SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

Financial Statements
And Independent Auditors' Report
For the year ended 31 December 2019

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

Financial Statements and Independent Auditors' Report
For the year ended 31 December 2019

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

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ('SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' 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 financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter is provided in that context:

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

Key Audit Matters (continued)

Key Audit Matters	How our audit addressed the key audit matters
Valuation of ultimate claim liabilities arising from insurance contracts As at 31 December 2019, outstanding claims including claims Incurred but Not Reported (IBNR) amounted to Saudi Riyals 169,539 thousands as disclosed in Note 7 and 13 to the financial statements. The estimation of ultimate 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 a given date, whether reported or not, together with the related claims handling costs. In particular, estimates of IBNR and the use of actuarial statistical projections involve significant judgment. A range of methods e.g. Chain ladder method, Bornhuetter ferguson method, expected loss ratio method etc. are used by the actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. We considered this as a key audit matter since use of management assumptions and judgments could result in material overstatement / understatement of the Company's profitability and the ultimate liability. The Company's policies for claims and related judgments and estimates are disclosed in notes 2 and 3 to the financial statements respectively. Liabilities for outstanding claims including IBNR, claims incurred and claims development table have been disclosed in note 7 and 13 to the financial statements. Segment wise disclosure of claim related liabilities and expense have been given in note 21 to the financial statements. The Company's approach to claim related risk management has been disclosed in note 29 to the financial statements.	We understood and evaluated key controls around the claims handling and provision setting processes of the Company including completeness and accuracy of claims data used in the actuarial reserving process. We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences and assessing their relationship with the entity. In obtaining 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 the accounting records. In order to challenge management's methodologies and assumptions, we were assisted by our internal actuary 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 internal actuary performed the following: - Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought sufficient justification for any significant differences. - Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge. - Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions.

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

Other Information included in the Company's 2019 Annual Report

Management is responsible for the other information. Other information comprises the information included in the Company's 2019 annual report but does not include financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as endorsed in KSA, the applicable requirements of the Companies' Law, the Company's By-Laws and for such internal control as management determine 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 intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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.

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

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

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

For Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountants

Abdullah M. AlAzem
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Mohamed El Sayed El Ayouty
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محاسبون ومراجعون قانونيون
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ترخيص رقم ٣٢٣/١١/١٤٨
Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountant

7 Sha'aban 1441H
corresponding to 31 March 2020

السيد العيوطي وشركاه
محاسبون ومراجعون قانونيون
ترخيص رقم / ٢٥
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License No. 25
EL SAYED EL AYOUTY & CO.

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019	2018
		SR'000	
ASSETS			
Cash and cash equivalents	4(a)	**28,411**	86,869
Term deposits	4(b)	**255,489**	241,515
Premiums and reinsurers' receivable – net	5	**86,207**	155,444
Reinsurers' share of unearned premiums	13	**21,858**	13,139
Reinsurers' share of outstanding claims	13	**8,745**	13,316
Reinsurers' share of claims Incurred but not reported	13	**12,273**	10,467
Deferred policy acquisition costs	6	**9,033**	14,135
Investments	8	**222,734**	278,812
Prepaid expenses and other assets	9	**11,359**	24,377
Right of use assets- net	12	**26,936**	-
Property and equipment- net	10	**12,044**	14,459
Intangible assets- net	11	**6,304**	7,157
Statutory deposit	14	**37,500**	25,000
Accrued commission on statutory deposit	14	**3,328**	2,686
TOTAL ASSETS		**742,221**	887,376
LIABILITIES			
Policyholders claims payable		**13,943**	7,583
Accrued Expenses and other liabilities	16	**23,627**	52,179
Lease Liabilities	12	**23,703**	-
Reinsurers' balances payable		**7,811**	6,547
Unearned premiums	13	**229,678**	287,093
Unearned reinsurance commission	17	**3,401**	2,543
Outstanding claims	13	**38,953**	58,370
Claims incurred but not reported	13	**130,586**	151,890
Premium deficiency reserve	13	**9,782**	5,083
Other technical reserves	13&18	**6,259**	6,375
Employee benefit obligations	19	**9,688**	8,941
Surplus distribution payable		**14,535**	14,535
Provision for zakat	23	**25,131**	19,761
Accrued commission income payable to SAMA	14	**3,328**	2,686
TOTAL LIABILITIES		**540,425**	623,586
SHAREHOLDERS' EQUITY			
Share capital	24	**250,000**	250,000
Statutory reserve		**5,003**	5,003
(Accumulated Losses)/ retained earnings		**(52,407)**	7,708
TOTAL SHAREHOLDERS' EQUITY		**202,596**	262,711
Re-measurement reserve of defined benefit obligations – related to insurance operations	19	**(800)**	1,079
TOTAL EQUITY		**201,796**	263,790
TOTAL LIABILITIES AND EQUITY		**742,221**	887,376
COMMITMENTS AND CONTINGENCIES	15	**10,200**	10,200

Chief Executive Officer

Board Member

Chief Financial Officer

The accompanying notes from 1 to 33 form an integral part of these financial statements

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 SR'000	2018 (Restated) SR'000
REVENUES			
Gross premiums written	13	**503,504**	734,982
Reinsurance premiums ceded			
- Local		**(691)**	(953)
- Foreign		**(48,614)**	(23,690)
	13	**(49,305)**	(24,643)
Excess of loss expenses			
- Local		**(464)**	(557)
- Foreign		**(15,871)**	(22,438)
		(16,335)	(22,995)
Net premiums written		**437,864**	687,344
Changes in unearned premiums, net	13	**66,134**	39,765
Net premiums earned		**503,998**	727,109
Reinsurance commissions	17	**5,953**	6,317
Other underwriting income		**2,216**	5,184
TOTAL REVENUES		**512,167**	738,610
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	7	**501,320**	576,790
Reinsurers' share of claims paid	7	**(31,848)**	(18,154)
Net claims paid		**469,472**	558,636
Changes in outstanding claims, net	13	**(14,846)**	9,516
Changes in claims incurred but not reported, net	13	**(23,110)**	10,629
Net claims incurred		**431,516**	578,781
Changes in Premium deficiency reserve		**4,699**	2,779
Changes in other technical reserves		**(116)**	2,398
Policy acquisition costs	6	**28,031**	33,931
Other underwriting expenses		**21,345**	24,785
TOTAL UNDERWRITING COSTS AND EXPENSES		**485,475**	642,674
NET UNDERWRITING INCOME		**26,692**	95,936

Chief Executive Officer

Chief Financial Officer

Board Member

The accompanying notes from 1 to 33 form an integral part of these financial statements

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF INCOME - Continued
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019	2018 (Restated)
		SR'000	
OTHER OPERATING (EXPENSES) / INCOME			
Allowance for doubtful debts	5	-	(7,496)
General and administrative expenses	26	**(100,331)**	(91,897)
Investment income		**4,585**	7,547
Commission from Held to maturity investments	8	**5,366**	-
Unrealized gain on investments	8	**3,368**	4,956
Reversal of provision for doubtful debts	5	**4,604**	-
Other income		**1,601**	8,736
TOTAL OTHER OPERATING (EXPENSES)		**(80,807)**	(78,154)
(Loss) / Income before surplus and zakat		**(54,115)**	17,782
Income attributed to the insurance operations		-	(1,439)
(Loss)/ income for the year attributable to the shareholders before zakat		**(54,115)**	16,343
Zakat	23	**(6,000)**	(6,000)
NET (LOSS)/ INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**(60,115)**	10,343
Weighted average number of ordinary shares outstanding		**25,000**	25,000
Basic and diluted (loss) / earnings per share	27	**(2.40)**	0.41

Chief Executive Officer

Chief Financial Officer

Board Member

The accompanying notes from 1 to 33 form an integral part of these financial statements

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019	2018 (Restated)
		SR'000	
NET (LOSS) / INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		**(60,115)**	10,343
<u>OTHER COMPREHENSIVE INCOME</u>			
Items that will not be reclassified to statements of income in subsequent years			
Actuarial (losses) / gains on defined benefit obligation – related to Insurance operations	19	**(1,879)**	1,079
Total comprehensive (loss) / income for the year		**(61,994)**	11,422

Chief Executive Officer

Chief Financial Officer

Board Member

The accompanying notes from 1 to 33 form an integral part of these financial statements

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

2019	**Share capital SR'000**	**Statutory reserve SR'000**	**(Accumulated Losses)/ retained earnings SR'000**	**Re-measurement reserve of defined benefit obligations – related to insurance operations SR'000**	**Total Equity SR'000**
Balance as at 31 December 2018	250,000	5,003	7,708	1,079	263,790
Total comprehensive (loss) for the year					
Net (loss) for the year – Attributable to shareholders	-	-	**(60,115)**	-	**(60,115)**
Other comprehensive loss	-	-	-	**(1,879)**	**(1,879)**
Total comprehensive loss	-	-	**(60,115)**	**(1,879)**	**(61,994)**
Balance as at 31 December 2019	**250,000**	**5,003**	**(52,407)**	**(800)**	**201,796**

2018	Share capital SR'000	Statutory reserve SR'000	Retained earnings SR'000	Re-measurement reserve of defined benefit obligations – related to insurance operations SR'000	Total Equity SR'000
Balance as at 31 December 2017	250,000	1,734	634	-	252,368
Total comprehensive income for the year					
Net income for the year – Attributable to shareholders (Restated)	-	-	10,343	-	10,343
Other comprehensive income	-	-	-	1,079	1,079
Total comprehensive income (Restated)	-	-	10,343	1,079	11,422
Transfers to statutory reserve	-	3,269	(3,269)	-	-
Balance as at 31 December 2018	250,000	5,003	7,708	1,079	263,790

Chief Executive Officer

Chief Financial Officer

Board Member

The accompanying notes from 1 to 33 form an integral part of these financial statements

SALAMA COOPERATIVE INSURANCE COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	SR'000	
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/ income before surplus and Zakat	(54,115)	17,782
Adjustments for non-cash items:		
Depreciation of property and equipment	5,042	3,148
Amortization of intangible assets	1,688	858
Amortization of held to maturity investments	59	279
Allowance for doubtful debts	-	7,496
Reversal of provision for doubtful debts	(4,604)	-
Commission from held to maturity investments	(5,366)	-
Unrealized gain on investments in fair value through statement of income	(3,368)	(4,956)
Realized gain on investments in fair value through statement of income	-	(2,764)
Employee benefit obligations	2,220	1,373
	(58,444)	23,216
Changes in operating assets and liabilities:		
Premiums and reinsurers' receivable	73,841	(34,641)
Reinsurers' share of unearned premiums	(8,719)	(4,250)
Reinsurers' share of outstanding claims	4,571	(3,365)
Reinsurers' share of claims Incurred but not reported	(1,806)	(8,974)
Increase in right of use assets - net	(26,936)	-
Deferred policy acquisition costs	5,102	381
Prepaid expenses and other assets	13,018	(9,674)
Increase in lease liabilities	23,703	-
Accrued commission from statutory deposit	(642)	(522)
Policyholders and claims payable	6,360	(3,929)
Accrued expense and other liabilities	(28,552)	15,232
Reinsurers' balances payable	1,264	(3,355)
Unearned premiums	(57,415)	(35,516)
Unearned reinsurance commission	858	299
Outstanding claims	(19,417)	12,881
Claims incurred but not reported	(21,304)	19,603
Premium deficiency reserves	4,699	2,779
Other technical reserves	(116)	2,398
Accrued commission income payable to SAMA	642	522
	(89,293)	(26,915)
Zakat paid	(630)	(4,428)
Employee benefits paid	(3,352)	(615)
Net cash flows used in operating activities	(93,275)	(31,958)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(127,821)	(200,000)
Proceeds from sale of investments	112,420	351,338
Statutory deposit	(12,500)	-
Placement of term deposits	(355,000)	(290,757)
Proceeds from term deposits	341,026	264,534
Proceeds from held to maturity investments	80,154	-
Purchase of property and equipment	(2,627)	(12,676)
Purchase of intangible assets	(835)	(8,015)
Net cash flows from investing activities	34,817	104,424
Net change in cash and cash equivalents	(58,458)	72,466
Cash and cash equivalents, at the beginning of the year	86,869	14,403
Cash and cash equivalents, at the end of the year	28,411	86,869

Chief Executive Officer

Chief Financial Officer

Board Member

The accompanying notes from 1 to 33 form an integral part of these financial statements

1. GENERAL

Salama Cooperative Insurance Company ("the Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry's Resolution number 1121K dated 29 Rabi Al-Thani 1428H (corresponding to 16 May 2007). The Company is registered in Jeddah under Commercial Registration No. 4030169661 dated 6 Jamad Al-Awwal I428H (corresponding to 23 May 2007).

The Registered Office address of the Company is:

Salama Tower;
Al Madinah Road
P.O. Box 4020;
Jeddah 21491;
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi Stock Exchange on 23 May 2007. The Company started its operations on 1 January 2008. The Company is fully owned by the general public and Saudi shareholders.

The Company received the approval letters from the Saudi Arabian Monetary Authority (SAMA) and Ministry of Commerce and Investment regarding the amendment of the Company's by-laws to be in accordance with the new companies' regulations. The Company's general assembly was held on 11 Ramadan 1438H (corresponding to 6 June 2017) and accordingly the new by-laws was approved.

2. BASIS OF PREPARATION

a. Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia ("KSA"), and other standards and pronouncements issued by Saudi organization for Certified Public Accountants ('SOCPA") (referred to as "IFRS as endorsed in KSA"). The financial statements of the Company as at and for the year ended 31 December 2019 were prepared in compliance with IFRS as endorsed in KSA.

On 17 July 2019, SAMA instructed the insurance companies in the Kingdom of Saudi Arabia to account for the Zakat and income taxes in the statement of income. This aligns with the IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

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 (as disclosed in note 3 (b) to the financial statements).

The financial statement is prepared under the going concern basis and the historical cost convention, except for the measurement of investments (excluding held-to-maturity) at their fair value and re-measurement of employee benefit obligations. The Company's statement of financial position is presented in order of liquidity. Except for property and equipment, right of use assets, intangible assets, statutory deposit, Employee benefits, outstanding claims, claims incurred but not reported, all other assets and liabilities are of short-term nature, unless, stated otherwise.

As required by the Saudi Arabian Insurance Regulations (the Implementation Regulations), the Company maintains separate books of accounts for "Insurance Operations" and "Shareholders' Operations". Accordingly, assets, liabilities, revenues and expenses clearly attributable to either operation, are recorded in the respective accounts.

Similarly, in the past, the Company's annual financial statements presented separately the statements of financial position, income, comprehensive income and cash flows for the insurance operations and shareholders operations. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

2. BASIS OF PREPARATION – (continued)

a. Basis of presentation – (continued)

The statement of financial position, statements of income and statement of comprehensive income and cash flows of the insurance operations and shareholders' operations which are presented on pages 52 to 58 of the financial statements have been provided as supplementary financial information and to comply with the requirements of the guidelines issued by SAMA implementing regulations. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders' operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the insurance operations and shareholders operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

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

During 2018, under the supervision of SAMA, the insurance companies' management prepared and adopted the illustrative financial statements for the insurance sector in the Kingdom of Saudi Arabia. In preparing the Company level financial statements in compliance with IFRS as modified by SAMA, the balances and transactions of insurance operations are combined with those of shareholders' operations. Inter-operation balances and transactions, if any, are eliminated in full. The accounting policies adopted for the insurance and shareholders' operations are uniform for like transactions and events in similar circumstances.

b. Functional and presentation currency

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

c. Fiscal year

The Company follows a fiscal year ending December 31.

d. Critical accounting judgments, estimates and assumptions

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

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

2. BASIS OF PREPARATION – (continued)

d. Critical accounting judgments, estimates and assumptions – (continued)

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

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

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

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

ii) Impairment of financial assets

The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost. The determination of what is significant or prolonged requires judgment. A period of 12 months or longer is considered to be prolonged and a decline of 25% from original cost is considered significant as per Company policy. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

iii) Impairment of receivables

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

iv) Fair value of financial instruments

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

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and 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 credit risk and counterparty risk), volatilities and correlations require management to make estimates.

2. BASIS OF PREPARATION – (continued)

d. Critical accounting judgments, estimates and assumptions – (continued)

v) Useful lives of property and equipment

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews residual values and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

vi) Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

e. Seasonality of operations

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are summarized below. Certain comparative figures have been reclassified and regrouped to conform with the current year's presentation as disclosed in note 3 (a) to these financial statements. These policies have been consistently applied to each of the years presented except for the change in the accounting of Zakat and income tax and new IFRS standards, IFRIC interpretations and amendments thereof, adopted by the Company as explained below:

a) New IFRS, IFRIC and amendments thereof, adopted by the Company

The Company has adopted the following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB):

Standard/ Amendments	Description
IFRS 16	Leases (see below)
IFRIC 23	Uncertainty over Income Tax Treatments
IAS 28	Long term interests in associates and joint ventures
IAS 19	Plan amendments, curtailments or settlements
IFRS 3,11 and IAS 12, 23	Annual Improvements to IFRS 2015 - 2017 cycle.

IFRS 16 - Leases

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.

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The new Standard has been applied using the modified retrospective approach, prior periods have not been restated.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

a) New IFRS, IFRIC and amendments thereof, adopted by the Company – (continued)

IFRS 16 – Leases – (continued)

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 4.4%.

The Company has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities and right of use assets recognized at 1 January 2019:

	SR'000
Total operating lease commitments as at 31 December 2018	34,379
Discounted using the lessee's incremental borrowing rate at date of initial application	(7,338)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	27,041
Prepaid rent at 31 December 2018	4,560
Right of use assets at 1 January 2019	31,601

The adoption of the other relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these financial statements.

b) Change in accounting for Zakat and income tax

As mentioned in note 2, the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of latest instructions from SAMA dated 23 July 2019. Previously, Zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 23 July 2019, the Zakat and income tax shall be recognized in the statement of income. The Company has accounted for this change in the accounting for Zakat and income tax retrospectively. The change has resulted in reduction of reported income of the Company for the year ended 31 December 2018 by SR 6,000 thousand. The change had no impact on the statement of cash flows for the year then ended.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b) Change in accounting for Zakat and income tax – (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, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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; and
- 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.

The Company applies significant judgment in identifying uncertainties over income tax treatments.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's tax filings include deductions related to transfer pricing and the taxation authorities may challenge these tax treatments. The Company determined, based on its tax compliance and transfer pricing study that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Company.

Zakat

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

Impact on the financial statement:

The change in the accounting policy for Zakat and income tax has the following impact on the line items of the statements of income and changes in shareholders' equity:

As at and for the year ended 31 December 2018:

Account	Financial statement impacted	Before the restatement SR'000	Effect of restatement SR'000	As restated SR'000
Zakat	Statement of income	-	(6,000)	(6,000)
Net income for the period attributable to shareholders	Statement of income	16,343	(6,000)	10,343
Earnings per share for the year	Statement of income	0.65	(0.24)	0.41
Zakat (retained earnings)	Statement of changes in equity	(6,000)	6,000	-
Total comprehensive income for the year	Statement of comprehensive income and statement of changes in equity	17,422	(6,000)	11,422

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

b) Change in accounting for Zakat and income tax – (continued)

The financial impact of adoption of accounting policy for deferred tax is not material to the financial statements, therefore prior period amounts have not been restated.

As required under IAS (8) Accounting Policies, Changes in Accounting Estimates and Errors, the balances as of 1 January 2018 were not presented in the statement of financial position as change in the accounting policy has not resulted in restatement of the amounts relating to year ended 31 December 2017.

c) Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they are effective.

Standard/ Interpretation	Description	Effective from periods beginning on or after the following date
Amendments to IFRS 3	Definition of business	1 January 2020
Amendments to IAS 1 & IAS 8	Definition of material	1 January 2020
IFRS 17	Insurance Contracts	See note below
IFRS 9	Financial Instruments	See note below

IFRS 17 – Insurance Contracts

Overview

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

The new standard applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features provided the entity also issues insurance contracts. It requires to separate the following components from insurance contracts:

i. Embedded derivatives, if they meet certain specified criteria;
ii. Distinct investment components; and
iii. Any promise to transfer distinct goods or non-insurance services.
These components should be accounted for separately in accordance with the related standards (IFRS 9 and IFRS 15).

Measurement

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

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

a) The fulfillment cash flows ("FCF"), which comprise:
  - Probability-weighted estimates of future cash flows,
  - an adjustment to reflect the time value of money (i.e. discounting) and the financial risks associated with those future cash flows,
  - and a risk adjustment for non-financial risk;

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

c. Standards issued but not yet effective – (continued)

IFRS 17 – Insurance Contracts – (continued)

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

- The liability for remaining coverage, which comprises the FCF related to future services and the CSM of the group at that date;
- and the liability for incurred claims, which is measured as the FCF related to past services allocated to the group at that date.

The CSM is adjusted subsequently for changes in cash flows related to future services but the CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss. The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.

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

i. Changes in the entity's share of the fair value of underlying items,
ii. Changes in the effect of the time value of money and financial risks not relating to the underlying items.

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

Effective date

The IASB issued an Exposure Draft Amendments to IFRS 17 during June 2019 and received comments from various stakeholders. The IASB is currently re-deliberating issues raised by stakeholders. For any proposed amendments to IFRS 17, the IASB will follow its normal due process for standard-setting. The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4, is currently 1 January 2021. Under the current exposure draft, it is proposed to amend the IFRS 17 effective date to reporting periods beginning on or after 1 January 2022. This is a deferral of 1 year compared to the previous date of 1 January 2021. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. The Company intend to apply the standard on its effective date.

Transition

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

Presentation and Disclosures

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

c. Standards issued but not yet effective– (continued)

IFRS 17 – Insurance Contracts – (continued)

Impact
The Company is currently assessing the impact of the application and implementation of IFRS 17. As of the date of the publication of these financial statements, the financial impact of adopting the standard has yet to be fully assessed by the Company. The Company has undertaken a Gap Analysis and the key areas of Gaps are as follows:

Impact Area	Summary of Impact
Financial Impact	• The company is currently undergoing a financial impact assessment exercise to assess the financial impact of implementing IFRS 17.
Data Impact	• Data impact is likely to be insignificant as majority of the company's contracts, being less than a year, would qualify for measurement under the premium allocation approach, which is more or less similar to the current approach adopted by the Company under IFRS 4.
IT Systems	• The company is in the process of finalizing its assessment of IT system requirements and these requirements are being documented for onboarding an IT vendor for providing Actuarial and Financial solutions for managing change required under IFRS 17.
Process Impact	• The company is currently undergoing an operational impact assessment exercise to assess the operational impact of implementing IFRS 17. • Since, majority of the company's contracts would be measured under the premium allocation approach, the process impact is expected to be moderate.
Impact on RI Arrangements	• The reinsurance contracts held by the Company are under review and are being assessed to determine the applicable measurement model under IFRS 17.
Impact on Policies & Control Frameworks	• The company has hired an external consultant to modify their current policies and control framework to be in line with IFRS 17 requirements.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

c. Standards issued but not yet effective– (continued)

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

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

Classification and measurement

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

i. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and
ii. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

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

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

Assets not meeting either of these categories are measured at fair value through profit or loss. Additionally, at initial recognition, an entity can use the option to designate a financial asset at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. For equity instruments that are not held for trading, an entity can also make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of the instruments (including realized gains and losses), dividends being recognized in statement of income.

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

Impairment

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

Hedge accounting

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

Effective date

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

c. Standards issued but not yet effective – (continued)

IFRS 9 - Financial Instruments (including amendments to IFRS 4, Insurance Contracts) – (continued)

The amendments introduce two alternative options:

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

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

The Company has performed a detailed assessment beginning 1 January 2017:

(1) The carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and

(2) the total carrying amount of the company's liabilities connected with insurance were compared to the total carrying amount of all its liabilities. Based on these assessments the Company determined that it is eligible for the temporary exemption. Consequently, the Company has decided to defer the implementation of IFRS 9 until the effective date of the new insurance contracts standard. Disclosures related to financial assets required during the deferral period are included in the Company's financial statements.

Impact assessment

As at 31 December 2019, the Company has total financial assets and insurance related assets amounting to SR 613,859 thousand and SR 128,647 thousand, respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SR 428,104 thousand (2018: SR 549,763 thousand). Other financial assets consist of available for sale investments amounting to SR 1,923 thousand (2018: SR 1,923 thousand). The Company expect to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Other financial assets have a fair value of SR 183,832 thousand as at 31 December 2019 with a fair value change during the year of SR 9,027 thousand. Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned in note 29. The Company financial assets have low credit risk as at 31 December 2019 and 2018. The above is based on high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9: However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

d) The significant accounting policies used in preparing these financial statements are set out below:

Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by assessing whether an insured event could cause the Company to pay significant additional benefits. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance contracts are principally divided into medical, marine, property, motor, engineering and accident and liability and are principally short-term insurance contracts.

Medical insurance is designed to compensate policy holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers with a large population to be covered under the policy.

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

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties. Customers could also receive compensation for the loss of earnings through loss of profit and business interruption. For property insurance contracts the main risks are fire, natural perils, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. The Company also issues comprehensive motor policies. Various extensions cover natural perils, personal accident benefits and agency repairs.

General accident insurance includes money, fidelity guarantee, personal accident, jeweler block, jewelry all risks and travel insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability, medical malpractice and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

Engineering insurance covers two principal types:

(a) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, bridges, sewage works and reservoirs.

(b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and Business Interruption following machinery breakdown and includes electronic equipment, boiler and deterioration of stocks insurance.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

d) The significant accounting policies used in preparing these financial statements are set out below (continued)

Revenue Recognition

Recognition of premium

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

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

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

Reinsurance assumed

The Company also assumes reinsurance risk in the normal course of business for Medical 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 insurance 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.

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

Investment income

Investment income on debt instruments classified under held to maturity investments and murabaha deposits are accounted for on an effective interest basis.

Dividend income

Dividend income on equity instruments classified under fair value through statement of income (FVSI) investments is recognized when the right to receive payment is established.

Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries. Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date.

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

d) The significant accounting policies used in preparing these financial statements are set out below (continued)

Reinsurance contracts held

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income as incurred. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Deferred policy acquisition costs

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. All other acquisition costs are recognized as an expense when incurred. Amortization is recorded in the "Policy acquisition costs" in the statement of income. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income. Deferred policy acquisition costs are also considered in the liability adequacy test at each reporting date.

Liability adequacy test

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

Receivables

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in "Other general and administrative expenses" in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 5 fall under the scope of IFRS 4 "Insurance contracts".

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

d) The significant accounting policies used in preparing these financial statements are set out below (continued)

Investments

a) Available-for-sale investments

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

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

Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the related statement of comprehensive income, as impairment charges. Fair values of available-for-sale investments are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics. For unquoted investments, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Reclassification:

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

b) Held as FVSI

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

d) The significant accounting policies used in preparing these financial statements are set out below (continued)

Investments – (continued)

b) Held as FVSI – (continued)

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

Reclassification:

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

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

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

c) Held to maturity

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

Reclassification:

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

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

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

De-recognition of financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

d) The significant accounting policies used in preparing these financial statements are set out below (continued)

Offsetting

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

Trade date accounting

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

Impairment of financial assets

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

Evidence of impairment may include:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

d) The significant accounting policies used in preparing these financial statements are set out below (continued)

Impairment of financial assets – (continued)

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

The determination of what is 'significant' or 'prolonged' requires judgement. A period of 18 months or longer is considered to be prolonged and a decline of 25% from original cost is considered significant as per Company policy. In making this judgment, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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

Intangible assets

Separately acquired intangible assets (mention category) are shown at historical cost. They have a finite useful life and are subsequent carried at cost less accumulated amortization and impairment losses. The Company amortizes intangible assets with a limited useful life using straight-line method over the following periods:

Software	4 years
Licenses	4 years

Property and equipment

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

Land is not depreciated. The cost of other items of property and equipment is depreciated on the straight line method to allocate the cost over estimated useful lives, as follows:

Motor vehicle	5 years
Furniture and fixture	5 years
Computers and office equipment	3 years

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in "Other income, net" in the statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

d) The significant accounting policies used in preparing these financial statements are set out below (continued)

Impairment of non-financial assets

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

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

Employees benefit obligations

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

Zakat and income tax

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is computed on the Saudi shareholders' share of equity and net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks including Murabaha deposits with less than three months' maturity from the date of acquisition.

Cash flow statement

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

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Saudi Riyals at the rate of exchange prevailing at the statement of financial position date. All differences are taken to the statements of income and comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Foreign exchange gains or losses on available-for- sale investments are recognized in "Other income, net" in the statement of income and statement of comprehensive income. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

d) The significant accounting policies used in preparing these financial statements are set out below (continued)

Operating segments

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

- Medical provides compensation to policy holders for expenses incurred in treatment of a disease, illness or injury.
- Motor provides coverage against losses and liability related to motor vehicles.
- Other includes property, marine, engineering, accident and liability and miscellaneous categories.

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.

Statutory reserves

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

Fair values

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

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

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provision for outstanding claims

Judgments by management are required in the estimation of amounts due to policyholders and third parties arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company estimates its claims based on its experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually.

3. SIGNIFICANT ACCOUNTING POLICIES – (continued)

d) The significant accounting policies used in preparing these financial statements are set out below (continued)

Provision for outstanding claims – (continued)

Management reviews its provisions for claims incurred, and claims incurred but not reported, on a monthly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of insurance operations and accumulated surplus for that year. The provision for outstanding claims, as at 31 December, is also verified and certified by an independent actuary.

Premium deficiency reserve

Estimation of the premium deficiency is highly sensitive to a number of assumptions as to the future events and conditions. It is based on expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary considers the claims and premiums relationship which is expected to apply on month to month basis. Based on actuary's suggestion, the management has used different possibilities for projecting the expected trends in loss ratio. The key assumption used by the management is that past claims pattern are stable and will contime in future.

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

4. CASH AND CASH EQUIVALENTS

a) Cash and cash equivalents included in the statement of cash flows comprise the following:

	Insurance operations	
	2019	2018
	SR'000	
Bank Balance and Cash	**26,834**	81,792

	Shareholders' operations	
	2019	2018
	SR'000	
Bank balances	**1,577**	5,077

b) Term deposits

	Insurance operations	
	2019	2018
	SR'000	
Term deposits	**155,288**	141,136

	Shareholders' operations	
	2019	2018
	SR'000	
Term deposits	**100,201**	100,379

4. CASH AND CASH EQUIVALENTS – (continued)

The term deposits are held with the commercial banks and earn commission at market rates. These term deposits are denominated in Saudi Arabian Riyals and have an original maturity of more than three-months and less than twelve-months. The carrying amounts of these term deposits reasonably approximate their fair values at the reporting date.

5. PREMIUMS AND REINSURERS' RECEIVABLE – NET

Receivables comprise amounts due from the following:

	2019	2018
	SR'000	
Policyholders	**118,649**	171,520
Related parties (note 22)	-	21,551
Receivables from reinsurers	**4,688**	4,107
	123,337	197,178
Provision for doubtful receivables	**(37,130)**	(41,734)
Premiums and reinsurers' receivable – net	**86,207**	155,444

Movement in provision for doubtful debts during the year was as follows:

	2019	2018
	SR'000	
Balance at the beginning of the year	**41,734**	34,238
Provision for the year	-	7,496
Reversal of provision	**(4,604)**	-
Balance at the end of the year	**37,130**	41,734

The age analysis of unimpaired premiums receivable arising from insurance contracts is as follows:

	Up to three months	Above three and up to six months	Above six and less than twelve months	Twelve months and above	Total
			SR'000		
2019	**41,594**	**23,367**	**14,299**	**6,947**	**86,207**
2018	80,067	36,875	33,161	5,341	155,444

Past due but not impaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured. In respect of premiums receivable, the five largest customers' balances accounted for approximately 24% of this balance as at 31 December 2019 (2018: 31%). Premiums receivable comprise a large number of customers and insurance companies all within the Kingdom of Saudi Arabia.

6. DEFERRED POLICY ACQUISITION COST

	2019	2018
	SR'000	
Balance at the beginning of the year	**14,135**	14,516
Incurred for the year	**22,929**	33,550
Charge for the year	**(28,031)**	(33,931)
Balance at the end of the year	**9,033**	14,135

7. CLAIMS INCURRED

	2019	2018
	SR'000	SR'000
Gross claims paid	**501,320**	576,790
Gross outstanding claims at the end of the year (see note (i) below)	**169,539**	210,260
	670,859	787,050
Gross outstanding claims at the beginning of the year	**(210,260)**	(177,776)
Gross claims incurred	**460,599**	609,274
Reinsurance recoveries	**(31,848)**	(18,154)
Reinsurers' share of outstanding claims at the end of the year (see note (ii) below)	**(21,018)**	(23,783)
	(52,866)	(41,937)
Reinsurers' share of outstanding claims at the beginning of the year	**23,783**	11,444
Reinsurers' share of claims	**(29,083)**	(30,493)
Net claims incurred	**431,516**	578,781

(i) Gross outstanding claims as at 31 December 2019 include provision for IBNR amounting to SR 169,539 thousands (2018: SR 210,260 thousands).

(ii) Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the reporting date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern

CLAIM DEVELOPMENT TABLE

The following reflects the cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each 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 transfers 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.

7. CLAIMS INCURRED – (continued)

CLAIM DEVELOPMENT TABLE – (continued)

31 DECEMBER 2019

Accident year	2015 & earlier	2016	2017	2018	2019	Total
			SR '000			
Estimate of ultimate claims cost:						
At the end of accident year	293,230	342,562	512,589	609,709	453,979	
One year later	278,395	306,082	517,900	589,837	-	
Two years later	264,510	280,911	516,589	-	-	
Three years later	242,611	296,209	-	-	-	
Four years later	262,882	-	-	-	-	
Current estimate of cumulative claims	262,882	296,209	516,589	589,837	453,979	2,119,496
Cumulative payments to date	(260,993)	(292,055)	(503,655)	(544,846)	(348,408)	(1,949,957)
Liability recognised in statement of financial position	1,889	4,154	12,934	44,991	105,571	169,539

31 DECEMBER 2018

Accident year	2014 & earlier	2015	2016	2017	2018	Total
			SR '000			
Estimate of ultimate claims cost:						
At the end of accident year	228,220	293,230	342,562	512,589	609,709	
One year later	270,018	278,395	306,082	517,900	-	
Two years later	262,252	264,510	280,911	-	-	
Three years later	235,804	242,611	-	-	-	
Four years later	211,040	-	-	-	-	
Current estimate of cumulative claims	211,040	242,611	280,911	517,900	609,709	1,862,171
Cumulative payments to date	(209,496)	(240,055)	(270,559)	(490,788)	(441,013)	(1,651,911)
Liability recognised in statement of financial position	1,544	2,556	10,352	27,112	168,696	210,260

8. INVESTMENTS

Investments are classified as follows:

	Insurance operations	
	2019	2018
	SR'000	
- Held as FVSI	25,926	39,942
- Held to maturity	121,524	132,669
Total	147,450	172,611

	Shareholders' operations	
	2019	2018
	SR'000	
- Held as FVSI	46,593	68,790
- Available for sale	1,923	1,923
- Held to maturity	26,768	35,488
Total	75,284	106,201

8. INVESTMENTS- Continued

a) FVSI

Movement in held as FVSI investment balance is as follows:

	Insurance operations	
	2019	2018
	SR'000	
Opening balance	**39,942**	250,332
Purchased during the year	**72,839**	-
Disposals during the year	**(83,434)**	(211,655)
	29,347	38,677
Changes in fair value	**(3,421)**	1,265
Closing balance	**25,926**	39,942

Details of held as FVSI investment balance is as follows:

	Source of Fair Value	2019	2018
		SR'000	
Units in local money market funds	Quoted	**3,127**	-
Units in local equity funds	NAV**	-	3,157
Local DPM money market securities	NAV**	**22,799**	36,785
		25,926	39,942

	Shareholders' operations	
	2019	2018
	SR'000	
Opening balance	**68,790**	195,018
Disposals during the year	**(28,986)**	(129,919)
	39,804	65,099
Changes in fair value	**6,789**	3,691
Closing balance	**46,593**	68,790

Details of held as FVSI investment balance is as follows:

	Source of Fair Value	2019	2018
		SR'000	
Units in local equity funds	NAV**	-	1,988
Units in local real estate funds	NAV**	**10,041**	9,010
Local "DPM* money market securities	NAV**	**15,705**	22,746
Local "DPM* equity securities	Quoted	**20,847**	19,560
Foreign "DPM* equity securities	Quoted	-	15,486
Total		**46,593**	68,790

8. INVESTMENTS – (continued)

b) Available for sale investments

Movement in available-for-sale investment balance is as follows:

	Shareholders' operations	
	2019	2018
	SR'000	
Opening balance	**1,923**	1,923
Closing balance	**1,923**	1,923

(i) Unquoted available for sale investment, having a carrying value of SR 1,923 thousand (2018: SR 1,923 thousand) are measured at cost as its fair value cannot be reliably measured due to the absence of active market and unavailability of observable market prices for similar instruments.

c) Held to maturity investments

Movement in held to maturity investment balance is as follows:

	Insurance operations	
	2019	2018
	SR'000	
Opening balance	**132,669**	139,832
Purchased during the year	**50,000**	-
Matured during the year	**(64,929)**	(7,000)
Commission from HTM investments	**3,784**	-
Amortization of held to maturity investments	-	(163)
Closing balance	**121,524**	132,669

	Shareholders' operations	
	2019	2018
	SR'000	
Opening balance	**35,488**	35,604
Purchased during the year	**4,982**	-
Matured during the year	**(15,225)**	-
Commission from HTM investments	**1,582**	-
Amortization of held to maturity investments	**(59)**	(116)
Closing balance	**26,768**	35,488

* Managed at the discretion of a local regulated financial institution ("DPM").

** NAV: Net Asset Value as announced by asset manager.

9. PREPAID EXPENSES AND OTHER ASSETS

	Insurance operations	
	2019	2018
	SR'000	
Prepayments	1,294	5,221
Advances to staff	2,595	2,155
Accrued commission	178	224
Other receivables	7,106	16,684
	11,173	24,284

	Shareholders' operations	
	2019	2018
	SR'000	
Other receivables	186	93

10. PROPERTY AND EQUIPMENT- NET

	Motor Vehicle	Furniture and fixtures	Computer Equipment	Total 2019	Total 2018
			SR'000		
Cost:					
1 January	150	17,489	14,283	31,922	19,246
Additions	-	745	1,882	2,627	12,676
Disposals	(54)	-	-	(54)	-
31 December	96	18,234	16,165	34,495	31,922
Accumulated Depreciation:					
1 January	74	8,384	9,005	17,463	14,315
Charge for the year	19	2,357	2,666	5,042	3,148
Disposals	(54)	-	-	(54)	-
31 December	39	10,741	11,671	22,451	17,463
Net book value					
31 December 2019	57	7,493	4,494	12,044	-
31 December 2018	76	9,105	5,278	-	14,459

11. INTANGIBLE ASSETS - NET

Software	2019	2018
	SR'000	
Cost:		
1 January	8,015	-
Additions	835	8,015
31 December	8,850	8,015
Accumulated Depreciation:		
1 January	(858)	-
Charge for the year	(1,688)	(858)
31 December	(2,546)	(858)
Net book value		
31 December 2019	6,304	-
31 December 2018	-	7,157

12. LEASES

12.1 Right of use assets

	2019
	SR'000
1 January	31,601
Additions during the year	2,005
Depreciation charge for the year	(5,095)
Terminations	(1,575)
Net book value at 31 December	**26,936**

The depreciation expense was charged to the statement of income within general and administrative expenses.

12.2 Lease liability

The weighted average incremental borrowing rate applied to lease liabilities was 4.4%.

	2019
	SR'000
Less than one year	4,134
One year to five years	12,373
More than five year	7,196
Total lease liability	**23,703**

Total interest expense on lease liabilities for the year was SR **1,521** thousands.

13. TECHNICAL RESERVES

13.1 Net outstanding claims and reserves

Net outstanding claims and reserves comprise of the following:

	2019	2018
	SR'000	
Outstanding claims	38,953	58,370
Claims incurred but not reported	130,586	151,890
Premium deficiency reserve	9,782	5,083
Other technical reserves	6,259	6,375
	185,580	221,718
Less:		
- Reinsurers' share of outstanding claims	(8,745)	(13,316)
- Reinsurers' share of claims incurred but not reported	(12,273)	(10,467)
	(21,018)	(23,783)
Net outstanding claims and reserves	164,562	197,935

13. TECHNICAL RESERVE – (continued)

13.2 Movement in unearned premiums

Movement in unearned premiums comprise of the following:

	Year ended 31 December 2019		
	Gross	Reinsurance	Net
		SR'000	
Balance at the beginning of the year	**287,093**	**(13,139)**	**273,954**
Premium written during the year	**503,504**	**(49,305)**	**454,199**
Premium earned during the year	**(560,919)**	**40,586**	**(520,333)**
Balance at the end of the year	**229,678**	**(21,858)**	**207,820**

	Year ended 31 December 2018		
	Gross	Reinsurance	Net
		SR'000	
Balance at the beginning of the year	322,609	(8,889)	313,720
Premium written during the year	734,982	(24,643)	710,339
Premium earned during the year	(770,498)	20,393	(750,105)
Balance at the end of the year	287,093	(13,139)	273,954

14. STATUTORY DEPOSIT

	2019	2018
	SR'000	
Statutory deposit	**37,500**	25,000
	37,500	25,000

As required by Saudi Arabian Insurance Regulations, the Company has deposited an additional 5% of its paid up capital equivalent to SR 12.5 million to reach to a total amount of SR 37.5 million (2018: SR 25 million) in a bank designated by the Saudi Arabian Monetary Authority ("SAMA"). Accrued income on this deposit is payable to SAMA amounting to SR 3.3 million (2018: SR 2.7 million) and this deposit cannot be withdrawn without approval from SAMA.

15. COMMITMENTS AND CONTINGENCIES

a. The Company's commitments and contingencies are as follows:

	2019	2018
	SR'000	
Letters of guarantee in favour of non-government customers	**700**	700
Letters of guarantee in favour of GAZT	**9,500**	9,500
	10,200	10,200

b. The Company is subject to legal proceedings in the ordinary course of business. There was no change in the status of legal proceedings as disclosed at 31 December 2019.

c. The Company's bankers have given guarantees to non-government customers amounting to SR 0.7 million (2018: SR 0.7 million) in respect of motor insurance and to General Authority of Zakat and Tax amounting to SR 9.5 million (2018: SR 9.5 million) in respect of zakat assessments for years 2008 to 2012.

16. ACCRUALS AND OTHER LIABILITIES

	2019	2018
	SR'000	
Accrued expenses	11,319	4,838
Payables to brokers and agents	9,276	18,445
Other payables	3,032	28,896
	23,627	52,179

17. UNEARNED REINSURANCE COMMISSION

	2019	2018
	SR'000	
Balance at the beginning of the year	2,543	2,244
Commission received during the year	6,811	6,616
Commission earned during the year	(5,953)	(6,317)
	3,401	2,543

18. OTHER TECHNICAL RESERVES

	2019	2018
	SR'000	
Catastrophe reserve	1,004	274
Data deficiency reserve	3,662	3,708
Reinsurance accrual reserve	1,593	2,393
	6,259	6,375

19. EMPLOYEE BENEFIT OBLIGATIONS

Accruals are made in accordance with the actuarial valuation under the projected unit credit method while the benefit payments obligation is discharged as and when it falls due. The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value is as follows:

19.1 The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value is as follows:

	2019	2018
	SR'000	
Present value of defined benefit obligation	9,688	8,941

19.2 Movement of defined benefit obligation

	2019	2018
	SR'000	
Opening balance	8,941	9,262
Charge to statement of income	2,220	1,373
Charge to statement of other comprehensive income	1,879	(1,079)
Payment of benefits during the year	(3,352)	(615)
Closing balance	9,688	8,941

19. EMPLOYEE BENEFIT OBLIGATIONS – (continued)

19.3 Reconciliation of present value of defined benefit obligation

	2019	2018
	SR'000	
Opening balance	**8,941**	9,262
Current service costs	**1,958**	1,111
Financial costs	**262**	262
Actuarial loss from experience adjustments	**1,879**	(1,079)
Benefits paid during the year	**(3,352)**	(615)
	9,688	8,941

19.4 Principal actuarial assumptions

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

	2019	2018
Valuation discount rate	**2.8%**	3.6%
Expected rate of increase in salary level across different age bands	**1.00%**	1.00%

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

Valuation discount rate	2019	2018
	SAR'000	SAR'000
- Increase by 1%	**(587)**	(419)
- Decrease by 1%	**668**	464
Expected rate of increase in salary level across different age bands		
- Increase by 1%	**674**	457
- Decrease by 1%	**(603)**	(420)

The average duration of the defined benefit plan obligation at the end of the reporting period is 5 years.

20. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

Level 3: valuation techniques for which any significant input is not based on observable market data.

20. FAIR VALUES OF FINANCIAL INSTRUMENTS – (continued)

a. Carrying amounts and fair value

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation to fair value.

Insurance Operations	**Fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
		SR'000		
31 December 2019				
Financial assets measured at fair value				
- Investments held as FVSI	**3,127**	**22,799**	-	**25,926**
	3,127	**22,799**	-	**25,926**
Financial assets not measured at fair value				
- Held to maturity investments	-	**121,524**	-	**121,524**
	-	**121,524**	-	**121,524**

Insurance Operations	Fair value			
	Level 1	Level 2	Level 3	Total
		SR'000		
31 December 2018				
Financial assets measured at fair value				
- Investments held as FVSI	-	39,942	-	39,942
	-	39,942	-	39,942
Financial assets not measured at fair value				
- Held to maturity investments	-	132,669	-	132,669
	-	132,669	-	132,669

20. FAIR VALUES OF FINANCIAL INSTRUMENTS – (continued)

Shareholders' Operations	Fair value			
	Level 1	Level 2	Level 3	Total
	SR'000			
31 December 2019				
Financial assets measured at fair value				
- Investments held as FVSI	20,847	25,746	-	46,593
	20,847	25,746	-	46,593
Financial assets not measured at fair value				
- Held to maturity investments	-	26,768	-	26,768
	-	26,768	-	26,768

Shareholders' Operations	Fair value			
	Level 1	Level 2	Level 3	Total
	SR'000			
31 December 2018				
Financial assets measured at fair value				
- Investments held as FVSI	35,046	33,744	-	68,790
	35,046	33,744	-	68,790
Financial assets not measured at fair value				
- Held to maturity investments	-	35,488	-	35,488
	-	35,488	-	35,488

21. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Company's Board of Directors in their function as chief operating decision maker in order to allocate resources to the segments and to assess its performance.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the Board is measured in a manner consistent with that in the income statement. Segment assets and liabilities comprise operating assets and liabilities.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2018.

Segment assets do not include cash and cash equivalents, short term deposits, net premiums and reinsurers' receivable, net, prepayments and other receivables, amount due from a related party, investments, furniture, fittings and office equipment. Accordingly, they are included in unallocated assets. Segment liabilities do not include policyholders' claims, reinsurance payables, accruals and other payables and employees' end of service indemnities. Accordingly, they are included in unallocated liabilities.

These unallocated assets and liabilities are not reported to chief operating decision maker under related segments and are monitored on a centralized basis.

21. OPERATING SEGMENTS – (continued)

The segment information provided to the Company's Board of Directors for the reportable segments for the Company's total assets and liabilities at 31 December 2019 and 31 December 2018, its total revenues, expenses, and net income for the year then ended, are as follows:

	As at 31 December 2019					
	Insurance operations					
	Medical	Motor	Others	Insurance operations	Shareholders' operations	Total
	SR'000					
Assets						
Reinsurers' share of unearned premiums	-	16,103	5,755	21,858	-	21,858
Reinsurers' share of outstanding claims	-	-	8,745	8,745	-	8,745
Reinsurers' share of claims Incurred but not reported	-	10,948	1,325	12,273	-	12,273
Deferred policy acquisition costs	3,234	4,602	1,197	9,033	-	9,033
Unallocated assets				472,236	218,076	690,312
Total Assets				524,145	218,076	742,221
Liabilities						
Unearned premiums	59,069	161,020	9,589	229,678	-	229,678
Unearned reinsurance commission	-	1,852	1,549	3,401	-	3,401
Outstanding claims	14,104	11,974	12,875	38,953	-	38,953
Claims incurred but not reported	18,306	110,180	2,100	130,586	-	130,586
Premium deficiency reserve	9,238	-	544	9,782	-	9,782
Other technical reserves	1,594	3,661	1,004	6,259	-	6,259
Unallocated liabilities and surplus				93,307	28,459	121,766
Total Liabilities				511,966	28,459	540,425
Shareholders' Equity						
Share capital				-	250,000	250,000
Statutory reserve				-	5,003	5,003
Accumulated Losses				-	(52,407)	(52,407)
Total Shareholders' Equity				-	202,596	202,596
Re-measurement reserve of defined benefit obligations – related to insurance operations				(800)	-	(800)
Total Equity				(800)	202,596	201,796
Total Liabilities and Equity				511,166	231,055	742,221

21. OPERATING SEGMENTS – (continued)

	As at 31 December 2018					
	Insurance operations					
	Medical	Motor	Others	Insurance operations	Shareholders' operations	Total
			SR'000			
Assets						
Reinsurers' share of unearned premiums	-	-	13,139	13,139	-	13,139
Reinsurers' share of outstanding claims	-	-	13,316	13,316	-	13,316
Reinsurers' share of claims Incurred but not reported	-	8,469	1,998	10,467	-	10,467
Deferred policy acquisition costs	3,201	9,867	1,067	14,135	-	14,135
Unallocated assets				596,883	239,436	836,319
Total Assets				647,940	239,436	887,376
Liabilities						
Unearned premiums	59,379	218,379	9,335	287,093	-	287,093
Unearned reinsurance commission	-	-	2,543	2,543	-	2,543
Outstanding claims	16,706	24,878	16,786	58,370	-	58,370
Claims incurred but not reported	10,398	138,874	2,618	151,890	-	151,890
Premium deficiency reserve	5,083	-	-	5,083	-	5,083
Other technical reserves	2,393	3,708	274	6,375	-	6,375
Unallocated liabilities and surplus				89,785	22,447	112,232
Total Liabilities				601,139	22,447	623,586
Shareholders' Equity						
Share capital				-	250,000	250,000
Statutory reserve				-	5,003	5,003
Retained earnings				-	7,708	7,708
Total Shareholders' Equity				-	262,711	262,711
Re-measurement reserve of defined benefit obligations – related to insurance operations				1,079	-	1,079
Total Equity				1,079	262,711	263,790
Total Liabilities and Equity				602,218	285,158	887,376

21. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2019			
	Medical	Motor	Others	Total
		SR'000		
REVENUES				
Individual	7,022	213,809	2,287	223,118
Large	52,958	42,567	4,086	99,611
Medium	12,628	78,031	7,537	98,196
Small	16,368	11,660	5,174	33,202
Very Small	34,280	14,279	818	49,377
Gross premiums written	123,256	360,346	19,902	503,504
Reinsurance premiums ceded				
- Local	-	-	(691)	(691)
- Foreign	-	(36,059)	(12,555)	(48,614)
	-	(36,059)	(13,246)	(49,305)
Excess of loss expenses				
- Local	-	(234)	(230)	(464)
- Foreign	(9,923)	(4,927)	(1,021)	(15,871)
	(9,923)	(5,161)	(1,251)	(16,335)
Net premiums written	113,333	319,126	5,405	437,864
Changes in unearned premiums, net	310	66,683	(859)	66,134
Net premiums earned	113,643	385,809	4,546	503,998
Reinsurance commissions	-	2,098	3,855	5,953
Other underwriting income	-	2,216	-	2,216
TOTAL REVENUES	113,643	390,123	8,401	512,167
UNDERWRITING COSTS AND EXPENSES				
Gross claims paid	131,629	366,306	3,385	501,320
Reinsurers' share of claims paid	(7,065)	(22,458)	(2,325)	(31,848)
Net claims paid	124,564	343,848	1,060	469,472
Changes in outstanding claims, net	(2,602)	(12,904)	660	(14,846)
Changes in claims incurred but not reported, net	7,908	(31,172)	154	(23,110)
Net claims incurred	129,870	299,772	1,874	431,516
Changes in premium deficiency reserves	4,155	-	544	4,699
Changes in other technical reserves	(799)	-	683	(116)
Policy acquisition costs	6,661	19,080	2,290	28,031
Other underwriting expenses	11,833	9,234	278	21,345
TOTAL UNDERWRITING COSTS AND EXPENSES	151,720	328,086	5,669	485,475
NET UNDERWRITING INCOME	(38,077)	62,037	2,732	26,692
OTHER OPERATING (EXPENSES) / INCOME				
General and administrative expenses				(100,331)
Investment income				4,585
Commission from held to maturity investments				5,366
Unrealized gain on investments				3,368
Reversal of provision for doubtful debts				4,604
Other income				1,601
TOTAL OTHER OPERATING EXPENSES				(80,807)
NET LOSS FOR THE YEAR BEFORE ZAKAT				(54,115)
Zakat				(6,000)
NET LOSS FOR THE YEAR				(60,115)
Net loss for the year attributable to insurance operations				-
Net loss for the year attributable to the shareholders'				(60,115)

21. OPERATING SEGMENTS – (continued)

	For the year ended 31 December 2018			
	Medical	**Motor**	**Others**	**Total**
		SR'000		
REVENUES				
Individual	27,056	193,165	9,138	229,359
Large	48,799	214,461	7,906	271,166
Medium	12,133	54,485	2,889	69,507
Small	23,158	130,252	3,388	156,798
Very Small	7,930	116	106	8,152
Gross premiums written	119,076	592,479	23,427	734,982
Reinsurance premiums ceded				
- Local	-	-	(953)	(953)
- Foreign	-	(7,895)	(15,795)	(23,690)
	-	(7,895)	(16,748)	(24,643)
Excess of loss expenses				
- Local	-	(327)	(230)	(557)
- Foreign	(4,429)	(16,687)	(1,322)	(22,438)
	(4,429)	(17,014)	(1,552)	(22,995)
Net premiums written	114,647	567,570	5,127	687,344
Changes in unearned premiums, net	(29,851)	69,613	3	39,765
Net premiums earned	84,796	637,183	5,130	727,109
Reinsurance commissions	-	1,165	5,152	6,317
Other underwriting income	-	5,184	-	5,184
TOTAL REVENUES	84,796	643,532	10,282	738,610
UNDERWRITING COSTS AND EXPENSES				
Gross claims paid	56,152	513,616	7,022	576,790
Reinsurers' share of claims paid	(3,386)	(9,549)	(5,219)	(18,154)
Net claims paid	52,766	504,067	1,803	558,636
Changes in outstanding claims, net	9,721	138	(343)	9,516
Changes in claims incurred but not reported, net	4,236	6,450	(57)	10,629
Net claims incurred	66,723	510,655	1,403	578,781
Changes in premium deficiency reserves	5,083	(2,304)	-	2,779
Changes in other technical reserves	664	1,460	274	2,398
Policy acquisition costs	5,316	25,777	2,838	33,931
Other underwriting expenses	6,081	18,408	296	24,785
TOTAL UNDERWRITING COSTS AND EXPENSES	83,867	553,996	4,811	642,674
NET UNDERWRITING INCOME	929	89,536	5,471	95,936
OTHER OPERATING (EXPENSES) / INCOME				
Allowance for doubtful debts				(7,496)
General and administrative expenses				(91,897)
Investment income				7,547
Unrealized gain on investments				4,956
Other income				8,736
TOTAL OTHER OPERATING EXPENSES				(78,154)
NET INCOME FOR THE YEAR BEFORE ZAKAT				17,782
Zakat				(6,000)
NET INCOME FOR THE YEAR				11,782
Net income for the year attributable to insurance operations				(1,439)
Net income for the year attributable to the shareholders'				10,343

22. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel [Key Management Personnel includes all directors, executive and non-executive, and senior management] 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. The following are the details of the major related party transactions during the year and the related balances:

Entities controlled, jointly controlled or significantly influenced by related parties	Nature of transactions	Amount of transactions For the year ended 31 December 2019	2018	Balance at 31 December 2019	2018
		SR'000			
Tajeer Co. (affiliate)	Premium written	**38,772**	56,778		
	Payments and claims paid	-	(66,634)	-	20,494
Chairman of the Board	Premium written	**233**	315		
	Payments and claims paid	-	(171)		
	Rent paid	-	3,025	-	215
Rusd Global Company	Premium written	**90**	142		
	Payments and claims paid	-	(68)	-	74
Al Firdous Group Co.	Premium written	**766**	1,662		
	Payments and claims paid	-	(921)	-	768
Jabal Edsas Est.	Commission paid	-	111		
	Rent paid	**4,114**	-	-	-
Tajeer International Co.	Services received	**5,923**	4,300	-	-
Concord Insurance and Reinsurance Brokerage	Insurance commission	**3,561**	2,008	-	-
Kwader Pro	Services received	**77**	498		
Alawwal Capital Co.	Investments in DPM and mutual funds	**(105,985)**	-	-	159,790
Rusd Capital	Investments in mutual funds	-	-	-	7,716

*As at 24 July 2019 certain due from related party balances have been reclassified from related party balances to premium's receivables due to the fact that the previous chairman of Salama Company has due from balances through the related companies as he holds the same post as a chairman in the mention related party companies. Accordingly, the balances as of 31 December where transferred and included within premiums receivable.

22. RELATED PARTY TRANSACTIONS AND BALANCES – (continued)

The compensation of key management personnel during the year is as follows:

	2019	2018
	SR'000	
Salaries and other allowances	**366**	4,227
End of service indemnities	**1,420**	367
	1,786	4,594
Remuneration to those charged with governance – Board of Directors	**186**	3,031
Remuneration to those charged with governance – Board Committees	-	-
	186	3,031

23. ZAKAT

a. Charge for the year

The current year provision is based on the following:

	2019	2018
	SR'000	
Equity	**262,711**	252,366
Opening provision and adjustments	**100,088**	56,596
Net book value of long term assets	**(93,740)**	(93,378)
	269,059	215,584
Adjusted income for the year	**(53,774)**	30,309
Zakat base	**215,285**	245,893

The differences between the financial and the Zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

Movements in provision during the year

	2019	2018
	SR'000	
Balance at the beginning of the year	**19,761**	18,189
Charge for the year	**6,000**	6,000
Paid during the year	**(630)**	(4,428)
Balance at the end of the year	**25,131**	19,761

b. Status of zakat assessments

The Company has filed its zakat declarations for the period from 16 May 2007 to 31 December 2008 through 2018 which are still under review by the GAZT and no assessments has been finalized.

During 2016, the Company received zakat assessments for the years ended 31 December 2008 through 2012 where GAZT demanded an additional zakat and withholding tax liability of SR 13.7 million in respect of those years. The Company has filed an objection against those assessments and the management is confident of a favorable outcome. In this regard, the Company have issued a letter of guarantee amounting to SR 9.5 million in favour of GAZT. Further, the Company has booked an additional liability of SR 4.4 million for withholding tax in the statement of income and SR 4 million for zakat for prior years in 2016. During 2019, the Company submitted an objection to the settlement committee and the settlement committee did not decide to date.

24. SHARE CAPITAL

The authorized and issued share capital of the Company is SR 250 million divided into 25 million ordinary shares of SR 10 each.

25. CAPITAL MANAGEMENT

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

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

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

26. GENERAL AND ADMINISTRATIVE EXPENSES

	Insurance operations	
	2019	2018
	SR'000	
Employees' costs	**58,154**	58,754
Rent related expense	**7,953**	7,489
Information technology	**6,002**	2,465
Training and development	**366**	367
Depreciation and amortization (see note 10 & 11)	**6,730**	4,006
Travelling	**719**	862
Communication	**2,342**	1,551
Printing and stationary	**1,168**	1,755
Fee and subscriptions	**228**	243
Utilities	**312**	259
Repair and maintenance	**1,006**	640
Audit and professional fees	**5,152**	1,293
Marketing and advertisement	**837**	2,220
Others	**8,424**	6,589
	99,393	88,493

	Shareholders' Operations	
	2019	2018
	SR'000	
Board attendance fees (see note a below)	**133**	2,430
Committee expenses (see note b below)	**434**	601
Others	**371**	373
	938	3,404

a) Board attendance fees represent allowances for attending board meetings and sub-committee meetings.

b) Committee expenses include fees of non-board members for attending committee meetings and other related sub-committee expenses.

27. (LOSS) / EARNINGS PER SHARE

(Loss) / Earnings per share for the year has been calculated by dividing the net (loss) / income for the year by the weighted average number of issued and outstanding shares for the year.

28. SUPPLEMENTARY INFORMATION

a) Statement of financial position

	31 December 2019			31 December 2018		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
		SR '000			SR '000	
ASSETS						
Cash and cash equivalents	26,834	1,577	28,411	81,792	5,077	86,869
Term deposits	155,288	100,201	255,489	141,136	100,379	241,515
Premiums and reinsurers' receivable – net	86,207	-	86,207	155,444	-	155,444
Reinsurers' share of unearned premiums	21,858	-	21,858	13,139	-	13,139
Reinsurers' share of outstanding claims	8,745	-	8,745	13,316	-	13,316
Reinsurers' share of claims Incurred but not reported	12,273	-	12,273	10,467	-	10,467
Deferred policy acquisition costs	9,033	-	9,033	14,135	-	14,135
Investments	147,450	75,284	222,734	172,611	106,201	278,812
Due from insurance operations	-	12,979	12,979	-	45,722	45,722
Prepaid expenses and other assets	11,173	186	11,359	24,284	93	24,377
Right of use assets – net	26,936	-	26,936	-	-	-
Property and equipment	12,044	-	12,044	14,459	-	14,459
Intangible assets	6,304	-	6,304	7,157	-	7,157
Statutory deposit	-	37,500	37,500	-	25,000	25,000
Accrued commission on statutory deposit	-	3,328	3,328	-	2,686	2,686
	524,145	231,055	755,200	647,940	285,158	933,098
(Less): Inter-operations eliminations	-	(12,979)	(12,979)	-	(45,722)	(45,722)
TOTAL ASSETS	524,145	218,076	742,221	647,940	239,436	887,376

28. SUPPLEMENTARY INFORMATION – (continued)

a) Statement of financial position – (continued)

	31 December 2019			31 December 2018		
	Insurance operations	Share-holders' operations	Total	Insurance operations	Share-holders' operations	Total
		SR '000			SR '000	
LIABILITIES						
Policyholders claims payable	13,943	-	13,943	7,583	-	7,583
Accrued and other liabilities	23,627	-	23,627	52,179	-	52,179
Lease Liabilities	23,703	-	23,703	-	-	-
Reinsurers' balances payable	7,811	-	7,811	6,547	-	6,547
Unearned premiums	229,678	-	229,678	287,093	-	287,093
Unearned reinsurance commission	3,401	-	3,401	2,543	-	2,543
Outstanding claims	38,953	-	38,953	58,370	-	58,370
Claims incurred but not reported	130,586	-	130,586	151,890	-	151,890
Premium deficiency reserves	9,782	-	9,782	5,083	-	5,083
Other technical reserves	6,259	-	6,259	6,375	-	6,375
Due to shareholders' operations	12,979	-	12,979	45,722	-	45,722
Employee benefits reserve	9,688	-	9,688	8,941	-	8,941
Surplus distribution payable	14,535	-	14,535	14,535	-	14,535
Provision for zakat	-	25,131	25,131	-	19,761	19,761
Accrued commission income payable to SAMA	-	3,328	3,328	-	2,686	2,686
	524,945	28,459	553,404	646,861	22,447	669,308
(Less): Inter-operations eliminations	(12,979)	-	(12,979)	(45,722)	-	(45,722)
TOTAL LIABILITIES	511,966	28,459	540,425	601,139	22,447	623,586
SHAREHOLDERS' EQUITY						
Share capital	-	250,000	250,000	-	250,000	250,000
Statutory reserve	-	5,003	5,003	-	5,003	5,003
(Accumulated loss)/Retained earnings	-	(52,407)	(52,407)	-	7,708	7,708
TOTAL SHAREHOLDERS' EQUITY		202,596	202,596	-	262,711	262,711
Re-measurement reserve of defined benefit obligation – related to insurance operations	(800)	-	(800)	1,079	-	1,079
TOTAL EQUITY	(800)	202,596	201,796	1,079	262,711	263,790
TOTAL LIABILITIES AND EQUITY	511,166	231,055	742,221	602,218	285,158	887,376
COMMITMENTS AND CONTINGENCIES	10,200	-	10,200	10,200	-	10,200

28. SUPPLEMENTARY INFORMATION – (continued)

b) Statement of income

	For the year ended 31 December					
	2019			2018		
	Insurance operations SR '000	**Share-holders' operations SR '000**	**Total SR '000**	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000
REVENUES						
Gross premiums written	**503,504**	-	**503,504**	734,982	-	734,982
	503,504	-	**503,504**	734,982	-	734,982
Reinsurance premiums ceded						
- Local	**(691)**	-	**(691)**	(953)	-	(953)
- Foreign	**(48,614)**	-	**(48,614)**	(23,690)	-	(23,690)
	(49,305)	-	**(49,305)**	(24,643)	-	(24,643)
Excess of loss expenses						
- Local	**(464)**	-	**(464)**	(557)	-	(557)
- Foreign	**(15,871)**	-	**(15,871)**	(22,438)	-	(22,438)
	(16,335)	-	**(16,335)**	(22,995)	-	(22,995)
Net premiums written	**437,864**	-	**437,864**	687,344	-	687,344
Changes in unearned premiums, net	**66,134**	-	**66,134**	39,765	-	39,765
Net premiums earned	**503,998**	-	**503,998**	727,109	-	727,109
Reinsurance commissions	**5,953**	-	**5,953**	6,317	-	6,317
Other underwriting income	**2,216**	-	**2,216**	5,184	-	5,184
TOTAL REVENUES	**512,167**	-	**512,167**	738,610	-	738,610
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	**501,320**	-	**501,320**	576,790	-	576,790
Reinsurers' share of claims paid	**(31,848)**	-	**(31,848)**	(18,154)	-	(18,154)
Net claims paid	**469,472**	-	**469,472**	558,636	-	558,636
Changes in outstanding claims, net	**(14,846)**	-	**(14,846)**	9,516	-	9,516
Changes in claims incurred but not reported, net	**(23,110)**	-	**(23,110)**	10,629	-	10,629
Net claims incurred	**431,516**	-	**431,516**	578,781	-	578,781
Change premium deficiency reserves	**4,699**	-	**4,699**	2,779	-	2,779
Change other technical reserves	**(116)**	-	**(116)**	2,398	-	2,398
Policy acquisition costs	**28,031**	-	**28,031**	33,931	-	33,931
Other underwriting expenses	**21,345**	-	**21,345**	24,785	-	24,785
TOTAL UNDERWRITING COSTS AND EXPENSES	**485,475**	-	**485,475**	642,674	-	642,674
NET UNDERWRITING INCOME	**26,692**	-	**26,692**	95,936	-	95,936

28. SUPPLEMENTARY INFORMATION – (continued)

b) Statement of income – (continued)

	For the year ended 31 December					
	2019			2018		
	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000
OTHER OPERATING (EXPENSES)/INCOME						
Allowance for doubtful debts	-	-	-	(7,496)	-	(7,496)
General and administrative expenses	(99,393)	(938)	(100,331)	(88,493)	(3,404)	(91,897)
Investment income	2,870	1,715	4,585	4,444	3,103	7,547
Commission from Held to maturity investments	3,784	1,582	5,366	-	-	-
Unrealized (Loss)/ gain on investments	(3,421)	6,789	3,368	1,265	3,691	4,956
Reversal of provision for bad debts	4,604	-	4,604	-	-	-
Other income	1,601	-	1,601	8,736	-	8,736
TOTAL OTHER OPERATING (EXPENSES)/ INCOME	(89,955)	9,148	(80,807)	(81,544)	3,390	(78,154)
NET (LOSS)/ INCOME FOR THE YEAR BEFORE ZAKAT	(63,263)	9,148	(54,115)	14,392	3,390	17,782
Zakat	-	(6,000)	(6,000)	-	(6,000)	(6,000)
NET (LOSS)/ INCOME FOR THE YEAR AFTER ZAKAT	(63,263)	3,148	(60,115)	14,392	(2,610)	11,782
Transfer to Shareholders	63,263	(3,148)	60,115	(12,953)	2,610	(10,343)
NET RESULT FROM INSURANCE OPERATIONS	-	-	-	1,439	-	1,439
(Loss) / Earnings per share (Expressed in SAR per share)						
Weighted average number of shares outstanding (in thousands)	-	25,000	25,000	-	25,000	25,000
Basic and diluted (loss) / earnings per share	-	(2.40)	(2.40)	-	0.41	0.41

28. SUPPLEMENTARY INFORMATION – (continued)

c) Statement of comprehensive income

	For the year ended 31 December					
	2019			2018		
	Insurance operations	**Share-holders' operations**	**Total**	Insurance operations	Share-holders' operations	Total
	SR '000	**SR '000**	**SR '000**	SR '000	SR '000	SR '000
Net (Loss) / income for the year	-	**(60,115)**	**(60,115)**	1,439	10,343	11,782
Other comprehensive income						
Items that will not be reclassified to statement of income in subsequent periods						
Actuarial (losses) / gains on defined benefit obligations	**(1,879)**	-	**(1,879)**	1,079	-	1,079
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	**(1,879)**	**(60,115)**	**(61,994)**	2,518	10,343	12,861

28. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows

	For the year ended 31 December					
	2019			2018		
	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000
CASH FLOWS FROM OPERATING ACTIVITIES						
(Loss) / Income before surplus and zakat	-	(54,115)	(54,115)	1,439	16,343	17,782
Adjustments for non-cash items:						
Depreciation of property and equipment	5,042	-	5,042	3,148	-	3,148
Amortization of intangible assets	1,688	-	1,688	858	-	858
Amortization of held to maturity investments	-	59	59	163	116	279
Allowance for doubtful debts	-	-	-	7,496	-	7,496
Reversal of provision for bad debts	(4,604)	-	(4,604)	-	-	-
Commission from Held to maturity investments	(3,784)	(1,582)	(5,366)	-	-	-
Unrealized gain on investments	3,421	(6,789)	(3,368)	(1,265)	(3,691)	(4,956)
Realized gain on investments	-	-	-	(1,645)	(1,119)	(2,764)
Employee benefit obligations	2,220	-	2,220	1,373	-	1,373
	3,983	(62,427)	(58,444)	11,567	11,649	23,216
Changes in operating assets and liabilities:						
Premiums and reinsurers' receivable	73,841	-	73,841	(34,641)	-	(34,641)
Reinsurers' share of unearned premiums	(8,719)	-	(8,719)	(4,250)	-	(4,250)
Reinsurers' share of outstanding claims	4,571	-	4,571	(3,365)	-	(3,365)
Reinsurers' share of claims Incurred but not reported	(1,806)	-	(1,806)	(8,974)	-	(8,974)
Increase in right to use assets - net	(26,936)	-	(26,936)	-	-	-
Deferred policy acquisition costs	5,102	-	5,102	381	-	381
Prepaid expenses and other assets	13,111	(93)	13,018	(9,704)	30	(9,674)
Increase in lease Liabilities	23,703	-	23,703	-	-	-
Accrued commission from statutory deposit	-	(642)	(642)	-	(522)	(522)
Policyholders claims payables	6,360	-	6,360	(3,929)	-	(3,929)
Accrued expenses and other liabilities	(28,552)	-	(28,552)	15,232	-	15,232
Reinsurers' balances payable	1,264	-	1,264	(3,355)	-	(3,355)
Unearned premiums	(57,415)	-	(57,415)	(35,516)	-	(35,516)
Unearned reinsurance commission	858	-	858	299	-	299
Outstanding claims	(19,417)	-	(19,417)	12,881	-	12,881
Claims incurred but not reported	(21,304)	-	(21,304)	19,603	-	19,603
Premium deficiency reserves	4,699	-	4,699	2,779	-	2,779
Other technical reserve	(116)	-	(116)	2,398	-	2,398
Accrued commission income payable to SAMA	-	642	642	-	522	522
	(26,773)	(62,520)	(89,293)	(38,594)	11,679	(26,915)
Zakat paid	-	(630)	(630)	-	(4,428)	(4,428)
Employee benefits paid	(3,352)	-	(3,352)	(615)	-	(615)
Net cash flows (used in) / from operating activities	(30,125)	(63,150)	(93,275)	(39,209)	7,251	(31,958)

28. SUPPLEMENTARY INFORMATION – (continued)

d) Statement of cash flows – (continued)

	For the year ended 31 December					
	2019			2018		
	Insurance operations SR '000	Share-holders' operation SR '000	Total SR '000	Insurance operations SR '000	Share-holders' operations SR '000	Total SR '000
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investments	(122,839)	(4,982)	(127,821)	-	(200,000)	(200,000)
Proceeds from sale of investments	83,434	28,986	112,420	220,300	131,038	351,338
Statutory deposit	-	(12,500)	(12,500)	-	-	-
Placement of term deposits	(155,000)	(200,000)	(355,000)	(290,757)	-	(290,757)
Proceeds from term deposits	140,848	200,178	341,026	164,913	99,621	264,534
Proceeds from held to maturity investments	64,929	15,225	80,154	-	-	-
Purchase of property and equipment	(2,627)	-	(2,627)	(12,676)	-	(12,676)
Purchase of intangible assets	(835)	-	(835)	(8,015)	-	(8,015)
Net cash flows from investing activities	7,910	26,907	34,817	73,765	30,659	104,424
CASH FLOWS FROM FINANCING ACTIVITIES						
Due to shareholders' operations	(32,743)	32,743	-	32,844	(32,844)	-
Net cash flows (used in) / from financing activities	(32,743)	32,743	-	32,844	(32,844)	-
Net change in cash and cash equivalents	(54,958)	(3,500)	(58,458)	67,400	5,066	72,466
Cash and cash equivalents, beginning of the year	81,792	5,077	86,869	14,392	11	14,403
Cash and cash equivalents, end of the year	26,834	1,577	28,411	81,792	5,077	86,869

29. RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risks through strategic planning process.

Risk management structure

Board of Directors
The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Audit committee
The Audit Committee is appointed by the Board of Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof and the soundness of the internal controls of the Company.

29. RISK MANAGEMENT – (continued)

Risk management structure – (continued)

The risks facing the Company and the way these risks are mitigated by management are summarized below:

Insurance risk
The risk under an insurance policy 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 policies is that the actual claims and benefit payments exceed the carrying amount of insurance reserves. 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. Therefore, the objective of the Company is to ensure that sufficient resources are available to cover claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance policies 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.

Certain 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.

The insurance claim liabilities are sensitive to various assumptions mentioned in note 2.

Frequency and amounts of claims
The frequency and amounts of claims can be affected by several factors such as flood, environmental and economical, atmospheric disturbance and concentration of risk etc. The Company underwrites mainly motor and medical risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Geographical concentration of risks
The Company's insurance risk exposure relating to contract holders is concentrated in Kingdom of Saudi Arabia.

The company monitors concentration of risk primarily by class of business. The major concentration lies in motor and medical line of business.

Independent actuarial review of claims and claims reserves
In further mitigation of the insurance risk, the Company utilises an independent actuary who performs periodical reviews of the Company's claims modelling and claims projections as well as verifying the closing position claims reserves are adequate.

Key assumption
The principal assumption underlying the estimates is the Company's estimated ultimate loss ratio. The ultimate loss was determined using actuarial methods as far as applicable.

29. RISK MANAGEMENT – (continued)

Insurance risk – (continued)

Sensitivities

The company believes that claim liabilities under insurance contract (Gross outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions. Sensitivity of loss for the year before Zakat to change in claim liabilities and IBNR based on an increase / decrease of 10% in outstanding claim reserve and increase / decrease of 15 % in IBNR is given below for each business segment.

	2019 SR'000		2018 SR'000	
Outstanding claim net of reinsurance	**Effect of 10% increase**	**Effect of 10% decrease**	Effect of 10% increase	Effect of 10% decrease
Motor	**(1,197)**	**1,197**	(2,488)	2,488
Medical	**(1,410)**	**1,410**	(1,671)	1,671
Others	**(413)**	**413**	(347)	347
	(3,020)	**3,020**	(4,506)	4,506

	2019 SR'000		2018 SR'000	
IBNR	**Effect of 15% increase**	**Effect of 15% decrease**	Effect of 15% increase	Effect of 15% decrease
Motor	**(14,885)**	**14,885**	(19,561)	19,561
Medical	**(2,746)**	**2,746**	(1,560)	1,560
Others	**(116)**	**116**	(93)	93
	(17,747)	**17,747**	(21,214)	21,214

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.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. Reinsurers are selected using the following parameters and guidelines set by the Company's management. The criteria may be summarized as follows:

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

The exception to this rule is in respect of local companies who do not carry any such credit rating. This, however, is limited to those companies registered and approved by the local Insurance Regulator. Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company and matched against a list of requirements pre-set by the Company's management before approving them for exchange of reinsurance business.

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.

29. RISK MANAGEMENT – (continued)

Regulatory framework risk
Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities.

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

Capital management risk
Capital requirements are set and regulated by the Saudi Arabian Monetary Authority. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares, if required in future. In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial year.

Financial risk
The Company's principal financial instruments are receivables arising from insurance contracts, due from related parties, cash and cash equivalents, term deposits, investments, other receivables, outstanding claims and policy holder claims, reinsurance payable and certain other assets and liabilities. The main risks arising from the Company's financial instruments are market risk, commission rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarized below.

Market risk
Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused either by factors specific to the individual security, the issuer of the security, or factors affecting all securities traded in the market.

The Company is exposed to market risk with respect to its FVIS investments. Market risk is managed by investing in reputed funds which maintain investments in diversified portfolios and equity shares and by continuous monitoring of developments in equity markets. In addition, the key factors that affect stock

market movements are monitored, including analysis of the operational and financial performance of investees. A 100 basis point increase / (decrease) in net asset value of these funds can impact statement of insurance operations and accumulated surplus by SR 259 thousand (2018: SR 399 thousand) and statement of shareholder operations by SR 466 thousand (2018: SR 688 thousand).

Commission rate risk
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 is exposed to commission rate risk on its held to maturity investments and term deposits.

The Company is subject to commission rate fair value risk on its fixed rate Murabaha deposits classified as term deposits in the statement of financial position. The company does not account for fixed commission rate instrument as held for trading or as FVIS investment. Accordingly, there is no impact on the income or equity of reasonably possible change in commission rate.

29. RISK MANAGEMENT – (continued)

Commission rate risk– (continued)

The Company is required to maintain a restricted deposit in accordance with insurance regulations in Saudi Arabia on which the Company does not earn any commission. Management limits commission rate risk of other financial instruments by monitoring changes in commission rates in the currencies in which its financial instruments are denominated.

Insurance Operations
Details of maturities of the major classes of commission bearing securities for insurance operations as at 31 December 2019 and 2018 are as follows:

	2019 SR '000			
	Less than 1 year	**1 to 5 years**	**over 5 years**	**Total**
Investments held to maturity (note 8)	**111,524**	**10,000**	**-**	**121,524**
	111,524	**10,000**	**-**	**121,524**

	2018 SR '000			
	Less than 1 year	1 to 5 Years	over 5 years	Total
Investments held to maturity (note 8)	114,042	8,627	10,000	132,669
	114,042	8,627	10,000	132,669

The maturities of deposits have been determined on the basis of the remaining period, at the reporting date, to the contractual maturity date.

The effective interest rates for the commission bearing financial instruments were as follows:

	2019	2018
Saudi Riyal denominated financial assets	**2.15%**	2.15%

The following table demonstrates the sensitivity of statement of insurance operations to reasonably possible changes in interest rates, with all other variables held constant.

	2019	2018
	SR'000	SR'000
	Effect on profit	Effect on profit
Saudi Riyals:		
Increase in interest rates by 100 basis points	**2,905**	1,698
Decrease in interest rates by 100 basis points	**(2,905)**	(1,698)

29. RISK MANAGEMENT – (continued)

Financial risk – (continued)

Commission rate risk – (continued)

Details of maturities of the major classes of commission bearing securities for shareholders' operations as at 31 December 2019 and 2018 are as follows:

Shareholder Operations

	2019 SR '000			
	Less than 1 year	**1 to 5 years**	**over 5 years**	**Total**
Investments held to maturity (note 8)	**8,320**	**18,448**	-	**26,768**
	8,320	**18,448**	-	**26,768**

	2018 SR '000			
	Less than 1 year	1 to 5 Years	over 5 years	Total
Investments held to maturity (note 8)	14,245	21,243	-	35,488
	14,245	21,243	-	35,488

The maturities of deposits have been determined on the basis of the remaining period, at the reporting date, to the contractual maturity date. The effective interest rates for the commission bearing financial instruments were as follows:

	2019	2018
Foreign currency denominated financial assets	**1.64%**	1.52%

The following table demonstrates the sensitivity of statement of insurance operations to reasonably possible changes in commission rates, with all other variables held constant.

	2019 SR'000 Effect on profit	2018 SR'000 Effect on profit
Saudi Riyals:		
Increase in commission rates by 100 basis points	**1,192**	1,139
Decrease in commission rates by 100 basis points	**(1,192)**	(1,139)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of losses due to exchange rate fluctuations as the insurance operations and shareholders' operations primarily deal in Saudi Riyals and in US Dollar which is pegged to Saudi Riyals.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. All of the Company's underwriting activities are carried out in Saudi Arabia. For all classes of financial assets held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the reporting date.

29. RISK MANAGEMENT – (continued)

Credit risk – (continued)

The Company seeks to limit its credit risk with respect to customers by following the credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts. Management estimates specific impairment provision on a case by case basis. In addition to specific provisions, the Company also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the overdue premiums receivable. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable banks.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

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

	2019	2018
	SR' 000	
Insurance' Operations		
Cash and cash equivalents	**26,834**	81,792
Term deposits	**155,288**	141,136
Premiums receivable, net	**83,320**	153,039
Held to maturity investments	**121,524**	132,669
Reinsurance receivables, net	**2,887**	2,404
Other receivables	**42,064**	51,558
Reinsurers' share of outstanding claims	**21,018**	23,783
	452,935	586,381

	2019	2018
Shareholders' Operations	**SR' 000**	
Cash and cash equivalents	**1,577**	5,077
Term deposit	**100,201**	100,379
Other receivables	**186**	93
Held to maturity investments	**26,768**	35,488
	128,732	141,037

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

All of the Company's financial assets and financial liabilities are expected to be realised and settled, respectively within 12 months from the reporting date, except for statutory deposit, which has no term (see note 14), and held to maturity assets, which are expected to be held until their maturities as mentioned in commission rate risk disclosure above. All financial liabilities are non-interest bearing.

30. AMALGAMATION OF SHAREHOLDERS AND INSURANCE OPERATIONS

Certain of the comparative figures have been reclassified and regrouped to conform to the in the current year presentation. These changes as summarized below, were mainly to confom with the SAMA requirements:

- As discussed in note 2 to these financial statements, previously statement of financial position, statement of income, and statement of cash flows were presented separately for insurance operations and shareholders operations which are combined together to present one Company level statement of financial position, statement of income and statement of cash flows.
- The amounts "due to / from" shareholders and insurance operations which previously reported separately in the respective statement of financial position, are now eliminated (refer note 28 (a)).
- Share of insurance operations surplus split in the ratio of 90/10 between shareholders and insurance operations and presented separately is now presented as an expense in statement of income (refer note 28 (b)).

31. SUBSEQUENT EVENT

The spread of novel coronavirus (COVID-19) across multiple geographies was confirmed in early 2020, causing disruptions to businesses and economic activities. The Company considers this outbreak to be a non-adjusting post balance sheet event. At this early stage, the Company is in the process of assessing any potential impact. The management and those charged with governance will continue to monitor the situation and accordingly update all stakeholders as soon as more information is available. Changes in circumstances may require enhanced disclosures or recognition of adjustments in the condensed interim financial statements of the Company of the subsequent periods in the financial year 2020.

32. COMPARATIVE FIGURES

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

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 7 Sha'aban 1441H, corresponding to 31 March 2020.