Finance Manager

**SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"**  
**(A Saudi Joint Stock Company)**  
**STATEMENT OF INCOME**  
**For the year ended 31 December 2019**  
**Expressed in Saudi Arabian Riyals rounded to thousand**

		31 December 2019	31 December 2018
<b>REVENUES</b>	<i>Note</i>		
Gross written premiums		428	110,160
Cancellations		(2,650)	-
Net gross written premiums	9	(2,222)	110,160
Reinsurance premiums ceded, Net			
- Local		-	(9,142)
- Foreign		2,095	(33,041)
Excess of loss expenses			
- Local		-	(4,496)
- Foreign		-	(2,624)
<b>Net premiums written</b>		(127)	60,857
Change in unearned premiums, net	9	8,925	98,985
<b>Net premiums earned</b>		8,798	159,842
Reinsurance commission income	11	928	15,646
Other operating income		1	499
<b>Net revenues</b>		9,727	175,987
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid		(40,637)	(339,882)
Less: Reinsurers' share of claims paid		17,140	133,237
<b>Net claims paid</b>		(23,497)	(206,645)
Changes in outstanding claims, net		1,579	(58,724)
Changes in claims incurred but not reported, net		17,120	88,273
Changes in premium deficiency reserve and other reserves, net		20 085	(25,238)
<b>Net claims incurred</b>		15,287	(202,334)
Policy acquisition costs	10	(1,500)	(24,323)
Other underwriting expenses	21	(489)	(9,270)
<b>Total underwriting costs and expenses</b>		13,298	(235,927)
<b>NET UNDERWRITING (LOSS) / INCOME</b>		23,025	(59,940)
<b>OTHERS (EXPENSES) / INCOME</b>			
General and administrative expenses	22	(22,919)	(47,859)
Provision for doubtful receivables	7.1	(32,783)	(53,543)
Other income		-	2,000
Investment income		-	2,357
Realized loss on investments		-	(972)
<b>Total others (Expenses) / Income</b>		(55,702)	(98,017)
<b>Net loss for the year attributable to the shareholders before zakat and income tax</b>		( 32,677)	(157,957)
Zakat charged for the year	19	(1,770)	(1,000)
Income tax charged for the year	19	(124)	-
<b>Net loss for the year attributable to the shareholders after zakat and income tax</b>		( 34,571)	(158,957)
Appropriation to policyholders' operations		-	-
Net deficit after appropriation to policyholders' operations		( 34,571)	(158,957)
<b>Loss per share (SR) (restated)</b>	23	( 3.46)	(15.90)
<b>Number of outstanding shares</b>		10,000,000	10,000,000

The accompanying notes 1 to 35 form part of these financial statements.

Chief Executive Officer

Chairman

Finance Manager


**SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"**  
**(A Saudi Joint Stock Company)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2019**  
**Expressed in Saudi Arabian Riyals rounded to thousand**

	Note	31 December 2019	31 December 2018
Net loss for the year		( 34,571)	(158,957)
<i>Items that will be reclassified to statement of income in subsequent years:</i>			
Actuarial gain on Re-measurement of Employees' end of service benefits	17	62	804
<b>Total comprehensive loss for the year</b>		<b>( 34,509)</b>	<b>(158,153)</b>
<b>Total comprehensive loss for the year attributable to insurance operations</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the year attributable to shareholders' operations</b>		<b>( 34,509)</b>	<b>(158,153)</b>

The accompanying notes 1 to 35 form part of these financial statements.



Chief Executive Officer



Chairman

Finance Manager



SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"

(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Expressed in Saudi Arabian Riyals rounded to thousand

	Notes	Share capital	Accumulated losses	Fair value reserve for available for sale investments	Re- measurement of end of service benefits	Total equity
2019						
Balance as at 1 January 2019 (restated)		100,000	(174,575)	--	1,165	(73,410)
Capital reduction expenses		--	--	--	--	--
Net loss for the year		--	(34,571)	--	--	(34,571)
Changes in fair value of available for sale investments	13	--	--	--	--	--
Re- measurement of Employees' end of service benefits	17	--	--	--	62	62
Balance as at 31 December 2019		100,000	(209,146)	--	1,227	(107,919)

The accompanying notes 1 to 35 form part of these financial statements.



Chief Executive Officer



Chairman

Finance Manager

**SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "WAFA INSURANCE"**

(A Saudi Joint Stock Company)

**STATEMENT OF CHANGES IN EQUITY (continued)**

**For the year ended 31 December 2019**

**Expressed in Saudi Arabian Riyals rounded to thousand**

	Notes	Share capital	Accumulated deficit	Fair value reserve for available for sale investments	Re-measurement of end of service benefits	Total equity
<b>For the year ended 31 December 2018</b>						
Balance at 1 January 2018		122,000	(37,318)	(1,050)	361	83,993
Capital reduction	20	(22,000)	22,000	--	--	--
Capital reduction expenses		--	(300)	--	--	(300)
Net loss for the year		--	(157,957)	--	--	(158,957)
Changes in fair value of available for sale investments	13	--	--	1,050	--	1,050
Re-measurement of Employees' end of service benefits	17	--	--	--	804	804
<b>Balance as at 31 December 2018</b>		<b>100,000</b>	<b>(174,575)</b>	<b>--</b>	<b>1,165</b>	<b>(73,410)</b>

The accompanying notes 1 to 35 form part of these financial statements.



Chief Executive Officer



Chairman

Finance Manager

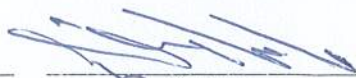
**SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "Wafa Insurance"**  
**(A Saudi Joint Stock Company)**  
**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2019**  
**Expressed in Saudi Arabian Riyals rounded to thousand**

	<u>Note</u>	31 December 2019	31 December 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss for the year		(32,677)	(157,957)
<b>Adjustments for non-cash items:</b>			
Depreciation of property and equipment	14	2,071	2,564
Amortization of intangibles	14	1,024	1,475
Provision for doubtful receivables	7.1	32,783	53,543
Realized loss on available for sale investment		-	972
Unrealized loss on investments		-	(1,397)
Provision for employees' end of service benefits	17	720	1,397
		<b>3,921</b>	<b>(99,403)</b>
<b>Changes in operating assets and liabilities:</b>			
Premiums and reinsurance receivables		19,785	42,299
Reinsurers' share of unearned premiums		8,310	60,723
Reinsurers' share of outstanding claims		12,077	41,526
Reinsurers' share of claims incurred but not reported		5,713	31,796
Reinsurers' share of other reserves		-	1,343
Deferred policy acquisition costs		1,874	12,357
Prepayments and other assets		3,578	1,310
Due from related parties		761	(296)
Outstanding claims		(13,656)	17,197
Claims incurred but not reported		(22,833)	(120,070)
Other reserves		(3,298)	7,297
Premium deficiency reserve		(16,884)	16,677
Unearned premiums		(17,235)	(159,708)
Reinsurance balances payable		(1,477)	6,001
Unearned reinsurance commission		(1,598)	(5,044)
Mathematical reserve for life insurance operations		97	(80)
Accrued expenses and other liabilities		25,775	18,778
Share compensation	24	-	(5,708)
Cash (used in) operations		<b>4,910</b>	<b>(133,005)</b>
Zakat and income tax paid	19	-	(2,696)
Employees' end of service benefits paid	17	(913)	(2,656)
Surplus distribution paid		-	(6,346)
<b>Net cash used in operating activities</b>		<b>3,997</b>	<b>(144,703)</b>

The accompanying notes 1 to 35 form part of these financial statements.



Chief Executive Officer



Chairman

Finance Manager



**SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "Wafa Insurance"**  
**(A Saudi Joint Stock Company)**  
**STATEMENT OF CASH FLOWS (continued)**  
**For the year ended 31 December 2019**  
**Expressed in Saudi Arabian Riyals rounded to thousand**

	<u>Note</u>	31 December 2019	31 December 2018
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of intangibles		-	(1,565)
Proceeds from disposal of investments		-	31,570
Proceeds from disposal of statutory deposit		3,300	-
Purchase of property and equipment		(26)	(2,359)
<b>Net cash generated / (used in) from investing activities</b>		<b>3,274</b>	<b>27,646</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Transaction cost relating to reduction in share capital		-	(300)
<b>Net cash (used in) from financing activities</b>		<b>-</b>	<b>(300)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>7,271</b>	<b>(117,357)</b>
Cash and cash equivalents at the beginning of the year		2,979	120,336
<b>Cash and cash equivalents at the end of the year</b>		<b>10,250</b>	<b>2,979</b>
<b>Non-cash supplemental information:</b>			
		-	--
Reduction of capital	20	-	22,000

The accompanying notes 1 to 35 form part of these financial statements.



Chief Executive Officer



Chairman

Finance Manager

**SAUDI INDIAN COMPANY FOR COOPERATIVE INSURANCE "Wafa Insurance"**  
**(A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2019**  
**Expressed in Saudi Arabian Riyals rounded to thousand**

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**1. ORGANISATION AND PRINCIPAL ACTIVITIES**

Saudi Indian Company for Cooperative Insurance "Wafa Insurance" (the "Company") is a Saudi joint stock company as sanctioned by the Royal Decree No. M60 dated 18 Ramadan 1427H corresponding to 9 October 2006 (date of inception). The Company is registered in Riyadh with the Ministry of Commerce and Industry under commercial registration No.1010236705 dated 24 Rajab 1428H corresponding to 7 August 2007. The Company's registered office address is Al-Maseef Dist., Northern Ring Road between exit 5&6, PO Box: 341413, Riyadh 11333, Kingdom of Saudi Arabia. The Company announce on tadawul dated on 14 April 2019 that registered office address is changed and new address is Qortoba, Saeed Bin Zaid Street, 12721, Riyadh 11333, Kingdom of Saudi Arabia.

The principal activities of the Company are to transact the cooperative insurance operations and all related activities including reinsurance and agency activities under the law of Supervision of Cooperative Insurance Companies and its by-laws and other regulations promulgated in the Kingdom of Saudi Arabia.

The Company was granted the license (number TMN/14/20086) to practice all lines of insurance business on 6 Jumada II, 1429H corresponding to 10 June 2008G from Saudi Central Bank ("SAMA").

The Company commenced its general insurance operations from 20 August 2008 and protection and savings insurance operations from 11 January 2009. The Company's license has been renewed by SAMA for a period of three years effective from 3 March 2017 corresponding to 4 Jumada II, 1438H. The company's license has been suspended (refer note 2.2.1). It was announced on Tadawul on January 20, 2020 to approve the election of the members of the Board of Directors for the company for the next session starting from the date of 19 January, 2020. The newly appointed board is functional since then.

**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

This financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed in Kingdom of Saudi Arabia by Saudi Organization for Certified Public Accountants (SOCPA), other standards and pronouncements issued by SOCPA, Law of Companies and the Company's by-laws.

The financial statements of the Company as at 31 December 2019, were prepared in compliance with IFRS, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax).

On 17 July 2019, SAMA issued the instruction to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8, Accounting Policies, Changes in Accounting Estimates and Errors (the effects of this change are disclosed in note 32 to the financial statements).

**2.2 Basis of measurement**

**2.2.1 Going Concern**

As at 31 December 2019, the Company has accumulated losses of SR 209.15 million (2018: SR 174.57.00 million) which are 209.15% (2018: 174.57%) of the Company's share capital as at that date.

The Company reduced its share capital by SR 83 million during 2017 and by SR 22 million during 2018. Further, the Company did not meet the solvency margin requirements as of 31 December 2017, 31 December 2018 and 31 December 2019.

The Company received a final warning from SAMA on 01 May 2018, requiring the Company to maintain the required solvency margin before 30 September 2018 and to appoint an independent consultant at the expense of the Company to provide advice on this matter. In case the Company does not take corrective measures, SAMA will take one or more actions including preventing the Company from accepting subscribers or investors or new subscribers in any of the insurance activities or reduce it.

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**2. BASIS OF PREPARATION** *(continued)*

**2.2 Basis of measurement** *(continued)*

**2.2.1 Going Concern** *(continued)*

The Board of Directors based on a business plan recommended the extra ordinary general assembly to approve the capital reduction of 22 million and capital injection of SR 100 million. On 29 April 2018 the Company appointed a consultant as a financial advisor to manage the process of reducing the Company's capital and carrying out all related procedures. The Company after receiving approval from SAMA and Capital Market Authority, called for a general assembly meeting and the reduction of capital of SR 22 million was approved by the general assembly on 05 June 2018.

On 24 May 2018, SAMA issued a letter regarding the Company's failure to meet the minimum solvency margin requirements and suspended the Company from issuing new policies and renewing current policies from 24 May 2018, and directed the Company to appoint a consultant which shall submit weekly report to SAMA. The Chairman of the Board of Directors shall inform all the board members of the receipt of this letter and that they shall take appropriate actions to address the solvency. SAMA may take more actions if the solvency position is not addressed.

The Company prepared a business plan internally to address accumulated losses and solvency margin issues. On 06 June 2018, the Company appointed an actuarial firm to prepare a business plan, which was approved by the Board of Directors on 06 August 2018 and the same was submitted to SAMA on 16 September 2018. This revised business plan contained different scenarios and addressed the need of capital injection of SR 220 million to deal with the solvency situation and ensure going concern status of the Company.

On 31 May 2018, the Company with the approval of SAMA appointed a consultant to study and analyze the solvency situation of the Company. The consultant's report was submitted by the end of July 2018, in which the consultant recommended short term, medium term and long-term actions. These recommendations included a minimum capital injection of SR 150 million, fixing the violations as mentioned in SAMA letters and improvement of operations.

On 29 July 2018, the Company announced that its accumulated losses have exceeded 50% of the share capital of the Company. The Board of Directors of the Company were informed of this significant event on 28 July 2018. Under Article 150 of the Companies Law, the Board of Directors of the Company called, by 12 August 2018, call an Extraordinary General Assembly, to decide either to increase or decrease the share capital of the Company to the extent that the ratio of the losses becomes less than half of the capital or to dissolve the Company subsequently, the general assembly will be called within 45 days of the notification to the chairman of the Board of Directors and the decision of the general assembly of the shareholder must implement within 90 days of the general assembly meeting. Failure to implement the decision of general assembly within 90 days as aforesaid would lead to dissolution of the Company as mentioned in article 150 of the Law of Companies.

Furthermore, SAMA issued a letter on 29 July 2018 on various controls and governance related matters, requiring the Company to appoint a consultant within 15 days and to submit a report within 60 days from the date of this letter. The Company appointed a consultant and received no objection from SAMA on 23 October 2018. The report has not been finalized to date.

On 07 August 2018, the Company announced that the Board of Directors in their meeting held on 06 August 2018, recommended to call for an extra ordinary general assembly in accordance with article 150 of the Law of Companies to study the situation of the Company and take a decision to increase capital or reduce capital or dissolve the Company. The Board of Directors also clarified that this assembly is only for the purpose of taking decision on the strategy of dealing with the current situation of the Company and choosing one of the options referred to in article 150 of law of Companies.

Extraordinary General Assembly Meeting was held on 10 September 2018 in which shareholders approved the direction of the Company to proceed with procedures to increase the share capital and obtain the approval of the competent authorities.



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**2. BASIS OF PREPARATION (continued)**

**2.2.1 Going Concern (continued)**

Board of Directors of the Company on 03/01/1440H corresponding to 13 September 2018 decided to recommend to the Extraordinary General Assembly to increase the capital of the Company through a right issue of SR 220 million.

The Company received letter 1509/89 from SAMA on 07/01/1440 corresponding to 18 September 2018 for no-objection to increase the Company's capital from SR 100 million to SR 320 million through a right issue provided that the Company meets all requirements of other official authorities.

The Company's management met SAMA on 11 October 2018 to check the status of the Company and to discuss solutions available to save/ rescue the Company in light of the current losses.

The Company announced on Tadawul on 26/02/1440 H corresponding to 04 November 2018, that the Board of Directors reviewed developments on capital increase, and discussed intensively the challenges and difficulties faced by the Company in appointment of underwriter to cover the required amount of capital increase. The Board felt that they are entrusted to do what is possible to protect shareholders and stakeholders of the Company, and they are aware of the current stage and the time remaining and available under the law. However, it is not possible to obtain the underwriter to date to cover the capital increase. This entails a clear risk that the Company will be dissolved in accordance with Article 150 of the Law of Companies if the capital is not increased within the statutory period. Accordingly, in order to protect the interests of the shareholders of the Company, the Board of Directors has only an option to reduce the capital to ensure the Company's continuation. The reduction of capital of insurance companies to less than SR 100,000,000 is not possible under the Insurance Companies Control Law and its Executive Regulations. As stated by the SAMA in its explanatory statement issued on 13 August 2018, the Board recommends to change the activities of the Company, and reduce the capital after obtaining necessary regulatory approvals. The Company is not prevented from completing capital increase procedures if the arrangements with the underwriter are done on a timely basis, a possibility that the Board of Directors is unlikely to achieve under the current circumstances.

On 28/02/1440H corresponding to 06 November 2018, the Company received a letter reference 89/12886 from SAMA referring to the Company's announcement on the website of Tadawul dated 04 November 2018 containing the recommendation of the Board of directors to change the Company's activities and with reference to article 75 of the Implementing Regulations of Cooperative Insurance Companies Control System which contains procedures related to cessation of insurance activities. SAMA informed the Company's Board of directors to comply with all statutory requirements and, if the Company met those statutory requirements as per the recommendation to cease the activities of the Company as described in the announcement of the Company referred to above, it must provide SAMA with statutory requirements contained in the said Article 75.

In response to SAMA's aforesaid letter, the Company informed SAMA on 29/02/1440H corresponding to 07 November 2018 that during the meeting with SAMA on 11 October 2018 they discussed the difficulty in having the underwriting arrangement in place for increase in capital. Further, because of the Company's current conditions, making it difficult for the Company to proceed with this option, the idea of cancelling the insurance license of the Company and change of its activities was discussed, if the Company is unable to appoint an underwriter. As it was not possible to appoint an underwriter to date due to suspension of business, ban on writing business and the time remaining before the Company is subjected to the Article 150 of the Law of Companies, the Board of Directors, to ensure continuation of the Company and protection of the Shareholders' equity and policyholders, have no other option but to reduce capital, which requires changing the Company's activities.

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**2. BASIS OF PREPARATION** *(continued)*

**2.2.1 Going Concern** *(continued)*

Therefore, the Company requested SAMA to cancel the insurance license of the Company and to instruct the Ministry of Commerce and Investment (MOCI) and (CMA) to complete the procedures for cessation of the insurance activities, and advising the Company to take the approval of the Extraordinary General Assembly, so that the Company can cease the operations and amend its activities. The Company will be deemed dissolved under article 150 of the Law of Companies on 09 December 2018.

Further to the above stated announcements, the Company announced on Tadawul on 02 December 2018 that it would like to inform its shareholders that the Board of Directors reviewed on 21/03/1440H corresponding to 29 November 2018 developments regarding the increase of capital and discussed intensively the efforts made to date, including the progress of negotiations with the underwriters and addressing the concerned parties on the change of activity. The Board is aware that it is only less than ten days to the end of statutory period prescribed under Article 150 of the Law of Companies (ninety days from the date of the General Assembly voted on capital increase), which is not sufficient to complete the statutory requirements for implementation of any of the two options referred to. Accordingly, since serious endeavors are still ongoing and based on what the Company's legal counsel has presented to, and the protection of the rights of shareholders and stakeholders, is to restrict the request for financial reorganization under Chapter IV with the Bankruptcy System in order to free the Company from the period in the law of companies until the completion of necessary procedures to increase the capital of the Company or change the activity and reduce the capital under Article 45 of the Bankruptcy Law and Article 42 of its executive regulations. The Board of Directors wishes to clarify that the financial reorganization procedure, although included in the bankruptcy system, is not considered a decision to liquidate the Company or to enter into bankruptcy. This is one of the new instruments approved by the regulator to protect troubled companies from liquidation and bankruptcy. The financial reorganization of the Company to increase its capital or reduce it after the change of activity and will be under the supervision of the Court. The procedure is subject to the approval of the regulators and stakeholders in all cases.

The Company announced on Tadawul on 28/03/1440 corresponding to 6 December 2018 that it has successfully registered the application for the Company's financial reorganization, in accordance with Article 45 of the Bankruptcy Law and Article 42 of its Executive Regulations. Consequently, the Company is deemed to be exempted from the statutory period stipulated in Article 150 of Law of Companies.

The Company announced on Tadawul on 19/4/1440 corresponding to 26 December 2018 that the request for financial reorganization has been sent to 9th Commercial Department at the Commercial Court in Riyadh. The application was accepted by the court on February 13, 2019 (08/06/1440). As per the order of the court, Company should hold all payments under article 46 of Bankruptcy law except the operational expenses of the Company from the date of submission request (12/04/1440 corresponding 21 December 2018) and appoint the trustee to ensure the submission of financial reorganization proposal within 150 days. In respect of court order the trustee took charge on March 5, 2019. On July 10, 2019 (corresponding to 07/11/1440H), the Company submitted financial reorganization proposal. The session was held on 02/01/1441 corresponding to September 1, 2019 at Commercial Court in Riyadh, the Ninth Dept. In which the Court reviewed the reorganization proposal and gave judgment that the Company should submit the reorganization proposal which includes the plan that will be followed to return into practice and continue its activity, and granted the Company an additional time of 150 days from 8/11/1440 corresponding July 10, 2019. The company submitted revised reorganization plan on 8th January 2020. The court ordered the Company to obtain approval of shareholders and its creditors by 24th February 2020 and 2nd March 2020. Further in the annual general meeting held on 09th of January 2020. The shareholders have disapproved the report of board of directors the financial statement and the audit report for the year ended 31st December 2018.

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**BASIS OF PREPARATION** *(continued)*

**2.2.1 Going Concern** *(continued)*

The accumulated losses, deficiency in solvency margin, which led to final warning letter from SAMA and consequential suspension of business of the Company by SAMA, significant decrease in human resource, pending appointment of financial advisor and underwriter, the Company's intention to further reduce capital, the Company's request to SAMA to cancel its insurance license and cessation of insurance activities and registration of the Company's application for financial reorganization under Chapter IV of Bankruptcy Law, as aforesaid, have created a material uncertainty and cast significant doubt on the Company's ability to continue as going concern and therefore, the Company may not be able to realize its assets and discharge its liabilities in the normal course of business.

Under the going concern assumption it is assumed that the entity will continue in operation for the foreseeable future and has neither the intention nor the need to liquidate or curtail materially the scale of its operations. However, due to the facts and circumstances mentioned above, going concern assumption has not been followed while preparing the financial statement for the year ended 31 December 2019. Therefore, financial statement has been prepared under the liquidation basis of accounting i.e. assets and liabilities have been recorded on expected realizable and settlement values respectively except for property and equipment and intangibles whose carrying values have been considered by management as approximating their fair values.

**2.2.2 Basis of presentation**

As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations and prepares the financial information accordingly. Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations which are presented in Note 31 of the financial statement have been provided as supplementary financial statement to comply with the requirements of the guidelines issued by SAMA implementing regulations. Until 31 December 2017, this information was shown in the main statements.

SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders operations. Accordingly, the financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company's financial statements in compliance with IFRS, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Interoperation balances, transactions and unrealized gains or losses, if any, are eliminated in full during amalgamation.

The accounting policies adopted for the insurance operations and shareholders operations are uniform for similar transactions and events in similar circumstances.

The inclusion of separate information of the insurance operations with the financial statement of the Company in the financial position, the statements of income, comprehensive income and cash flows as well as certain relevant notes to the financial statements represents additional supplementary information as required by the implementing regulations (Note 31).

**2.2.3 Functional and presentation currency**

The financial statements are expressed in Saudi Arabian Riyals (SR), which is the functional and presentation currency of the Company. All financial statement presented in SR has been rounded off to the nearest thousand, unless otherwise stated.

**2.2.4 Fiscal year**

The Company follows a fiscal year ending 31 December.



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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 New standards and amendments to existing standards**

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, 2019 except for the adoption of the following new standards and other amendments to existing standards mentioned below which have had no significant financial impact on the financial statements of the Company on the current period or prior period and are expected to have no significant effect in future periods.

**3.1.1 IFRS 16- Lease**

IFRS 16 - "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

The Company adopted IFRS 16 using the modified retrospective approach. The Company elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company elected to use the exemptions proposed by the standard regarding lease contracts for which the lease term ends within 12 months of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has performed an assessment of IFRS 16 and determined the difference as compared to IAS 17 and IFRIC 4 is not material to the Company's financial statements as a whole.

**3.1.2 IFRS 2 Share-based payment**

Amendments to IFRS 2 - "Share-based Payment", applicable for the period beginning on or after 1 January 2018. The amendments cover classification and measurement of three accounting areas, first, measurement of cash-settled share-based payments, second, classification of share-based payments settled net of tax withholdings, and third, accounting for a modification of a share-based payment from cash-settled to equity-settled. The impact is not material for the Company.

**3.1.3 IFRS 15 Revenue from contracts with customers**

IFRS 15 - "Revenue from Contracts with Customers" applicable from 1 January 2018 presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard could have a significant impact on how and when revenue is recognized, with new estimates and judgments, and the possibility of revenue recognition being accelerated or deferred. However, insurance companies are excluded from the scope of IFRS 15.

**3.2 Standards issued but not yet effective**

The Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards, which have been published and are mandatory for compliance for the Company with effect from future dates.

**3.2.1 IFRS 9, Financial Instruments (including amendments to IFRS 4, Insurance Contracts)**

The implementation of IFRS 9 is expected to result in a significant portion of financial assets currently classified as available-for-sale being re-classified as at fair value through profit or loss or fair value through other comprehensive income (OCI). Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in OCI, are expected to increase due to the introduction of the expected credit loss methodology. The Company will avail exemptions available to insurers and is considering deferring the implementation of IFRS 9 until a later date, but no later than January 1, 2023. The impact of the adoption of IFRS 9 on the Company's financial statements will, to a large extent, have to take into account the interaction with the IFRS 17 "Insurance contracts". Considering the current situation of the Company as specified in Note 2.2.1, the Company has not assessed the effect of adoption of IFRS 9 to date.

**3.2.2 IFRS 17 Insurance Contracts**

IFRS 17 "Insurance contracts" was published on May 18, 2017 with the effective date of January 1, 2021. On 25th June 2020 IASB deferred the effective date of the standard as effecting for the annual periods beginning on or after January 1, 2023. IFRS 17 provides comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features. For non-life and short-term life insurance contracts IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk, for which confidence level equivalent disclosure will be required. Further, IFRS 17 will change the presentation of insurance contract revenue, as gross written premium will no longer be presented in profit or loss. Considering the current situation of the Company as specified in Note 2.2.1, the Company has not quantified the potential impact on the financial statements.

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**4. SIGNIFICANT ACCOUNTING, ESTIMATES, JUDGEMENTS AND ASSUMPTIONS**

**4.1 Use of estimates in the preparation of financial statements**

The preparation of financial statements requires the use of estimates and assumptions 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 period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**a) Ultimate liability arising from claims made under insurance contracts**

It 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. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the statement of financial position date, for which the insured event has occurred prior to the statement of financial position date. The primary technique adopted by the 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.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis. The Company also uses the services of an independent actuary for the valuation of IBNR as well as premium deficiency reserves.

**b) Impairment in available-for-sale equity**

The Company determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. 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. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

**c) Impairment in insurance receivables**

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status and other loss event factors being indicative of the ability to pay all amounts due as per contractual terms.

**d) Fair value of financial instruments that are not quoted in an active market**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

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**4. SIGNIFICANT ACCOUNTING, ESTIMATES AND JUDEJMENTS** *(continued)*

**4.1 Use of estimates in the preparation of financial statements** *(continued)*

**e) Useful lives, residual values and depreciation method of equipment and fixture**

The Company's management determines the estimated useful lives of equipment and fixture for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the useful lives, residual values and depreciation method of equipment and fixture annually and future depreciation charge would be adjusted where the management believes the useful lives, residual values and depreciation method differ from previous estimates.

**f) Provision for zakat**

In making estimate for the current zakat payable by the Company, the management considers the applicable laws and the decisions/judgements of zakat and tax authorities on certain issues in the past.

**g) Provisions for employees' end of service benefits**

The liabilities relating to defined benefit plans are determined through actuarial valuation using the Projected Unit Credit Method. The method involves making assumptions about discount rates, future salary increases, mortality rates and future increase in medical costs. Due to the long-term nature of these benefits, such estimates are subject to certain uncertainties. Significant assumptions used to carry out the actuarial valuation have been disclosed in note 17 of these financial statements.

**5. SIGNIFICANT ACCOUNTING POLICIES**

**5.1 Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents comprise cash and balances with banks including call and time deposits with less than three months' maturity from the date of acquisition.

**5.2 Receivable from policyholders**

Accounts receivable are non-derivative financial assets with fixed or determinable payments. These are recognized initially at fair value of the consideration received or receivable. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less provision for impairment. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of insurance operations. An allowance for impairment of receivables is established when there is objective evidence that the carrying amount will not be recoverable.

**5.3 Deferred policy acquisition costs**

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized on a basis consistent with the term of the related policy coverage except for marine cargo which is fully deferred for policies initiating during the last three months of the year. All other acquisition costs are recognized as an expense when incurred. Amortization is recorded 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 insurance operations. Deferred policy acquisition costs are also considered in the liability adequacy test for each reporting period.



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**5. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**5.4 Property and equipment and intangibles**

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. These are depreciated on a straight-line basis over their expected useful lives which are summarized as follows:

	<u>Years</u>
Furniture and fixtures	10
Office equipment and other assets	4
Computer hardware	4
Computer Software	4
Motor vehicles	4

Expenditure on maintenance and repairs are expensed, while expenditure for betterment are capitalized. Assets costing less than SAR 3,000 are depreciated at the rate of 100% in the year of acquisition. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income - insurance operations when the asset is derecognized. The residual values, useful lives and methods of depreciation of property and equipment are reviewed annually and adjusted prospectively, if appropriate. The carrying values of these assets are reviewed for impairment when events 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 amounts, the assets are written down to their recoverable amount.

Property and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of the asset's fair value less cost 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). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the statement of income under other general and administrative expenses.

Acquired computer software's have finite life and are capitalized on the basis of the costs incurred to acquire and bring to use the same. These costs are amortized on the basis of the software's expected useful life.

**5.5 Investments**

All investments are initially recognized at cost, being the fair value of the consideration given, including acquisition charges associated with the investment except in case of investments held at fair value through profit or loss (FVTPL). For investments that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without any deduction for transaction costs.

**a) Investments held at Fair Value through Income statement (FVIS)**

Investments in this category include those investments held for trading or those designated as FVIS on initial recognition. Investments classified in this category are acquired for the purpose of selling or repurchasing in short term and are recorded at fair value.

After initial recognition, investments held at FVIS are measured at fair value. Subsequent changes in fair value are recorded in the statement of comprehensive income in the period in which it arises.

Special commission income and dividend income received on financial assets held as FVIS are reflected as income from FVIS financial instruments in the statement of comprehensive income - insurance operations/ shareholders operations in line with the underlying assets.

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**5 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**5.5 Investments** *(continued)*

**b) Available for sale investments (AFS)**

Investments which are classified as AFS are subsequently measured at fair value. Available for sale investments are those investments that are neither held-to-maturity nor held for trading. For an available for sale investment where the fair value has not been hedged, any unrealized gain or loss arising from a change in its fair value is recognized directly in the statement of comprehensive income until the investment is derecognized.

**c) Held to maturity investments (HTM)**

Held to maturity investments are initially recorded at cost, being fair value of consideration given. Subsequently these are measured at amortized cost (using effective interest rate) less impairment losses.

**d) 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 of financial assets are transactions that require settlement of assets within the time frame generally established by regulation or convention in the market place.

**5.6 Classification of financial instruments**

The Company at initial recognition determines the relevant classification of financial assets and financial liabilities based on its judgment.

**5.7 Impairment of reinsurance and other financial assets**

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognized in the statement of income.

Impairment is determined as follows:

For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of income.

For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

**5.8 Impairment of other 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 levels for which there are separately identifiable cash flows (cash-generating units).

**5.9 Zakat and taxes**

In accordance with the regulations of the General Authority for Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders and to income tax attributable to the foreign shareholders. Income taxes are computed on the shareholders share of net adjusted income for the year. Zakat and income tax is accrued on a monthly basis.

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**5 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**5.9 Zakat and taxes** *(continued)*

**Income Tax:**

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the country where the company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

**Deferred income tax:**

Deferred income tax is recognised using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax recognised is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which

the deductible temporary differences and the tax credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the statement of income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

Due to significant losses, the deferred tax asset has not been recorded in these financial statements.

**IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the

application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

**Zakat:**

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

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**5 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**5.10 Other provisions**

A provision for incurred liabilities is recognized when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

**5.11 Statutory reserve**

In accordance with the Company's Articles of Association and in compliance with Article 70(2g) of the Implementing Regulations for Cooperative Insurance of SAMA, the Company allocates 20% of the net income each year to the legal reserve until it has built up a reserve equal to the paid-up capital. Since the Company has accumulated losses, no such provision for legal reserve has been made in current year.

**5.12 Recognition of premium and reinsurance commission revenue**

Gross premiums and commissions are recognized with the commencement of the insurance risks proportionally over the period of coverage. Premiums are shown before deduction of commission. The portion of premium and commission that will be earned in the future is reported as unearned premium and commission, respectively, and is deferred on a basis consistent with the term of the related policy coverage except for marine cargo which is fully deferred for policies initiating during the last three months of the year.

**5.13 Investment income**

Investment income is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable. Income from investments is principally earned from term deposits.

Commission income from short-term deposits are recognized on a time proportion basis using the effective interest rate method.

**5.14 Dividend income**

Dividend income is recognized when the right to receive payment is established.

**5.15 Reinsurance**

The Company cedes insurance risk in the normal course of business for a portion of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision or settled claims associated with reinsurance policies and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. 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 statement of income - insurance operations. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.



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**5 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**5.15 Reinsurance** *(continued)*

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or 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. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

**5.16 Outstanding claims**

Outstanding claims comprise the estimated cost of claims incurred but not settled at the date of statement of financial position together with related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. Provisions for reported claims not paid as of the date of statement of financial position 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 (IBNR) including related claims handling costs and the expected value of salvage and other recoveries at the statement of financial position date. The IBNR is calculated based on the recommendation of an independent actuary.

Any difference between the provisions at the date of the statement of financial position and settlements and provisions in the following year is included in the statement of insurance operations for that year. The outstanding claims are shown on a gross basis and the related share of reinsurance is shown separately.

**5.17 Liability adequacy test**

At each statement of financial position date, the Company assesses whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognized in the statement of insurance operations and an unexpired risk provision is created. The Company estimates these reserves based on an independent actuarial valuation.

**5.18 Employees' end of service benefits**

Employees' end of service benefits is accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Labor and Workmen Law on termination of their employment contracts. Employees' end of service payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of Saudi Arabia. An independent actuary, using the projected unit credit method, carried out the valuation as at 31 December 2018. All past service cost are recognized as an expense immediately in statement of insurance operations. All actuarial gains or losses on defined benefit obligation are recognized in other comprehensive income.

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**5 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Short term Benefit**

Short-term employee benefits, include leave pay and airfare, are current liabilities included in accrued expenses, measured at the undiscounted amount that the entity expects to pay as a result of the unused entitlement.

**Define contribution plan**

The Company pays retirement contributions for its Saudi Arabian employees to the General Organization for Social Insurance. This represents a defined contribution plan. The payments made are expensed as incurred.

**5.19 Financial Instruments**

**a) Recognition, initial measurement**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs, except for those carried at fair value through statement of income which are measured initially at fair value.

**b) Derecognition**

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished discharged, cancelled or expired.

Financial assets and financial liabilities are measured subsequently as described below.

**c) Classification and subsequent measurement of financial assets**

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

The Company's financial assets consist of cash and cash equivalents loans, receivables and investments.

**d) Classification and subsequent measurement of financial liabilities**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through statement of income and other comprehensive income or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value. The Company's financial liabilities include accounts payables and other payables, due to related parties. The measurement of financial liabilities depends on their classification as financial liabilities at fair value through statement of income and other comprehensive income or "other financial liabilities".

**5.20 Offsetting**

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

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**5. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**5.21 Foreign currency transactions**

Transactions denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the statement of financial position date. All differences are taken to the statements of income. Foreign exchange differences are not significant and have not been disclosed separately.

**5.22 Surplus from insurance operations**

In accordance with the requirements of the implementing regulations issued by SAMA, 90% of the net surplus from insurance operations is transferred to the statement of shareholders' operations, while 10% of the net surplus is distributed to policyholders. However, in the case of loss, SAMA has directed the Company to transfer the whole amount to the statement of shareholders' operations.

**5.23 Segmental information**

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

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions. No inter-segment transactions occurred during the year.

**5.24 Insurance Contract**

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.

**5.25 Revenue recognition**

Premiums and commissions are taken into income over the terms of the policies to which they relate on a pro-rata basis. Retained premiums and commission income, which relate to unexpired risks beyond the end of the financial period, are reported as unearned and deferred based on the following methods:

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

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**5. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**5.25 Revenue recognition** *(continued)*

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

**5.26 Unearned commission income**

Commission receivable on outwards reinsurance contracts are deferred and amortised over the terms of the insurance contracts to which they relate. Amortisation is recorded on the same basis as premium in the statement of income.

**5.27 Insurance and investment 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.

Investment contracts are those contracts that do not transfer significant insurance risk. The Company's unit linked products have been classified as investment contracts. These represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments.

The Company's insurance and investment contracts do not contain any discretionary participatory features.

**5.28 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 property.

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 action against the liable third party.



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**6. CASH AND CASH EQUIVALENTS**

	<b>31 December 2019</b>	
	<i>Insurance Operations</i>	<i>Shareholders' Operation</i>
Cash in banks	9,871	379
Total	<u>9,871</u>	<u>379</u>
	<b>31 December 2018</b>	
	<i>Insurance Operations</i>	<i>Shareholder' Operation</i>
Cash in banks	1,487	1,492
Total	<u>1,487</u>	<u>1,492</u>

**7. PREMIUMS AND REINSURANCE RECEIVABLES, NET**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Policyholders	65,056	76,513
Reinsurance receivables	60,472	68,800
	<u>125,528</u>	<u>145,313</u>
Less: Provision for doubtful debts (note 7.1)	<u>(124,713)</u>	<u>(91,930)</u>
	<u>815</u>	<u>53,383</u>

**7.1** The movement in the provision for doubtful debts of premium receivables is as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Balance at beginning of the year	91,930	38,387
Provision during the year	<u>32,783</u>	<u>53,543</u>
Balance at ending of the year	<u>124,713</u>	<u>91,930</u>

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**7. PREMIUMS AND REINSURANCE RECEIVABLES** *(continued)*

As at December 31, the ageing of receivable from policyholders and reinsurer which includes due from related party is as follows:

	Total SAR	Neither past due nor impaired SAR	<i>Past due but not impaired</i>		
			91 to 180 days SAR	181 to 365 days SAR	More than 365 days SAR
<b>2019</b>					
Policyholders'	65,056				
Reinsurers	62,881				
<b>2018</b>					
Policyholders'	11,539				-
Reinsurers	44,776	13,502	10,333	14,801	6,140

The Company classifies balances as "past due and impaired" on case by case basis and an impairment adjustment is recorded in the statement of insurance operations.

**8. OUTSTANDING CLAIMS INCLUDING RESERVES**

	31 December 2019	31 December 2018
<b>Gross outstanding claims and reserves:</b>		
Gross outstanding claims	66,102	80,840
Less: Realizable value of salvage and subrogation	1,000	2,082
	65,102	78,758
Claims Incurred But Not Reported (IBNR)	26,444	49,277
Premium deficiency reserve	-	16,884
Other reserve	8,120	11,418
Total	99,666	156,337
<b>Reinsurers' share of outstanding claims and reserves:</b>		
Outstanding claims	32,881	44,958
Claims incurred but not reported	3,807	9,520
Total	36,688	54,478

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**8. OUTSTANDING CLAIMS INCLUDING RESERVES** *(continued)*

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Net outstanding claims and reserves:</b>		
Outstanding claims	<b>32,221</b>	33,800
Claims incurred but not reported	<b>22,637</b>	39,757
Premium deficiency, catastrophe and other reserve	<b>8,120</b>	28,302
	<b>62,978</b>	101,859

	<b>31 December 2019</b>	<b>31 December 2018</b>
Claims net-off with policy holders balance receivable balances	<b>23,917</b>	15,385
Third party claim	<b>16,720</b>	1,755
Total Claim settled	<b>40,637</b>	17,140

Claims paid and reinsurance share of claims paid amounting to SR 23,917 million and SR 15,385 million respectively are the claims netted off against accounts receivable with the respective counter parties. The movement for year ending 31 December, 2019 is:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Gross balance	<b>88,973</b>	76,095
Less: Gross Claims settled net-off	<b>(23,917)</b>	-
Add: Reinsurers' share of claims paid	<b>-</b>	(15,385)
Net Balance	<b>65,056</b>	60,710

**8.1 Claims development table**

The following reflects the cumulative gross claims, including both claims notified and incurred but not reported for each successive accident year at each financial position date, together with the cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims.

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company will transfer much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

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

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**8.1 Claims development table (continued)**

Gross of Reinsurance		2019	2015 & earlier	2016	2017	2018	2019	Total
Accident year								
Estimate of ultimate claims cost:								
At the end of accident year			799,624	550,947	479,666	223,722	10,320	10,320
One year later			758,526	559,165	483,433	293,971	--	293,971
Two years later			769,130	527,226	513,571	--	--	513,571
Three years later			758,975	537,173	--	--	--	537,173
Four years later			712,481	--	--	--	--	--
Five years later			723,644	--	--	--	--	723,644
Current estimate of cumulative claims			723,644	537,173	513,571	293,971	10,320	2,078,679
Cumulative payments to date			719,841	530,701	495,410	235,699	5,482	1,987,133
Liability recognized in statement of financial position			3,803	6,471	18,162	58,273	4,838	91,546
PDR and other reserves								8,120
Total liability included in statement of financial position								99,666





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**8.1 Claims development table (continued)**

Net of Reinsurance		2015 & earlier	2016	2017	2018	2019	Total
Accident year	2019						
Estimate of ultimate claims cost:							
At the end of accident year		--	--	--	147,844	7,790	7,790
One year later		--	--	339,616	143,848	--	143,848
Two years later		--	381,184	334,347	--	--	334,347
Three years later		214,610	381,586	--	--	--	381,586
Four years later		282,360	--	--	--	--	--
Five years later		292,874	--	--	--	--	292,874
Current estimate of cumulative claims		292,874	381,586	334,347	143,848	7,790	1,160,445
Cumulative payments to date		290,234	376,556	321,524	112,746	4,526	1,105,586
Liability recognized in statement of financial position		2,640	5,028	12,823	31,102	3,265	54,858
PDR and other reserves							8,120
Total liability included in statement of financial position							62,978

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8.1 Claims development table (continued)

Net of Reinsurance		2018	2014 & earlier	2015	2016	2017	2018	Total
Accident year								
Estimate of ultimate claims cost:								
At the end of accident year		--	--	--	--	--	147,844	147,844
One year later		--	--	--	--	339,616	--	339,616
Two years later		--	--	--	381,184	--	--	381,184
Three years later		--	--	214,610	--	--	--	214,610
Four years later		--	67,750	--	--	--	--	67,750
Five years later		--	--	--	--	--	--	--
Current estimate of cumulative claims		67,750	214,610	381,184	339,616	147,844	--	1,151,004
Cumulative payments to date		67,672	212,973	374,773	321,134	100,895	--	1,077,447
Liability recognized in statement of financial position								
PDR and other reserves		78	1,637	6,411	18,482	46,949	--	73,557
Total liability included in statement of financial position								28,302
								101,859

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**9. UNEARNED PREMIUMS**

	<b>31 December 2019</b>		
	<b>Gross</b>	<b>Reinsurers' share</b>	<b>Net</b>
Balance at the beginning of the year	17,235	(8,310)	8,925
Net premiums written during the year	(2,222)	2,095	(127)
Premiums earned during the year	(15,013)	6,215	(8,798)
Balance at the end of the year	--	--	--

	<b>31 December 2018</b>		
	<b>Gross</b>	<b>Reinsurers' share</b>	<b>Net</b>
Balance at the beginning of the year	176,943	(69,033)	107,910
Net Premiums written during the year	110,160	(42,183)	67,977
Premiums earned during the year	(269,868)	102,906	(166,962)
Balance at the end of the year	17,235	(8,310)	8,925

**10. DEFERRED POLICY ACQUISITION COSTS**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Balance at beginning of the year	1,874	14,231
Policy acquisition costs incurred	(374)	11,966
Policy acquisition costs amortized	(1,500)	(24,323)
Balance at the end of the year	--	1,874

**11. UNEARNED REINSURANCE COMMISSION**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Balance at the beginning of the year	1,598	6,641
Re-insurance commission income received during the year	(670)	10,603
Re-insurance commission income earned during the year	(928)	(15,646)
Balance at the end of the year	--	1,598



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**12. PREPAYMENTS AND OTHER ASSETS**

Prepaid expenses comprised the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Receivables from TPA	5,668	6,668
Prepaid TPA fee & others	2,863	2,863
Prepaid rent	1,650	3,465
Accrued manafeth income	1,292	1,292
Prepaid medical insurance	114	258
Prepaid regulatory and other fees	43	325
Advance to employees	--	65
Others	35	307
	<b>11,665</b>	<b>15,243</b>

**13. AVAILABLE FOR SALE INVESTMENT**

	<b>31 December 2019</b>	
	<i>Insurance operations</i>	<i>Shareholders operations</i>
<b>Available for sale</b>		
Unquoted securities	1,923	--
	<b>1,923</b>	<b>--</b>
	<b>31 December 2018</b>	
	<i>Insurance Operations</i>	<i>Shareholders</i>
<b>Available for sale</b>		
Unquoted securities	1,923	--
	<b>1,923</b>	<b>--</b>

Movement in the investment is as following:

	<b>2019</b>		<b>2018</b>	
	<b>Operation</b>	<b>shareholder</b>	<b>Total</b>	
Opening balance	1,923		1,923	15,619
Purchase during the year				3,950
Disposal during the year				-
Ending Balance	1,923	--	1,923	(13,696)
				(3,950)
				(17,646)
				1,923
				-
				1,923

Unquoted securities represents investment in shares of Najm for insurance services amounting to SAR 1,923,000 (December 2018: SAR 1,923,000).

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**14. PROPERTY AND EQUIPMENT AND INTANGIBLES – NET**

	<u>Property and equipment</u> <u>2019</u>				<u>Intangible</u> <u>assets</u>	
	<u>Computer</u> <u>Hardware</u>	<u>Furniture</u> <u>and fixtures</u>	<u>Motor</u> <u>vehicles</u>	<u>Office</u> <u>equipment &amp;</u> <u>other assets</u>	<u>Total</u>	<u>Software</u> <u>Total</u>
<b>Cost:</b>						
At 1 January 2019	5,234	3,292	355	1,486	10,367	10,571
Additions				26	26	
Disposals	--	--	--	--	--	--
At 31 December 2019	5,234	3,292	355	1,502	10,393	10,571
<b>Accumulated depreciation and amortization:</b>						
At 1 January 2019	3,361	1,411	303	956	6,031	8,603
Charge for the year	807	984	20	260	2,071	1,024
Disposal						
At 31 December 2019	4,168	2,395	323	1,216	8,102	9,627
<b>Net book value</b>						
31 December 2019	1,066	897	32	296	2,291	944

	<u>Property and equipment</u> <u>2018</u>				<u>Intangible</u> <u>assets</u>	
	<u>Computer</u> <u>Hardware</u>	<u>Furniture</u> <u>and fixtures</u>	<u>Motor</u> <u>vehicles</u>	<u>Office</u> <u>equipment &amp;</u> <u>other assets</u>	<u>Total</u>	<u>Software</u> <u>Total</u>
<b>Cost:</b>						
At 1 January 2018	4,573	2,720	355	1,399	9,047	9,488
Additions	661	572	--	87	1,320	1,083
Disposals	--	--	--	--	--	--
At 31 December 2018	5,234	3,292	355	1,486	10,367	10,571
<b>Accumulated depreciation and amortization:</b>						
At 1 January 2018	2,491	1,034	283	698	4,506	7,610
Charge for the year	870	377	20	258	1,525	993
Disposal	--	--	--	--	--	--
At 31 December 2018	3,361	1,411	303	956	6,031	8,603
<b>Net book value</b>						
31 December 2018	1,873	1,881	52	530	4,336	1,968

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**15. MATHEMATICAL RESERVES FOR LIFE INSURANCE OPERATIONS**

The mathematical reserves for life insurance contracts at December 31, 2019 were certified by an independent actuary, whose report states that the mathematical provisions are computed in a manner that conforms to the appropriate actuarial standards of

	<u>31 December 2019</u>	<u>31 December 2018</u>
<b>Benefit expense (recognized in profit or loss)</b>		
Current service cost	664	1,295
Commission rate cost	56	100
<b>Benefit expense</b>	<u>720</u>	<u>1,395</u>

practice and meet adequately the Company's liabilities arising from its entire life insurance business cycle.

The movement in the mathematical provision during the year is as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Balance at beginning of the year	1,437	1,517
Additional provision during the year	97	(80)
Balance at ending of the year	<u>1,534</u>	<u>1,437</u>

**16. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<u>31 December 2019</u>	<u>31 December 2018</u>
<b>Insurance Operations:</b>		
Sundry creditors and stale cheques	41,369	13,882
Brokerage payable	3,664	1,289
Chairman and Directors' remuneration	3,242	2,477
Board attendance and sitting fees	77	268
Professional fees	34	209
CCHI fee	2	3
SAMA fee	--	12
Others	13,665	18,138
	<u>62,053</u>	<u>36,278</u>

**17. EMPLOYEES' END OF SERVICE BENEFITS**

The following tables summarise the components of employees' end of service benefits recognised in the statement of income, accumulated surplus and amounts recognised in the statement of comprehensive income and statement of financial position of insurance operations:

**17.1 Movement in the present value of defined benefit obligation**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Present value of defined benefit obligation at beginning of the year	1,785	3,849
Current service cost	664	1,295
Commission rate cost	56	100
Actuarial (gain) on defined benefit plan	(62)	(804)
Benefits paid	(913)	(2,655)
Present value of defined benefit obligation at end of the year	<u>1,530</u>	<u>1,785</u>

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**17. EMPLOYEES' END OF SERVICE BENEFITS** *(continued)*

**17.2 Amount recognized in the statement of financial position**

	<b>31 December 2019</b>	31 December 2018
Present value of defined benefit obligation	<b>224</b>	1,785
Payable to outgoing employee	<b>1,306</b>	--
Fair value of plan assets	<b>--</b>	--
<b>Net liability at end of the year</b>	<b>1,530</b>	1,785
<b>Benefit expense (recognized in profit or loss)</b>		
Current service cost	<b>664</b>	1,295
Commission rate cost	<b>56</b>	100
<b>Benefit expense</b>	<b>720</b>	1,395

**17.3 Defined benefit obligation sensitivity analysis**

	<b>31 December 2019</b>	31 December 2018
<b>Movement in net liability recognised in financial position</b>		
Net liability at beginning of the year	<b>1,785</b>	3,849
Charge recognised in profit or loss	<b>720</b>	1,395
Actuarial (gain) recognised in other comprehensive income	<b>(62)</b>	(804)
Benefits paid	<b>(913)</b>	(2,655)
<b>Net liability at end of the year</b>	<b>1,530</b>	1,785
	<b>31 December 2019</b>	31 December 2018
<b>Principal actuarial assumption</b>		
Discount rate	<b>3.40%</b>	4.30%
Salary increase rate	<b>3.40%</b>	4.30%
<b>Return on plan assets</b>		

**18. STATUTORY DEPOSIT**

Statutory deposit amounting to SR 15 million (31 December 2018: SR 18.3 million) kept with a local bank, represented 15% of this period up share capital of the company which is maintained in accordance with the Cooperative Insurance Companies Control Law issued by SAMA. This Statutory deposit cannot be withdrawn without the consent of SAMA. Accrued commission on statutory deposit is reported separately under shareholders' assets and shareholders' liabilities in accordance with SAMA instructions.

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**19. ZAKAT AND INCOME TAX**

**19.1 Zakat base summary is as follows:**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Net profit / (loss) for the year, as adjusted for	(31,131)	(100,429)
Non - deductible items	35,229	(5,061)
Shareholders' capital	100,000	100,000
Accumulated deficit at beginning of year	(174,575)	(37,318)
Reduction of share capital	-	22,000
Provisions	95,072	41,017
Other additions	76,772	-
Property and equipment – net	(2,291)	-
Other deductions	(17,867)	-
<b>Total</b>	<b>81,209</b>	<b>20,209</b>
 Zakat base for Saudi shareholders at 84.88%	 <b>70,802</b>	 <b>17,153</b>
 Zakat at 2.5%	 <b>1,770</b>	 <b>429</b>

Zakat is payable at 2.5% of higher of the approximate zakat base and adjusted net income attributable to the Saudi shareholders.

**19.2 Income tax**

The current year's provision is based on the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Net loss for the year	(31,131)	(157,957)
Non - deductible items	35,229	54,903
Carried forward losses up to 25 % of current year profit	(155)	-
<b>adjusted net profit / loss</b>	<b>3,943</b>	<b>(103,054)</b>
 Tax base for non-saudi shareholders at 15.12%	 <b>465</b>	 <b>-</b>
 Tax at 20%	 <b>93</b>	 <b>-</b>
 Penalty for failure to file	 <b>24</b>	 <b>-</b>
Delay penalty at 1 % of unpaid taxes for each 30 days of delay	<b>7</b>	<b>-</b>
<b>Total taxes and penalties payable</b>	<b>124</b>	<b>-</b>

**19.3 Provision for zakat and tax**

Movements in zakat is as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Balance at beginning of the year	2,105	3,801
Provision during the year and prior years	1,770	1,000
Payment during the year	-	(2,696)
<b>Balance at end of the year</b>	<b>3,875</b>	<b>2,105</b>

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**19. ZAKAT AND INCOME TAX (continued)**

**19.3 Provision for zakat and tax (Continued)**

Movements in the income tax is as follows:

	31 December 2019	31 December 2018
Balance at beginning of the year	165	165
Provision for the prior years	93	-
Penalties for late filing	31	-
Balance at end of the year	<u>289</u>	<u>165</u>
 Zakat and income tax payable	 <u>4,164</u>	 <u>2,270</u>

**Shareholdings**

Following is the shareholding structure of the Company as on:

	31 December 2019	31 December 2018
Shareholding subject to Zakat	84.88%	84.88%
Shareholding subject to Income Tax	15.12%	15.12%

**19.4 Zakat and tax assessment status**

The Company has filed zakat and income tax returns till the financial year 2018 with the General Authority of Zakat and Tax (the "GAZT"), obtained the required certificate for year 2017 and is in the process of obtaining the certificate for year 2018.

The GAZT issued assessment for the years 2006 - 2013 with an additional liability of SAR 8.5 million. The Company has filed objection on initial assessment before GAZT and the Company has received revised assessment with an additional liability of SAR 4.5 million. The Company has further filed objection appeal before GAZT and is confident of a favorable outcome. However, the Company has booked a provision of SAR 2.1 million after settlement of SAR 1.7 million in year 2018. The total provision at the end of year 2019 stand that SAR 4.2 million.

**19.5 VAT registration**

The Company has obtained VAT registration certificate as required by applicable law.

**20. SHARE CAPITAL**

	31 December 2019	31 December 2018
Authorised:		
10,000,000 (2018: 10,000,000) shares of SAR 10 each	<u>100,000</u>	<u>100,000</u>
Allotted, issued and fully paid		
10,000,000 (2018: 10,000,000) shares of SAR 10 each	<u>100,000</u>	<u>100,000</u>

During 2018 the Board of Directors recommended the extra ordinary general assembly to approve the capital reduction of SR 22 million. The Company after receiving approval from SAMA and CMA, called for a general assembly meeting and the reduction of capital of SR 22 million was approved by the general assembly on 05 June 2018.

At 31 December 2019 and 2018, the share capital of the Company was held by the following shareholders:

	Percentage	No. of shares 2019	No. of shares 2018
The New India Assurance Co. Ltd	5.170%	517,000	517,000
Life Insurance Corporation of India	4.975%	497,500	497,500
LIC (International) BSC	4.975%	497,500	497,500
Local shareholders and general public	84.880%	8,488,000	8,488,000
	100%	<u>10,000,000</u>	<u>10,000,000</u>



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**21. OTHER UNDERWRITING EXPENSES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
CCHI fees	2	218
Third Party Administrator (TPA) charges	11	2,856
SAMA fees	(13)	892
Medical, motor cards and others	489	5,304
	<b>489</b>	<b>9,270</b>

**22. GENERAL & ADMINISTRATIVE EXPENSES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Operating and administrative salaries and benefits	9,816	33,486
Professional fees	3,623	3,612
Depreciation and amortization	3,093	4,040
Rent	2,182	848
Sitting Fees to Board and Committees	894	1,523
IT expenses	457	1,604
Tadawul fees	445	22
Penalties	349	17
Travel expenses	104	359
Repair and maintenance	76	750
Car maintenance	6	-
Office supplies and printing and stationery	5	229
Directors travelling & other expenses	-	11
Other expenses	1,869	1,358
	<b>22,919</b>	<b>47,859</b>

**23. BASIC AND DILUTED LOSS PER SHARE (Restated)**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Net loss for the year before Zakat (SAR in thousand riyals)	<b>(34,571)</b>	<b>(158,957)</b>
Weighted average number of shares in issue throughout the year	<b>10,000,000</b>	<b>10,000,000</b>
Basic and diluted loss per share	<b>(3.46)</b>	<b>(15.90)</b>

Basic and diluted earnings per share have been computed by dividing the net income for the relevant periods by the weighted average number of issued outstanding shares. The relevant averages are 10,000,000 shares for the year ended 31 December 2019 (31 December 2018: 10,000,000 shares).

The weighted average number of shares have been retrospectively adjusted for all prior periods to reflect the reduction in share capital in line with the requirement of IAS 33 "Earnings per share".

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**24. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management and Board of Directors. Transactions with related parties are conducted on similar terms and conditions as compared with external parties and on arm's length basis. The following are the details of the major related party transactions during the year and the related balances:

Related parties	Nature of transactions	Amount of transactions		Balances	
		2019	2018	2019	2018
The New India Assurance Company Limited (Shareholder)	-Reinsurance premium ceded	(3)	49	--	--
	-Reinsurance commission income	--	9	--	--
	-Reinsurer's share of outstanding claims	--	8	--	--
	-Balance receivable	--	--	2,171	2,932
	-Share compensation balance payable	--	--	5,932	5,932
Life Insurance Corporation of India (Shareholder)	-Share compensation balance payable	--	--	--	--
Other Shareholders	-Share compensation balance payable	--	--	91	91
Alinma Makkah Fund (Common Directors)	-Investment	--	--	--	--
Directors and Executive Committee	-Remuneration	--	900	--	--
	-Balance payable	--	--	3,137	2,477
Directors and Executive Committee	-Meeting attendance fee	--	423	--	--
	-Balance payable	--	--	77	234

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

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**24. RELATED PARTY TRANSACTIONS AND BALANCES** *(continued)*

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and top 5 executives for the year ended 31 December 2019 and 2018:

	BOD members SR	Top executives including the CEO and CFO SR
<b>2019</b>		
Salaries and compensation	-	2,896
Allowances	-	1,014
Annual remuneration	1,560	-
Employees' end of service benefits	-	-
Total	1,560	3,910
<b>2018</b>		
Salaries and compensation	-	3,263
Allowances	-	1,142
Annual remuneration	900	-
Employees' end of service benefits	-	-
Total	900	4,405

**25. Surplus distribution to policyholder**

	31 December 2019	31 December 2018
Balance at the beginning of the year	-	6,346
Surplus paid to policy holders	-	(6,346)
Balance at the ending of the year	-	-

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**26. INSURANCE RISKS**

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements.

Significant portion of reinsurance business ceded is placed on a quota share basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

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.

**Sensitivities**

The analysis below is performed for reasonably possible movements in key assumptions such as the average loss ratio with all other assumptions held constant showing the impact on liabilities and net loss.

December 31, 2019	Change in assumptions	Impact on liabilities	Impact on net profit
Claim ratio	+5%	440	440
	-5%	(440)	(440)
December 31, 2018	Change in assumptions	Impact on liabilities	Impact on net loss
Claim ratio	+5%	7,992	7,992
	-5%	(7,992)	(7,992)

**Reinsurance risk**

Similar to other insurance companies, 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. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under proportional treaties such as quota share with surplus and non-proportional treaties such as excess of loss.

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.

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.

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**27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments carried on the statement of financial position include financial assets, financial liabilities, reinsurance assets and insurance liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The risks faced by the Company and the way these risks are mitigated by management are summarised below:

**27.1 Operational risk**

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

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

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

**27.2 Protection and Saving**

For protection and saving, the main risk is the mortality, morbidity (permanent or temporary disability) of the insured and policyholder behavior risk.

**Mortality risk**

Actual policyholder death experience on life insurance policies is higher than expected.

**Morbidity risk**

Policyholder health-related claims are higher than expected.

**Policyholder behavior risk**

Policyholders' behavior in discontinuing and reducing contributions or withdrawing benefits prior to the maturity of contracts is worse than expected. Poor persistency rates may lead to fewer policies remaining on the books to defray future fixed expenses and therefore reduce the future positive cash flows from the business written, potentially affecting Company's ability to recover deferred acquisition expenses.

This is managed through an effective and clearly defined underwriting strategy. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/consultants and comprehensive medical tests. The Company also conducts financial, lifestyle and occupational underwriting to ascertain the degree of risk carried by the insured and to determine whether or not it could be classified as a standard life.

For group protection and saving, the mortality risk is compounded due to the concentration of lives, for example employees in the same workplace. The Company has a clearly defined underwriting strategy. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/consultants and comprehensive medical tests. The Company also looks at the nature of activity carried out by the group, group size, mix of lives by geographical regions, cultural background and manual/non-manual worker split.

The individual family and group protection and saving portfolio is protected through an efficient reinsurance arrangement in accordance with WAFA Insurance Standards. This protects the Company from adverse mortality/morbidity experience. There is a maximum retention per life under the reinsurance arrangement which protects the Company from single large losses. Multiple claims and concentrations of risk are also covered under the arrangement.

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**27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *(Continued)*

**27.3 General Insurance**

**Medical**

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risks and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has reinsurance cover to limit the losses for any individual claim.

**Motor**

For motor contracts, the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company only underwrites comprehensive policies for owner/drivers over 21 years of age.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims. The Company also has appropriate risk management procedures to control the cost of claims. The Company has reinsurance cover for such damage to limit the losses for any individual claim.

**Property**

For property insurance contracts the main risk is fire. The Company only underwrites policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has appropriate reinsurance cover for such damage to limit losses for any individual claim. These are covered under proportional and non-proportional treaties.

**Marine**

For marine insurance, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim.

**Engineering**

For engineering insurance, the main risks are loss or damage to the construction/erection works caused by fire, explosion, natural perils like floods, earthquakes, hailstorms, etc. Selection of risks and proper underwriting are the criteria for this line of business. The Company has appropriate reinsurance cover for such risks to limit losses for any individual claim. These are covered under engineering proportional and non-proportional treaties.

**Public liability**

For public liability insurance, the main risks are legal liabilities of the insured towards third party deaths, bodily injury or property damage arising out of insured premises, business operations or projects handled by the insured.

This insurance policy is underwritten based on the turnover of the Company or the value of the contract, nature / occupation of the premises, nature of contracts handled. The Company has appropriate reinsurance cover to limit the losses for any individual claim.

**Sensitivity analysis**

The Company believes that the claim liabilities under insurance contracts outstanding at the reporting date 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.



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**27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**27.4 Claims management risk**

Claims management risk may arise within the Company in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the Company and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle. The Company's claims teams are focused on delivering quality, reliability and speed of service to the policyholders. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business' broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

**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 judgments are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

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

**27.5 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.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques such as Chain ladder method, Bornhuetter - Ferguson method and Expected Loss Ratio Method.

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.

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**27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *(Continued)*

**27.5 Process used to decide on assumptions** *(Continued)*

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation,

judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve in result of liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as at the statement of financial position date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

**27.6 Reserving and ultimate reserves risk**

Reserving and ultimate reserves risk occurs within the Company where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts in provisions. To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognized techniques to project gross premiums written, monitor claims development patterns and stress-test ultimate insurance liability balances.

The objective of the Company's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business.

**27.7 Capital risk management**

The Company's objectives when managing capital are:

- To comply with the insurance capital requirements as set out in the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law"). The Company's current paid up capital is in accordance with Article 3 of the Insurance Law;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

In the Kingdom of Saudi Arabia solvency regulations and the minimum capital requirements are set and regulated by the Saudi Central Bank ("SAMA"). Also refer note 2 to these financial statements.

**27.8 Market price risk**

Market price risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market risk with respect to its investments in quoted securities held by it directly. The Company limits market risk by actively monitoring the key factors that affect stock and the market movements, including analysis of the operational and financial performance of the investee.

The Company is not significantly exposure to the market risk because Company do not have quoted security.

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**27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *(continued)*

**27.9 Credit risk**

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Company. For all classes of financial assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

Key areas where the Company is exposed to credit risk are:

- Re-insurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders; and
- Amounts due from insurance intermediaries.

The Company has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst counterparties.

Reinsurance is used to manage insurance risk. The credit worthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company.

The credit risk on liquid funds is limited because most of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Ongoing credit evaluation is performed on the financial condition of the insurance receivables.

The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

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**27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *(continued)*

**27.9 Credit risk** *(continued)*

The table below shows the maximum exposure to credit risk for the components of the financial position as at 31 December:

	<u>31 December 2019</u>	<u>31 December 2018</u>
<b>Assets</b>		
Cash and cash equivalents	10,250	2,979
Investments	1,923	1,923
Premiums and reinsurance receivables, net	1,053	53,383
Reinsurers' share of outstanding claims	32,881	44,958
Reinsurers' share of claims incurred but not reported	3,807	9,520
Prepayments and other assets	11,665	15,243
Due from related parties	2,171	2,932
Accrued income on statutory deposit	2,023	2,023
Statutory deposit	15,000	18,300
<b>Total</b>	<u>80,773</u>	<u>151,261</u>

**27.10 Liquidity risk**

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on regular basis that sufficient funds are available to meet any future commitments as well as obtaining continued financial support from shareholders (if needed).

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**27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**27.11 Maturity profile**

The table below summarises the maturity profile of the financial assets and liabilities of the Company based on remaining contractual obligations.

	2019		2018	
	Less than one year	More than one year	Less than one year	More than one year
				Total
<b>ASSETS</b>				
Cash and cash equivalents	10,250		2,979	2,979
Premiums and reinsurance receivables, net	815		53,383	53,383
Reinsurers' share of outstanding claims	32,881		54,578	54,578
Investments	-	1,923	-	1,923
Due (to)/ from shareholders/ takaful operations	111,019		83,325	83,325
Statutory Deposit		15,000	-	18,300
<b>TOTAL ASSETS</b>	<b>154,965</b>	<b>16,923</b>	<b>194,265</b>	<b>214,488</b>
<b>LIABILITIES, TAKAFUL OPERATIONS</b>				
Reinsurance balances payable	14,696	-	16,173	16,173
Gross outstanding claims	65,102	-	78,758	78,758
Employee end-of-service benefits	-	1,530	-	1,785
Surplus distribution to policyholder	-	-	-	-
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>79,798</b>	<b>1,530</b>	<b>94,931</b>	<b>96,716</b>

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**27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *(continued)*

**27.12 Special commission rate risk**

Special commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments.

The Company did not have any instruments which attracted any special commission so there no special commission rate risk arises.

**27.13 Geographical concentration of risk**

All of the Company's insurance risks related to insurance policies are written in the Kingdom of Saudi Arabia.

**27.14 Fair value 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 to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of recognized financial instruments are not significantly different from the carrying values included in the financial statements.

***Determination of fair value and fair value hierarchy***

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

Level 1: Quoted market prices in active market for the identical instrument (i.e., without modification or adjustment);

Level 2: Quoted market prices in active market 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 table below presents the financial instruments at their fair values as of 31 December 2019 based on the fair value hierarchy:

**31 December 2019**

**Investments**

- Insurance operations  
- Shareholders' operations  
**Total**

Level 1	Level 2	Level 3	Total
--	--	1,923	1,923
--	--	--	--
--	--	1,923	1,923

**31 December 2018**

**Investments**

- Insurance operations  
- Shareholders' operations  
**Total**

Level 1	Level 2	Level 3	Total
--	--	1,923	1,923
--	--	--	--
--	--	1,923	1,923



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**27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *(continued)*

**27.14 Fair value of financial instruments** *(continued)*

The unlisted securities as at 31 December 2019 amounting to SAR 1,923,000 (31 December 2018: SAR 1,923,000) are stated at cost in the absence of active markets or other means of reliably measuring their fair value. For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**28 CREDIT QUALITY OF INVESTMENTS**

<b>Investments</b>	<b>31 December 2019</b>	<b>Rating</b>	<b>31 December 2018</b>	<b>Rating</b>
<b>Insurance Operations:</b>				
<i>Available for sale</i>				
Equity	1,923	Unrated	1,923	Unrated
Investment in real estate fund	-		--	
	<u>1,923</u>		<u>1,923</u>	
<b>Shareholders' Operations:</b>				
Statutory deposit – Riyadh Bank	17,023	A-	20,323	A-
<i>Available for sale</i>				
Sharia Compliant Fund -				
Adeem Capital	-			
	<u>17,023</u>		<u>20,323</u>	

The ratings have been obtained from the external rating agencies.

**29 SEGMENTAL INFORMATION**

Consistent with the Company's internal reporting process, business segments have been approved by Management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the chief operating decision maker. Operating segments do not include shareholders' operations of the Company.

Segment assets do not include insurance operations' cash and cash equivalents, receivables, prepaid expenses, investments, advances and other receivables, due from shareholders' operations and property and equipment. Accordingly, they are included in unallocated assets.

Segment liabilities do not include reinsurers' balances payable, unearned commission income, employees' end of service benefits, accrued expenses and other liabilities. Accordingly, they are included in unallocated liabilities. These unallocated assets and liabilities are not reported to chief operating decision maker under the related segments and are monitored on a centralized basis.

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**29. SEGMENTAL INFORMATION (continued)**

	For the year ended 31 Dec 2019				
	Motor	Medical	Others	Total Insurance Operations	Shareholders' Operations
					Total
<b>REVENUES</b>					
Gross premiums written	50	240	138	428	428
Cancellations	(217)	(6)	(2,427)	(2,650)	(2,650)
Net gross written premiums	(167)	234	(2,289)	(2,222)	(2,222)
Reinsurance premiums ceded	17	(90)	2,168	2,095	2,095
Excess of loss expenses	-	-	-	-	-
Net premiums written	(150)	144	(121)	(127)	(127)
Change in unearned premiums, Net	6,930	1,558	437	8,925	8,925
Net premiums earned	6,780	1,702	316	8,798	8,798
Reinsurance commission earned	114	-	814	928	928
Other underwriting income	1	-	-	1	1
<b>Total Revenues</b>	<b>6,895</b>	<b>1,702</b>	<b>1,130</b>	<b>9,727</b>	<b>9,727</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>					
Gross claims paid	(26,607)	(23)	(14,007)	(40,637)	(40,637)
Reinsurers' share of claims paid	5,170	12	11,958	17,140	17,140
Net claims paid	(21,437)	(11)	(2,049)	(23,497)	(23,497)
Changes in outstanding claims, net	2,669	(1,389)	299	1,579	1,579
Changes in incurred but not reported claims, net	15,183	1,892	45	17,120	17,120
Changes in PDR and other reserves, net	19,405	1,301	(621)	20,085	20,085
Net claims incurred	15,820	1,793	(2,326)	15,287	15,287
Policy acquisition costs	(867)	(143)	(490)	(1,500)	(1,500)
Other underwriting expenses	-	(2)	(487)	(489)	(489)
<b>Total underwriting costs and expenses</b>	<b>14,953</b>	<b>1,648</b>	<b>(3,303)</b>	<b>13,298</b>	<b>13,298</b>

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**29. SEGMENTAL INFORMATION (continued)**

	For the year ended 31 Dec 2019					
	Motor	Medical	Others	Total Insurance Operations	Shareholders' Operations	Total
NET UNDERWRITING (LOSS)/ INCOME	21,848	3,350	(2,173)	23,025	-	23,025
OTHER OPERATING (EXPENSES)/ INCOME						
General and administrative expenses				(21,580)	(1,339)	(22,919)
Provision for doubtful receivables				(32,783)	-	(32,783)
Other income				-	-	-
Investment income				-	-	-
Realized loss on investments				-	-	-
Total operating expenses				(54,363)	(1,339)	(55,702)
Net loss for the period attributable to the shareholders before zakat and income tax				(31,338)	(1,339)	(31,131)
Zakat charged for the period				-	(1,770)	(1,770)
Income tax charged for the period					(124)	(124)
Net loss for the period attributable to the shareholders after zakat and income tax				(31,338)	(3,233)	(34,571)
Appropriation to policyholders' operations				31,338	(31,338)	-
"Net deficit after appropriations				-	(34,571)	(34,571)

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**29. SEGMENTAL INFORMATION (continued)**

	For the year ended 31 Dec 2018				
	Motor	Medical	Others	Total Insurance Operations	Shareholders' Operations
					Total
<b>REVENUES</b>					
Gross premiums written	57,980	21,787	30,393	110,160	-
Cancellations	-	-	-	-	-
Net gross written premiums	57,980	21,787	30,393	110,160	-
Reinsurance premiums ceded	(6,053)	(7,305)	(28,825)	(42,183)	-
Excess of loss expenses	(5,247)	-	(1,873)	(7,120)	-
Net premiums written	46,680	14,482	(305)	60,857	-
Net change in unearned premiums	49,664	47,378	1,943	98,985	-
Net premiums earned	96,344	61,860	1,638	159,842	-
Reinsurance commission earned	4,003	2,364	9,279	15,646	-
Other underwriting income	498	-	1	499	-
<b>Total revenues</b>	<b>100,845</b>	<b>64,224</b>	<b>10,918</b>	<b>175,987</b>	<b>-</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>					
Gross claims paid	(190,073)	(104,514)	(45,295)	(339,882)	-
Reinsurers' share of claims paid	39,183	52,992	41,062	133,237	-
Net claims paid	(150,890)	(51,522)	(4,233)	(206,645)	-
Changes in outstanding claims, net	(38,440)	(21,896)	1,612	(58,724)	-
Changes in incurred but not reported claims, net	71,041	17,033	199	88,273	-
Changes in other reserves, net	(21,803)	(3,278)	(157)	(25,238)	-
Net claims incurred	(140,092)	(59,663)	(2,579)	(202,334)	-
Policy acquisition costs	(12,086)	(7,058)	(5,179)	(24,323)	-
Other underwriting expenses	(5,948)	(2,606)	(716)	(9,270)	-
<b>Total underwriting costs and expenses</b>	<b>(158,126)</b>	<b>(69,327)</b>	<b>(8,474)</b>	<b>(235,927)</b>	<b>-</b>

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**29. SEGMENTAL INFORMATION (continued)**

	For the year ended 31 Dec 2018				
	Motor	Medical	Others	Total Insurance Operations	Shareholders' Operations Total
<b>NET UNDERWRITING (LOSS)/ INCOME</b>	(57,281)	(5,103)	2,444	(59,940)	(59,940)
<b>OTHER OPERATING (EXPENSES)/ INCOME</b>					
General and administrative expenses				(46,253)	(1,606)
Provision for doubtful receivables				(33,543)	-
Other income				2,000	-
Investment income				2,274	83
Realized loss on investments				-	(972)
<b>Total operating expenses</b>				(95,522)	(2,495)
<b>Net loss for the period attributable to the shareholders before zakat and income tax</b>				(155,462)	(2,495)
<b>Zakat charged for the period</b>				-	(1,000)
<b>Income tax charged for the period</b>					
<b>Net loss for the period attributable to the shareholders after zakat and income tax</b>				(155,462)	(3,495)
<b>Appropriation to policyholders operations</b>				155,462	(155,462)
<b>Net deficit after appropriations to policyholders operations</b>					(158,957)

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**29. SEGMENTAL INFORMATION (continued)**

	As at 31 Dec 2019				
	Motor	Medical	Others	Total Insurance Operations	Shareholders' operations
	SAR'000				
<b>ASSETS</b>					
Reinsurers' share of outstanding claims	3,906	25,082	3,893	32,881	-
Reinsurers' share of claims incurred but not reported	1,085	2,131	591	3,807	-
Reinsurers' share of unearned premiums	-	-	-	-	-
Unallocated assets	-	-	-	29,680	17,402
<b>Total assets</b>				<b>66,368</b>	<b>17,402</b>
<b>LIABILITIES</b>					
Outstanding claims	9,197	50,164	5,741	65,102	-
Claims incurred but not reported	21,314	4,262	868	26,444	-
Premium deficiency reserve	-	-	-	-	-
Other reserves	4,208	2,952	960	8,120	-
Unearned premiums	-	-	-	-	-
Unearned reinsurance commission	-	-	-	-	-
Unallocated liabilities	-	-	-	76,556	15,529
Equity	-	-	-	1,165	(109,146)
<b>Total liabilities</b>				<b>177,387</b>	<b>(93,617)</b>



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**29. SEGMENTAL INFORMATION (continued)**

As at 31 Dec 2018					
	Motor	Medical	Others	Total Insurance Operations	Shareholders' operations
	SAR'000				
ASSETS					
Reinsurers' share of outstanding claims	2,001	23,758	19,199	44,958	-
Reinsurers' share of claims incurred but not reported	2,598	4,043	2,879	9,520	-
Reinsurers' share of unearned premiums	766	862	6,682	8,310	-
Deferred policy acquisition costs	890	139	845	1,874	-
Unallocated assets	-	-	-	81,272	21,815
Total assets				145,934	21,815
LIABILITIES					
Outstanding claims	9,960	47,451	21,347	78,758	-
Claims incurred but not reported	38,010	8,066	3,201	49,277	-
Premium deficiency reserve	13,908	2,700	276	16,884	-
Other reserves	9,708	1,553	157	11,418	-
Unearned premiums	7,697	2,420	7,118	17,235	-
Unearned insurance commission	117	-	1,481	1,598	-
Unallocated liabilities	-	-	-	52,924	13,065
Equity				1,165	(74,575)
Total liabilities				229,259	(61,510)
					167,749

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**30. SUPPLEMENTARY INFORMATION**

**Statement of financial position**

	As at 31 December 2019			As at 31 December 2018		
	Insurance Operations	Shareholders' Operations	Total	Insurance Operations	Shareholders' Operations	Total
<b>ASSETS</b>						
Cash and cash equivalents	9,871	379	10,250	1,487	1,492	2,979
Investments	1,923	-	1,923	1,923	-	1,923
Premiums and reinsurance receivables, net	815	-	815	53,383	-	53,383
Reinsurance share of unearned premiums	-	-	-	8,310	-	8,310
Reinsurance share of outstanding claims	32,881	-	32,881	44,958	-	44,958
Reinsurance share of claims incurred but not reported	3,807	-	3,807	9,520	-	9,520
Deferred policy acquisition costs	-	-	-	1,874	-	1,874
Prepayments and other assets	11,665	-	11,665	15,243	-	15,243
Due from related parties	2,171	-	2,171	2,932	-	2,932
Due from shareholders' operations	111,019	-	111,019	83,325	-	83,325
Statutory deposit	-	15,000	15,000	-	18,300	18,300
Accrued income on statutory deposit	-	2,023	2,023	-	2,023	2,023
Property and equipment	2,291	-	2,291	4,336	-	4,336
Intangible Assets - Software	944	-	944	1,968	-	1,968
<b>TOTAL ASSETS</b>	<b>177,387</b>	<b>17,402</b>	<b>194,789</b>	<b>229,259</b>	<b>21,815</b>	<b>251,074</b>

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**30. SUPPLEMENTARY INFORMATION (continued)**

**Statement of financial position**

	As at 31 December 2019		As at 31 December 2018	
	Insurance Operations	Shareholders' Operations	Insurance Operations	Shareholders' Operations
<b>LIABILITIES</b>				
Outstanding claims	65,102	-	78,758	-
Claims incurred but not reported	26,444	-	49,277	-
Premium deficiency reserve	-	-	16,884	-
Other reserves	8,120	-	11,418	-
Unearned premiums	-	-	17,235	-
Reinsurance balances payable	14,696	-	16,173	-
Unearned reinsurance commission	-	-	1,598	-
Accrued expenses and other liabilities	58,734	3,319	33,529	2,749
Zakat and income tax payable	-	4,164	-	2,270
Mathematical for life insurance operations	1,534	-	1,437	-
Employees' end of service benefits	1,530	-	1,785	-
Statutory deposit investment return payable	-	2,023	-	2,023
Due to related parties	-	6,023	-	6,023
Due to insurance operations	-	111,019	-	83,325
<b>TOTAL LIABILITIES</b>	<b>176,160</b>	<b>126,548</b>	<b>228,094</b>	<b>96,390</b>
				<b>324,484</b>

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**30. SUPPLEMENTARY INFORMATION (continued)**

**Statement of financial position (continued)**

	As at 31 December 2019			As at 31 December 2018		
	Insurance Operations	Shareholders' Operations	Total	Insurance Operations	Shareholders' Operations	Total
<b>EQUITY</b>						
Share capital	-	100,000	100,000	-	100,000	100,000
Accumulated losses	-	(209,146)	(209,146)	-	(174,575)	(174,575)
Fair value reserve for available for sale investments	-	-	-	-	-	-
Re-measurement of end of service benefits	1,227	-	1,227	1,165	-	1,165
<b>TOTAL EQUITY</b>	<b>1,227</b>	<b>(109,146)</b>	<b>(107,919)</b>	<b>1,165</b>	<b>(74,575)</b>	<b>(73,410)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>177,387</b>	<b>17,402</b>	<b>194,789</b>	<b>229,259</b>	<b>21,815</b>	<b>251,074</b>

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**30. SUPPLEMENTARY INFORMATION (continued)**

**Statement of Income**

	For the year ended 31 Dec 2019			For the year ended 31 Dec 2018		
	Insurance Operations	Shareholders' Operations	Total	Insurance Operations	Shareholders' Operations	Total
<b>REVENUES</b>						
Gross premiums written	428	-	428	110,160	-	110,160
Cancellations	(2,650)	-	(2,650)	-	-	-
Net gross written premiums	(2,222)	-	(2,222)	110,160	-	110,160
Reinsurance premiums ceded						
- Local	-	-	-	(9,142)	-	(9,142)
- Foreign	2,095	-	2,095	(33,041)	-	(33,041)
Excess of loss expenses						
- Local	-	-	-	(4,496)	-	(4,496)
- Foreign	-	-	-	(2,624)	-	(2,624)
<b>Net premiums written</b>	<b>(127)</b>	<b>-</b>	<b>(127)</b>	<b>60,857</b>	<b>-</b>	<b>60,857</b>
Changes in unearned premiums, net	8,925	-	8,925	98,985	-	98,985
<b>Net premiums earned</b>	<b>8,798</b>	<b>-</b>	<b>8,798</b>	<b>159,842</b>	<b>-</b>	<b>159,842</b>
Reinsurance commission earned	928	-	928	15,646	-	15,646
Other underwriting income	1	-	1	499	-	499
<b>Total revenues</b>	<b>9,727</b>	<b>-</b>	<b>9,727</b>	<b>175,987</b>	<b>-</b>	<b>175,987</b>

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**30. SUPPLEMENTARY INFORMATION (continued)**

**Statement of Income (continued)**

	For the year ended 31 Dec 2019		For the year ended 31 Dec 2018			
	Insurance Operations	Shareholders' Operations	Total	Insurance Operations	Shareholders' Operations	Total
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	(40,637)	-	(40,637)	(339,882)	-	(339,882)
Reinsurers' share of claims paid	17,140	-	17,140	133,237	-	133,237
Net claims paid	(23,497)	-	(23,497)	(206,645)	-	(206,645)
Changes in outstanding claims, net	1,579	-	1,579	(58,724)	-	(58,724)
Changes in incurred but not reported claims, net	17,120	-	17,120	88,273	-	88,273
Changes in PDR and other reserves, net	20,085	-	20,085	(25,238)	-	(25,238)
Net claims incurred	15,287	-	15,287	(202,334)	-	(202,334)
Policy acquisition costs	(1,500)	-	(1,500)	(24,323)	-	(24,323)
Other underwriting expenses	(489)	-	(489)	(9,270)	-	(9,270)
Total underwriting costs and expenses	13,298	-	13,298	(235,927)	-	(235,927)
NET UNDERWRITING (LOSS) / INCOME	23,025	-	23,025	(59,940)	-	(59,940)

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**30. SUPPLEMENTARY INFORMATION (continued)**

**Statement of Income (continued)**

	For the year ended 31 Dec 2019		For the year ended 31 Dec 2018	
	Insurance Operations	Shareholders' Operations	Insurance Operations	Shareholders' Operations
<b>OPERATING (EXPENSES) / INCOME</b>		<b>Total</b>		<b>Total</b>
General and administrative expenses	(21,580)	(1,339)	(46,253)	(1,606)
Provision for doubtful receivables	(32,783)	-	(53,543)	-
Other Income	-	-	2,000	-
Investment income	-	-	2,274	83
Realized loss on investments	-	-	-	(972)
<b>Total operating expenses</b>	<b>(54,363)</b>	<b>(1,339)</b>	<b>(95,522)</b>	<b>(2,495)</b>
<b>Net Loss for the year attributable to the shareholders before zakat and income tax</b>	<b>(31,338)</b>	<b>(1,339)</b>	<b>(155,462)</b>	<b>(2,495)</b>
Zakat charged for the year	-	(1,770)	-	(1,000)
Income tax charged for the year	-	(124)	-	-
<b>Net (loss) for the year attributable to the shareholders after zakat and income tax</b>	<b>(31,338)</b>	<b>(3,233)</b>	<b>(155,462)</b>	<b>(3,495)</b>
Appropriation to policyholders operations	31,338	(31,338)	155,462	(155,462)
<b>Net (deficit) after appropriations to policyholders operations</b>	<b>-</b>	<b>(34,571)</b>	<b>-</b>	<b>(158,957)</b>



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**30. SUPPLEMENTARY INFORMATION (continued)**

**Statement of comprehensive income**

	Year ended 31 Dec 2019			Year ended 31 Dec 2018		
	Insurance Operations	Shareholders' Operations	Total	Insurance Operations	Shareholders' Operations	Total
Net (loss) for the year	(31,338)	(3,233)	(34,571)	(155,462)	(3,495)	(158,957)
Other comprehensive income	62	-	62	804	-	804
<i>Items that will not be reclassified to statement of income in subsequent years:</i>						
Total comprehensive loss for the year	(31,276)	(3,233)	(34,509)	(154,658)	(3,495)	(158,153)

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**30. SUPPLEMENTARY INFORMATION (continued)**

**Statement of cash flows**

	For the year ended 31 Dec 2019			For the year ended 31 Dec 2018		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net Loss for the year attributable to the shareholders before zakat and income tax	-	(32,677)	(32,677)	-	(157,957)	(157,957)
Adjustments for non-cash items:						
Shareholders' operations appropriations	(31,338)	31,338	-	(155,462)	155,462	-
Depreciation of property and equipment	2,071	-	2,071	2,564	-	2,564
Amortisation of intangibles	1,023	-	1,023	1,475	-	1,475
Provision for doubtful receivables	32,783	-	32,783	53,543	-	53,543
Realized loss on available for sale investment	-	-	-	-	972	972
Unrealized loss on investments	-	-	-	(1,397)	-	(1,397)
Provision for retirement benefit obligation	721	-	721	1,397	-	1,397
	5,260	(1,339)	3,921	(97,880)	(1,523)	(99,403)
Changes in operating assets and liabilities:						
Premiums and reinsurance receivables	19,785	-	19,785	42,299	-	42,299
Reinsurers' share of unearned premiums	8,310	-	8,310	60,723	-	60,723
Reinsurers' share of outstanding claims	12,077	-	12,077	41,526	-	41,526
Reinsurers' share of claims incurred but not reported	5,713	-	5,713	31,796	-	31,796
Reinsurers' share of other reserves	-	-	-	1,343	-	1,343
Deferred policy acquisition costs	1,874	-	1,874	12,357	-	12,357
Prepayments and other assets	3,578	-	3,578	1,187	123	1,310

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**30. SUPPLEMENTARY INFORMATION (continued)**

**Statement of cash flows (continued)**

	For the year ended 31 Dec 2019			For the year ended 31 Dec 2018		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
Due from related parties	761	-	761	(296)	-	(296)
Due to insurance operations	-	(31,338)	(31,338)	-	66,129	66,129
Due from insurance operation	-	27,694	27,694	-	(155,179)	(155,179)
Outstanding claims	(13,656)	-	(13,656)	17,197	-	17,197
Claims incurred but not reported	(22,833)	-	(22,833)	(120,070)	-	(120,070)
Other reserves	(3,298)	-	(3,298)	7,297	-	7,297
Premium deficiency reserve	(16,884)	-	(16,884)	16,677	-	16,677
Unearned premiums	(17,235)	-	(17,235)	(159,708)	-	(159,708)
Reinsurance balances payable	(1,477)	-	(1,477)	6,001	-	6,001
Unearned reinsurance commission	(1,598)	-	(1,598)	(5,044)	-	(5,044)
Mathematical provision for life insurance operations	97	-	97	(80)	-	(80)
Accrued expenses and other liabilities	25,205	570	25,775	18,877	(99)	18,778
Share compensation	-	-	-	-	(5,708)	(5,708)
Due to shareholders' operations	31,338	-	31,338	155,179	-	155,179
Due from shareholders' operations	(27,694)	-	(27,694)	(66,129)	-	(66,129)
Cash (used in) / generated from operations	9,323	(4,413)	4,910	(36,748)	(96,257)	(133,005)
Zakat and income tax paid	-	-	-	-	(2,696)	(2,696)
Retirement benefit obligation paid	(913)	-	(913)	(2,656)	-	(2,656)
Surplus distribution paid	-	-	-	(6,346)	-	(6,346)
<b>Net cash generated / (used in) operating activities</b>	<b>8,410</b>	<b>(4,413)</b>	<b>3,997</b>	<b>(45,750)</b>	<b>(98,953)</b>	<b>(144,703)</b>

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**30. SUPPLEMENTARY INFORMATION (continued)**

**Statement of cash flows (continued)**

	For the year ended 31 Dec 2019			For the year ended 31 Dec 2018		
	Insurance operations	Shareholders' operations	Total	Insurance operations	Shareholders' operations	Total
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of intangibles	-	-	-	(1,564)	-	(1,564)
Proceeds from disposal of investments	-	-	-	15,094	16,478	31,572
Proceeds from disposal of statutory deposit	-	3,300	3,300	-	-	-
Purchase of property and equipment	(26)	-	(26)	(2,362)	-	(2,362)
<b>Net cash generated investing activities</b>	<b>(26)</b>	<b>3,300</b>	<b>3,274</b>	<b>11,168</b>	<b>16,478</b>	<b>27,646</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Transaction cost relating to reduction in share capital	-	-	-	-	(300)	(300)
Net cash (used in) from financing activities	-	-	-	-	(300)	(300)
<b>Net change in cash and cash equivalents</b>	<b>8,384</b>	<b>(1,113)</b>	<b>7,271</b>	<b>(34,582)</b>	<b>(82,775)</b>	<b>(117,357)</b>
Cash and cash equivalents at the beginning of the year	1,487	1,492	2,979	36,069	84,267	120,336
<b>Cash and cash equivalents at the end of the year</b>	<b>9,871</b>	<b>379</b>	<b>10,250</b>	<b>1,487</b>	<b>1,492</b>	<b>2,979</b>
<b>Non cash information</b>						
Reduction of capital	-	-	-	-	-	-
Changes in fair value of available for sale investment	-	-	-	-	-	-

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**31. Change in accounting treatment in relation to zakat and income tax**

The change in the accounting treatment for zakat and income tax (as explained in note 5) has the following impact on the line items of the annual statements of income, statement of financial position and changes in equity.

As at and for the year ended December 31, 2019:

Financial statement impacted	Account	As previously stated for year ended December 31, 2018	Effect of restatement relating to zakat and income tax	As restated for year ended December 31, 2019
Statement of income	Zakat charge for the year	-	(1,000)	(1,000)
Statement of income	Income tax charge for the year	-	-	-
Statement of income	Basic and diluted loss per share	(16)	-	(16)
Statement of income	Net loss for the period attributable to the shareholders after zakat and income tax	(157,957)	(1,000)	(158,957)
Statement of income	Zakat charge for the year	(1,000)	1,000	-
Statement of income	Income tax charge for the year	-	-	-

**32. CONTINGENCIES AND COMMITMENTS**

The Company has filed a legal suit for recovery of SR 2.8 million against a company on account of rent and expenses on improvements, which the Company did on a rented property. However, the property could not be delivered to the Company due to certain non-compliance of legal requirements. The Company, based on internal legal opinion, is of the view that the judgment will be in favor of the Company. Accordingly, SR 2.8 million comprising SR 1.2 million on account of rent and SR 1.6 million being advances paid for initial cost to establish the site for use of the Company's operations, which were previously charged out have now been recorded under prepayment and other assets

**33. SUBSEQUENT EVENT**

**IMPACT OF COVID-19 OUTBREAK**

The outbreak of novel coronavirus ("COVID-19") since early 2020, its spread across mainland China and then globally including the Kingdom of Saudi Arabia and the declaration of this pandemic by the World Health Organization has resulted globally in governmental authorities imposing quarantines and travel restrictions of varying scope; has led to significant disruptions in the retail, travel and hospitality industries, and in global trade. It has resulted in decreased economic activity and lowered. Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, however, considering the circumstances of the Company (Note 2) and as of the issuance date of these financial statements, no significant changes are required to the judgements and key estimates and management believes that the Covid-19 pandemic has had no material effects with respect to Company's reported results for the year ended 31 December, 2019.

Further, the Company's business remains largely unaffected as the insurance industry is facilitated by the Government through free treatments of the COVID-19 affected patients. Based on these factors, the Company's management believes that the COVID-19 pandemic has had no direct material effects on Company's reported results for the year ended 31 December 2019. However, in the view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods.

In response to the Covid-19 pandemic, SAMA issued a circular 189 (the "circular") dated 08 May 2020 to all insurance companies in the Kingdom of Saudi Arabia. Amongst other things, the circular instructed insurance companies to extend the period of validity of all existing retail motor insurance policies by further two months as well as providing a two-month additional coverage for all new retail motor policies written within one month of this circular. Considering the circumstances of the Company (Note 2), there is no impact on Company's reported results for the year ended 31 December 2019.

**34. COMPARATIVE FIGURES**

Certain prior year amounts or balances have been reclassified to conform with the current presentation.

**35. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statement has been approved by the board of directors of the Company on 16 Sha'ban, 1442 corresponding to 29 March 2021 as authorized by the board of directors.